<table>
<thead>
<tr>
<th><strong>Title</strong></th>
<th>Republic of Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Authors(s)</strong></td>
<td>Pierce, Aileen; Brennan, Niamh</td>
</tr>
<tr>
<td><strong>Publication date</strong></td>
<td>2001</td>
</tr>
<tr>
<td><strong>Publisher</strong></td>
<td>Aspen Law &amp; Business</td>
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<tr>
<td><strong>Link to online version</strong></td>
<td><a href="http://www.amazon.co.uk/Miller-European-Accounting-Guide-Alexander/dp/0156073862">http://www.amazon.co.uk/Miller-European-Accounting-Guide-Alexander/dp/0156073862</a></td>
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<td><strong>Item record/more information</strong></td>
<td><a href="http://hdl.handle.net/10197/6002">http://hdl.handle.net/10197/6002</a></td>
</tr>
</tbody>
</table>
Republic of Ireland

Pierce, Aileen and Brennan, Niamh

[2001]

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Aspen Law & Business, New York NY,

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pp. 872-955.
Country highlights

REPUBLIC OF IRELAND

Ireland is a small island (84,400 square kilometers) lying to the extreme northwest of Europe. The island is divided into 32 counties, with 26 of these making up the Republic of Ireland, and the six most north-eastern counties making up Northern Ireland which is part of the United Kingdom. The political division took place in 1922 and the Republic of Ireland is now a sovereign, independent state. The population of the Republic is almost 3.7 million with one-third concentrated in or around the capital city, Dublin. Ireland’s growth in population is the highest in the European Union. The average age is one of the lowest in Europe. A high proportion are well educated, making Ireland a popular location for business, especially for the high technology sector.

Common Legal Forms of Companies

Forms of business organisation in Ireland include limited liability companies, branches of foreign companies, partnerships, sole proprietors and cooperatives (almost entirely in the agricultural sector). Most business is conducted through registered limited liability companies. These may be private limited companies (limited or Ltd.) or public companies (public limited company or plc). Approximately 100 companies are listed on the Irish Stock Exchange.

Financial Reporting Requirements

Company financial accounting and reporting in Ireland is governed by the requirements of company legislation, pronouncements of professional accountancy bodies and Stock Exchange regulations (for listed companies only).

The Companies Act 1963 and the Companies (Amendment) Act 1986 (which enacted the EC Fourth Directive) mainly determine the content and layout of the financial statements of registered companies. Company law requires company accounts to give a “true and fair view”. The EC Seventh Directive on group financial statements was legislated for in the European Communities (Companies: Group Accounts) Regulations, 1992. Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) promulgated by the Institute of Chartered Accountants in Ireland supplement legal requirements.

Corporate Taxation

Irish resident companies are subject to corporation tax on their worldwide income and capital gains (other than gains on development land) arising in each twelve month accounting period. A company is deemed to be resident if its central management and control are exercised in Ireland. Virtually all Irish incorporated companies are deemed to be tax resident in Ireland after 1 October 1999. Non-Irish resident companies are subject to Irish tax on income derived from a trade carried on through a branch / agency in Ireland and on certain capital gains arising in Ireland.

Net income is calculated by reference to rules contained in the tax acts and is independent of the net income amount calculated by reference to generally accepted accounting principles.
Corporation tax on trading income is charged at a standard rate of 24% (as at 1 January 2000). Non-trading income, and income from certain specified activities, is subject to corporation tax at 25%. A reduced rate (effectively 10%) applies to manufacturing and to certain other trading operations of companies. Effective from 1 January 2003, the standard rate of corporation tax on trading income will be 12.5%.

Additional company taxes include: (i) Rates - an annual local property tax imposed on the notional value of commercial / industrial property; (ii) Pay Related Social Insurance (PRSI) a payroll-related tax payable by employers in respect of its employees; (iii) Value Added Tax (VAT) which is levied on the value added to goods and services at each stage of the production and distribution cycle; (iv) Customs and excise duties, principally on alcohol, tobacco and hydrocarbons; and (v) Stamp duties on certain transactions and documents, mainly on conveyances of real estate and securities and on companies’ capital.

Double taxation treaties are in force with most major industrialized countries.

Auditing Requirements

The Companies Act 1963 requires every Irish company to be subject to an annual audit. Only members of professional accountancy bodies specified by the Minister for Enterprise, Trade and Employment are entitled to act as company auditors.

Organization of the Auditing and Accounting Profession

Members of the Institute of Chartered Accountants in Ireland (ICAI), the Association of Chartered Certified Accountants (ACCA) and the Institute of Certified Public Accountants in Ireland (ICPAI) are legally entitled to conduct audits. Members of the Chartered Institute of Management Accountants (CIMA) cannot under law act as auditors and mainly work in commerce and industry. The auditing standards to be followed, and ethical standards to be observed, are specified by the professional bodies. The auditing profession in Ireland is self-regulatory.

Constitution and Legal System

The Irish legal system has evolved from the UK and is a common law system with a large body of case law supplementing the statutes. It differs from the UK in having a constitution. European Community law is enacted through statute.

Currency

The monetary unit is the Irish pound (punt) (IR£) divided into 100 pence (p).

Official Languages

The first official language is Irish (gaeilge) but English is the predominant language used in practice. The Irish language is used in some parts of the country, mainly in the west, known as Gaeltacht areas.
1. Background

This chapter discusses the audit, preparation and presentation of company financial statements in Ireland. Legal regulations affecting the preparation of financial statements and affecting the conduct of audits are summarized. The institutional background to these activities is also discussed. The financial statements of Ireland’s fourth largest public limited company, CRH plc, are included at the end of this chapter and are referred to in the text where relevant.

Ireland and the United Kingdom share the same professional accounting and auditing regulations. Accordingly, to avoid unnecessary repetition, a common appendix dealing with these regulations is included.

2. Legal Regulation

2.1 Legal System in Ireland and Operation of the Courts

Ireland is a parliamentary democracy and Irish law is based on common law. The English common law system was first introduced into Ireland towards the end of the 12th century. The doctrine of precedent applies whereby the lower courts must follow the judgments of the higher courts on questions of law. The decisions of the superior courts provide an important source of law.

As is the case with all common law legal systems, Irish law does not comprise a single set of rules or principles that can be identified, written down and followed. Instead, the body of law has evolved over many centuries from a variety of sources resulting in a legal framework that is never entirely clear, constantly changing and developing, and often gives rise to conflicts within itself. Ultimately such conflicts must be resolved either by the courts or by the legislature through the enactment of unequivocal legislation. Even then, decisions of the courts and legislation can be subject to challenge.

The main source of law in Ireland is government legislation. Due to the volume of legislation, much is delegated to statutory instrument (sometimes referred to as ministerial regulations) made under the general authority of a particular statute.

Ireland became a member of the EC in 1973 and all legislation must now be consistent with the Treaty of Rome.

A broad hierarchy of sources of Irish law, from highest to lowest, is as follows:
The Constitution
↓
Statutes
↓
Common law

2.2. Irish Constitution

Unlike the UK, Ireland has a written constitution which provides a legal framework within which the state must operate. The constitution is a rather rigid document and can only be amended by a referendum of the people. Three constitutional features distinguish the Irish constitutional position from that of Britain. As parliament is subject to the constitution, the doctrine of absolute parliamentary sovereignty does not operate; sovereignty rests with the people. The constitution entrusts the judiciary with the function of ensuring that the legislation is compatible with the constitution; legislation which is not compatible can be struck down by the courts. Thirdly, the constitution guarantees the citizen real rights of personal liberty thus placing significant limits on the powers of the government.

The Irish constitution, *Bunreacht na hÉireann*, was adopted by the people of Ireland in 1937 and has been amended on several occasions since then. It forms the bedrock of Irish law, setting out among other things, the principles with which all laws must comply. Its provisions make it clear that, where the constitution and statute law conflict, the constitution prevails.

However, another provision of the constitution has the effect of placing the constitution itself second in the hierarchy of laws. This provision is contained in Article 29 and it results from Irish membership of the European Community. The relevant provision reads as follows:

“No provision of this Constitution invalidates laws enacted, acts done or measures adopted by the State necessitated by the obligations of membership of the Communities or prevents laws enacted, acts done or measures adopted by the Communities, or institutions thereof, from having the force of law in the State.”

As a result of this provision, litigants who feel that a domestic laws or findings of domestic courts are in conflict with a European law operative in the State can use this provision, first in the Irish courts and ultimately in the European Court of Justice.

2.3 Common Law

Common law, or judge-made law as it is often known, represents the accumulated wisdom of the courts of the State, and of their predecessors. Irish courts will follow precedents established by an equal or higher court in matters where there is no statutory authority. For instance, where the High Court makes a decision on a point of law this must be followed, where the identical point arises, by all lower courts in subsequent cases and usually by the High Court itself in such circumstances. Only the
Supreme Court on appeal, the legislature through a new statute, the People through a constitutional amendment or the European Court can overrule this precedent. The Supreme Court has reserved to itself the right to overrule its own previous decisions in particular circumstances.

2.4 Development of Company Law in the Republic of Ireland

2.4.1 Summary of Company Legislation

Companies are incorporated under the principal act, the Companies Act 1963. Various amendments to the principal act have been made since 1963. The various companies acts are listed in Table 1, together with their primary purpose.

<table>
<thead>
<tr>
<th>Act</th>
<th>Issue dealt with</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Act 1963</td>
<td>Principal act</td>
</tr>
<tr>
<td>Companies (Amendment) Act 1977</td>
<td>To facilitate changes in stock exchange procedures</td>
</tr>
<tr>
<td>Companies (Amendment) Act 1982</td>
<td>Sundry miscellaneous changes to the principal act</td>
</tr>
<tr>
<td>Companies (Amendment) Act 1983</td>
<td>Implementing EC second directive dealing with maintenance of capital and provision of certain rights to shareholders</td>
</tr>
<tr>
<td>Companies (Amendment) Act 1986</td>
<td>Implementing EC fourth directive harmonizing financial reporting in member states</td>
</tr>
<tr>
<td>Companies (Amendment) Act 1990</td>
<td>Dealing with appointment and powers of examiners to troubled companies</td>
</tr>
<tr>
<td>Companies Act 1990</td>
<td>Introducing new measures to improve the management and direction of companies, implementing the EC eight directive on mutual recognition and dealing with insider trading</td>
</tr>
<tr>
<td>Investment Limited Partnerships Act 1994</td>
<td>Provides for regulation by the Central Bank and allows for more than 20 partners.</td>
</tr>
<tr>
<td>Companies (Amendment) (No 2) Act 1999</td>
<td>Changes to examinership regulations, exemption from statutory audit requirement for small private companies, increases regulations governing directors</td>
</tr>
</tbody>
</table>

Additional provisions are included in secondary legislation in the form of orders and regulations to the Companies Acts and to the European Communities Acts. The most important of these is the European Communities (Companies: Group Accounts) Regulations, 1992 (referred to as the 1992 Regulations for the remainder of this chapter). These regulations implement the EC Seventh Directive on group accounts in Ireland. Separate regulations, European Communities (Credit Institutions: Accounts) Regulations, 1992, deal with accounting provisions for banking and insurance companies.
2.4.2 Summary of Accounting Provisions of Legislation

The acts and regulations contain extensive provisions relating to the books and records that companies must keep and relating to the form and content of company financial statements. The main provisions dealing with accounting matters are summarized in Table 2.

