APPENDIX 1 PROPOSED ACCOUNTING POLICIES 2010/11

Topic	**UK GAAP Policy**	**IFRS Policy**	**Impact of Change**
Asset valuation rules	FRS 11 states that impairments of revalued assets that are clearly caused by the consumption of economic benefits should be recognised in the I&E.	IAS 36 provides no distinction between different types of impairment. All revaluation losses are taken initially to a revaluation reserve to the extent there is a balance relating to the specific asset. Property values are required to be based on fair values at Balance Sheet date.	On transition to IFRS organisations need to reverse any economic benefit impairments in 2009/10 to revaluation reserve. Property services need to review the valuation bases for each class of assets to ensure consistency with IAS36.
Employee benefits	The cost of annual leave is recognised as an expense as the annual leave is taken	The cost of annual leave is recognised as an expense in the year of entitlement by way of an accrual. This will result in a provision being recorded at year end for annual leave (and associated on-costs such as national insurance) accrued but not taken leave.	On transition to IFRS an accrual for annual leave will be recorded in the opening balance sheet however the cost will not affect the outturn as the accrual will be offset by the creation of an additional reserve. MPS would not expect the value of the accrual to alter significantly in future years.

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Software costs	Software costs (intangible assets) can be capitalized separate from other costs.	A wider range of intangible assets by way of internally generated assets are recognised under IFRS.	A review of the asset register will be completed to identify if any internally generated costs could be separately identified as intangible assets.
Investment properties	SSAP 19 *Accounting for investment properties* defines an investment property as an interest in land or buildings, in respect of which construction work and development have been completed and which is held for its investment potential, any rental income being negotiated at arm's length.	IAS 40 *Investment property* defines an investment property as property held (by the owner or by the lessee under a finance lease) solely to earn rentals or for capital appreciation or both. Property held under a lease and meets the definition of investment property is accounted for as a finance lease.	Given the difference in the definitions of an investment property, a review is in the process of being completed to ensure that all properties are correctly classified in accordance with IFRS
Research and development costs	Research costs and pure development costs are expensed as incurred Development costs <u>can be</u> capitalised if certain criteria can be demonstrated.	Research costs are expensed as incurred Development costs on a project <u>must be</u> capitalised if all the required criteria can be demonstrated.	The review of all potential development projects will be completed using the new definition for capitalisation

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Assets held for sale	Accounting policy not required under UK-GAAP.	An asset or a group of assets is classified as held for sale if • its carrying amount will be recovered principally through sale rather than through continuing use; • it is available for immediate sale and • sale is highly probable within one year.	A review will be completed to identify any assets that fall into this category. Any assets held for sale that are identified will be appropriately classified in the balance sheet.
Leases	A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. It is presumed that the lease is a finance lease if at the inception of the lease the present value of future lease payments amounts to 90% or more of the fair value of the asset.	A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee When considering whether a lease is a finance lease no percentage shall be used as a minimum limit; rather all relevant facts shall be taken into account when making the decision to treat a lease as a Finance lease. IAS 17 also requires a change in the accounting treatment and more extensive disclosures than SSAP 21.	All material classes of leases have been reviewed to identify potential finance leases. Those that are deemed potential finance leases are now being subject to further scrutiny to confirm whether they are to be reported on the MPA's balance sheet. Property services surveyors are being trained to identify future finance leases with the help of external valuation surveyors.

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Capital government grants	Capital grants received are initially recorded as deferred income on the balance sheet and then released to the Income and Expenditure account over the useful life of the asset to which it relates (subject to the conditions of the grant being met).	Capital grants received are taken straight to the Income and Expenditure Account (subject to the conditions of the grant being met). Capital grants should not be deferred on the balance sheet.	***MPA*** All capital grants deferred on the balance sheet will be written back to reserves at 1 April 2009 (IFRS transition date). All capital grants received after IFRS transition date will credited straight to the Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account.
Donated Assets	Donated Assets are initially recorded assets and deferred income on the balance sheet and then released to the Income and Expenditure Account over the useful life of the asset to which it relates (subject to the conditions of the grant being met).	Donated Assets are taken straight to the Income and Expenditure Account (subject to the conditions of the donation being met).	Donated assets currently being written off over their useful life will be re-stated and written off in 2009/10. Any new donated assets will be accounted for under the new IFRS based rules.