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125 YEARS

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES


The Institute of Chartered Accountants in England & Wales
125th anniversary year **Financial Statements 2005**

# Leading change

Contents



**These financial statements should be read in conjunction with the Institute's annual review 2005**

**Vision** That members hold the world's most highly respected professional business finance qualifications and support enterprise, innovation and sustainable growth in a socially responsible business environment.

**Mission** The Institute will work in the public interest to enhance the reputation of the accounting profession and the public standing of members across all sectors of the economy. It will achieve this through a continuing commitment to the highest standards of professional learning and development, technical excellence, professional conduct, representation and support.

**Financial statements – make a choice**

You can choose to read future copies of the financial statements on the Institute's website rather than receiving printed copies. If you select this option, you will get an email with the link to the online document. You can see this year's version at **www.icaew.co.uk/review**.

# Corporate governance statement

## Constitution

The Institute is a body incorporated by Royal Charter. As such, the provisions of the Combined Code on Corporate Governance (the combined code) and of the Companies Act do not apply to its governance. The Institute operates within the terms of the Charter and accompanying bye-laws and regulations. The Institute council has nonetheless agreed that the Institute should also comply with best corporate practice, in particular, the combined code, wherever practicable.

The council believes that the Institute is broadly in compliance with relevant provisions of the code. It has made adjustments where necessary to bring Institute practice more into line with the code where it is appropriate to do so, given the Institute's status as a chartered corporation and member body. In areas referred to below where the Institute has complied fully with the provisions of the code, the detailed requirements have not been reproduced.

## Institute meetings

The Charter and bye-laws reserve certain matters to Institute members in general meeting including the reception and consideration of the annual review and the financial statements of the Institute with the report of the auditors.

The annual review is one of the principal means of communication with members. Member participation in the business of the annual and special meetings is encouraged by a letter from the president included with the meeting documentation. The president reports at the annual meeting on achievements during the year and opens the meeting to questions from the floor on matters germane to the Institute or the profession.

## The Institute council

The council ordinarily meets seven times a year and is responsible for the management of the affairs and business of the Institute in accordance with Charter clause 2(a). It considers, reviews and approves policy, strategy, operational plans and budgets proposed by the board and the directorate boards. It also reviews the activities and performance of the boards and the Institute's annual review and financial statements. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws.

Council members take decisions in the best interests of the Institute as a whole. They operate in accordance with a code of conduct which makes explicit reference to objectivity in decision-making.

As at 31 December 2005, the council comprised 97 members as follows:

- 70 members elected by the membership at large from 22 constituencies (which have the same boundaries as the district societies)

- 16 members co-opted on the recommendation of the nominating committee in order to preserve a balance between the various interests requiring representation on the council and to provide seats for members with specialist skills or experience

- 11 members ex officio (the office-holders (president, deputy-president and vice-president), the two immediate past-presidents, and the elected chairmen of the faculty and Practice Society committees).

Each council member receives an induction on joining the council. Brief details of each council member, including their present principal employment commitments together with their record of attendance at council meetings in 2005, appear in the annual review.

## Elections

The Institute conducts elections to the council in alternate years when approximately one half of the elected members retire by rotation. In the intervening years, the Institute may hold elections required as a result of resignations. Any member with a registered address in a constituency at the qualifying date may stand in, join in nominating a member for, or vote in, an election to the council in the constituency concerned. Members outside England and Wales may opt to vote in the constituency of their choice. Members are usually elected for four-year terms, beginning and ending after the annual meeting in the year in question, in accordance with principal bye-law 35.

Council members choose the incoming Institute vice-president by ballot in January each year. The council then formally elects each of the office-holders at its first meeting after the annual meeting each year in accordance with principal bye-law 43. In the normal course of events, the council elects the vice-president in the two succeeding years to serve as deputy-president and then president of the Institute.

The council elects its own chairman annually from amongst its own members.

## The president and chief executive

The president and other office-holders act as the leading ambassadors of the Institute. They have no formal personal powers other than those procedural matters specified in the principal bye-laws. The office-holders represent the views of the council and the wider membership within the Institute to ensure that they are taken into account in the development of Institute strategy and policies. They counsel and advise the chief executive. The president, in particular, represents the Institute at home and abroad, presents the views of the council to Government, other public bodies and the public, and acts as chairman of Institute meetings and the Consultative Committee of Accountancy Bodies (CCAB). He also chairs the Institute board.

# Corporate governance statement
(continued)

The chief executive operates within the framework of delegations approved by the council. He is responsible to the council for the development, promotion and management of the Institute in order to achieve the strategy set by the council. He implements Institute policies in support of the strategy by harnessing the efforts of volunteers and staff and by building effective relationships with policy-makers and opinion formers, and with members. He is responsible for the overall management of the staff and for ensuring that the Institute operates effectively and efficiently.

The Institute complies with the provisions of the combined code relating to the separation of roles and responsibilities of president and chief executive. It is likely, for all practical purposes, both that the president will ordinarily meet the criteria for independence set out in the code and that the chief executive will not, on standing down, then become president.

## The board

The board is responsible, on behalf of the council, for all matters relating to the development and implementation of the Institute strategy and operational plans in support of the strategy, and Institute resources, together with other matters delegated by the council. The board reports to each meeting of the council on its activities.

The head of executive office oversees the provision of reports to the board in conjunction with the president, chief executive and executive directors and provides advice on governance issues as required. Senior staff report to each meeting of the board on performance against operational plans. The chief operating officer reports monthly to the board on financial performance. He also reports three times a year on key risks and internal controls.

The composition, meetings and proceedings of the board comply with the provisions of the combined code with the exception of the provision relating to the appointment of a 'senior independent director'. In practice, there are already mechanisms in place within the Institute to achieve the objective of this code provision. These include the ability of members generally to raise issues with their constituency representatives on the council and for members of the council to raise issues with the office-holders, with the chairman of the council, or with the elected members of the board.

A specific induction programme for board members was introduced in 2005. The board has evaluated its performance and will continue to develop this process in 2006.

The membership of the board is largely ex officio (by virtue either of election as an office-holder by the council or appointment as an executive director, a directorate board chairman or as treasurer on the recommendation of the nominating committee) and comprises both non-executive volunteers and senior staff. Notice periods for the staff members are set at less than one year, except for the chief executive and chief operating officer whose notice periods are one year. The council also elects two members directly to the board from amongst its membership for terms of two years.

The volunteer members will ordinarily meet the criteria for independence as set out in the combined code and may seek independent professional advice if thought necessary on any issue. Each member of the board is indemnified against loss and expense (other than that incurred by negligence or wilful default).

# Corporate governance statement
(continued)

The members of the board (for whom brief biographical details can be found at www.icaew.co.uk/review) during 2005 were:

| | Position | Appointed | Retired | Attendance |
|---|---|---|---|---|
| **Volunteer members** | | | | |
| Debbie Anthony | chairman, education & training board | | 8 June | 4/5 |
| Ian Cherry | elected by the council | | | 10/12 |
| Paul Druckman | president and chairman to 8 June | | 8 June | 5/5 |
| Graham Durgan | vice-president to 8 June; deputy-president from 8 June | | | 10/12 |
| Richard Dyson | vice-president from 8 June | 8 June | | 6/7 |
| Maurice Ede | chairman, professional standards board | | 8 June | 3/5 |
| Bruce Gray | chairman, member services board | | 8 June | 4/5 |
| Martin Hagen | chairman, professional standards board | 8 June | | 4/7 |
| Philip Hollins | treasurer | | | 9/12 |
| Ian Morris | deputy-president to 8 June; president and chairman from 8 June | | | 11/12 |
| Andrew Ratcliffe | chairman, technical strategy board[1] | 2 February | | 7/11 |
| Mark Spofforth | chairman, learning & professional development board[2] | 8 June | | 6/7 |
| Robert Webb | elected by the council | | | 10/12 |
| Jan Weber | chairman, member services board | 8 June | | 4/7 |
| **Staff members** | | | | |
| Eric Anstee | chief executive | | | 9/12 |
| Sally Hinkley CBE | executive director, professional standards[3] | | 14 October | 8/9 |
| Robert Hodgkinson | executive director, technical strategy | 4 May | | 7/8 |
| Michael Izza | chief operating officer | | | 12/12 |
| Dr Raymond Madden | executive director, learning & professional development | 6 June | | 7/7 |

[1] following the resignation of Geoffrey Mitchell on 31 December 2004 there was a vacancy of chair of technical strategy board until the appointment of Andrew Ratcliffe on 2 February 2005
[2] formerly the education & training board (to 7 September)
[3] Vernon Soare was appointed to the board on 3 January 2006 as Sally Hinkley's successor

## Audit committee

The audit committee is responsible, on behalf of the council, for ensuring that all activities of the Institute are subject to independent review and audit, for monitoring the Institute's relationship with its auditors, for reviewing internal controls and assessing risk. Its terms of reference reflect, so far as is practical and appropriate, the recommendations of the Smith Report and, therefore, the requirements of the combined code. None of its members are members of the board. The chairman of the committee must be a member of the council and at least one member must be a non-council member. It meets at least three times a year. The treasurer attends its meetings. Both the internal and external auditors attend its meetings and have direct access to its chairman.

The members of the audit committee during 2005 were:

| | | Appointed | Retired | Attendance |
|---|---|---|---|---|
| John Anderson OBE | non-council member | | | 2/3 |
| Arthur Bailey | council member and chairman to 8 June | | 8 June | 1/1 |
| Alun Bowen | non-council member | | | 2/3 |
| Bruce Gray | council member | 8 June | | 2/2 |
| Peter Jenkins | council member | | 1 September | 1/1 |
| Sheilagh Moffat | council member | | | 3/3 |
| Clive Parritt | council member and chairman from 8 June | 8 June | | 2/2 |
| Michael Pavia | council member | | | 2/3 |
| Nigel Turnbull | non-council member | | 8 June | 0/1 |

The chairman of the audit committee reports annually to the council. The audit committee makes the minutes of its meetings available to the board.

# Corporate governance statement
(continued)

## Remuneration committee

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for Institute staff, including the chief executive and executive directors. Staff are remunerated with reference to their annual performance rating and to benchmark market salaries. Institute staff contracts do not include provisions for compensation payable on early termination. None of the members of the council receive remuneration for services to the Institute, other than reimbursement of out of pocket expenses and payments on a normal commercial basis, in particular in connection with lecturing and writing.

The members of the remuneration committee during 2005 were:

| | | Appointed | Retired | Attendance |
|---|---|---|---|---|
| Richard Dyson | council member | | | 1/1 |
| Philip Hollins | council member | | | 1/1 |
| David Illingworth | council member | 8 June | | 1/1 |
| David McBride | council member and chairman | | | 1/1 |
| Ian Morris | council member | | 8 June | 0/0 |
| Clive Parritt | council member | | | 1/1 |
| Peter Rosewell | council member | | 8 June | 0/0 |

## Nominating committee

The nominating committee is responsible for recommending the appointment of co-options and of committee chairmen to the council and for all matters relating to other appointments to committees etc, including succession planning. It reviews appointments annually (other than for appointments to the quasi judicial committees in the professional standards area, where appointments are for fixed terms) and makes recommendations and appointments on the basis of the best person for the job. The committee is developing post and person specifications for those key positions currently without them. The nominating committee deals with much of its business by correspondence and meets only as required. Its membership is largely ex officio, including the two most recent past-presidents, but also includes two members elected for terms of two years by the council from amongst its members.

The nominating committee members during 2005 were:

| | Position | Retired | Attendance |
|---|---|---|---|
| Paul Druckman | president and chairman to 8 June; past-president from 8 June | | 2/2 |
| Graham Durgan | vice-president to 8 June; deputy-president from 8 June | | 0/2 |
| Richard Dyson | vice-president from 8 June | | 0/0 |
| Martin Hagen | elected by the council | | 2/2 |
| David Illingworth | past-president | | 2/2 |
| Sheilagh Moffat | elected by the council | | 2/2 |
| Ian Morris | deputy-president to 8 June; president from 8 June | | 2/2 |
| Peter Wyman | past-president | 8 June | 2/2 |

# Corporate governance statement
(continued)

## Senior staff appointments committee
The senior staff appointments committee has responsibility for all matters relating to the recruitment and appointment of the chief executive and executive directors. Its membership comprises (for the appointment of the chief executive) the president or one other office-holder (chairman), the chairman of council and three members of the council appointed by the nominating committee; and (for the appointment of an executive director) the president or one other office-holder (chairman), the chairman of council, one member of the council appointed by the nominating committee, the chairman of the relevant directorate board (or treasurer in the case of the chief operating officer) and the chief executive.