<table>
<thead>
<tr>
<th>Legal provision</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>S147 CA63</td>
<td>Proper books - repealed by S202 CA1990</td>
</tr>
<tr>
<td>S148 CA63</td>
<td>Preparation of profit and loss account and balance sheet</td>
</tr>
<tr>
<td>S149 CA63</td>
<td>True and fair view</td>
</tr>
<tr>
<td>S150-153 CA63</td>
<td>Group accounts</td>
</tr>
<tr>
<td>6th schedule CA63</td>
<td>Detailed accounting disclosures</td>
</tr>
<tr>
<td>S3 CA86</td>
<td>General provisions relating to accounts</td>
</tr>
<tr>
<td>S4 CA86</td>
<td>Format of accounts</td>
</tr>
<tr>
<td>S5 CA86</td>
<td>Accounting principles</td>
</tr>
<tr>
<td>S6 CA86</td>
<td>Departure from accounting principles</td>
</tr>
<tr>
<td>S10 CA86</td>
<td>Exemptions for small companies</td>
</tr>
<tr>
<td>S11 CA86</td>
<td>Exemptions for medium companies</td>
</tr>
<tr>
<td>S13 CA86</td>
<td>Directors’ reports</td>
</tr>
<tr>
<td>Schedule CA86</td>
<td>Form and content of accounts</td>
</tr>
<tr>
<td>S183-201 CA90</td>
<td>Appointment, qualification etc. of auditors</td>
</tr>
<tr>
<td>S202 CA90</td>
<td>Keeping of proper books of account</td>
</tr>
<tr>
<td>GAR92</td>
<td>Group accounts</td>
</tr>
</tbody>
</table>

Key
CA63: Companies Act 1963
CA86: Companies (Amendment) Act 1986
CA90: Companies Act 1990
GAR92: European Communities (Companies: Group Accounts) Regulations, 1992

Companies are required to keep proper books of account. In particular, the books must:
- Record a company’s transactions in a timely and consistent manner
- Correctly record and explain the transactions of the company
- Enable the financial position of the company to be determined with reasonable accuracy at all times
- Enable the directors to ensure that the annual accounts comply with the requirements of the Companies Acts
- Enable those annual accounts to be readily and properly audited.

Proper books of account are those which:
- Comply with legal requirements
- Give a true and fair view of the state of affairs of the company
- Explain its transactions.

Section 148, Companies Act 1963 requires every company to present at the company’s Annual General Meeting a profit and loss account and balance sheet which
cover the period since the last accounts and are made up to a date not more than nine months before the meeting.


2.5 Additional Legislation Influencing the Content of Irish Published Accounts

Most of the requirements for disclosure of information in company accounts is dealt with in company legislation. However, two requirements are to be found elsewhere. The Safety, Health and Welfare at Work Act, 1989 requires companies to have a comprehensive safety statement. An evaluation of the extent to which the policy set out in the safety statement was complied with during the period should be set out in the Directors’ Report.

Under the Electoral Act of 1997 all political donations exceeding IR£4,000 by the company in the period must be disclosed in the financial statements.

2.6 Future Developments

2.6.1 Company Law Review Group

In response to recommendations of the McDowell report on company law enforcement in Ireland, a Company Law Review Group was established to examine how to simplify company law, particularly in its application to small- and medium-sized entities. The Review Group also looks at the overall operation of company law, the governance of companies by directors and other officers and the utilization and impact of new technology in company law. A “Company Law Enforcement Bill” is currently before the Irish parliament.

2.6.2 Review Group on Auditing

In response to concerns at the quality of auditing in Ireland, the Tánaiste (Deputy Prime Minister) established a Review Group in February 2000 to examine whether self-regulation of the auditing profession is working effectively and to consider revised structures and arrangements governing the regulation of auditors. The group’s report is available at www.entemp.ie/publications.htm.

3. Irish Stock Exchange

The Irish Stock Exchange formed part of the International Stock Exchanges of the United Kingdom and the Republic of Ireland Limited until 1995 when it became a separate entity from London. From December 1995, the Central Bank took over regulation of the Irish stock market, while the Irish Stock Exchange continues to be responsible for the day-to-day regulation of business and dealing on the exchange.

Companies listed on the Irish Stock Exchange must comply with detailed regulations, particularly in relation to the provision of information which may be price sensitive. With the increase in the level of disclosure required by the enactment of the
Companies (Amendment) Act 1986 and the Companies Act 1990, stock exchange requirements do not add significantly to the amount of information to be disclosed, except for:

- Disclosure of price sensitive information
- Preliminary statements of annual results
- Interim reports
- Disclosures concerning directors
- Extra accounting and governance disclosures.

The extra accounting disclosures required by Stock Exchange listing rules are shown in Table 3. A detailed discussion of the extra disclosures arising from the Combined Code on corporate governance (included in the listing rules in paragraph 12.43A) is included in the common appendix to this (and the UK) chapters.

<table>
<thead>
<tr>
<th>Table 3: Stock Exchange accounting and governance disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disclosures required</strong></td>
</tr>
<tr>
<td>• Amounts of each element in the remuneration package of each director, by name</td>
</tr>
<tr>
<td>• Explanation if there is more than 10% variation in results from any published forecast or estimate</td>
</tr>
<tr>
<td>• Amount of interest capitalized during the year</td>
</tr>
<tr>
<td>• Emoluments waived by directors</td>
</tr>
<tr>
<td>• Dividends waived by shareholders</td>
</tr>
<tr>
<td>• Details of directors’ beneficial and non-beneficial interests in shares and options of the company</td>
</tr>
<tr>
<td>• Information on substantial holdings of voting capital of more than 3%</td>
</tr>
<tr>
<td>• Details of any authority for the purchase of own shares</td>
</tr>
<tr>
<td>• Details of shares issued for cash other than pro rata to existing shareholders</td>
</tr>
<tr>
<td>• Particulars of participation by parent company in placing of shares of company</td>
</tr>
<tr>
<td>• Material interests of directors in significant contracts</td>
</tr>
<tr>
<td>• Significant contracts (1% of group share capital and reserves; or 1% of total annual purchases/sales/payment/receipts) with substantial (&gt;30% voting power) shareholders</td>
</tr>
<tr>
<td>• Details of small related party transactions</td>
</tr>
<tr>
<td>• Details of any long-term incentive schemes</td>
</tr>
<tr>
<td>• Statement by directors that the company is a going concern, together with supporting assumptions or qualifications as necessary</td>
</tr>
</tbody>
</table>

Source: Stock Exchange listing particulars (Yellow Book), paragraph 12.43 as amended by “Notes on the listing rules” issued by the Irish Stock Exchange, December 1999.

4. Irish Accounting Profession

4.1 Organisation of the Accounting Profession in the Republic of Ireland

There are four main professional accountancy bodies in Ireland. The Institute of Chartered Accountants in Ireland (ICAI) is the largest with approximately 11,500 members. The Association of Chartered Certified Accountants (ACCA) has just over
4,200 members in Ireland, while membership of the Institute of Certified Public Accountants in Ireland (ICPAI) exceeds 1,800. Members of these three professional accountancy bodies are authorized to act as company auditors. Members of the Chartered Institute of Management Accountants (CIMA) cannot under law act as auditors and mainly work in commerce and industry.

The profession in Ireland is self-regulatory. The professional accountancy bodies establish and monitor their own rules of professional conduct and ethics.

4.2 Entry to the Irish Accountancy Bodies

Each of the professional accounting bodies prescribe training and education requirements to reflect their own ethos and major functional areas. ICAI requires students to undergo a training period with a chartered accountant in practice, with whom the student must sign a training contract. The contract period is determined by the student’s educational qualifications on entering the training contract and is usually three years. A small number of students now serve their training contracts outside public practice under the supervision of a member of the Institute in an approved organization. Students must pass examinations which are set and administered by the Institute, including a final admitting examination which is predominantly case study based. This approach is unique among the professional accountancy bodies in Ireland and the UK and is based on the Canadian model.

The other accountancy bodies have more flexible experience requirements. Unless a certified accountant (ACCA) wishes to operate in public practice there is no specified experience requirement. CIMA students are required to gain practical experience in industry or commerce which can be achieved in one or more employments. There is no training contract requirement. CIMA and ACCA set their own examinations, which are the same worldwide, although local adaptations are made to reflect Irish legal and taxation differences. In addition to having to pass examinations, ICPAI also has a requirement for work experience before qualification.

Post qualification education is recommended by all bodies, and extensive programmes of courses, conferences and short seminars are offered. Mandatory post qualification education is not universally required.

4.3 Auditing Requirements in the Republic of Ireland

External auditors are appointed by shareholders. Their responsibilities and conduct are governed by legislation and professional requirements. The principal purpose of an audit is to examine the accounts, and the system producing those accounts, in order to express an opinion as to whether or not they give a true and fair view of the results for the period and of the financial position at the period end. This primary objective is reflected in the wording of the audit report to the members of the company.

The Companies Act 1963 requires auditors to report on the annual financial statements. Subsequent amendments and additions to legislation have extended auditors’ reporting requirements. These are summarized in Table 4. The main statutory requirements relating to audit reports are contained in Section 163,
Companies Act 1963 and the Seventh Schedule to Companies Act 1963, which have been amended by Section 193 of the Companies Act 1990.

Two matters of fact and four matters of opinion must be expressly stated in the audit report. The matters of fact to be referred to are:

- The auditor has obtained all the information and explanations which, to the best of his knowledge and belief, were considered necessary for the purposes of the audit
- The company’s balance sheet and profit and loss account (unless it is a consolidated profit and loss account) are in agreement with the books of account.

The auditor must state whether, in his opinion:

- The accounts give a true and fair view of the state of affairs at the financial year end and of the profit and loss for the financial year of:
  - the company
  - the group
- The accounts have been properly prepared in accordance with the provisions of the Companies Acts
- Proper books of account have been kept
- Proper returns have been received from branches not visited during the audit.

### 4.3.1 Other Legal Requirements

In addition to reporting on the annual financial statements, auditors must report on additional matters which increase with every new piece of company legislation.

Under Section 193 of the Companies Act 1990 auditors must report on whether a financial situation, as specified in Section 40 of the Companies (Amendment) Act

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>S163 CA63</td>
<td>Report on periodic financial statements</td>
</tr>
<tr>
<td>S193 CA90</td>
<td>Report on periodic financial statements</td>
</tr>
<tr>
<td>S193 CA90</td>
<td>Report on financial situation under section 40 CA83</td>
</tr>
<tr>
<td>S191 CA63</td>
<td>Where requirements to disclose directors’ emoluments not complied with</td>
</tr>
<tr>
<td>S15 CA86 / R38 GAR92</td>
<td>Consistency of directors’ report with accounts</td>
</tr>
<tr>
<td>S46 CA90</td>
<td>Information required by sections 41 and 43 CA90 on directors’ and officers’ emoluments and loans, if not disclosed in financial statements</td>
</tr>
<tr>
<td>S49 CA83</td>
<td>Whether distribution of profits is legal, where auditors’ report is qualified</td>
</tr>
<tr>
<td>S149(5) CA63</td>
<td>Distribution of pre-acquisition profits</td>
</tr>
<tr>
<td>S18 CA86</td>
<td>Filing abridged accounts</td>
</tr>
</tbody>
</table>

**Key**

CA63: Companies Act 1963
CA83: Companies (Amendment) Act 1983
CA86: Companies (Amendment) Act 1986
CA90: Companies Act 1990
GAR92: European Communities (Companies: Group Accounts) Regulations, 1992
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1983, exists at the balance sheet date. Section 40 requires the directors of a company to convene an extraordinary general meeting, where the net assets of the company fall to half or less of the company’s called-up share capital. The Act requires the auditor to state whether, in his opinion, a financial situation existed at the balance sheet date that would require the convening of such a meeting.

If accounts do not comply with legal requirements to disclose directors’ emoluments and loans to directors, then the auditor must include the required particulars in his report. Auditors must also report whether, in their opinion, the information in the directors’ report is consistent with the accounts.

Where substantial contracts, loans and other transactions with directors and others are not disclosed as required under Sections 41 and 43, Companies Act 1990, the auditors have a duty to disclose the information in their report.

Companies are prohibited from making distributions other than out of profits available for that purpose. Where the accounts are qualified, the company may only make a distribution where the auditor has made a statement concerning the company’s ability to make such a distribution. The auditor must express an opinion as to whether the subject matter of the qualification is material in determining whether the distribution is permitted.

Under Section 149(5) of the Companies Act 1963, pre-acquisition reserves are not distributable. If the directors and auditors certify that it would be fair and reasonable, Section 149(5) need not be followed and pre-acquisition profits may be treated as distributable. The auditor’s concurrence would normally be expressed separately from the audit report.

4.3.2 True and Fair View Requirement

Section 149 of the Companies Act 1963 and Section 3 of the Companies (Amendment) Act, 1986 require every balance sheet and profit and loss account presented to the members to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the financial year. They must comply with the prescribed formats of the Schedule to the Companies (Amendment) Act, 1986 unless this would impair the true and fair view.

If compliance with the prescribed formats would not give a true and fair view, additional information should be given in the notes. If additional information would be inadequate, then the company may depart from the prescribed formats and from legal requirements in order to comply with the true and fair view which overrides the detailed requirements of legislation. The financial statements must disclose details of the departure.

The Accounting Standard Board’s (ASB) Foreword to accounting standards includes as an appendix counsel’s opinion on the relationship between accounting standards and the legal true and fair requirement. The main points of the opinion are:

- Compliance with accounting standards is prima facie evidence that the accounts give a true and fair view
• Whereas specific accounting standards do not have legal standing, their observance is likely to be persuasive evidence of a true and fair view being shown by the accounts.

There is no statutory recognition of accounting standards in Ireland equivalent to that in the UK. However, it is likely that Irish courts would adopt a similar approach to UK courts.

### 4.3.3 Audit Reports

The Auditing Practices Board (APB) issues Statements of Auditing Standard (SASs), practice notes and bulletins. SASs contain basic principles and essential procedures with which auditors are required to comply in the conduct of any audit of financial statements. SASs also contain explanatory and other material which is not prescriptive but is intended to assist auditors in interpreting and applying auditing standards.

Failure to comply with auditing standards contained within SASs is liable to be the subject of enquiry by the professional body of which the auditor is a member. This may result in disciplinary proceedings. SASs have no specific status in legislation but are likely to be taken into consideration when the adequacy of the work of auditors is being considered by the courts.

SAS 600 *Auditors’ reports on financial statements* introduced major changes to the matters dealt with in the audit report, including:

- Brief description of respective responsibilities of directors and auditors
- Reference to disclosure elsewhere, where relevant, of a more detailed statement of directors’ responsibilities
- Description of the nature of the audit work carried out and the basis of the audit opinion expressed
- Removal of the hitherto common ‘subject to’ audit report qualification.

Auditors’ reports are addressed to shareholders and contain a performance paragraph, a responsibility paragraph, basis of opinion paragraphs and an opinion paragraph. The structure is summarized in Table 5.

<table>
<thead>
<tr>
<th>Table 5: Summary basic elements of audit reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Title identifying addressee</td>
</tr>
<tr>
<td>• Identification of financial statements being audited</td>
</tr>
<tr>
<td>• Responsibilities of directors</td>
</tr>
<tr>
<td>• Responsibilities of auditors</td>
</tr>
<tr>
<td>• Basis of audit opinion</td>
</tr>
<tr>
<td>• Audit opinion</td>
</tr>
<tr>
<td>• Auditor’s signature</td>
</tr>
<tr>
<td>• Date of report</td>
</tr>
</tbody>
</table>

SAS 600 requires clear distinction to be made between directors’ responsibilities and auditors’ responsibilities. A statement should be included that the directors are
responsible for the financial statements and there should also be reference to a full description of directors’ responsibilities. The auditors’ responsibility is to express an opinion on the financial statements. If no adequate description of directors’ responsibilities is included in the annual report, the auditor’s report should include a description of those responsibilities. Table 6 summarizes the matters that might be included in the description of directors’ responsibilities.

<table>
<thead>
<tr>
<th>Table 6: Summary of directors’ responsibilities</th>
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<tbody>
<tr>
<td>• Prepare accounts that give a true and fair view on a going concern basis unless that basis is inappropriate</td>
</tr>
<tr>
<td>• Select suitable accounting policies and apply them consistently</td>
</tr>
<tr>
<td>• Make reasonable and prudent judgments and estimates</td>
</tr>
<tr>
<td>• State whether applicable accounting standards have been followed</td>
</tr>
<tr>
<td>• Keep proper accounting records</td>
</tr>
<tr>
<td>• Safeguard assets i.e. take steps to prevent fraud and other irregularities</td>
</tr>
</tbody>
</table>

4.3.4 Unqualified Opinions

An unqualified opinion is given when, in the auditors’ opinion, the financial statements give a true and fair view and have been prepared in accordance with relevant accounting or other requirements. In arriving at their opinion the auditors must conclude whether:
- The financial statements have been prepared using appropriate accounting policies which have been consistently applied
- The financial statements have been prepared in accordance with relevant legislation, regulations and applicable accounting standards
- Any departures from relevant legislation or applicable accounting standards are justified and adequately explained
- There is adequate disclosure of all relevant information.

The accounts of CRH plc include an auditors’ report (on page 925 of the accounts) illustrating an unqualified opinion and compliance with all the statutory and professional requirements already discussed. Their audit report is addressed to the members. It specifies by page numbers the financial statements covered by the audit report. An extensive discussion of the respective responsibilities of the directors and auditors is set out, followed by the basis used in forming the opinion. The audit opinion covers the two matters of fact and four matters of opinion referred to in paragraph 4.3 above.

4.3.5 Qualified Opinions

Two reasons for qualifying audit opinions under SAS 600 are:
- Disagreement on accounting treatment
- Disclosure and uncertainty / scope limitation.

Where the auditors disagree with the treatment or disclosure of a matter in the financial statements two different qualifications can result, an adverse opinion and an
‘except for’ opinion. Where the effect of disagreement is so material or pervasive that the auditors conclude that the financial statements are seriously misleading, an adverse opinion is issued, which includes the phrase ‘in our opinion the financial statements do not give a true and fair view…’. When the auditors conclude that the effect of a disagreement is not so significant as to require an adverse opinion, they qualify their opinion by stating that the financial statements give a true and fair view ‘except for’ the effects of the matter giving rise to the disagreement.

The second type of qualified opinion arises where the view given by the financial statements is affected by a fundamental uncertainty, which is inadequately accounted for and/or inadequately disclosed in the financial statements. The audit report must include, in the basis of opinion section, a description of the factors leading to the auditors’ scope limitation. The opinion paragraph includes the phrase ‘except for’.

4.3.6 Disclaimer of Opinion

Where the view given by the financial statements is affected by a fundamental uncertainty and the auditors cannot assess the adequacy of the accounting treatment and/or disclosure, then a disclaimer of opinion may be necessary. The key phrase in the opinion paragraph is ‘we are unable to form an opinion as to whether the financial statements give a true and fair view…’.

4.3.7 Effect of Qualified Opinion on Compliance with Legislation

Auditors are required to report on whether accounts have been properly prepared in accordance with companies legislation. This requires forming on opinion on whether the form and content of the profit and loss account, balance sheet and notes complies with the Companies Acts.

Where the true and fair view is qualified by an ‘except for’ or adverse opinion, the auditor may not be able to conclude that the financial statements are properly prepared in accordance with company legislation. Where the true and fair view is qualified by a disclaimer of opinion, the auditor expresses uncertainty whether the financial statements have been properly prepared in accordance with legal provisions. The auditors will state that in all other respects the financial statements have been properly prepared in accordance with company legislation.

4.4 Auditing Requirements of the Stock Exchange

Stock Exchange listing rules require auditors to review:

- Statements by directors of compliance with the Combined Code dealing with corporate governance issues
- Going concern statements by directors.

The implications of the Combined Code for auditors and financial statements is discussed in the common appendix. The report by CRH’s directors on corporate governance, included on pages 36 to 37 of the group’s annual report, illustrates the comprehensive nature of current Stock Exchange reporting requirements.
SAS 130 The going concern basis in financial statements issued in November 1994 contains standards and guidance for auditors on the applicability of the going concern basis to financial statements. It applies to all companies. Where auditors are concerned about the firm’s ability to continue as a going concern three possibilities arise:

1. The auditor agrees with the preparation of the financial statements on a going concern basis, but includes an explanatory paragraph when setting out the basis of opinion and the opinion is unqualified
2. The auditor agrees with the preparation of the financial statements on a going concern basis but considers disclosure to be inadequate, in which case the opinion is unqualified but the audit report is qualified because the disclosures in the financial statements are not adequate
3. If the auditor disagrees with the preparation of the financial statements on a going concern basis, an adverse audit opinion should be issued.