The committee met in 2005 to consider the appointment of the executive director, learning & professional development, following the retirement in 2004 of Prof. Brian Chiplin, and the appointment of the executive director, professional standards, following the resignation of Sally Hinkley. These appointments were facilitated by the use of external search consultancies.

A special committee (comprising the volunteer members of the board and the chairman, remuneration committee) is convened in the event that the removal of a senior staff member is required.

## Directorate boards
Four directorate boards steer the development of policy for the Institute's member-facing functions. The boards also exercise a general oversight of the work programmes of the Institute's member-facing directorates through their involvement in the planning and budgeting process.

## Employees
The Institute aims to create a working environment that is based on a number of key principles including fairness, equality of opportunity, respect and dignity, flexibility, transparency and work-life balance. The Institute believes that these key principles enable its employees to enjoy work, develop as individuals and to provide the best possible service to the Institute, its members, the public and colleagues thus contributing to the continued success of the organisation.

It is the Institute's policy to treat all employees fairly and equally regardless of race, sex, sexual orientation, gender re-assignment, marital status, or disability. Should existing employees suffer a disability the Institute will do all it can to accommodate that disability and to assist the employee to continue their career with the Institute in their existing role where possible, or in an alternative position.

Staff skills are maintained both by a formal recruitment process and a performance appraisal system, which identifies necessary training needs. The Institute is committed to the core values of integrity, openness, mutual respect and teamwork, and excellence and professionalism.

The Institute is accredited as an 'Investor in People' and is committed to the training and development of all its employees to enable them to meet both corporate and personal objectives.

## Creditor payment policy
It is the Institute's policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2005 were 19 days (31 December 2004: 15 days).

## Going concern
The financial statements have been prepared on a going concern basis. The council has a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future.

## Internal control
The council is responsible for the Institute's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

## Wider aspects of internal control
The key elements of the system of internal control are:

### Risk management
The council, through the board, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by the Institute.

Each directorate identifies and reviews the risks faced by the Institute and assesses both the controls in place and key actions required to manage the significant risks. The key risk assessments are reported three times a year to the management team, the board, the audit committee and the council.

The assessment of risk is linked with the evolving Institute strategy in compliance with the guidance *Internal Control: Guidance for Directors on the Combined Code*.

Annually in March, the council undertakes a regular review to consider:

- the application of the risk management processes
- reports on risk and internal control from the board
- reports on internal control from the audit committee
- how the risks have changed over the period under review and any significant issues.

# Corporate governance statement
(continued)

**Delegation**
There is a clear organisational structure, detailing lines of authority and control responsibilities. There are defined revenue and capital spend authorisation limits in place.

**Budgets**
Detailed annual budgets are prepared by the staff for approval by the board and the council. Actual results are compared to approved budgets on a monthly basis and reported to each meeting of the board and the council. Revised annual forecasts are also prepared and reported three times a year. A summary of both the monthly results, and forecast reviews is posted on the council members' website.

**Internal audit**
The internal audit department assesses risk and reviews controls, based on a four year, risk-based plan with more frequent reviews where necessary. The department ensures that recommendations to improve controls are followed up by management. The internal audit department reports formally to the audit committee, which reviews the risk analysis and testing of the system of internal financial and wider controls. The committee also receives reports from the staff and the external auditors on important control matters.

**Review**
The council, through the reports it receives from the board and through the audit committee, has reviewed the effectiveness of the Institute's system of internal control in operation during 2005.

## Financial responsibilities of the council
Bye-law 12(a) requires the council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Institute and of the result for the Institute for that period.

The council has delegated these responsibilities to the board. In preparing these financial statements on behalf of the council, the board has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that are reasonable and prudent
- followed applicable accounting standards
- prepared the financial statements on a going concern basis.

The council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Institute. It is also responsible for safeguarding the assets of the Institute and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Charitable donations
During the year the Institute made donations under gift aid to its charitable trusts amounting to £2,475,000 (2004: £1,910,000) and to other charitable organisations of £6,762 (2004: £nil). The Institute's charitable trusts approved grants in the year to external organisations of £170,000 (2004: £525,000).

# Independent auditors' report

## to the members of The Institute of Chartered Accountants in England & Wales for the year ended 31 December 2005

We have audited the group and Institute financial statements (the financial statements) on pages 8 to 37. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Institute's members, as a body. Our audit work has been undertaken so that we might state to the Institute's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Institute and the Institute's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of council and auditors

The council's responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of financial responsibilities of the council.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the annual review and corporate governance statement are not consistent with the financial statements, if the Institute has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. The other information comprises only the annual review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Institute's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion, the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of affairs of the group and the Institute as at 31 December 2005 and of the result of the group and the Institute for the year then ended.

RSM Robson Rhodes LLP

**RSM Robson Rhodes LLP**
Chartered Accountants
and Registered Auditors

London, England
21 March 2006

# Group income statement
## for the year ended 31 December 2005

| | Note | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
|---|---|---|---|---|---|---|---|
| **Subscriptions and other income** | | | | | | | |
| Subscriptions and fees | | 28,186 | – | 28,186 | 26,014 | – | 26,014 |
| Licence and data access fees | | 1,850 | – | 1,850 | 1,850 | – | 1,850 |
| | | 30,036 | – | 30,036 | 27,864 | – | 27,864 |
| **Subscription based services** | | | | | | | |
| Members' learning & professional development | 1 | 482 | (5,143) | (4,661) | 119 | (3,862) | (3,743) |
| Professional standards | 2 | 1,285 | (3,760) | (2,475) | 793 | (3,590) | (2,797) |
| Member services | 3 | 2,525 | (9,360) | (6,835) | 2,434 | (8,510) | (6,076) |
| Technical strategy | 4 | 8 | (4,562) | (4,554) | 10 | (3,832) | (3,822) |
| Central activities | 5 | 1,498 | (10,594) | (9,096) | 1,194 | (10,200) | (9,006) |
| | | 5,798 | (33,419) | (27,621) | 4,550 | (29,994) | (25,444) |
| **Self financing and charitable activities** | | | | | | | |
| Student learning & professional development | 6 | 6,635 | (5,464) | 1,171 | 6,240 | (5,416) | 824 |
| Practice regulation | 7 | 12,003 | (10,782) | 1,221 | 8,920 | (9,823) | (903) |
| Faculties | 8 | 2,647 | (3,014) | (367) | 2,722 | (2,886) | (164) |
| Charitable trusts | 9 | 39 | (1,052) | (1,013) | 40 | (1,348) | (1,308) |
| | | 21,324 | (20,312) | 1,012 | 17,922 | (19,473) | (1,551) |
| **Participation in external bodies** | 10 | 158 | (3,336) | (3,178) | 151 | (2,878) | (2,727) |
| **Operating result** | 12 | 57,316 | (57,067) | 249 | 50,487 | (52,345) | (1,858) |
| Investment income | 13 | 3,316 | – | 3,316 | 2,287 | – | 2,287 |
| Group share of associates' results after tax | 19 | 9 | – | 9 | 11 | – | 11 |
| **Result before taxation** | | 60,641 | (57,067) | 3,574 | 52,785 | (52,345) | 440 |
| Taxation | 14 | | | 8 | | | (344) |
| **Net result after taxation** | 29 | | | 3,582 | | | 96 |
| Result attributable to self financing and charitable activities | | | | (3,175) | | | 176 |
| **Net result transferred to accumulated fund** | 29 | | | 407 | | | 272 |

# Institute income statement

## for the year ended 31 December 2005

| | Note | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
|---|---|---|---|---|---|---|---|
| **Subscriptions and other income** | | | | | | | |
| Subscriptions and fees | | 28,186 | – | 28,186 | 26,014 | – | 26,014 |
| Licence and data access fees | | 1,850 | – | 1,850 | 1,850 | – | 1,850 |
| | | 30,036 | – | 30,036 | 27,864 | – | 27,864 |
| **Subscription based services** | | | | | | | |
| Members' learning & professional development | 1 | 1,030 | (5,143) | (4,113) | 598 | (3,862) | (3,264) |
| Professional standards | 2 | 1,285 | (3,760) | (2,475) | 793 | (3,590) | (2,797) |
| Member services | 3 | 2,525 | (9,360) | (6,835) | 2,434 | (8,510) | (6,076) |
| Technical strategy | 4 | 458 | (4,562) | (4,104) | 508 | (3,832) | (3,324) |
| Central activities | 5 | 1,498 | (10,155) | (8,657) | 1,194 | (9,924) | (8,730) |
| | | 6,796 | (32,980) | (26,184) | 5,527 | (29,718) | (24,191) |
| **Self financing activities** | | | | | | | |
| Student learning & professional development | 6 | 6,635 | (5,464) | 1,171 | 6,240 | (5,416) | 824 |
| Practice regulation | 7 | 12,003 | (10,782) | 1,221 | 8,920 | (9,823) | (903) |
| Faculties | 8 | 2,647 | (3,014) | (367) | 2,722 | (2,886) | (164) |
| | | 21,285 | (19,260) | 2,025 | 17,882 | (18,125) | (243) |
| **Participation in external bodies** | 10 | 158 | (3,336) | (3,178) | 151 | (2,878) | (2,727) |
| **Gift aid and library funding** | 11 | – | (2,475) | (2,475) | – | (1,910) | (1,910) |
| **Operating result** | 12 | 58,275 | (58,051) | 224 | **51,424** | **(52,631)** | **(1,207)** |
| Investment income | 13 | 2,587 | – | 2,587 | 2,046 | – | 2,046 |
| **Result before taxation** | | 60,862 | (58,051) | 2,811 | **53,470** | **(52,631)** | **839** |
| Taxation | 14 | | | 8 | | | (344) |
| **Net result after taxation** | 29 | | | 2,819 | | | **495** |
| Result attributable to self financing activities | | | | (2,421) | | | (234) |
| **Net result transferred to accumulated fund** | 29 | | | 398 | | | **261** |

# Statements of recognised income and expense

## for the year ended 31 December 2005

| | Note | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|---|
| **Net result transferred to accumulated fund** | | **407** | 272 | **398** | 261 |
| Net results for the financial year transferred to/(from) self financing and charitable activities: | | | | | |
| Student learning & professional development | | **1,238** | 939 | **1,238** | 939 |
| Practice regulation | | **1,467** | (623) | **1,467** | (623) |
| Faculties | | **(284)** | (82) | **(284)** | (82) |
| Charitable trusts | | **754** | (410) | **–** | – |
| | | **3,175** | (176) | **2,421** | 234 |
| Net result after taxation recognised in the income statement in the year | | **3,582** | 96 | **2,819** | 495 |
| Revaluation of property, plant and equipment: | | | | | |
| Valuation gain/(loss) | 15 | **264** | (445) | **264** | (445) |
| Available for sale investments: | | | | | |
| Valuation gains taken to reserves | 17 | **766** | 465 | **284** | 56 |
| Actuarial (loss)/gain recognised in year | 26 | **(1,970)** | 1,655 | **(1,910)** | 1,605 |
| Deferred tax | 20 | **(92)** | (58) | **(92)** | (58) |
| Net (losses)/gains not recognised in the income statement in the year | | **(1,032)** | 1,617 | **(1,454)** | 1,158 |
| **Total recognised income in the year** | | **2,550** | 1,713 | **1,365** | 1,653 |
| IFRS first time adoption adjustments[1] | | **–** | (23,620) | **–** | (22,861) |
| | | **2,550** | (21,907) | **1,365** | (21,208) |

[1] An explanation of the IFRS first time adoption adjustments is provided in the UK GAAP to IFRS reconciliations on pages 32 to 37.