In addition, the auditors are required to state in their report whether the disclosure provisions of the Stock Exchange listing rules concerning directors’ remuneration have been complied with. In cases of non-compliance the auditors are required to disclose the information in their report.

4.5 The Audit of Small and Medium Sized Companies

As indicated in Section 5.4 below, small and medium sized companies may file abridged financial statements with the Registrar of companies. The auditor must report on the company’s entitlement to file abridged accounts and that those accounts have been properly prepared.

Under provisions in the Companies (Amendment) (No. 2) Act 1999 small private companies (turnover less than IR£250,000; net assets not exceeding IR£1.5 million and less than 50 employees can elect not to appoint an auditor and not to prepare audited accounts. Interestingly, the definition of small company for financial statement purposes (dealt with in section 5.4) differs from this definition exempting small companies from audit.

5. Form and Content of Published Financial Statements in Ireland

Published financial statements are presented to shareholders within company annual reports. Annual reports include both information that is required (by law, stock exchange and professional accounting regulations) and information provided voluntarily. The annual report follows a reasonably standard format. A considerable amount of preliminary material included in the report is unregulated, for example:

- Results in brief/financial highlights
- Chairman’s statement
- Chief executive’s report.

An operating and financial review is also commonly included within the preliminary information and while this is not a mandatory statement, it is recommended by the Accounting Standards Board (ASB) as good practice.

Regulated material in the annual report includes:
Financial statements typically include:
- Consolidated profit and loss account
- Statement of total recognized gains and losses
- Note of historic cost profits
- Consolidated balance sheet
- Reconciliation of shareholders’ funds
- Parent company balance sheet
- Consolidated cash flow statement
- Accounting policies
- Notes to the financial statements.

In addition, some financial information is produced voluntarily including:
- Value added statements
- Historical financial summaries.

Accounting practice in Ireland is heavily influenced by the requirements of Financial Reporting Standards (FRSs) of the ASB and Statements of Standard Accounting Practice (SSAPs) of its predecessor body. These professional requirements expand upon, and in some cases restrict, legally permitted accounting treatments and disclosures. The legal requirements governing presentation and disclosure in the financial statements are summarized in this chapter. Because the UK and Ireland share a common professional regulatory regime, the common appendix to this chapter and to chapter XO/S?? provides a detailed discussion of the common stock exchange and professional accounting pronouncements applying to Irish and UK financial statements.

5.1 Group Financial Statements

Presentation of group financial statements is influenced by the legal requirements of the Companies Act 1963 and the Companies (Amendment) Act, 1986. These requirements are dealt with in Section 5.2 below. The more general criteria governing the composition of groups and the preparation of group accounts are dealt with in the 1992 Regulations. The Regulations set out:
- Definitions
- Requirement to prepare group accounts
- Exemptions from requirement to prepare group accounts
- Exclusion of subsidiaries
- Consolidation practices.

5.1.1 Definitions

Legal definitions of parent and subsidiary undertakings are based on the concept of control rather than ownership. Control means having the ability to direct the financial and operating policies of other undertakings with a view to gaining economic benefit from their activities.
In Regulation 4 of the 1992 Regulations, an undertaking is defined to be a subsidiary, if the parent:

(a) (i) Holds a majority of the voting rights in the undertaking; or
(ii) Is a member of the undertaking and controls the composition of its board of directors; or
(iii) Is a member of the undertaking and controls alone, pursuant to an agreement with other shareholders, a majority of the voting rights; or

(b) Has a right to exercise a dominant influence over the undertaking, either by virtue of:
(i) Provisions contained in its memorandum or articles; or
(ii) A control contract; or

(c) Has a participating interest in the undertaking and
(i) Actually exercises a dominant influence over it; or
(ii) The parent and the subsidiary undertakings are managed on a unified basis; or

(d) The undertaking is a subsidiary of any undertaking which is that other’s subsidiary undertaking’.

An ‘associated undertaking’ is defined in Regulation 34 of the 1992 Regulations as:
‘an undertaking in which an undertaking included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence, and which is not -
(a) a subsidiary undertaking of the parent company; or
(b) a joint venture…’

Where an undertaking holds 20 per cent or more of the voting rights in another undertaking, it is presumed to exercise a significant influence unless the contrary is shown.

The terms ‘undertaking’, ‘dominant influence’, ‘managed on a unified basis’, ‘participating interest’ and ‘significant influence’ are also defined in the legislation. Legislation does not define joint ventures, although they are referred to in Regulation 32 as arising where:
‘…a parent undertaking or one of its subsidiary undertakings dealt with in the group accounts manages another undertaking jointly with one or more undertakings not dealt with in the group accounts…’

5.1.2 Requirement to Prepare Group Accounts

Regulation 5 of the 1992 Regulations imposes a legal obligation on all limited companies to prepare group financial statements if they have subsidiary undertakings. The obligation to prepare group accounts only applies to parents that are companies limited by shares or guarantee. Regulation 13 requires group financial statements to be consolidated financial statements comprising consolidated balance sheet, consolidated profit and loss account and notes. Group accounts must give a true and fair view and must comply with the formats of the Companies (Amendment) Act, 1986.
5.1.3 Exemptions from Requirement to Prepare Group Financial Statements

Parent undertakings can be exempt from preparing group financial statements where they are subsidiary undertakings of EU parents or where they satisfy certain size criteria.

Parent undertakings which are themselves subsidiaries of companies incorporated in the EU are exempt from preparing consolidated financial statements if:

- The parent is a wholly owned subsidiary
- The parent is a 90% owned subsidiary and the minority agrees with the exemption
- The parent is a subsidiary and minority shareholders holding more than 10% of the nominal value of the shares in the company have not requested preparation of group financial statements.

This exemption is dependent upon compliance with a number of conditions and is not available to listed companies. If the exemption applies, the following should be disclosed in the notes to the accounts of the exempted parent:

- Statement that the company is exempt from the requirement to prepare group financial statements
- Name of parent undertaking in whose consolidated financial statements the company’s accounts are included
- That parent undertaking’s country of registration
- That parent undertaking’s country of incorporation (or place of business if unincorporated).

Parent companies need not prepare group financial statements if the group meets certain size criteria, provided all members of the group are private companies. The group must satisfy two or more of the following conditions to qualify for the size exemption - the exemption applies until the parent undertaking fails to meet the criteria for two consecutive years:

- Annual turnover less than IR£12 million
- Balance sheet total less than IR£6 million
- Average number employed not more than 250

Where a parent company is exempt from preparing group financial statements on the grounds of size, the profit/loss, capital and reserves of each material subsidiary undertaking should be disclosed in a note to the parent company’s accounts. These accounts should also state that the company is exempt from having to prepare group financial statements.

5.1.4 Exclusion of Subsidiaries

Under the 1992 Regulations subsidiaries must be excluded from consolidation if the activities of the subsidiary are so different that to include them would be incompatible with the obligation to give a true and fair view.
Under the legislation subsidiaries may be excluded from consolidation if:

- They are considered immaterial
- There are severe long term restrictions hindering the parent undertaking’s rights over the assets or management of that undertaking
- Necessary information to prepare group financial statements cannot be obtained without disproportionate expense or undue delay
- The shares are held exclusively with a view to resale.

The Schedule to the Companies (Amendment) Act, 1986 requires disclosure of the reasons for excluding subsidiaries from consolidation, in addition to any audit qualifications in respect of the subsidiaries excluded. Excluded subsidiaries should, under legislation, be accounted for using the equity method of accounting. The aggregate investment in subsidiaries accounted for using the equity method must be disclosed.

The following must be disclosed in respect of excluded subsidiaries:

- Aggregate capital and reserves at the end of the year
- Profit or loss for the year.

Where exclusion is because of dissimilar activities, the reasons for exclusion must be disclosed.

5.1.5 Consolidation Practices

Acquisition or merger accounting

Two methods of accounting for groups are permitted by the 1992 Regulations, acquisition method and merger method. The 1992 Regulations specifically referred to acquisition and merger accounting for the first time in Irish law. Under Regulation 18 a combination should be accounted for using the acquisition method of accounting, unless the conditions for accounting for it as a merger are met. Methods of consolidation must be applied consistently from year to year. Particulars of departures from this principle, the reasons for it and the effect on group balance sheet and group profit and loss account must be disclosed.

Acquisition accounting is the more common approach to accounting for business combinations in Ireland and its principles are well understood in practice. CRH’s Acquisitions accounting policy note and note 30 to the accounts illustrate the impact of acquisition accounting on the 1999 group accounts. The 1992 Regulations also acknowledge the possibility of using merger accounting when preparing group accounts for certain combinations. There is, however, some legal ambiguity relating to merger accounting in Ireland despite the fact that merger accounting has been used in some recent significant combinations. Two sections of the Companies Act 1963 make the application of merger accounting in Ireland difficult.

Section 62 states that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called ‘the share premium account’.
Section 149(5) prohibits profits or losses of a subsidiary being treated in the holding company’s accounts as revenue profits or losses so far as they are profits or losses for the period before the date on or from which the shares were acquired by the company. However, where the directors and the auditors are satisfied, and so certify, that it would be fair and reasonable and would not prejudice the rights and interests of any person, the profits and losses attributable to any shares in a subsidiary may be treated in a manner otherwise than in accordance with this sub-section.

The 1992 Regulations do nothing to resolve the conflict between sections 62, 149(5) and merger accounting, but in the absence of legal challenge merger accounting has been used to effect business combinations. For example, when Avonmore and Waterford Foods combined in 1997 and when Irish Life and Irish Permanent combined in 1998, both combinations were accounted for using merger accounting principles. By way of illustration, the note on merger accounting in Irish Life and Irish Permanent’s 1999 account is reproduced in Example 1 below:
Example 1: Merger accounting in Ireland

38. Merger accounting (Extract)
On 21 April 1999, the business combination of Irish Life plc (Irish Life) and Irish Permanent plc (Irish Permanent) was declared unconditional. On the same day, Irish Permanent changed its name to Irish Life & Permanent plc (Irish Life & Permanent).

The combination, which was effected by way of an offer of shares made by Irish Life & Permanent for all of the share of Irish Life, has been accounted for as a merger as set out in Financial Reporting Standard 6 “Acquisitions and Mergers”. Consequently, these financial statements have been prepared on the basis of merger accounting.