# Balance sheets

as at 31 December 2005

| | Note | Group 2005 £'000 | Group restated 2004 £'000 | Institute 2005 £'000 | Institute restated 2004 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | 15,821 | 15,697 | 15,799 | 15,674 |
| Intangible assets | 16 | 2,244 | 2,034 | 2,244 | 2,034 |
| Financial assets: | | | | | |
| Available for sale investments | 17 | 33,237 | 30,448 | 23,311 | 21,660 |
| Other receivables | 18 | 5,500 | 6,500 | 5,500 | 6,500 |
| Investments in subsidiaries and associates | 19 | 64 | 55 | 3 | 3 |
| Deferred tax asset | 20 | 949 | 976 | 949 | 976 |
| | | 57,815 | 55,710 | 47,806 | 46,847 |
| **Current assets** | | | | | |
| Inventories | 21 | 303 | 402 | 303 | 402 |
| Trade and other receivables | 22 | 11,486 | 10,576 | 11,722 | 10,804 |
| Cash and cash equivalents | 23 | 8,936 | 4,848 | 8,853 | 4,742 |
| | | 20,725 | 15,826 | 20,878 | 15,948 |
| **Total assets** | | 78,540 | 71,536 | 68,684 | 62,795 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 24 | (22,973) | (16,462) | (22,664) | (16,060) |
| Current tax liabilities | | (156) | (544) | (156) | (544) |
| | | (23,129) | (17,006) | (22,820) | (16,604) |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 25 | (29) | (7) | – | – |
| Staff Pensions Fund provision | 26 | (21,918) | (25,617) | (21,208) | (24,908) |
| Joint Disciplinary Scheme provision | 27 | (2,206) | (1,713) | (2,206) | (1,713) |
| Accountancy Investigation and Discipline Board provision | 28 | (2,209) | (794) | (2,209) | (794) |
| Deferred tax liability | 20 | (571) | (471) | (571) | (471) |
| | | (26,933) | (28,602) | (26,194) | (27,886) |
| **Total liabilities** | | (50,062) | (45,608) | (49,014) | (44,490) |
| **Total net assets** | | 28,478 | 25,928 | 19,670 | 18,305 |
| **Reserves** | | | | | |
| Revaluation reserve | 29 | 7,358 | 8,025 | 7,358 | 8,025 |
| Investment revaluation reserve | 29 | 620 | 427 | 620 | 427 |
| Accumulated fund | 29 | 6,787 | 6,683 | 6,726 | 6,631 |
| | | 14,765 | 15,135 | 14,704 | 15,083 |
| **Reserves retained by self financing activities and charitable trusts** | | | | | |
| Student learning & professional development | | 2,277 | 1,114 | 2,277 | 1,114 |
| Practice regulation | | (1,270) | (2,114) | (1,270) | (2,114) |
| Faculties | | 1,136 | 1,467 | 1,136 | 1,467 |
| Chartered Accountants' Compensation Scheme | | 2,823 | 2,755 | 2,823 | 2,755 |
| Charitable trust endowment funds | | 6,047 | 5,196 | – | – |
| Unrestricted charitable trust funds | | 2,700 | 2,375 | – | – |
| | | 13,713 | 10,793 | 4,966 | 3,222 |
| | 29 | 28,478 | 25,928 | 19,670 | 18,305 |

Approved on behalf of the council

Ian Morris

**Ian Morris**
President
21 March 2006

**Eric Anstee**
Chief Executive

# Cash flow statements

## for the year ended 31 December 2005

| | Note | Group | | Institute | |
|---|---|---|---|---|---|
| | | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| **Cash flows from operating activities** | | | | | |
| **Result before taxation** | | 3,574 | 440 | 2,811 | 839 |
| Depreciation and amortisation | | 1,530 | 1,354 | 1,518 | 1,345 |
| Losses on disposal of property, plant and equipment | | 6 | 20 | 6 | 20 |
| Investment income | 13 | (3,316) | (2,287) | (2,587) | (2,046) |
| | | 1,794 | (473) | 1,748 | 158 |
| Decrease in inventories | | 99 | 7 | 99 | 7 |
| Increase in other receivables | | (909) | (2,873) | (918) | (4,413) |
| Increase in other payables | | 6,452 | 3,635 | 6,528 | 3,288 |
| Non-cash movement in provisions | | 4,399 | 3,716 | 4,461 | 3,733 |
| **Cash generated from operations** | | 11,835 | 4,012 | 11,918 | 2,773 |
| Income taxes paid | | (345) | (121) | (345) | (121) |
| Cash outflow on staff pensions fund provision | | (6,414) | (400) | (6,414) | (400) |
| Cash outflow on Joint Disciplinary Scheme and Accountancy Investigation and Discipline Board provisions | | (1,748) | (2,804) | (1,748) | (2,804) |
| **Net cash generated from/(used by) operating activities** | | 3,328 | 687 | 3,411 | (552) |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (722) | (1,398) | (711) | (1,383) |
| Purchase of intangible assets | | (811) | (918) | (811) | (918) |
| Deferred consideration received | | 1,000 | 1,000 | 1,000 | 1,000 |
| Purchase of available for sale investments | | (78,998) | (71,999) | (67,273) | (69,567) |
| Disposal of available for sale investments | | 78,665 | 71,819 | 67,219 | 69,406 |
| Investment income received | | 1,626 | 1,239 | 1,276 | 1,026 |
| Transfer from Chartered Accountants Trustees Limited | | – | – | – | 1,405 |
| **Net cash from investing activities** | | 760 | (257) | 700 | 969 |
| **Net increase in cash and cash equivalents in the year** | | 4,088 | 430 | 4,111 | 417 |
| **Net cash and cash equivalents at 1 January** | | 4,848 | 4,418 | 4,742 | 4,325 |
| **Net cash and cash equivalents at 31 December** | 23 | 8,936 | 4,848 | 8,853 | 4,742 |

# Accounting policies

## I Basis of preparation and consolidation

The financial statements have been prepared in accordance with International Financial Reporting Standards in full for the first time, including the provisions included within IFRS 1 – First Time Adoption of International Financial Reporting Standards. The disclosures required concerning the transition from UK GAAP to IFRS are given in the reconciliation of result and net assets on pages 32 to 37. The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties and available for sale investments.

As part of the adoption of IFRS, the Institute has produced consolidated financial statements for the first time including the results of its subsidiaries and associates and its charitable trusts. Investments in associates are included using the equity method of accounting. Previously subsidiaries and associates were not consolidated on the grounds of immateriality and the charitable trusts were excluded on the basis that their assets were held separately from those of the Institute under the custodianship of appointed trustee directors. IAS 27 – Consolidated and Separate Financial Statements, requires the Institute to consolidate the charitable trusts as the Institute, through its nominating committee, controls the appointment of trustee directors.

## II Income

Income from fees and subscriptions is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable. Fees and subscriptions received in advance are included within other payables.

Other income, including licence fees and income in association with professional conduct, Joint Disciplinary Scheme (JDS) and Accountancy Investigation and Discipline Board (AIDB) is recognised when receivable.

## III Property, plant and equipment, and depreciation

**Freehold properties**

Freehold properties are revalued annually at market value and are included in the balance sheet at their revalued amounts. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.

Certain major items of fixed plant and equipment are identified separately and are depreciated over their individual estimated useful economic lives.

Depreciation is not charged on freehold land. Depreciation is charged on the revalued amount of freehold buildings at 2% per annum.

**Leasehold improvements**

Improvements to leasehold properties are capitalised and are depreciated on a straight line basis over the shorter of their estimated useful economic lives and the remaining lease term.

**Historic collections**

The Institute's collections of silver, rare books, period furniture, pictures and sculptures are revalued annually and are stated at estimated open market values. In view of the nature of these assets, in that the estimated residual value is equal to the carrying amount, no depreciation is provided. Surpluses on revaluation, including surpluses arising from donations of items to the collections, are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.

**Other plant and equipment**

Depreciation is charged on other plant and equipment on a straight line basis over the estimated useful economic lives of the assets ranging from three to ten years.

The impairment of property, plant and equipment is considered annually and provisions made where necessary.

## IV Intangible assets

Intangible assets comprise computer software and are stated at cost. Amortisation is charged on a straight line basis over the estimated useful economic life of the software (between two to five years).

## V Investments

Interest bearing investments, equities and unit trusts held for the purposes of generating long term investment income are treated as non-current available for sale investments and are included at bid price market value at the balance sheet date. Gains and losses on remeasurement are taken to the investment revaluation reserve initially. On disposal, the cumulative gain or loss previously recognised in reserves is transferred to the income statement.

## VI Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and investments in money market instruments representing short-term, highly liquid investments that are readily convertible to known amounts of cash.

## VII Inventories

Inventories are stated at the lower of cost and net realisable value.

## VIII Operating leases

Operating lease costs are charged to the income statement on a straight line basis over the period of the relevant agreement.

## IX Grants

Revenue grants receivable are recognised in the period to which they relate.

## X Pensions

**Defined benefit scheme**

The expected costs of providing pensions under the Institute's defined benefit staff pensions fund, as calculated periodically by qualified actuaries using the projected unit method, is charged to the income statement so as to spread the cost over the service lives of employees in the scheme. Actuarial gains and losses are recognised in full in the statement of recognised income and expense as they arise.

**Defined contribution schemes**

Contributions under defined contribution schemes are charged to the income statement as they become due and payable.

# Accounting policies
(continued)

### XI Deferred taxation
Deferred taxation is recognised on all taxable temporary differences, except to the extent that a deferred tax liability arises on the initial recognition of an asset which, at the time of the transaction, affects neither accounting profit nor taxable profit. In addition, a deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. In addition, measurement is based on the tax consequences of recovering or settling the carrying amount of assets and liabilities.

### XII Professional Conduct, Joint Disciplinary Scheme and Accountancy Investigation and Discipline Board Scheme
Provision is made for the estimated future external costs of major disciplinary cases relating to events which occurred prior to the balance sheet date.

### XIII Financial risk management
Forward contracts are used selectively to cover known short term foreign currency exposures. The fair value of these contracts approximates to their carrying value because of their short term nature. Gains and losses are recognised when the item being hedged is recognised. Interest bearing investments held for investment purposes are held through an independent custodian. Working capital and longer term funds are held in interest bearing investments with approved issuing banks with at least A rating, for appropriate periods to ensure acceptable levels of liquidity.

### XIV Self financing activities
It is the intention of the council that, taking one year with another, the costs of self financing activities should be borne by those members and/or firms deriving benefit from such areas. In calculating the result to be taken to reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income.

# Notes to the financial statements

for the year ended 31 December 2005

## 1 Members' learning & professional development

| | Group | | | Group | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| Development | 482 | (2,274) | (1,792) | 119 | (1,410) | (1,291) |
| International | – | (325) | (325) | – | (229) | (229) |
| Administration | – | (2,544) | (2,544) | – | (2,223) | (2,223) |
| | 482 | (5,143) | (4,661) | 119 | (3,862) | (3,743) |

| | Institute | | | Institute | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| Development | 730 | (2,274) | (1,544) | 119 | (1,410) | (1,291) |
| International | – | (325) | (325) | – | (229) | (229) |
| Administration | 300 | (2,544) | (2,244) | 479 | (2,223) | (1,744) |
| | 1,030 | (5,143) | (4,113) | 598 | (3,862) | (3,264) |

The members' learning & professional development directorate has received grants from the Chartered Accountants' Trust for Education and Research (CATER) totalling £547,000 (2004: £479,000).

## 2 Professional standards

| | Group and Institute | | | Group and Institute | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| Disciplinary | 1,065 | (3,760) | (2,695) | 638 | (3,459) | (2,821) |
| Practice regulation | 220 | – | 220 | 155 | (131) | 24 |
| | 1,285 | (3,760) | (2,475) | 793 | (3,590) | (2,797) |

## 3 Member services

| | Group and Institute | | | Group and Institute | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| Product sales and development | 1,681 | (2,468) | (787) | 1,598 | (1,971) | (373) |
| Local and regional services | 476 | (4,116) | (3,640) | 542 | (3,839) | (3,297) |
| Focuses and research unit | 16 | (1,074) | (1,058) | 13 | (907) | (894) |
| Advisory and other member services | 90 | (1,180) | (1,090) | 167 | (972) | (805) |
| Administration | 262 | (522) | (260) | 114 | (821) | (707) |
| | 2,525 | (9,360) | (6,835) | 2,434 | (8,510) | (6,076) |

## 4 Technical strategy

| | Group | | | Group | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| International | – | (413) | (413) | – | (426) | (426) |
| Institute funded faculty activities | – | (1,273) | (1,273) | – | (906) | (906) |
| Technical departments | 8 | (2,484) | (2,476) | 3 | (2,134) | (2,131) |
| Administrative support | – | (392) | (392) | 7 | (366) | (359) |
| | 8 | (4,562) | (4,554) | 10 | (3,832) | (3,822) |

| | Institute | | | Institute | | |
|---|---|---|---|---|---|---|
| | 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
| International | – | (413) | (413) | – | (426) | (426) |
| Institute funded faculty activities | – | (1,273) | (1,273) | – | (906) | (906) |
| Technical departments | 458 | (2,484) | (2,026) | 463 | (2,134) | (1,671) |
| Administrative support | – | (392) | (392) | 45 | (366) | (321) |
| | 458 | (4,562) | (4,104) | 508 | (3,832) | (3,324) |

The technical strategy directorate has received grants from CATER totalling £450,000 (2004: £460,000) and from the Chartered Accountants' Permanent Educational Trust (CAPET) totalling £nil (2004: £38,000).