Under merger accounting:
(i) The assets and liabilities of both Irish Permanent and Irish Life, adjusted where relevant to achieve uniformity of accounting policies, have been incorporated in the financial statements as if the entities had always been one combined entity.
(ii) The profit and loss accounts of both entities, adjusted where relevant to achieve uniformity of accounting policies, have also been combined for the current and prior periods.
(iii) Fees and expenses incurred in connection with the merger are disclosed separately in the profit and loss account as an exceptional item.

In order to effect the merger, 195,042,964 shares in Irish Life & Permanent with a market value of €2,759.9m were issued to Irish Life shareholders. This represented 60.85 Irish Life & Permanent shares for every 100 Irish Life plc shares.

The merger reserve represents the difference between the nominal value and related share premium of the new shares issued in Irish Life & Permanent to effect the merger and the nominal value of the issued share capital of Irish Life.

In accordance with Section 62 of the Companies Act 1963, the premium arising on the issue of new shares in Irish Life & Permanent to the shareholders of Irish Life as part of the combination has been recorded in the company balance sheet as share premium. On consolidation, this share premium amount has been classified with the merger reserve.

In accordance with the provisions of Section 149 (5) of the Companies Act 1963, the directors, being satisfied that it would be fair and reasonable and would not prejudice the rights or interests of any person, have determined that the pre-acquisition reserves of Irish Life should be treated as distributable by the company to the extent that they were distributable by Irish Life.

In presenting the financial statements of the merged entity, the following adjustments were made to achieve uniformity of accounting policies and estimates:
(i) alignment of the actuarial assumptions used in the calculation of the embedded values,
(ii) alignment of the basis for calculating the exchange adjustment on the results of overseas subsidiaries, which had no impact on net assets,
(iii) restatement of certain equity investments in Irish Life not associated with life assurance activities from market value to book value.

There were no other changes to the accounting policies.

Source: Annual Report, Irish Life & Permanent, 1999

Merger accounting is optional under the 1992 Regulations, where the following criteria are satisfied:
- At least 90% of the nominal value of the shares in the acquired undertaking is held by the group
- The 90% holding was obtained by an issue of shares to the parent or its subsidiaries
- The fair value of any consideration does not exceed 10% of the nominal value of the share issued as part consideration
- Adoption of merger accounting accords with generally accepted accounting principles or practice.
These conditions are very similar to old UK legal provisions which, in practice, met with considerable abuse. Transactions in the UK which, in substance, were acquisitions were manipulated so that merger accounting provisions could be availed of. FRS 6 sets out more stringent criteria for classification as a merger and where those conditions are met, the combination must be accounted for as a merger. Therefore, in practice, FRS 6 makes the merger criteria of the 1992 Regulations redundant.

The following disclosures are required by law in respect of acquisitions and mergers:
- Names of combining entities
- Registered offices of combining entities
- Whether combination is accounted for as acquisition or merger.

Other group accounting practices

The 1992 Regulations also incorporate traditional group accounting practices into legislation, for example:
- Elimination of inter-company balances
- Elimination of inter-company income and expenses
- Adjustment for unrealized profits in fixed assets and stocks.

They also require coterminous year-ends and uniform accounting policies for all group companies. In addition, the 1992 Regulations amended the Companies (Amendment) Act, 1986 balance sheet and profit and loss account formats to include minority interests.

The following disclosures are required for each undertaking included in group financial statements:
- Name
- Registered office (if incorporated) or place of business (if unincorporated)
- Nature of business
- Proportion of nominal value of each class of share held
- Class of shares, and proportion held, distinguishing between those held by parent undertakings and held by subsidiary undertakings
- Basis on which subsidiary is consolidated, if not by virtue of majority shareholding, control of the composition of the board of directors or control through a control agreement
- Aggregate amount of capital and reserves at year end
- Profit or loss after taxation for the year.

Aggregate amount of capital and reserves at year end and profit or loss for the year need not be disclosed if not material or if the company is exempt from preparing group financial statements.

Details of principal subsidiaries are provided by CRH in a separate statement after the notes to the accounts in the annual report.
**Associated companies**

The 1992 Regulations require interests in associated undertakings, and the profit/loss attributable to such interests, to be included in the group accounts using the equity method of accounting. The equity method of accounting is not defined by the legislation. Once again, professional accounting regulations provide the necessary definition. FRS 9 defines the equity method as:

“A method of accounting that brings an investment into its investor’s financial statements initially at its cost, identifying any goodwill arising. The carrying amount of the investment is adjusted in each period by the investor’s share of the results of its investee less any amortisation or write off for goodwill, the investor’s share of any relevant gains or losses, and any other changes in the investee’s net assets including distributions to its owners, for example by dividend. The investor’s share of its investee’s results is recognised in its profit and loss account. The investor’s cash flow statement includes the cash flows between the investor and its investee, for example relating to dividends and loans”.

The Regulations allow joint ventures to be proportionally consolidated provided the joint venture is not a subsidiary of the parent nor a corporate undertaking. If the joint venture is a corporate undertaking it must be accounted for using the equity method.

**5.2 Accounting Requirements of Legislation**

*5.2.1 Primary Financial Statements*

Most legal provisions for individual company accounts are contained in the Companies Act 1963 and the Companies (Amendment) Act, 1986. Group accounts’ requirements are contained in the 1992 Regulations. The accounts of banking and insurance companies are covered by separate regulations, European Communities (Credit Institutions: Accounts) Regulations, 1992. These credit institutions’ regulations are beyond the scope of this chapter.

Four primary financial statements are usually published by Irish companies. Only two of these are referred to in legislation, the profit and loss account and balance sheet. As the cash flow statement and statement of total recognized gains and losses are only required by professional regulations, they are discussed in the common appendix rather than in this chapter.

Although basic disclosure requirements relating to the profit and loss account and balance sheet were contained in the sixth schedule to the Companies Act 1963, this schedule was replaced by the more detailed requirements of the Companies (Amendment) Act, 1986. The 1992 Regulations amended the requirements of the Companies (Amendment) Act, 1986 for application to group accounts. Section 191 of the Companies Act 1963 requires disclosure of directors’ emoluments. This section was also amended for group accounts by the 1992 Regulations.

Section 5 of the Companies (Amendment) Act, 1986, requires the accounting principles of going concern, consistency, prudence and accruals to be applied in determining the amounts to be included in the accounts. The 1992 Regulations apply
these principles to group accounts. The Companies (Amendment) Act, 1986 also specifies formats to be adopted in presenting the balance sheet and profit and loss account. Examples of the specified formats are included in the Act.

The directors are required to adopt the same format from year to year unless there are special reasons for a change. The reasons for, and full particulars of, the change should be disclosed in the year of change. Greater detail than specified by the formats may be presented. The formats may be adapted / rearranged to suit the special nature of the company’s business.

All losses and liabilities, including those which only become apparent between the balance sheet date and the date on which the accounts are approved by the board of directors, must be taken into account in preparing the accounts.

Comparative figures must be provided in the accounts. For significant changes in the composition of groups, Regulation 27 of the 1992 Regulations requires group accounts to contain information which makes the comparison of successive sets of group financial statements meaningful. The balance sheet and profit and loss account must be signed by two directors.

### 5.2.2 Profit and Loss Account Formats

The Companies (Amendment) Act, 1986 requires companies to follow one of four formats when presenting their profit and loss account. The choice of format is illustrated in the two-by-two matrix below. The difference between the operational and type of expenditure formats is one of analysis of expenses. Vertical presentation shows the results in a single column, whereas a two-column presentation is used in horizontal profit and loss accounts.

<table>
<thead>
<tr>
<th></th>
<th>Operational</th>
<th>Type of expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizontal</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Act specifies headings to be used and the order of presentation of items. Much of the detail can be dealt with in the notes to the accounts. Each format is illustrated in the Act. Example 2 shows format 1 (operational format) from the Companies (Amendment) Act, 1986.
Example 2: Companies (Amendment) Act, 1986 format 1 (operational)

<table>
<thead>
<tr>
<th>Item</th>
<th>IR£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>X</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(X)</td>
</tr>
<tr>
<td>Gross profit or loss</td>
<td>X</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(X)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(X)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>X</td>
</tr>
<tr>
<td>Income from shares in group companies</td>
<td>X</td>
</tr>
<tr>
<td>Income from shares in related companies</td>
<td>X</td>
</tr>
<tr>
<td>Income from other financial assets</td>
<td>X</td>
</tr>
<tr>
<td>Other interest receivable and similar income</td>
<td>X</td>
</tr>
<tr>
<td>Amounts written off financial assets and investments</td>
<td>(X)</td>
</tr>
<tr>
<td>Interest payable and similar charges</td>
<td>(X)</td>
</tr>
<tr>
<td>Tax on profit or loss on ordinary activities</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit or loss on ordinary activities after taxation</td>
<td>X</td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>X</td>
</tr>
<tr>
<td>Extraordinary charges</td>
<td>(X)</td>
</tr>
<tr>
<td>Extraordinary profit or loss</td>
<td>X</td>
</tr>
<tr>
<td>Tax on extraordinary profit or loss</td>
<td>(X)</td>
</tr>
<tr>
<td>Other taxes not shown under the above items</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit or loss for the financial year</td>
<td>X</td>
</tr>
</tbody>
</table>

CRH plc adopted the format 1 presentation, although its profit and loss account is considerably more detailed than Example 2 because of the additional disclosure requirements of FRS 3 (discussed in the common appendix). Some of the analysis of expenses required by format 1 is provided in note 4 to CRH’s accounts.

Format 2, type of expenditure format, calls for a different layout, which is illustrated in example 3. This format is much less common in Ireland than format 1.
5.2.3 Profit and Loss Account Disclosure

Under the Companies Act 1963, every company, and under the 1992 Regulations, a parent undertaking, must prepare a profit and loss account which gives a true and fair view of the results of the company or group for the financial year. Only realized profits should be included in the accounts. Realized profits are defined in legislation as those which, in accordance with generally accepted accounting principles, would be treated as realized profits. The application of generally accepted accounting principles in Ireland continues to leave room for uncertainty as to what constitutes realized profit in practice.

Much of the detailed analysis of profit or loss for the year required by the formats can be provided by way of note disclosure, but Section 4 of the Companies (Amendment) Act, 1986 specifies that the following items be shown in on the face of the profit and loss account:

- Profit/loss on ordinary activities before taxation
- Dividends paid
- Dividends proposed
- Transfers between profit and loss account and reserves

Formats 3 and 4, which are horizontal rather than vertical, are rarely used in Ireland and are therefore not illustrated here.