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 5 Central activities

| | 2005 Income £'000 | 2005 Expenditure £'000 | Group 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | Group 2004 Net £'000 |
|---|---|---|---|---|---|---|
| Members' facilities | 1,373 | (2,274) | (901) | 1,072 | (2,174) | (1,102) |
| Accommodation | – | (2,462) | (2,462) | 44 | (1,755) | (1,711) |
| Common office services | – | (2,667) | (2,667) | – | (2,838) | (2,838) |
| Membership records | 26 | (1,026) | (1,000) | 27 | (987) | (960) |
| Communications | 65 | (3,192) | (3,127) | – | (2,526) | (2,526) |
| Information technology | 13 | (4,175) | (4,162) | 23 | (3,922) | (3,899) |
| Finance and accounting | – | (2,329) | (2,329) | – | (1,767) | (1,767) |
| Council | – | (217) | (217) | – | (242) | (242) |
| Executive and administration | 21 | (1,485) | (1,464) | 28 | (1,323) | (1,295) |
| Strategy review | – | – | – | – | (332) | (332) |
| Exceptional item – integration proposals | – | (928) | (928) | – | (464) | (464) |
| | 1,498 | (20,755) | (19,257) | 1,194 | (18,330) | (17,136) |
| Less: allocated to other activities or recovered from outside bodies (including notional rent of £725,000 (2004: £753,000)) | – | 10,161 | 10,161 | – | 8,130 | 8,130 |
| | 1,498 | (10,594) | (9,096) | 1,194 | (10,200) | (9,006) |

| | 2005 Income £'000 | 2005 Expenditure £'000 | Institute 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | Institute 2004 Net £'000 |
|---|---|---|---|---|---|---|
| Members' facilities | 1,373 | (2,274) | (901) | 1,072 | (2,174) | (1,102) |
| Accommodation | – | (2,462) | (2,462) | 44 | (1,755) | (1,711) |
| Common office services | – | (2,667) | (2,667) | – | (2,838) | (2,838) |
| Membership records | 26 | (1,026) | (1,000) | 27 | (987) | (960) |
| Communications | 65 | (3,192) | (3,127) | – | (2,526) | (2,526) |
| Information technology | 13 | (4,175) | (4,162) | 23 | (3,922) | (3,899) |
| Finance and accounting | – | (2,329) | (2,329) | – | (1,767) | (1,767) |
| Council | – | (217) | (217) | – | (242) | (242) |
| Executive and administration | 21 | (1,485) | (1,464) | 28 | (1,323) | (1,295) |
| Strategy review | – | – | – | – | (332) | (332) |
| Exceptional item – integration proposals | – | (928) | (928) | – | (464) | (464) |
| | 1,498 | (20,755) | (19,257) | 1,194 | (18,330) | (17,136) |
| Less: allocated to other activities or recovered from outside bodies (including notional rent of £725,000 (2004: 753,000)) | – | 10,600 | 10,600 | – | 8,406 | 8,406 |
| | 1,498 | (10,155) | (8,657) | 1,194 | (9,924) | (8,730) |

Internal catering income has been offset against catering expenditure in the 2005 financial statements; in previous years this income was shown gross within members' facilities income above. The 2004 comparatives have been restated accordingly. There is no impact on the results of the Institute. The total value of internal catering income was £464,000 (2004: £366,000).

## 6 Student learning & professional development – self financing

| | 2005 Income £'000 | 2005 Expenditure £'000 | Group and Institute 2005 Net £'000 | 2004 Income £'000 | 2004 Expenditure £'000 | Group and Institute 2004 Net £'000 |
|---|---|---|---|---|---|---|
| Examinations | 5,384 | (3,734) | 1,650 | 5,088 | (3,829) | 1,259 |
| Development and administration | 1,251 | (1,730) | (479) | 1,152 | (1,587) | (435) |
| Net operating result | 6,635 | (5,464) | 1,171 | 6,240 | (5,416) | 824 |

# Notes to the financial statements
for the year ended 31 December 2005 (continued)

## 7 Practice regulation – self financing

| | Group and Institute 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | Group and Institute 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
|---|---|---|---|---|---|---|
| Authorisation of investment business | 1,769 | (1,812) | (43) | 1,440 | (1,711) | (271) |
| Practice regulation and assurance | 10,234 | (8,970) | 1,264 | 7,480 | (8,112) | (632) |
| Net operating result | 12,003 | (10,782) | 1,221 | 8,920 | (9,823) | (903) |

Included within investment business is £67,000 net expenditure relating to the Chartered Accountants' Compensation Scheme.

## 8 Faculties

| | Group and Institute 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | Group and Institute 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
|---|---|---|---|---|---|---|
| Tax Faculty | 662 | (764) | (102) | 655 | (702) | (47) |
| Faculty of Information Technology | 351 | (414) | (63) | 432 | (527) | (95) |
| Faculty of Finance and Management | 571 | (686) | (115) | 588 | (591) | (3) |
| Audit and Assurance Faculty | 587 | (612) | (25) | 611 | (630) | (19) |
| Corporate Finance Faculty | 476 | (538) | (62) | 436 | (436) | – |
| Net operating result | 2,647 | (3,014) | (367) | 2,722 | (2,886) | (164) |

## 9 Charitable trusts

| | Group 2005 Income £'000 | 2005 Expenditure £'000 | 2005 Net £'000 | Group 2004 Income £'000 | 2004 Expenditure £'000 | 2004 Net £'000 |
|---|---|---|---|---|---|---|
| External research grants | – | (168) | (168) | – | (497) | (497) |
| Other grants | – | (2) | (2) | – | (28) | (28) |
| Library expenditure | 39 | (830) | (791) | 40 | (755) | (715) |
| Other expenditure | – | (52) | (52) | – | (68) | (68) |
| | 39 | (1,052) | (1,013) | 40 | (1,348) | (1,308) |

## 10 Participation in external bodies

| | Group and Institute Income 2005 £'000 | Total expenditure 2005 £'000 | Expenditure borne by self financing activities 2005 £'000 | Net expenditure 2005 £'000 | Net 2005 £'000 | Group and Institute Income 2004 £'000 | Net expenditure 2004 £'000 | Net 2004 £'000 |
|---|---|---|---|---|---|---|---|---|
| Accountancy Foundation | – | – | – | – | – | – | (107) | (107) |
| Financial Reporting Council | – | (1,520) | 645 | (875) | (875) | – | (540) | (540) |
| CCAB | 24 | (275) | – | (275) | (251) | – | (405) | (405) |
| International Federation of Accountants | – | (307) | – | (307) | (307) | – | (264) | (264) |
| AIDB | – | (600) | – | (600) | (600) | – | (333) | (333) |
| JDS: | | | | | | | | |
| Costs | – | (2,137) | – | (2,137) | (2,137) | – | (1,374) | (1,374) |
| Cost recoveries | – | 858 | – | 858 | 858 | – | 145 | 145 |
| Fines | 134 | – | – | – | 134 | 151 | – | 151 |
| | 158 | (3,981) | 645 | (3,336) | (3,178) | 151 | (2,878) | (2,727) |

## 11 Gift aid and library funding

Payments of £2,465,000 (2004: £1,900,000) were made by the Institute in the year under gift aid to CATER, which funds the Institute library and education in the field of accountancy and related subjects. A further £10,000 (2004: £10,000) was paid by way of gift aid to the General Charitable Trust (GCT).

# Notes to the financial statements
for the year ended 31 December 2005 (continued)

## 12 Operating result

The group and Institute operating result is stated after charging:

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Staff costs | **26,380** | 25,127 | **25,731** | 24,620 |
| Depreciation on owned property, plant and equipment | **883** | 939 | **871** | 930 |
| Amortisation of intangible assets | **647** | 415 | **647** | 415 |
| Loss on disposal of property, plant and equipment | **6** | 20 | **6** | 20 |
| Amounts payable under operating leases: | | | | |
| Plant and machinery | **268** | 271 | **268** | 271 |
| Other | **598** | 587 | **598** | 587 |
| Audit fees | **59** | 55 | **53** | 46 |
| Due diligence fees to auditors | **28** | – | **28** | – |

The group and Institute operating result includes reimbursement of volunteer expenses and payments on a normal commercial basis to members and member firms for services, in particular in connection with lecturing and writing. In 2005 these payments in aggregate amounted to £1,655,000 (2004: £1,791,000). Of this £70,000 (2004: £70,000) was paid for services to member firms who have a partner or employee who is also a member of the council. The amounts paid to individual council members for services was £61,000 (2004: £78,000) in total.

## 13 Net investment income

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Bank interest receivable | **97** | 48 | **97** | 48 |
| Interest receivable from investment deposits | **1,640** | 1,410 | **1,538** | 1,373 |
| Other financial income | **337** | 244 | **337** | 244 |
| Dividend income | **351** | 314 | **102** | 110 |
| Realised gains from equities | **891** | 271 | **513** | 271 |
| | **3,316** | 2,287 | **2,587** | 2,046 |
| Allocated to self financing activities and charitable trusts | **(1,125)** | (718) | **(396)** | (477) |
| Net investment gains and income | **2,191** | 1,569 | **2,191** | 1,569 |

Investment income allocated to self financing activities and charitable trusts is summarised as follows:

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Learning & professional development | **67** | 115 | **67** | 115 |
| Practice regulation | **246** | 280 | **246** | 280 |
| Faculties | **83** | 82 | **83** | 82 |
| Charitable trusts | **729** | 241 | **–** | – |
| | **1,125** | 718 | **396** | 477 |

# Notes to the financial statements

## for the year ended 31 December 2005 (continued)

### 14 Taxation

| | Group and Institute 2005 £'000 | Group and Institute 2004 £'000 |
|---|---|---|
| Current tax: | | |
| On income for the year | (139) | (405) |
| Adjustment for previous periods | 182 | 86 |
| | 43 | (319) |
| Deferred tax: | | |
| Origination and reversal of timing differences | (35) | (25) |
| Tax on operating result | 8 | (344) |

The Institute is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER, which funds education in the field of accountancy and related subjects, including the administration of the library, and to GCT. The charitable trusts fall outside the scope of corporation tax and accordingly there is no liability in respect of their activities.

**Factors affecting the tax charge for the year**

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Net result before taxation | 3,574 | 440 | 2,811 | 839 |
| Add back: | | | | |
| Result on transactions with members | (2,417) | 535 | (2,417) | 535 |
| Charitable trusts not taxable | (763) | 399 | – | – |
| Net result before taxation on transactions with non-members | 394 | 1,374 | 394 | 1,374 |
| Net result attributable to investment gains and income and transactions with non members multiplied by standard rate of corporation tax in the UK of 30% | (118) | (412) | (118) | (412) |
| Effects of: | | | | |
| Inflationary element of deferred consideration on disposal of ABG Professional Information | (35) | (25) | (35) | (25) |
| Net expenses not chargeable for tax purposes | (37) | (8) | (37) | (8) |
| Franked investment income not taxable | 31 | 34 | 31 | 34 |
| Other adjustments, including marginal relief | 20 | 6 | 20 | 6 |
| Adjustments in respect of prior years | 182 | 86 | 182 | 86 |
| | 43 | (319) | 43 | (319) |

The Institute anticipates that tax charges in future years may be affected by continued donations under gift aid to CATER.

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 15 Property, plant and equipment

The freehold properties, Chartered Accountants' Hall, London, and Gloucester House, Milton Keynes, were revalued by CB Richard Ellis Ltd, independent chartered surveyors at 31 December 2005 at market value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. The property revaluations during the year ended 31 December 2005 resulted in a valuation surplus of £264,000 (2004: deficit £445,000).

The historical cost of the Institute's silver collection and antiques represents only the cost of items purchased by the Institute. The valuations in respect of these collections also include substantial donations and bequests received by the Institute.

The valuations of the Institute's historic collections at 31 December 2005 were carried out by William Walter Antiques Limited (*the Benney silver collection and other silver*); John Drury Rare Books (*rare books*) and Christies and The Fine Art Society (*period furniture, pictures and sculptures*).

There were no contracts for capital expenditure not provided for in these financial statements at 31 December 2005 (2004: none).

| | | | | | Group |
|---|---|---|---|---|---|
| | Freehold property £'000 | Short leasehold property £'000 | Silver collection and antiques £'000 | Furniture, computer hardware and equipment £'000 | Total £'000 |
| **Cost or valuation** | | | | | |
| At 1 January 2005 | 10,647 | 284 | 3,486 | 7,432 | 21,849 |
| Additions at cost | 376 | – | 2 | 371 | 749 |
| Disposals at cost or valuation | – | – | – | (484) | (484) |
| Surplus on revaluation | 68 | – | 93 | – | 161 |
| At 31 December 2005 | 11,091 | 284 | 3,581 | 7,319 | 22,275 |
| At valuation | 11,091 | – | 3,581 | – | 14,672 |
| At cost | – | 284 | – | 7,319 | 7,603 |
| | 11,091 | 284 | 3,581 | 7,319 | 22,275 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2005 | 97 | 231 | – | 5,824 | 6,152 |
| Depreciation for the year | 197 | 18 | – | 668 | 883 |
| Depreciation on disposals | – | – | – | (478) | (478) |
| Adjustment on revaluation | (103) | – | – | – | (103) |
| At 31 December 2005 | 191 | 249 | – | 6,014 | 6,454 |
| Net book amount at 31 December 2005 | 10,900 | 35 | 3,581 | 1,305 | 15,821 |
| On an historical cost basis the comparable amounts for tangible fixed assets are: | | | | | |
| Cost | 10,932 | 284 | 161 | 7,319 | 18,696 |
| Accumulated depreciation | (5,357) | (249) | – | (6,014) | (11,620) |
| Net historical cost at 31 December 2005 | 5,575 | 35 | 161 | 1,305 | 7,076 |

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 15 Property, plant and equipment (continued)

**Group**

| | Freehold property £'000 | Short leasehold property £'000 | Silver collection and antiques £'000 | Furniture, computer hardware and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2004 | 11,055 | 284 | 3,375 | 7,205 | 21,919 |
| Additions at cost | 345 | – | – | 1,023 | 1,368 |
| Disposals at cost or valuation | – | – | – | (796) | (796) |
| Surplus on revaluation | (753) | – | 111 | – | (642) |
| At 31 December 2004 | 10,647 | 284 | 3,486 | 7,432 | 21,849 |
| At valuation | 10,647 | – | 3,486 | – | 14,133 |
| At cost | – | 284 | – | 7,432 | 7,716 |
| | 10,647 | 284 | 3,486 | 7,432 | 21,849 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2004 | 134 | 213 | – | 5,843 | 6,190 |
| Depreciation for the year | 160 | 18 | – | 761 | 939 |
| Depreciation on disposals | – | – | – | (780) | (780) |
| Adjustment on revaluation | (197) | – | – | – | (197) |
| At 31 December 2004 | 97 | 231 | – | 5,824 | 6,152 |
| Net book amount at 31 December 2004 | 10,550 | 53 | 3,486 | 1,608 | 15,697 |
| On an historical cost basis the comparable amounts for tangible fixed assets are: | | | | | |
| Cost | 10,932 | 284 | 161 | 7,432 | 18,809 |
| Accumulated depreciation | (5,357) | (231) | – | (5,824) | (11,412) |
| Net historical cost at 31 December 2004 | 5,575 | 53 | 161 | 1,608 | 7,397 |

**Institute**

| | Freehold property £'000 | Short leasehold property £'000 | Silver collection and antiques £'000 | Furniture, computer hardware and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2005 | 10,647 | 284 | 3,486 | 7,247 | 21,664 |
| Additions at cost | 376 | – | 2 | 360 | 738 |
| Disposals at cost or valuation | – | – | – | (484) | (484) |
| Surplus on revaluation | 68 | – | 93 | – | 161 |
| At 31 December 2005 | 11,091 | 284 | 3,581 | 7,123 | 22,079 |
| At valuation | 11,091 | – | 3,581 | – | 14,672 |
| At cost | – | 284 | – | 7,123 | 7,407 |
| | 11,091 | 284 | 3,581 | 7,123 | 22,079 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2005 | 97 | 231 | – | 5,662 | 5,990 |
| Depreciation for the year | 197 | 18 | – | 656 | 871 |
| Depreciation on disposals | – | – | – | (478) | (478) |
| Adjustment on revaluation | (103) | – | – | – | (103) |
| At 31 December 2005 | 191 | 249 | – | 5,840 | 6,280 |
| Net book amount at 31 December 2005 | 10,900 | 35 | 3,581 | 1,283 | 15,799 |
| On an historical cost basis the comparable amounts for tangible fixed assets are: | | | | | |
| Cost | 10,932 | 284 | 161 | 7,123 | 18,500 |
| Accumulated depreciation | (5,357) | (249) | – | (5,840) | (11,446) |
| Net historical cost at 31 December 2005 | 5,575 | 35 | 161 | 1,283 | 7,054 |

# Notes to the financial statements

## for the year ended 31 December 2005 (continued)

### 15 Property, plant and equipment (continued)

| Institute | Freehold property £'000 | Short leasehold property £'000 | Silver collection and antiques £'000 | Furniture, computer hardware and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2004 | 11,055 | 284 | 3,375 | 7,035 | 21,749 |
| Additions at cost | 345 | – | – | 1,008 | 1,353 |
| Disposals at cost or valuation | – | – | – | (796) | (796) |
| Surplus on revaluation | (753) | – | 111 | – | (642) |
| At 31 December 2004 | 10,647 | 284 | 3,486 | 7,247 | 21,664 |
| At valuation | 10,647 | – | 3,486 | – | 14,133 |
| At cost | – | 284 | – | 7,247 | 7,531 |
| | 10,647 | 284 | 3,486 | 7,247 | 21,664 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2004 | 134 | 213 | – | 5,690 | 6,037 |
| Depreciation for the year | 160 | 18 | – | 752 | 930 |
| Depreciation on disposals | – | – | – | (780) | (780) |
| Adjustment on revaluation | (197) | – | – | – | (197) |
| At 31 December 2004 | 97 | 231 | – | 5,662 | 5,990 |
| Net book amount at 31 December 2004 | 10,550 | 53 | 3,486 | 1,585 | 15,674 |
| On an historical cost basis the comparable amounts for tangible fixed assets are: | | | | | |
| Cost | 10,932 | 284 | 161 | 7,247 | 18,624 |
| Accumulated depreciation | (5,357) | (231) | – | (5,662) | (11,250) |
| Net historical cost at 31 December 2004 | 5,575 | 53 | 161 | 1,585 | 7,374 |

### 16 Intangible assets

| Group and Institute Computer software | 2005 £'000 | 2004 £'000 |
|---|---|---|
| At 1 January | **2,587** | 1,703 |
| Additions at cost | **857** | 888 |
| Disposals at cost | **–** | (4) |
| At 31 December | **3,444** | 2,587 |
| **Accumulated amortisation** | | |
| At 1 January | **553** | 138 |
| Amortisation for the year | **647** | 415 |
| Amortisation on disposals | **–** | – |
| At 31 December | **1,200** | 553 |
| Net book amount at 31 December | **2,244** | 2,034 |

Amortisation charges are allocated to directorates on the basis of the usage of the Institute's systems.

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 17 Financial assets: available for sale investments

**Group**

| | Interest bearing investments 2005 £'000 | Equities and unit trusts 2005 £'000 | Total 2005 £'000 | Interest bearing investments 2004 £'000 | Equities and unit trusts 2004 £'000 | Total 2004 £'000 |
|---|---|---|---|---|---|---|
| **Market value** | | | | | | |
| At 1 January | 21,040 | 9,408 | 30,448 | 19,263 | 9,494 | 28,757 |
| Additions | 73,397 | 5,601 | 78,998 | 68,586 | 3,413 | 71,999 |
| Disposals | (73,024) | (5,641) | (78,665) | (67,606) | (4,213) | (71,819) |
| Gains on disposal | 809 | 881 | 1,690 | 797 | 249 | 1,046 |
| Change in market value of investments: | | | | | | |
| Recognised in statement of recognised income and expense | – | 766 | 766 | – | 465 | 465 |
| At 31 December | 22,222 | 11,015 | 33,237 | 21,040 | 9,408 | 30,448 |
| On an historical cost basis the comparable amounts of investments are: | | | | | | |
| At 31 December | 22,222 | 8,884 | 31,106 | 21,040 | 8,052 | 29,092 |

Within group investments are charitable funds of £9,926,000 (2004: £8,788,000) which are maintained independently of the Institute, and for which investment policies are set and performance monitored, by the trustee.

**Institute**

| | Interest bearing investments 2005 £'000 | Equities and unit trusts 2005 £'000 | Total 2005 £'000 | Interest bearing investments 2004 £'000 | Equities and unit trusts 2004 £'000 | Total 2004 £'000 |
|---|---|---|---|---|---|---|
| **Market value** | | | | | | |
| At 1 January | 17,465 | 4,195 | 21,660 | 16,628 | 3,797 | 20,425 |
| Additions | 64,096 | 3,177 | 67,273 | 67,075 | 2,492 | 69,567 |
| Disposals | (64,051) | (3,168) | (67,219) | (66,987) | (2,419) | (69,406) |
| Gains on disposal | 799 | 514 | 1,313 | 749 | 269 | 1,018 |
| Change in market value of investments: | | | | | | |
| Recognised in statement of recognised income and expense | – | 284 | 284 | – | 56 | 56 |
| At 31 December | 18,309 | 5,002 | 23,311 | 17,465 | 4,195 | 21,660 |
| On an historical cost basis the comparable amounts of investments are: | | | | | | |
| At 31 December | 18,309 | 4,089 | 22,398 | 17,465 | 3,557 | 21,022 |

Interest bearing investments include cash investments of £1,272,000 (2004: £2,000).

## 18 Non-current financial assets – other receivables

**Group and Institute**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Deferred consideration receivable | 5,500 | 6,500 |

Deferred consideration following the sale of the business of ABG Professional Information in 2002 is receivable as follows:

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Within one year (included within current assets) | 1,000 | 1,000 |
| Within two to five years | 4,000 | 4,000 |
| After more than five years | 1,500 | 2,500 |
| | 6,500 | 7,500 |

Deferred consideration is receivable from Wolters Kluwer NV, a group with annual revenues for 2005 of €3,374 million (2004: €3,261 million) incorporated in the Netherlands and engaged in publishing and providing information products and services. The carrying value of this asset is considered to be equal to its fair value, as interest is receivable at an appropriate level to compensate for the discounted value of the deferred consideration.

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 19 Investments in subsidiaries and associates

The following entities, none of which have a share capital, have been treated as subsidiaries on the basis that the Institute, through its nominating committee, controls the appointment of trustee directors:

| | Activity |
|---|---|
| General Charitable Trust | Makes donations to national charitable appeals and charitable purposes of particular interest to the Institute. |
| PD Leake Trust | Carries out major accounting research. |
| Chartered Accountants' Permanent Educational Trust | Provides grants for accountancy research, subsidies for courses and publications, examination prizes and Institute fellowships. |
| Chartered Accountants' Trust for Education and Research | Provides grants for the Institute library, accounting research, educational fellowships and expenses relating to education in the field of accountancy and related subjects |
| Chartered Accountants' Library Limited | Trading subsidiary of Chartered Accountants Trust for Education and Research |
| Chartered Accountants' Charitable Investment Pool | Common investment fund managing the investments of the other charitable trusts |

The following principal related companies have been treated as associates. In each case, and notwithstanding the majority ownership of CCAB Limited and the Chartered Accountants' Compensation Scheme Limited, the Institute has significant influence to participate in, but not govern, the financial and operating policies of the companies.

| | Shareholding % | 2005 cost £ | Activity |
|---|---|---|---|
| The Joint Insolvency Examination Board (a company limited by guarantee) | – | – | Conducts examinations in insolvency practice to meet the education requirements of the Insolvency Act 1986. The Institute is one of seven subscribers each of whom has guaranteed £1 in the event of the company being wound up. |
| Fraud Advisory Panel (a company limited by guarantee) | – | – | Registered charity carries out research into, and education in, all aspects of fraud prevention, detection, prosecution and deterrence. |
| CCAB Limited | 51.7% | 517 | Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles. |
| Chartered Accountants' Compensation Scheme Limited | 80.0% | 800 | Evaluates and administers claims for compensation arising from the Institute's obligations as a recognised professional body under the Financial Services Act 1986 and as a designated professional body under the Financial Services and Markets Act 2000. |
| Dormant companies | | 1,206 | |
| | | 2,523 | |

The companies all operate on a not for profit basis. A full list of subsidiaries and associates is available from www.icaew.co.uk/review.