Example 3: Companies (Amendment) Act, 1986 format 2 (type of expenditure)

<table>
<thead>
<tr>
<th>IR£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
</tr>
<tr>
<td>Variation in stocks of finished goods and in work in progress</td>
</tr>
<tr>
<td>Own work capitalised</td>
</tr>
<tr>
<td>Other operating income</td>
</tr>
<tr>
<td>(a) Raw materials and consumables</td>
</tr>
<tr>
<td>(b) Other external charges</td>
</tr>
<tr>
<td>Staff costs:</td>
</tr>
<tr>
<td>(a) Wages and salaries</td>
</tr>
<tr>
<td>(b) Social welfare costs</td>
</tr>
<tr>
<td>(c) Other pension costs</td>
</tr>
<tr>
<td>(a) Depreciation and other amounts written off tangible and intangible fixed assets</td>
</tr>
<tr>
<td>(b) Exceptional amounts written off current assets</td>
</tr>
<tr>
<td>Other operating charges</td>
</tr>
<tr>
<td>Income from shares in group companies</td>
</tr>
<tr>
<td>Income from shares in related companies</td>
</tr>
<tr>
<td>Income from other financial assets</td>
</tr>
<tr>
<td>Other interest receivable and similar income</td>
</tr>
<tr>
<td>Amounts written off financial assets and investments held as current assets</td>
</tr>
<tr>
<td>Interest payable and similar charges</td>
</tr>
<tr>
<td>Tax on profit or loss on ordinary activities</td>
</tr>
<tr>
<td>Profit or loss on ordinary activities after taxation</td>
</tr>
<tr>
<td>Extraordinary income</td>
</tr>
<tr>
<td>Extraordinary charges</td>
</tr>
<tr>
<td>Extraordinary profit or loss</td>
</tr>
<tr>
<td>Tax on extraordinary profit or loss</td>
</tr>
<tr>
<td>Other taxes not shown under the above items</td>
</tr>
<tr>
<td>Profit or loss for the financial year</td>
</tr>
</tbody>
</table>
• Retained profit for the year
• Profit/loss brought forward at the beginning of the year
• Profit/loss carried forward at the end of the year.

CRH plc provides a separate statement of movements on profit and loss account to reconcile opening and closing retained earnings with profit retained for year and other movements on profit and loss account reserve.

Segmental analysis of turnover must be disclosed in the following circumstances:
• If a company carries on business in two or more classes of business which, in the opinion of the directors, differ substantially from each other
• If a company supplies geographical markets which, in the opinion of the directors, differ substantially from each other.

If, in the opinion of the directors, the disclosure of this information would be seriously prejudicial to the company, the information need not be disclosed but a statement to this effect must be made. It is the directors’ responsibility to identify the different segments of the company.

The extensive segmental disclosure provided by CRH plc in note 1 to the accounts reflect the additional requirements of SSAP 25 together with compliance with the less demanding legally required segmental disclosures.

Table 7 shows the additional disclosures in relation to other revenue and expense headings in the profit and loss account required by law to be disclosed in the notes. The disclosures are cross referenced to the note number in CRH’s accounts where the disclosure item appears:
### Table 7: Additional profit and loss account disclosure required by legislation

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Note in CRH’s accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exceptional items</td>
<td>3</td>
</tr>
<tr>
<td>• Depreciation of tangible and intangible assets</td>
<td>5</td>
</tr>
<tr>
<td>• Provisions made for temporary or permanent loss in value of financial fixed assets</td>
<td></td>
</tr>
<tr>
<td>• Write-back of provisions for temporary/permanent loss in value of financial fixed assets</td>
<td>5</td>
</tr>
<tr>
<td>• Auditors’ remuneration (including expenses)</td>
<td>5</td>
</tr>
<tr>
<td>• Income from financial assets distinguishing between income from:</td>
<td>5</td>
</tr>
<tr>
<td>▪ Listed investments including income from listed associated undertakings even if equity accounted</td>
<td></td>
</tr>
<tr>
<td>▪ Unlisted investments</td>
<td></td>
</tr>
<tr>
<td>▪ Group undertakings</td>
<td></td>
</tr>
<tr>
<td>▪ Participating interests analyzed into associated undertakings and other participating interests</td>
<td></td>
</tr>
<tr>
<td>▪ Other participating interests</td>
<td></td>
</tr>
<tr>
<td>• Employee numbers and costs analyzed into categories determined by the directors having regard to the manner in which the activities of the business are organized</td>
<td>7</td>
</tr>
<tr>
<td>• Staff costs analyzed between:</td>
<td>7</td>
</tr>
<tr>
<td>▪ Wages and salaries</td>
<td></td>
</tr>
<tr>
<td>▪ Social welfare costs</td>
<td></td>
</tr>
<tr>
<td>▪ Other pension costs</td>
<td></td>
</tr>
<tr>
<td>• Interest payable distinguishing between interest on:</td>
<td>8</td>
</tr>
<tr>
<td>▪ Loans repayable other than by instalments within five years</td>
<td></td>
</tr>
<tr>
<td>▪ Loans repayable by instalments within five years</td>
<td></td>
</tr>
<tr>
<td>▪ Other loans, including loans where any instalment is repayable after more than five years</td>
<td></td>
</tr>
<tr>
<td>• Taxation charge disclosing separately:</td>
<td>9</td>
</tr>
<tr>
<td>▪ Amount of the charge for corporation tax, income tax and other taxation on profits or capital gains, so far as charged to revenue, including taxation payable outside the State on profits (distinguishing where practicable between corporation tax and other taxation)</td>
<td></td>
</tr>
<tr>
<td>▪ The basis on which the charge for corporation tax, income tax and other taxation on profits (whether payable in or outside the State) is computed</td>
<td></td>
</tr>
<tr>
<td>▪ Particulars of any special circumstances which affect liability in respect of taxation on profits, income or capital gains for the financial year concerned, or liability in respect of taxation of profits, income or capital gains for succeeding financial years</td>
<td></td>
</tr>
</tbody>
</table>

Although company law requires the following disclosures in relation to directors’ remuneration, they appear minimal by comparison with the details required by Stock Exchange requirements (discussed in the common appendix and illustrated in CRH’s report on directors’ remuneration set out in the annual report):

Directors’ remuneration must be disclosed, distinguishing between payments for services as director (and for services as director of subsidiary) and payments for other services analyzed between:

- Emoluments
- Pensions paid to directors and past directors
- Compensation for loss of office
Emoluments, pensions and compensation for loss of office for directors of groups of companies are amounts in relation to directors / past directors of parent undertakings in respect of duties relating to:

- Parent undertakings
- Any of its subsidiaries
- Any undertakings proportionally consolidated
- Associated undertakings.

Corresponding amounts in the profit and loss account for the previous year should be disclosed. Where they are not comparable with current year amounts, they must be adjusted and particulars of the adjustment and reasons for it must be given in a note to the accounts.

Under Section 3 of the Companies (Amendment) Act, 1986 (as amended by the 1992 Regulations) a company preparing group accounts need not include a profit and loss account for the individual parent company, provided that company’s profit or loss for the year is disclosed as a note to the consolidated accounts. The information required to comply with these requirements is disclosed by CRH plc in note 26 to its accounts.

5.2.4 Balance Sheet

Two formats for the balance sheet are specified and illustrated in the Companies (Amendment) Act, 1986. Example 4 illustrates format 1 in summary form. This is also the format used by CRH plc.

<table>
<thead>
<tr>
<th>Example 4: Summarized balance sheet format 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets</strong></td>
</tr>
<tr>
<td>Intangible assets</td>
</tr>
<tr>
<td>Tangible assets</td>
</tr>
<tr>
<td>Financial assets</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
</tr>
<tr>
<td>Stocks</td>
</tr>
<tr>
<td>Debtors</td>
</tr>
<tr>
<td>Investments</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due within one year</strong></td>
</tr>
<tr>
<td><strong>Net current assets (liabilities)</strong></td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due after more than one year</strong></td>
</tr>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
</tr>
<tr>
<td>Called up share capital</td>
</tr>
<tr>
<td>Share premium account</td>
</tr>
<tr>
<td>Revaluation reserve</td>
</tr>
<tr>
<td>Other reserves</td>
</tr>
<tr>
<td>Profit and loss account</td>
</tr>
</tbody>
</table>

Format 2 balance sheet is similar in detail to format 1. However, it follows a different layout which is outlined in example 5.
Example 5: Summarized balance sheet format 2

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td>Capital and reserves</td>
</tr>
<tr>
<td>Current Assets</td>
<td>Provisions for liabilities and charges</td>
</tr>
<tr>
<td></td>
<td>Creditors</td>
</tr>
</tbody>
</table>

Considerable additional analysis and detail is required for headings in the balance sheet formats. This detail is indicated in the following sections.

5.2.5 Intangible Fixed Assets

The balance sheet formats include intangible fixed assets analyzed into:
- Development costs
- Concessions, patents, licences, trade marks and similar rights and assets
- Goodwill
- Payments on account.

Research costs cannot be treated as an asset. Development costs, however, can be included in the balance sheet in special circumstances. Reasons for capitalizing development costs must be disclosed, as must the period over which the costs are being written off. Neither research nor development costs are defined in the legislation. SSAP 13 has to be referred to for definitions of these terms. In the context of identifying legally distributable profits, Section 20 of the Companies (Amendment) Act, 1986 states that capitalized development costs are to be treated as realized losses unless there are special circumstances which justify the directors treating them otherwise.

Legislation requires disclosure of amounts expended on research and development in the financial year, and amounts committed in respect of research and development in subsequent years. Where, in the opinion of the directors, disclosure of this information would be prejudicial to the interests of the company, the information need not be disclosed. The fact that such information has not been disclosed should be stated. Amounts disclosed for research and development are not necessarily amounts charged in the profit and loss account. SSAP 13 permits deferral of research and development expenditure in certain circumstances. SSAP 13 is dealt with in the common appendix.

Amounts included in concessions and patents can only be capitalized in the balance sheet if they were acquired for valuable consideration or if they were created by the company.

Intangible fixed assets other than goodwill may be included at historic or current cost. Current cost is not defined in the legislation. Movements in the current year on
balance sheet amounts for all intangible assets must be disclosed, and they must be analyzed in the same way as tangible fixed assets.

Legislation requires goodwill to be included in the balance sheet only to the extent that it was acquired for valuable consideration. Goodwill should only be included at historic cost, i.e., it may not be revalued. It should be written off systematically over a period which does not exceed its useful economic life. The period over which goodwill is written off must be disclosed as must reasons for choosing that period.

Goodwill is the only intangible asset included in CRH’s balance sheet and note 12 to the balance sheet illustrates the required disclosures.