Financial information relating to the associates is summarised below for the year ended 31 December 2005:

| | The Joint Insolvency Examination Board 2005 £'000 | Fraud Advisory Panel 2005 £'000 | CCAB Limited 2005 £'000 | Chartered Accountants' Compensation Scheme Limited 2005 £'000 |
|---|---|---|---|---|
| Assets | 240 | 131 | 929 | 167 |
| Liabilities | (103) | (28) | (928) | (166) |
| Net assets | 137 | 103 | 1 | 1 |
| Revenue | 116 | 138 | 3,980 | 166 |
| Net result | 3 | 18 | – | – |
| Balances due (to)/from associates as at 31 December 2005 | 40 | – | (505) | 22 |
| Group share of net assets as at 31 December 2005 | 27 | 35 | 1 | 1 |
| Group share of net result for the year ended 31 December 2005 | 1 | 8 | – | – |

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 20 Deferred taxation

| | Group and Institute 2005 £'000 | Group and Institute 2004 £'000 |
|---|---|---|
| The provision for deferred taxation comprises: | | |
| Revaluation of short-term investments | (274) | (183) |
| Revaluations of properties and historic collections | (297) | (288) |
| Deferred tax liability | (571) | (471) |
| Inflationary element of ABG Professional Information deferred consideration | 284 | 319 |
| Defined benefit pension scheme deficit | 665 | 657 |
| Deferred tax asset | 949 | 976 |
| Net deferred tax asset | 378 | 505 |

Movements in the net deferred tax asset are summarised as follows:

| | Group and Institute | | | | |
|---|---|---|---|---|---|
| | Revaluation of short-term investments 2005 £'000 | Revaluations of properties and historic collections 2005 £'000 | Inflationary element of deferred consideration 2005 £'000 | Defined benefit pension scheme deficit 2005 £'000 | 2005 £'000 |
| Asset at 1 January | (183) | (288) | 319 | 657 | 505 |
| Recognised in income statement | – | – | (35) | – | (35) |
| Recognised in the statement of total recognised income and expense | (91) | (9) | – | 8 | (92) |
| Asset at 31 December | (274) | (297) | 284 | 665 | 378 |

A deferred tax asset of £177,000 (2004: £177,000) relating to trade losses has not been recognised as its future recovery is uncertain.

## 21 Inventories

| | Group and Institute 2005 £'000 | Group and Institute 2004 £'000 |
|---|---|---|
| Publications, other products and sundry stocks | 303 | 402 |

## 22 Trade and other receivables – current

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Trade and other debtors | 8,792 | 7,418 | 8,728 | 7,358 |
| Amounts owed by subsidiaries | – | – | 300 | 288 |
| Amounts owed by associates | 62 | 233 | 62 | 233 |
| Deferred consideration receivable | 1,000 | 1,000 | 1,000 | 1,000 |
| Prepayments | 1,703 | 1,538 | 1,703 | 1,538 |
| Accrued income | 457 | 911 | 457 | 911 |
| | 12,014 | 11,100 | 12,250 | 11,328 |
| Less: provision for impairment of receivables | (528) | (524) | (528) | (524) |
| | 11,486 | 10,576 | 11,722 | 10,804 |

The principal component of trade and other debtors are amounts due from the Institute's members and member firms, and in the case of disciplinary fines and costs, certain former members. As a result, the council believes there is no further credit risk provision required in excess of the normal provision for impairment of receivables.

## 23 Cash and cash equivalents

Cash and cash equivalents consist of current balances with banks and money market deposits. They do not include interest bearing investments held for the long term. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

| | Group 2005 £'000 | Group 2004 £'000 | Institute 2005 £'000 | Institute 2004 £'000 |
|---|---|---|---|---|
| Cash at bank | 2,976 | 1,611 | 2,893 | 1,505 |
| Short term investments | 5,960 | 3,237 | 5,960 | 3,237 |
| | 8,936 | 4,848 | 8,853 | 4,742 |

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 24 Trade and other payables

| | Group | | Institute | |
|---|---|---|---|---|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| Subscriptions and admission fees in advance | 7,741 | 3,922 | 7,741 | 3,922 |
| Amounts owed to associates | 505 | 263 | 505 | 263 |
| Other income in advance | 4,235 | 3,956 | 4,235 | 3,956 |
| Trade payables | 2,542 | 2,502 | 2,542 | 2,502 |
| Other payables | 2,905 | 1,922 | 2,602 | 1,520 |
| Income tax and social security payables | 814 | 774 | 814 | 774 |
| Accruals | 4,231 | 3,123 | 4,225 | 3,123 |
| | 22,973 | 16,462 | 22,664 | 16,060 |

## 25 Other non-current liabilities

| | Group | | Institute | |
|---|---|---|---|---|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| Trade and other payables – grant commitments | 29 | 7 | – | – |

## 26 Staff pension funds provision

**Defined benefit scheme**

The Institute operates a defined benefit staff pension scheme which provides participating members of staff with retirement benefits based on their final pensionable salary. The assets of the scheme are held by a separate trustee administered fund. The scheme was closed to new members on 1 July 2000 and therefore, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The level of contributions required to fund the scheme is assessed by a qualified actuary on a triennial basis using the projected unit method. The most recent valuation of the fund was carried out by Hymans Robertson as at 5 April 2004 on the projected unit method. At the valuation date, the market value of the assets of the fund was £55.2 million, which represented 76% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

On the basis of the most recent valuations the agreed rate of employer's contributions ranged from 15.7% to 22.5% of pensionable earnings for participating employees until 1 April 2005, reducing to between 13.5% and 20.6% from 1 April 2005. Employee contributions during 2005 ranged from 6% to 10%. The Institute agreed to make additional employer contributions during the year in respect of back-dated benefits awarded to participating employees attaining ten years' service with the Institute during that period of £370,000 (2004: £400,000). The Institute agreed to make a further contribution of £5 million in respect of past service deficits in January 2005, together with monthly payments of £116,000 from April 2005 (2004: £nil). These monthly payments are anticipated to continue until the next full actuarial valuation.

The scheme's actuaries provide a separate report for IAS 19 (Employee Benefits) purposes at each year end.

**The assumptions made at 31 December on the advice of the scheme's actuaries were:**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Discount rate | 4.75% | 5.25% | 5.50% |
| Expected return on scheme assets | 5.97% | 6.61% | 6.90% |
| Future salary increases | 4.25% | 4.25% | 4.25% |
| Future increases in pensionable earnings | 2.75% | 2.75% | 2.75% |

The following table summarises the results of the updated valuation of the fund:

| | Group | | Institute | |
|---|---|---|---|---|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| Present value of funded obligations | (102,165) | (87,043) | (102,165) | (87,043) |
| Fair value of plan assets | 80,034 | 61,209 | 80,034 | 61,209 |
| Whole scheme deficit | (22,131) | (25,834) | (22,131) | (25,834) |
| Less: relating to other employers | 213 | 217 | 923 | 926 |
| Scheme deficit relating to the Institute | (21,918) | (25,617) | (21,208) | (24,908) |

The scheme is a multi employer scheme. The Institute is the main employer in the scheme. The assets and liabilities, and share of actuarial gains and losses are split based on active members in the scheme.

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 26 Staff pension funds provision (continued)

**Reconciliation of defined benefit obligation – whole scheme**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Opening defined benefit obligation | 87,043 | 80,492 |
| Current service cost | 1,867 | 2,193 |
| Interest on obligation | 4,579 | 4,445 |
| Contributions by plan participants | 774 | 551 |
| Actuarial loss in year | 10,189 | 1,467 |
| Benefits paid | (2,287) | (2,105) |
| Closing defined benefit obligation | 102,165 | 87,043 |

**Reconciliation of fair value of plan assets – whole scheme**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Opening fair value of plan assets | 61,209 | 53,873 |
| Expected return on assets | 4,257 | 3,731 |
| Contributions by plan participants | 774 | 551 |
| Contributions by the employer | 7,877 | 2,021 |
| Actuarial gains | 8,204 | 3,138 |
| Benefits paid | (2,287) | (2,105) |
| Closing fair value of plan assets | 80,034 | 61,209 |
| Actual return on assets | 12,460 | 6,869 |

**The major categories of plan assets as a percentage of total plan assets are as follows:**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Equities | 71% | 77% |
| Government bonds | 26% | 21% |
| Cash | 3% | 2% |

**Amounts recognised in the income statement within staff costs are as follows:**

| | Group | | Institute | |
|---|---|---|---|---|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| Current service cost | (1,867) | (2,193) | (1,867) | (2,193) |
| Expected return on pension scheme assets | 4,257 | 3,731 | 4,257 | 3,731 |
| Interest on pension scheme liabilities | (4,579) | (4,445) | (4,579) | (4,445) |
| | (2,189) | (2,907) | (2,189) | (2,907) |

**Amounts recognised in the statement of recognised income and expense:**

| | Group | | Institute | |
|---|---|---|---|---|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| Actuarial gains on plan assets | 8,204 | 3,138 | 8,204 | 3,138 |
| Actuarial losses on obligation | (10,189) | (1,467) | (10,189) | (1,467) |
| Actuarial (loss)/gain – whole scheme | (1,985) | 1,671 | (1,985) | 1,671 |
| Less: relating to other employers within the scheme | 15 | (16) | 75 | (66) |
| Actuarial (loss)/gain in statement of recognised income and expense | (1,970) | 1,655 | (1,910) | 1,605 |

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 26 Staff pension funds provision (continued)

**Amounts for the current and previous periods are as follows:**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Defined benefit obligation | **(102,165)** | (87,043) |
| Plan assets | **80,034** | 61,209 |
| Whole scheme deficit | **(22,131)** | (25,834) |
| Actuarial gains on plan assets | **8,204** | 3,138 |
| Actuarial losses on obligation | **(10,189)** | (1,467) |
| Cumulative actuarial (loss)/gain since 1 January 2004 | **(314)** | 1,671 |

**Money purchase plan**

The Institute also operates a money purchase staff pension scheme for employees who are not entitled to participate in the defined benefits scheme. The money purchase plan provides benefits based upon contributions made and investment returns achieved. The scheme first received contributions in July 2000. The assets of the scheme are held in a separate trustee fund. The Institute contributes 9% of pensionable earnings for participating employees. The employees themselves contribute 4%.

During the year it became apparent that parts of the money purchase plan contain income guarantees for participants which, on a winding up basis, would have resulted in a funding deficit. An amount of £150,000 (2004: £nil) has been set aside to resolve these funding issues.

The amount charged to the income statement during the year in respect of this scheme was £657,000 (2004: £576,000). There were no contributions payable to the scheme at the balance sheet date (2004: £nil).

## 27 Joint Disciplinary Scheme provision

| | 2005 £'000 |
|---|---|
| Balance at 1 January | **1,713** |
| Charge to income statement – subscription funded | **2,056** |
| Amounts paid | **(1,563)** |
| Balance at 31 December | **2,206** |

The JDS is funded by two participant bodies, the Institute and The Institute of Chartered Accountants of Scotland. The amount provided is based on the estimated cost to the Institute of investigations by the JDS in respect of cases arising from events up to 31 December 2005. The provision is expected to be utilised over the next two to three years.

## 28 Accountancy Investigation and Discipline Board provision

| | 2005 £'000 |
|---|---|
| Balance at 1 January | **794** |
| Charge to income statement – subscription funded | **600** |
| Charge to income statement – practice regulation funded | **1,000** |
| Amounts paid | **(185)** |
| Balance at 31 December | **2,209** |

The costs of investigations by the AIDB are funded by the participating Institutes, being for 2005, the Institute, The Chartered Institute of Management Accountants, The Chartered Institute of Public Finance and Accountancy and The Association of Chartered Certified Accountants. The provision is expected to be utilised over the next three to five years.

Management review the adequacy of both the JDS and AIDB provisions on at least a quarterly basis, through review of past case cost estimates and discussions of ongoing cases with relevant individuals.

# Notes to the financial statements
for the year ended 31 December 2005 (continued)

## 29 Reserves

**Group**

| | Revaluation reserve 2005 £'000 | Investment revaluation reserve 2005 £'000 | Accumulated fund 2005 £'000 | Self financing reserves 2005 £'000 | Charitable funds 2005 £'000 | Total 2005 £'000 |
|---|---|---|---|---|---|---|
| Reserves at 1 January restated | 8,025 | 427 | 6,683 | 3,222 | 7,571 | 25,928 |
| Net result after taxation | – | – | 407 | 2,421 | 754 | 3,582 |
| Increase in valuation of property, plant and equipment | 264 | – | – | – | – | 264 |
| Net change in market value of long-term investments over cost | – | 284 | – | – | 482 | 766 |
| Actuarial losses recognised in year on defined benefit pension scheme | – | – | (1,233) | (677) | (60) | (1,970) |
| Reclassification of freehold depreciation | (922) | – | 922 | – | – | – |
| Deferred tax attributable to above | (9) | (91) | 8 | – | – | (92) |
| | (667) | 193 | 104 | 1,744 | 1,176 | 2,550 |
| Reserves at 31 December | 7,358 | 620 | 6,787 | 4,966 | 8,747 | 28,478 |

**Institute**

| | Revaluation reserve 2005 £'000 | Investment revaluation reserve 2005 £'000 | Accumulated fund 2005 £'000 | Self financing reserves 2005 £'000 | Total 2005 £'000 |
|---|---|---|---|---|---|
| Reserves at 1 January restated | 8,025 | 427 | 6,631 | 3,222 | 18,305 |
| Net result after taxation | – | – | 398 | 2,421 | 2,819 |
| Increase in valuation of property, plant and equipment | 264 | – | – | – | 264 |
| Net change in market value of long-term investments over cost | – | 284 | – | – | 284 |
| Actuarial losses recognised in year on defined benefit pension scheme | – | – | (1,233) | (677) | (1,910) |
| Reclassification of freehold depreciation | (922) | – | 922 | – | – |
| Deferred tax attributable to above | (9) | (91) | 8 | – | (92) |
| | (667) | 193 | 95 | 1,744 | 1,365 |
| Reserves at 31 December | 7,358 | 620 | 6,726 | 4,966 | 19,670 |

The revaluation reserve represents the excess of the open market valuation over the depreciated historical cost of the Institute's historic collections and properties, net of deferred taxation. The investment revaluation reserve represents the excess of unrealised gains and losses on available for sale investments over their historical cost.

Included within the self financing reserves is £2,823,000 relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations in force before 1 December 2001 the Institute was required to maintain a compensation scheme, funded by levies on firms authorised for investment business. This compensation scheme continues to exist to deal with claims received after 1 December 2001 in respect of work carried out before that date and maintains a provision to meet anticipated future claims. The reserve is expected to be utilised over a period of approximately ten years. The Institute has reserved the right to make further levies on firms authorised for investment business before 1 December 2001 should additional funds be required.

## 30 Leasing commitments

**Operating leases**

At 31 December the group and Institute had the following total future minimum lease payments under non-cancellable operating leases:

| | Group and Institute | | Group and Institute | |
|---|---|---|---|---|
| | Land and buildings 2005 £'000 | Plant and machinery 2005 £'000 | Land and buildings 2004 £'000 | Plant and machinery 2004 £'000 |
| Operating leases which expire: | | | | |
| Within one year | 92 | 53 | 39 | 22 |
| In the second to fifth years inclusive | 562 | 325 | 1,115 | 391 |
| After five years | 179 | – | 255 | – |
| | 833 | 378 | 1,409 | 413 |

# Notes to the financial statements

for the year ended 31 December 2005 (continued)

## 31 Staff costs

**Average number of staff employed during the year**

| | Group | | Institute | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Learning & professional development | **67** | 56 | **67** | 56 |
| Professional standards | **132** | 129 | **132** | 129 |
| Member services | **101** | 98 | **101** | 98 |
| Technical strategy and faculties | **62** | 56 | **62** | 56 |
| Central activities | **176** | 178 | **176** | 178 |
| Charitable trusts | **15** | 17 | **–** | – |
| Total employees | **553** | 534 | **538** | 517 |
| Full time equivalents | **527** | 507 | **512** | 491 |

**Employment costs**

| | Group | | Institute | |
|---|---|---|---|---|
| | **2005 £'000** | 2004 £'000 | **2005 £'000** | 2004 £'000 |
| Wages and salaries | **21,315** | 19,622 | **20,867** | 19,211 |
| Employer's social security costs | **2,125** | 1,942 | **2,086** | 1,905 |
| Employer's pension costs | **2,940** | 3,563 | **2,778** | 3,504 |
| | **26,380** | 25,127 | **25,731** | 24,620 |

The figures above do not include 1 member of staff whose employment costs are borne by the Fraud Advisory Panel (2004: 1). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with the Institute.

## 32 Key management compensation – executive directors

| | Salary 2005 £'000 | Bonus 2005 £'000 | Total 2005 £'000 | Total 2004 £'000 |
|---|---|---|---|---|
| Eric Anstee | **330** | **59** | **389** | 353 |
| Michael Izza | **201** | **39** | **240** | 232 |
| Sally Hinkley (resigned 14 October 2005) | **127** | **21** | **148** | 174 |
| Robert Hodgkinson (appointed as executive director 4 May 2005) | **132** | **24** | **156** | – |
| Raymond Madden (appointed 6 June 2005) | **117** | **20** | **137** | – |
| Former executive directors | **–** | **–** | **–** | 181 |
| | **907** | **163** | **1,070** | 940 |

The executive directors are remunerated on a total package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards Institute benefits such as pension scheme membership, health insurance or a car. Annual bonuses are payable to executive directors on the basis of performance and the recommendation of the remuneration committee. Michael Izza has commuted salary of £20,000 (2004: £20,400) during the year in return for a contribution to his personal pension plan.

Consultancy fees of £3,000 were paid to Sally Hinkley during 2005 following her retirement in October 2005.

# Notes to the financial statements
for the year ended 31 December 2005 (continued)

## 33 Segmented information

In the opinion of the council, the Institute's main directorates are considered separate reportable business segments as a result of the nature of the products and services, regulatory environment and relevant risks and returns. There are no material geographic segments to report as operations are based in the UK. Segmented information relating to income and expenditure is included on the face of the income statement.

**Segment net assets**

| | Learning & professional development 2005 £'000 | Professional standards 2005 £'000 | Member services 2005 £'000 | Technical strategy 2005 £'000 | Central activities 2005 £'000 | External bodies 2005 £'000 | Charitable trusts 2005 £'000 | Unallocated 2005 £'000 | Group 2005 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets | 266 | 990 | 151 | 37 | 2,073 | 412 | 10,094 | 64,517 | 78,540 |
| Liabilities | (1,006) | (6,283) | (809) | (1,885) | (1,978) | – | (1,348) | (36,753) | (50,062) |
| | (740) | (5,293) | (658) | (1,848) | 95 | 412 | 8,746 | 27,764 | 28,478 |

| | Learning & professional development 2004 £'000 | Professional standards 2004 £'000 | Member services 2004 £'000 | Technical strategy 2004 £'000 | Central activities 2004 £'000 | External bodies 2004 £'000 | Charitable trusts 2004 £'000 | Unallocated 2004 £'000 | Group 2004 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets | 968 | 582 | 117 | 44 | 1,564 | 484 | 8,976 | 58,801 | 71,536 |
| Liabilities | (1,206) | (5,503) | (637) | (525) | (917) | – | (1,406) | (35,414) | (45,608) |
| | (238) | (4,921) | (520) | (481) | 647 | 484 | 7,570 | 23,387 | 25,928 |

Trust segment assets include property, plant and equipment, cash and other receivables owned by the trusts. For the main directorates, segment assets include inventories, other receivables and other payables directly attributable to these areas; the remaining assets and liabilities are classified as unallocated.

## 34 Contingent liabilities and guarantees

The Institute has undertakings to Chartered Accountants' Compensation Scheme Limited (CACS Ltd) in respect of its agreed proportion of claims for compensation and administration costs, of amounts up to but not exceeding £10,000,000 in any one year. In support of these undertakings, the Institute and the other participants in CACS Ltd have entered into an agreement with CACS Ltd's bankers to guarantee each participant's proportion of a facility which would enable CACS Ltd to meet its obligations in respect of the first £2,500,000 of claims. Payments for individual claims are limited to a maximum of £50,000. The Institute's share of the costs of the scheme is recovered from those firms licensed by the Institute under the Financial Services and Markets Act 2000 and those firms previously authorised by the Institute under the Financial Services Act 1986 as appropriate.

The Institute acts as guarantor in respect of a lease for property formerly used by the Accountancy Foundation and its successor body, the Financial Reporting Council (FRC). The FRC have agreed in principle that the Institute should not be required to continue to act as guarantor, but has yet to reach an agreement with the landlord as regards alternative arrangements. The Institute is indemnified by the other CCAB bodies against a proportion of the costs that may arise, according to an agreed formula.

During the year ended 31 December 2001 ABG Professional Information assigned the residue of a property lease to a third party. The Institute signed an authorised guarantee agreement in respect of rents due under the remainder of the lease. The current annual rental is £87,800 and the lease is due to expire in 2013.

# UK GAAP to IFRS reconciliations

## Reconciliation of net result for the year ended 31 December 2004

The Institute has not previously prepared consolidated financial statements on the basis that its subsidiaries and associates as defined by UK GAAP were not material. The definition of subsidiaries under international standards encompasses the Institute's charitable trusts. The charitable trusts have adopted SORP 2005 for the first time this year and have therefore restated their comparative amounts accordingly.

The following tables and notes provide an analysis of the impact of the first time adoption of IFRS on the results that would have been reported in prior years under UK GAAP had the Institute prepared consolidated financial statements and had the charitable trusts adopted SORP 2005.

| | | | | | **Group** |
|---|---|---|---|---|---|
| | Note | Previous GAAP 2004 £'000 | Reclassification and prior year adjustments – non IFRS(a) 2004 £'000 | Effect of transition to IFRS 2004 £'000 | IFRS 2004 £'000 |
| **Operating result** | b | (1,362) | (283) | (213) | (1,858) |
| Net realised and unrealised gains on listed investments | | 11 | – | (11) | – |
| Investment income | c | 1,950 | 477 | (140) | 2,287 |
| Group share of associates' results after tax | | 11 | – | – | 11 |
| **Result before taxation** | | 610 | 194 | (364) | 440 |
| Taxation | d | (346) | – | 2 | (344) |
| **Net result after taxation** | | 264 | 194 | (362) | 96 |
| Result attributable to self financing and charitable activities | | (124) | (194) | 494 | 176 |
| **Net result transferred to accumulated fund** | | 140 | – | 132 | 272 |

| | | | | | **Institute** |
|---|---|---|---|---|---|
| | Note | Previous GAAP 2004 £'000 | Reclassification and prior year adjustments – non IFRS(a) 2004 £'000 | Effect of transition to IFRS 2004 £'000 | IFRS 2004 £'000 |
| **Operating result** | b | (711) | (283) | (213) | (1,207) |
| Net realised and unrealised gains on listed investments | | 11 | – | (11) | – |
| Investment income | c | 1,298 | 477 | 271 | 2,046 |
| **Result before taxation** | | 598 | 194 | 47 | 839 |
| Taxation | d | (346) | – | 2 | (344) |
| **Net result after taxation** | | 252 | 194 | 49 | 495 |
| Result attributable to self financing and charitable activities | b | (123) | (194) | 83 | (234) |
| **Net result transferred to accumulated fund** | | 129 | – | 132 | 261 |

## Notes to the reconciliation of net result

a The non-IFRS adjustments reflect the impact of the reclassification of the provision for the Chartered Accountants' Compensation Scheme as a self financing reserve, together with the inclusion of investment income attributable to self financing areas within net investment income.

b The pension liability under IAS 19 – Employee Benefits resulted in an increase to the current pension service cost of £213,000 when compared to the previous charge, of which £83,000 related to the self financing areas.

c Institute: Investment income now includes the effects of realised gains in the year, which were previously recognised directly in reserves (£265,000); offset by net unrealised losses on investments now taken to the investment revaluation reserve rather than the income statement (£5,000).

Group: as for Institute together with the impact of unrealised gains from available for sale investments within the trusts, previously recognised in the Statement of Financial Activities under Accounting and Reporting by Charities SORP 2005, but now transferred directly to reserves (£411,000).

d The charge to the income statement for taxation has reduced by £2,000 in respect of changes to unrealised losses on investments, which were previously provided as deferred tax in the investment revaluation reserve.