5.2.6 Tangible Fixed Assets

Fixed assets are defined in paragraph 60, the Schedule to the Companies (Amendment) Act 1986 as assets intended for use on a continuing basis in a company’s activities. Tangible assets can be accounted for either under historical cost accounting rules or on the basis of valuation (‘alternative rules’).

Under the historical cost accounting rules, tangible fixed assets are included at either purchase price (including incidental acquisition costs) or production cost which comprises, in addition to materials and direct costs, a reasonable proportion of production overheads and interest on borrowings undertaken to finance production. Where interest is included in tangible fixed assets, this must be disclosed. Under the alternative accounting rules, assets may be included at either their market value or current cost.

Any surplus arising on revaluation must be transferred to a revaluation reserve. The revaluation reserve may be reduced to the extent that it is no longer necessary given the accounting policies of the company. Amounts may only be transferred from it to the profit and loss account if they are realized. FRS 3 requires such transfers to be treated as movements on reserves and not included in profit for the year.

For assets with limited useful economic lives, purchase price or production cost (less any estimated residual value) must be depreciated systematically over the useful economic life of the asset. Depreciation of revalued assets can be based on either revalued amount or historical cost. This contrasts with standard accounting practice which requires depreciation to be based on the carrying value of the asset. Provision must also be made for any diminution in value which is expected to be permanent; such provision must be written back when the conditions giving rise to it no longer apply.

The balance sheet formats in the Companies (Amendment) Act, 1986 require tangible fixed assets to appear on the face of the balance sheet under the heading ‘Fixed Assets’. They must be included at cost or valuation less aggregate depreciation and be analyzed, either on the face of the balance sheet or by note, under the following headings:

- Land and buildings
- Plant and machinery
- Fixtures, fittings, tools and equipment
• Payments on account and assets in course of construction.

Movements during the year in cost or valuation and aggregate depreciation must be shown for each asset category. In particular, the following should be separately disclosed:
• Revaluations
• Additions
• Disposals
• Transfers or reclassifications
• Depreciation charged
• Depreciation in respect of disposals.

Where assets are included at valuation, the accounts should disclose the years in which the valuations were made and, for each year, the value of the assets involved. The amount (both cost and aggregate depreciation) at which such assets would be stated under the historical cost accounting rules must also be disclosed. Where assets have been valued in the current year, the names and qualifications of the valuer must be shown.

Note 13 to CRH’s consolidated balance sheet illustrates the legal disclosure requirements, although the disclosures therein relating to leased assets are required by SSAP 21 rather than by legislation.

5.2.7 Financial Assets

The Companies (Amendment) Act, 1986 does not define investments though the balance sheet formats include headings for ‘Financial assets’ under ‘Fixed Assets’, and for ‘Investments’ under ‘Current Assets’. Applying the Paragraph 60 definition of fixed assets, investments that are intended for use on a continuing basis in the company’s activities should be classified as fixed assets. Investments can be accounted for under either the historical cost accounting rules or under the alternative accounting rules. The historical cost accounting rules require that investments included as financial fixed assets be valued at cost. Cost is defined as purchase price plus incidental acquisition costs. Cost may be determined on a first in first out (FIFO), weighted average or other similar basis where the investments are fungible (i.e. indistinguishable from each other) and were acquired at different times.

Under the alternative accounting rules of the Companies (Amendment) Act, 1986, investments held as fixed assets may be included in the accounts at:
• Market value
• Current cost
• A value determined on a basis which the directors of the company deem appropriate in the circumstances of the company. This basis, and the reason for adopting it, must be disclosed.

Provision for diminution in value may be made where the value of the investment has decreased. Such provision must be made where the decrease in value is expected to be permanent. Any provision for diminution in the value of investments must be charged
in the profit and loss account and must be written back when the circumstances leading to the diminution no longer apply.

Any surplus arising on the inclusion of investments in the financial statements at valuation must be taken to the revaluation reserve. As with the equivalent revaluation reserve for tangible assets, the balance may be reduced to the extent that it is no longer necessary for the accounting policies followed by the company and amounts may only be transferred to the profit and loss account to the extent that they are realized. A deficit must be charged to the profit and loss account to the extent that it exceeds a previous surplus on the investment being revalued.

The sub-headings for fixed financial assets in the balance sheet format are:
- Shares in group undertakings
- Loans to group undertakings
- Participating interests (for group accounts this is further analyzed into ‘Interests in associated undertakings’ and ‘Other participating interests’)
- Loans to undertakings in which a participating interest is held
- Other investments other than loans
- Other loans.

Disclosure is required of movements in investments held as fixed assets. The amount of investments attributable to listed investments must be disclosed, analyzed into amounts listed on a recognized stock exchange and amounts listed elsewhere. The market value of listed investments must also be disclosed.

Note 14 to CRH’s balance sheet illustrates the required disclosures with some additional disclosures relating to joint ventures which are required by FRS 9.

Current asset investments are those not intended for use on a continuing basis in the company’s activities. Investments included in current assets must be valued at the lower of cost and net realizable value. They may be included at current cost, but presumably only if this is greater than net realizable value.

The sub-headings for current asset investments are:
- Shares in group undertakings; and
- Other investments.

5.2.8 Current Assets

Current assets are referred to in paragraph 60, the Schedule to the Companies (Amendment) Act, 1986 within the definition for fixed assets, as follows:

“Assets of a company shall be taken to be fixed assets if they are intended for use on a continuing basis in the companies activities, and any assets not intended for such use shall be taken to be current assets”.

The balance sheet formats in the Schedule to the Companies (Amendment) Act, 1986 include current assets analyzed between:
- Stocks
- Debtors
• Investments
• Cash at bank and in hand.

Stocks must appear on the face of the balance sheet and must be classified (normally by way of note) into:
• Raw materials and consumables
• Work in progress
• Finished goods and goods for resale
• Payments on account.

Stocks and work-in-progress must be valued at the lower of purchase price or production cost and net realizable value. Net realizable value is not defined in the legislation but SSAP 9 includes a definition. Purchase price and production cost are defined. Purchase price includes any incidental acquisition expenses. Cost of production includes materials and direct overheads and may include production overheads and interest on borrowings used to finance production. Interest included in stock must be disclosed.

Where different costs are incurred for similar items, cost can be determined on a FIFO, weighted average method or ‘on any other method similar’. This would seem to preclude the last in, first out (LIFO) and base stock methods. As an alternative, stocks can be included at their current cost.

Material differences between the amount at which stocks are stated in the accounts and their replacement cost at the balance sheet date must be disclosed. Note 16 to CRH’s balance sheet illustrates the disclosures required in respect of stock.

Debtors must be analyzed into the following sub-categories which can be disclosed in the notes to the balance sheet:
• Trade debtors
• Amounts owed by group undertakings
• Amounts owed by undertakings in which a participating interest is held
• Other debtors
• Called up share capital not paid
• Prepayments and accrued income.

Amounts falling due after more than one year must be shown separately for each item included under debtors. Note 17 to CRH’s balance sheet illustrates the required disclosures.

5.2.9 Liabilities

Balance sheet formats specified by legislation require liabilities to be shown in three places. The total amount of each category must be shown on the face of the balance sheet as follows:
• Creditors: amounts due within one year
• Creditors: amounts due after more than one year
• Provisions for liabilities and charges.
Creditors are not defined by the legislation. Provisions for liabilities and charges are defined as:

‘any amounts retained as reasonably necessary for the purpose of providing for any liability or loss which is either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which it will arise’.

Within the two categories of creditors (due within one year, due after more than one year), the accounts must identify separately:
- Debenture loans (convertible loans should be shown separately)
- Bank loans and overdrafts
- Payments received on account not deducted from stock
- Trade creditors
- Bills payable
- Amounts owed to group companies
- Amounts owed to related companies
- Other creditors including tax and social welfare
- Accruals and deferred income
- Aggregate amount of proposed dividends
- Amount of government grants included in deferred income.

Creditors in respect of taxation and social welfare should be shown separately from other creditors. The taxation liability must be analyzed between payroll tax liabilities (pay as you earn – PAYE), other income tax, corporation tax, capital gains tax, VAT and any other tax.

Other disclosures in respect of creditors include:
- Amount of creditors secured, indicating the nature of the security provided
- Aggregate amount of creditors repayable other than by instalments more than five years after the balance sheet date
- Aggregate amount of creditors repayable by instalments more than five years after the balance sheet date and the amount of instalments falling due after five years
- Debentures:
  - Issued during the year, giving the reason for the issue, the classes of debenture issued and the amount of each class issued and the consideration received
  - Redeemed, which the company has power to reissue
  - Held by a nominee of or trustee for the company, disclosing the nominal amounts and book value.

Cumulative preference dividends are not provided for in accounts until profits are available and dividends are declared. If such dividends are in arrears, the amounts of arrears and periods for which dividends are in arrears must be disclosed. Notes 18 and 20 to CRH’s balance sheet illustrate the detailed disclosures required for creditors.

Provisions for liabilities and charges must be analyzed under three headings:
- Pensions and similar obligations
- Taxation (including deferred taxation)
- Other provisions.
Particulars of each provision under the heading ‘Other provisions’ should be given. Note 24 to CRH’s balance sheet illustrates the required disclosures, with additional detail provided in compliance with FRS 12.

5.2.10 Share Capital and Reserves

The balance sheet formats require capital and reserves to be analyzed and shown in the following sequence on the face of the balance sheet:

- Called up share capital
- Share premium account
- Revaluation reserve
- Other reserves, analyzed in a note as follows:
  - Capital redemption reserve
  - Reserve for own shares
  - Reserves provided for by the articles of association
  - Other reserves
- Profit and loss account.

The following additional disclosures are required in respect of called up share capital which includes all types of issued share capital:

- Authorized share capital
- Number and aggregate value of each class of share issued.

For redeemable shares the following must be disclosed:
- Earliest and latest redemption dates
- Whether redemption is obligatory or at the option of the company
- Whether, and if so the amount of, premium payable on redemption.

If shares are issued during the year, the financial statements must disclose:
- Reason for the allotment
- Classes of share allotted
- For each class of share, number allotted, aggregate nominal value and consideration received.

The amount of issued share capital and called-up share capital which has been paid up must be shown separately. The unpaid called-up share capital should be included as part of debtors and should be separately disclosed.

Note 25 to CRH’s balance sheet illustrates the comprehensive disclosure required in respect of share capital in a large listed company financed by a combination of equity and non-equity share capital.

In respect of reserves, the Schedule to the Companies (Amendment) Act, 1986 requires the following to be shown:
- Opening and closing balance on reserves
- Amounts transferred to or from reserves
- Source and application, respectively, of any amounts transferred.
Expenditure is sometimes permitted, or required, by law to be dealt with directly in reserves. Section 62 of the Companies Act 1963 allows the share premium to be used to:

- Write off preliminary expenses
- Write off expenses of, commission paid or discount allowed on, the issue of shares or debentures
- Provide the premium payable on redemption of any preference shares or debentures of the company.

In addition, the share premium can be used to issue bonus shares. In CRH’s 1999 accounts, the only expenses written off directly against the share premium account are share issue expenses as disclosed in note 26.

Some miscellaneous legal disclosure requirements, which have been subsumed into professional accounting requirements, include the following:

- The basis on which amounts, originally denominated in foreign currency and now included in the accounts in Irish pounds, have been translated
- Particulars of any pension commitments included in the company’s balance sheet, in addition to particulars of any such commitments not provided for in the accounts
- Pension commitments to past directors must be separately disclosed.

The following additional information in relation to pensions is also required:

- Nature of every pension scheme operated by or on behalf of the company, including stating whether each scheme is of the defined contribution or defined benefit type
- Whether schemes are externally funded or internally financed
- Whether any pension costs and liabilities are assessed in accordance with the advice of a professionally qualified actuary and, if so, the date of the most recent relevant actuarial valuation
- Whether, and if so where, any such actuarial valuation is available for public inspection.

Note 33 to CRH’s accounts illustrates the detailed disclosure requirements relating to pensions, while the accounting policy for foreign currency translations is included in the company’s statement of accounting policies.

Company law requires disclosure of details of contingent liabilities. Contingent gains are not mentioned in the legislation. In particular:

- Amount or estimated amount of the liability
- Legal nature
- Whether, and if so, what valuable security has been provided in connection with the liability
- Particulars of any charge on the assets of the company to secure the liabilities of another, including, where practicable, the amount secured.

Contingent gains are not mentioned in the legislation. Note 23 to CRH’s accounts discloses details of guarantees provided by the group.
Disclosures are also required in relation to certain commitments, as follows:

- **Capital commitments distinguishing between**
  - future capital expenditure contracted for but not provided
  - expenditure authorized by directors not contracted for
- **Commitments in respect of research and development in future years except where, in the opinion of the directors, such disclosure would be prejudicial to the interests of the company**
- **Pension commitments provided and not provided for**
- **Financial commitments which have not been provided for, but are relevant to assessing the company’s state of affairs.**

Disclosure of these commitments is scattered throughout CRH’s accounts. Tangible fixed asset commitments are included in note 13 and commitments under operating leases are in note 32.

### 5.3 Directors’ Reports

Legal provisions governing directors’ reports are contained in the Companies Act 1963, the Companies (Amendment) Act, 1986 and the Companies Act 1990. Under the legislation the directors’ report should include the following:

- **Review of the state of the company or its subsidiaries affairs**
- **Recommended dividend**
- **Proposed transfers to reserves**
- **Fair view of the development of the business of the company and of its subsidiaries during the year**
- **Changes in the nature and classes of the company’s or its subsidiaries’ business**
- **Important events since the year-end affecting the company or any of its subsidiaries**
- **Indication of the likely future developments in the business of the company and of its subsidiaries**
- **Names, country of incorporation and the nature of business carried on by companies in which the reporting company is beneficially entitled to more than 20% of the shares carrying voting rights**
- **Indication of the activities, if any, of the company and its subsidiaries in R&D**
- **Where ‘own shares’ are acquired or made subject to charge, the number, nominal value and percentage of share capital of own shares:**
  - acquired/charged
  - previously acquired/charged, that are held at the year-end
  - disposed of/cancelled, and the consideration received during the year
- **Whether or not each director was interested in shares or debentures of the company and its subsidiaries at the beginning and end of the year.**
  If so, the number and amount of shares and debentures in each company (specify) at the beginning and end of the year.

Section 158 of the Companies Act 1963 requires directors’ reports to be signed by either two directors or one director and the company secretary. The Companies (Amendment) Act, 1986 and the 1992 Regulations require auditors to report on the consistency of the information in directors’ reports with the accounts.
In their report, the directors of CRH cover the traditional areas of accounts and dividend, business review and future outlook, changes in board membership, information on substantial holdings, compliance with the requirements of the Safety, Health and Welfare at Work Act 1989 and willingness of the auditors to continue in office. They also refer to the location in the annual report of corporate governance disclosures, specifically the company’s application of the principles of the Combined Code and the report on Directors’ remuneration. An interesting paragraph referring to the alleged misconduct of the group’s former chairman is voluntarily included in the Directors’ report.

5.4 Financial Statements of Small and Medium-Sized Companies

Legislation exempts certain companies from some filing requirements and reduces the amount of detail to be included in accounts sent to shareholders. Small and medium companies are defined in Section 8 of the Companies (Amendment) Act, 1986. The original size criteria in the 1986 Act were amended by the European Communities (Accounts) Regulations 1993. To qualify as a small or medium sized company at least two of the following conditions must be satisfied:

<table>
<thead>
<tr>
<th>Not exceeding</th>
<th>Medium</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet total</td>
<td>IR£6 million</td>
<td>IR£1.5 million</td>
</tr>
<tr>
<td>Turnover</td>
<td>IR£12 million</td>
<td>IR£3 million</td>
</tr>
<tr>
<td>Average number employed</td>
<td>250</td>
<td>50</td>
</tr>
</tbody>
</table>

Financial statements sent to shareholders are permitted to disclose less detail than is required for plcs and large companies. As these modified accounts must give a true and fair view, any abridgement which would impair that view cannot be utilized.

5.4.1 Financial Statements to be Filed

Small and medium companies are permitted to file with their annual return financial statements which contain less information than given in the financial statements sent to shareholders. Reduced disclosure applies to balance sheets, profit and loss accounts, and to the notes to the accounts.

Small companies only have to file abridged balance sheets with the companies office and do not have to file profit and loss accounts or directors’ report.

Medium sized companies need only file an abridged balance sheet and an abridged profit and loss account with the companies office, together with the directors’ report.

Where an abridged balance sheet is filed, section 18 of the Companies (Amendment) Act, 1986 requires a statement by the directors to be shown on the face of the balance sheet that they have relied on the exemptions in sections 10 to 12 of the Companies (Amendment) Act, 1986 on the grounds that the company is entitled to these exemptions as a small or medium company. Auditors are required to express an opinion on the directors’ entitlement to file abridged financial statements. They must also assess whether those statements have been properly prepared in accordance with the exemption provisions. A ‘special report’ of the auditors containing a copy of the
report on the modified financial statements, together with a copy of their report on the financial statements sent to shareholders must accompany the modified financial statements.

These exemptions are summarised in Table 8.

<table>
<thead>
<tr>
<th></th>
<th>Large AGM Filed</th>
<th>Medium AGM Filed</th>
<th>Small AGM Filed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss account</td>
<td>full</td>
<td>short</td>
<td>short</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>full</td>
<td>full</td>
<td>short</td>
</tr>
<tr>
<td>Directors’ report</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Extra directors statement</td>
<td>n/a</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Auditors’ report</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Special auditors’ report</td>
<td>n/a</td>
<td>n/a</td>
<td>yes</td>
</tr>
</tbody>
</table>

n/a = Not applicable
AGM = Sent to shareholders for annual general meeting

5.4.2 Abridged Accounts

Small companies may prepare abridged/modified balance sheets whereby only the items indicated in the summarized balance sheet in example 4 need be shown, provided amounts falling due within and after one year for debtors and creditors are disclosed.

An abbreviated profit and loss account may also be presented whereby certain items may be netted against turnover so that only gross profit is reported. Medium sized companies (and by definition also small companies) may combine Turnover, Cost of sales, Gross profit and Other operating income as one item: Gross profit/loss, in format 1 profit and loss accounts (see example 2). They may combine Turnover, Variation in stocks of finished goods and in work in progress, Own work capitalized, Other operating income, Raw materials and consumables, and Other external charges as one item: Gross profit/loss, in format 2 profit and loss accounts (see example 3).

5.4.3 Exemptions from Note Disclosures

The analysis of turnover between different classes of business and geographically need not be given by small and medium companies. This is the only note concession medium-sized companies have.

Small companies are permitted to exclude balance sheet items preceded by Arabic numbers. This has consequences for note disclosures. In addition, small companies are exempt from all supplementary disclosure requirements of the Companies (Amendment) Act, 1986 except those in relation to:

- Accounting policies;
- Share capital;
- Provision for taxation;
• Details of indebtedness;
• Basis of translation of foreign currencies.

6. Concluding Remarks

This chapter (together with the common appendix to the chapter) has summarised the regulations applying to company financial statements in Ireland. While Ireland has comprehensive legal, stock exchange and professional accounting pronouncements, there is currently no enforcement mechanism (say, similar to the Financial Reporting Review Panel in the UK). Therefore implementation of the regulations in practice is variable. The Review Group on Auditing, referred to in section 2.6.2, is currently considering enforcement mechanisms to improve the standard of financial reporting in Ireland.
Useful Addresses

(The international telephone access number for the Republic of Ireland is 353, followed by 1 for Dublin numbers.)

Professional Accounting Bodies

Institute of Chartered Accountants in Ireland,
Chartered Accountants House,
87-89 Pembroke Road,
Ballsbridge,
Dublin 4.
Tel: +353-1-668 0400
Fax: +353-1-668 0842
Email: ca@icai.ie
Website: www.icai.ie

Association of Chartered Certified Accountants,
Irish Region,
9, Leeson Park,
Dublin 6.
Tel: +353-1-496 3144
Fax: +353-1-496 3615
Email: None in Ireland
Website: www.acca.org.uk

The Chartered Institute of Management Accountants,
44, Upper Mount Street,
Dublin 2.
Tel: +353-1-676 1721; 678 5133
Fax: +353-1-676 1796
Email: roi@cimaglobal.com
Website: www.cima.org.uk

The Institute of Certified Public Accountants in Ireland,
9, Ely Place,
Dublin 2.
Tel: +353-1-676 7353
Fax: +353-1-661 2367
Email: cpa@cpaireland.ie
Website: www.cpaireland.ie

Other Organizations of Interest

Companies Registration Office and Registry of Business Names,
Parnell House,
14, Parnell Square,
Dublin 1.
Tel: +353-1-804 5200
Fax: +353-1-804 5222
Email: info@cro.ie
Website: www.cro.ie

The Institute of Taxation,
19, Sandymount Avenue,
Dublin 4.
Tel: +353-1-668 8222
Fax: +353-1-668 8387
Email: info@taxireland.ie
Website: www.taxireland.ie

The Irish Stock Exchange,
24/28 Anglesea Street,
Dublin 2.
Tel: +353-1-677 8808
Fax: +353-1-677 6045
Email: info@ise.ie
Website: www.ise.ie