# UK GAAP to IFRS reconciliations
(continued)

## Reconciliation of consolidated net assets as at 1 January 2004

| | Note | Previous GAAP £'000 | Reclassification and prior year adjustments – non IFRS £'000 | Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | e | 17,294 | – | (1,565) | 15,729 |
| Intangible assets | e | – | – | 1,565 | 1,565 |
| Financial assets: | | | | | |
| Available for sale investments | | 28,757 | – | – | 28,757 |
| Other receivables | | 7,500 | – | – | 7,500 |
| Investments in associates | | 44 | – | – | 44 |
| Deferred tax asset | g | – | – | 1,042 | 1,042 |
| | | **53,595** | **–** | **1,042** | **54,637** |
| **Current assets** | | | | | |
| Inventories | | 409 | – | – | 409 |
| Trade and other receivables | g | 7,881 | – | (178) | 7,703 |
| Cash and cash equivalents | | 4,418 | – | – | 4,418 |
| | | **12,708** | **–** | **(178)** | **12,530** |
| **Total assets** | | **66,303** | **–** | **864** | **67,167** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | | (12,905) | – | – | (12,905) |
| Current tax liabilities | | (346) | – | – | (346) |
| | | **(13,251)** | **–** | **–** | **(13,251)** |
| **Non-current liabilities** | | | | | |
| Staff Pensions Fund provision | h | (2,141) | – | (24,030) | (26,171) |
| Joint Disciplinary Scheme provision | | (3,079) | – | – | (3,079) |
| Chartered Accountants' Compensation Scheme | | (2,561) | 2,561 | – | – |
| Deferred tax liability | g | – | – | (454) | (454) |
| | | **(7,781)** | **2,561** | **(24,484)** | **(29,704)** |
| **Total liabilities** | | **(21,032)** | **2,561** | **(24,484)** | **(42,955)** |
| **Total net assets** | | **45,271** | **2,561** | **(23,620)** | **24,212** |
| **Reserves** | | | | | |
| Revaluation reserve | i | 8,496 | – | (288) | 8,208 |
| Investment revaluation reserve | j | 403 | – | (17) | 386 |
| Accumulated fund | k | 20,729 | – | (15,010) | 5,719 |
| | | **29,628** | **–** | **(15,315)** | **14,313** |
| **Reserves retained by self financing activities and charitable trusts** | | | | | |
| Student learning & professional development | k | 977 | – | (876) | 101 |
| Practice regulation | k | 4,480 | – | (6,277) | (1,797) |
| Faculties | k | 1,908 | – | (393) | 1,515 |
| Chartered Accountants' Compensation Scheme | | – | 2,561 | – | 2,561 |
| Charitable trust endowment funds | | 4,868 | – | – | 4,868 |
| Unrestricted charitable trust funds | | 3,410 | – | (759) | 2,651 |
| | | **15,643** | **2,561** | **(8,305)** | **9,899** |
| | | **45,271** | **2,561** | **(23,620)** | **24,212** |

# UK GAAP to IFRS reconciliations
(continued)

## Reconciliation of Institute net assets as at 1 January 2004

| | Note | Previous GAAP £'000 | Reclassification and prior year adjustments – non IFRS £'000 | Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | e | 17,277 | – | (1,565) | 15,712 |
| Intangible assets | e | – | – | 1,565 | 1,565 |
| Financial assets: | | | | | |
| Available for sale investments | | 20,425 | – | – | 20,425 |
| Other receivables | | 7,500 | – | – | 7,500 |
| Investments in subsidiaries and associates | | 3 | – | – | 3 |
| Deferred tax asset | g | – | – | 1,042 | 1,042 |
| | | **45,205** | **–** | **1,042** | **46,247** |
| **Current assets** | | | | | |
| Inventories | | 409 | – | – | 409 |
| Trade and other receivables | g | 7,974 | – | (178) | 7,796 |
| Cash and cash equivalents | | 4,325 | – | – | 4,325 |
| | | **12,708** | **–** | **(178)** | **12,530** |
| **Total assets** | | **57,913** | **–** | **864** | **58,777** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | | (12,834) | – | – | (12,834) |
| Current tax liabilities | | (346) | – | – | (346) |
| | | **(13,180)** | **–** | **–** | **(13,180)** |
| **Non-current liabilities** | | | | | |
| Staff Pensions Fund provision | h | (2,141) | – | (23,271) | (25,412) |
| Joint Disciplinary Scheme provision | | (3,079) | – | – | (3,079) |
| Chartered Accountants' Compensation Scheme | | (2,561) | 2,561 | – | – |
| Deferred tax liability | g | – | – | (454) | (454) |
| | | **(7,781)** | **2,561** | **(23,725)** | **(28,945)** |
| **Total liabilities** | | **(20,961)** | **2,561** | **(23,725)** | **(42,125)** |
| **Total net assets** | | **36,952** | **2,561** | **(22,861)** | **16,652** |
| **Reserves** | | | | | |
| Revaluation reserve | i | 8,496 | – | (288) | 8,208 |
| Investment revaluation reserve | j | 403 | – | (17) | 386 |
| Accumulated fund | k | 20,688 | – | (15,010) | 5,678 |
| | | **29,587** | **–** | **(15,315)** | **14,272** |
| **Reserves retained by self financing activities** | | | | | |
| Student learning & professional development | k | 977 | – | (876) | 101 |
| Practice regulation | k | 4,480 | – | (6,277) | (1,797) |
| Faculties | k | 1,908 | – | (393) | 1,515 |
| Chartered Accountants' Compensation Scheme | | – | 2,561 | – | 2,561 |
| | | **7,365** | **2,561** | **(7,546)** | **2,380** |
| | | **36,952** | **2,561** | **(22,861)** | **16,652** |

# UK GAAP to IFRS reconciliations
(continued)

## Reconciliation of consolidated net assets as at 31 December 2004

| | Note | Previous GAAP £'000 | Reclassification and prior year adjustments – non IFRS £'000 | Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | e | 17,731 | – | (2,034) | 15,697 |
| Intangible assets | e | – | – | 2,034 | 2,034 |
| Financial assets: | | | | | |
| Available for sale investments | f | 30,458 | 27 | (37) | 30,448 |
| Other receivables | | 6,500 | – | – | 6,500 |
| Investments in associates | | 55 | – | – | 55 |
| Deferred tax asset | g | – | – | 976 | 976 |
| | | **54,744** | **27** | **939** | **55,710** |
| **Current assets** | | | | | |
| Inventories | | 402 | – | – | 402 |
| Trade and other receivables | g | 10,712 | – | (136) | 10,576 |
| Cash and cash equivalents | | 4,875 | (27) | – | 4,848 |
| | | **15,989** | **(27)** | **(136)** | **15,826** |
| **Total assets** | | **70,733** | **–** | **803** | **71,536** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | | (16,462) | – | – | (16,462) |
| Current tax liabilities | | (544) | – | – | (544) |
| | | **(17,006)** | **–** | **–** | **(17,006)** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | | (7) | – | – | (7) |
| Staff Pensions Fund provision | h | (3,029) | – | (22,588) | (25,617) |
| Joint Disciplinary Scheme provision | | (1,713) | – | – | (1,713) |
| Chartered Accountants' Compensation Scheme | | (2,755) | 2,755 | – | – |
| Accountancy Investigation and Discipline Board provision | | (794) | – | – | (794) |
| Deferred tax liability | g | – | – | (471) | (471) |
| | | **(8,298)** | **2,755** | **(23,059)** | **(28,602)** |
| **Total liabilities** | | **(25,304)** | **2,755** | **(23,059)** | **(45,608)** |
| **Total net assets** | | **45,429** | **2,755** | **(22,256)** | **25,928** |
| **Reserves** | | | | | |
| Revaluation reserve | i | 8,313 | – | (288) | 8,025 |
| Investment revaluation reserve | j | 439 | – | (12) | 427 |
| Accumulated fund | k | 20,872 | – | (14,189) | 6,683 |
| | | **29,624** | **–** | **(14,489)** | **15,135** |
| **Reserves retained by self financing activities and charitable trusts** | | | | | |
| Student learning & professional development | k | 1,926 | – | (812) | 1,114 |
| Practice regulation | k | 3,731 | – | (5,845) | (2,114) |
| Faculties | k | 1,831 | – | (364) | 1,467 |
| Chartered Accountants' Compensation Scheme | | – | 2,755 | – | 2,755 |
| Charitable trust endowment funds | | 5,232 | – | (36) | 5,196 |
| Unrestricted charitable trust funds | | 3,085 | – | (710) | 2,375 |
| | | **15,805** | **2,755** | **(7,767)** | **10,793** |
| | | **45,429** | **2,755** | **(22,256)** | **25,928** |

# UK GAAP to IFRS reconciliations
(continued)

## Reconciliation of Institute net assets as at 31 December 2004

| | Note | Previous GAAP £'000 | Reclassification and prior year adjustments – non IFRS £'000 | Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | e | 17,708 | – | (2,034) | 15,674 |
| Intangible assets | e | – | – | 2,034 | 2,034 |
| Financial assets: | | | | | |
| Available for sale investments | | 21,633 | 27 | – | 21,660 |
| Other receivables | | 6,500 | – | – | 6,500 |
| Investments in subsidiaries and associates | | 3 | – | – | 3 |
| Deferred tax asset | g | – | – | 976 | 976 |
| | | **45,844** | **27** | **976** | **46,847** |
| **Current assets** | | | | | |
| Inventories | | 402 | – | – | 402 |
| Trade and other receivables | g | 10,940 | – | (136) | 10,804 |
| Cash and cash equivalents | | 4,769 | (27) | – | 4,742 |
| | | **16,111** | **(27)** | **(136)** | **15,948** |
| **Total assets** | | **61,955** | **–** | **840** | **62,795** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | | (16,060) | – | – | (16,060) |
| Current tax liabilities | | (544) | – | – | (544) |
| | | **(16,604)** | **–** | **–** | **(16,604)** |
| **Non-current liabilities** | | | | | |
| Staff Pensions Fund provision | h | (3,029) | – | (21,879) | (24,908) |
| Joint Disciplinary Scheme provision | | (1,713) | – | – | (1,713) |
| Chartered Accountants' Compensation Scheme | | (2,755) | 2,755 | – | – |
| Accountancy Investigation and Discipline Board provision | | (794) | – | – | (794) |
| Deferred tax liability | g | – | – | (471) | (471) |
| | | **(8,291)** | **2,755** | **(22,350)** | **(27,886)** |
| **Total liabilities** | | **(24,895)** | **2,755** | **(22,350)** | **(44,490)** |
| **Total net assets** | | **37,060** | **2,755** | **(21,510)** | **18,305** |
| **Reserves** | | | | | |
| Revaluation reserve | i | 8,313 | – | (288) | 8,025 |
| Investment revaluation reserve | j | 439 | – | (12) | 427 |
| Accumulated fund | k | 20,820 | – | (14,189) | 6,631 |
| | | **29,572** | **–** | **(14,489)** | **15,083** |
| **Reserves retained by self financing activities** | | | | | |
| Student learning & professional development | k | 1,926 | – | (812) | 1,114 |
| Practice regulation | k | 3,731 | – | (5,845) | (2,114) |
| Faculties | k | 1,831 | – | (364) | 1,467 |
| Chartered Accountants' Compensation Scheme | | – | 2,755 | – | 2,755 |
| | | **7,488** | **2,755** | **(7,021)** | **3,222** |
| | | **37,060** | **2,755** | **(21,510)** | **18,305** |

# UK GAAP to IFRS reconciliations
(continued)

**Notes to the reconciliation of net assets**

e Computer software was previously included within fixed assets, but is now classified separately as an intangible asset; there is no change to the amount classified overall and the amortisation policies in use.

f The equity investments held by the Institute's trusts were revalued to a bid basis at the end of 2004 in line with IAS 39: Financial Instruments: Recognition and Measurement, from a mid-market basis under UK GAAP, resulting in a reduction in value of £37,000, split between the endowment fund (£36,000) and unrestricted funds (£1,000). The investments held by the Institute were also revalued, however the difference was not material and therefore was not adjusted.

g Under UK GAAP £136,000 was included within debtors for the net deferred tax asset (2003: £178,000) comprising an asset of £319,000 and liability of £183,000 (2003: £344,000 and £166,000 respectively). An additional tax asset was required under IAS 12 – Income Taxes, in relation to the IAS 19 pension deficit, of £657,000 (2003: £698,000).

In addition, a deferred tax liability was created under IAS 12 in respect of the Institute's historic collections (£138,000) and freehold properties (£150,000). No deferred tax was provided on these assets under UK GAAP as there was no intention to sell these assets.

h The staff pension fund has been re-stated in line with IAS 19; previously pensions were accounted for under SSAP 24 and the transitional provisions of FRS 17. The Institute recognises actuarial gains and losses immediately through the statement of recognised income and expense.

i The new deferred tax provisions on the Institute's historic collections (£138,000) and freehold properties (£150,000) have affected the revaluation reserve as discussed above.

j Under IAS 39, the investment portfolio has been classified as an available for sale asset; unrealised gains and losses are reported in the investment revaluation reserve and recycled to the income statement on disposal. The net impact of the prior year re-statement and adjustment for 2004 gains and losses has the effect of reducing the value of the investment revaluation reserve by £12,000 (2003: £17,000).

k Institute: the accumulated fund and self financing reserves have been affected by the increased pension deficit of £21,222,000 (net of deferred tax) and the effects of the change in accounting policy under IAS 39 – net £12,000 (2003: £22,573,000 and £17,000 respectively).

Group: the accumulated fund and self financing reserves have been affected by the increased pension deficit of £21,931,000 (net of deferred tax) and the effects of the change in accounting policy under IAS 39 – net £25,000 (2003: £23,327,000 and £12,000).

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