

# **EXPLANATORY FOREWORD TO GIBRALTAR ACCOUNTING STANDARDS**

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## **Introduction**

1. This foreword explains the authority, scope and application of Gibraltar Accounting Standards (GASs) issued by the Gibraltar Society of Accountants (GSA) and the circumstances whereby other internationally recognised accounting standards may instead be followed. The scope of GAS extends to entities licensed or authorised by the Financial Services Commission (“FSC”) unless the applicable legislation requires or the FSC permits the adoption of alternative accounting standards. This foreword also considers the procedures by which the GSA issues GASs and their relationship to accounting standards adopted or issued by the Accounting Standards Board (ASB) in the United Kingdom.

## **Accounting Standards in the United Kingdom**

2. Accounting Standards issued by the ASB are “accounting standards” for the purpose of United Kingdom legislation which requires accounts, other than those prepared by small or medium sized companies (as defined by the UK Companies Act), to state whether they have been prepared in accordance with applicable accounting standards and to give particulars of any material departure from those standards and the reasons for it.
3. In addition the Consultative Committee of Accountancy Bodies (CCAB) is committed to promoting and supporting compliance with accounting standards by its member bodies and by their members, whether as preparers or auditors of financial information.
4. United Kingdom accounting standards, however, are not intended to apply to financial statements of overseas entities prepared for local purposes.

## **Gibraltar Legal Requirements**

5. The GSA notes that Gibraltar Company law makes reference to, but does not define, the terms ‘Appropriate Accounting Standards’, ‘Generally Accepted Accounting Principles’ and ‘Accounting Rules’ (collectively referred hereafter as “GAAP”). In absence of any statutory definition of GAAP, the GSA recommends that members follow the recommendations set out in paragraph 8 below. In addition Gibraltar Company law permits the use of International Financial Reporting Standards.

## **Authority**

6. The GSA, whilst recognising that it does not have the authority to require its members to observe a particular GAAP, wishes to promote a formal framework for the preparation of accounts.
7. The GSA also notes that, commensurate with Gibraltar’s status as an international offshore finance centre, there will be circumstances whereby internationally recognised accounting standards will be more appropriate. As mentioned in paragraph 5 above, Gibraltar Company law specifically permits the use of International Financial Reporting Standards.
8. Therefore, the GSA strongly recommends that its members who assume responsibilities in respect of financial statements do observe GASs or, where appropriate, follow instead internationally recognised accounting standards, as referred to in paragraph 11 below, whether in their capacity as preparers or auditors of financial information.

## **Scope and application of Gibraltar Accounting Standards**

9. The GSA consider that GASs are applicable to the financial statements of Gibraltar reporting entities that are intended to give a true and fair view of the state of affairs at the balance sheet date and of its profit or loss (or income and expenditure) for the financial period ending on that date. GASs need not be applied to immaterial items.
10. Financial statements are normally prepared and presented annually and are directed principally toward the information needs of an entity’s shareholders, proprietors or equivalent body of persons.
11. Where these information needs are such that they would be better met through the use of standards other than GASs then it is entirely appropriate to depart from GAS and a local entity’s financial statements may in such circumstances be prepared in accordance with internationally recognised accounting standards such as International Accounting Standards, UK GAAP or US GAAP.

## **Compliance with accounting standards**

12. Accounting standards are statements of how particular types of transactions and other events should be reflected in financial statements, and are formulated with the objective of ensuring that the information resulting from their application faithfully represents the underlying commercial activity. The GSA envisages that only in exceptional circumstances will departure from the requirements of GASs (or where appropriate internationally recognised

accounting standards) be necessary in order for financial statements to give a true and fair view.

13. In applying accounting standards it is important to be guided by the spirit and reasoning behind them. The spirit and reasoning are set out in the individual GASs and are based on the ASB's Statement of Principles for Financial Reporting.
14. If in exceptional circumstances compliance with the requirements of a GAS is inconsistent with the requirement to give a true and fair view, the requirement of the GAS should be departed from to the extent necessary to give a true and fair view. In such cases informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with the economic and commercial characteristics of the circumstances concerned. Particulars of any material departure from an accounting standard, the reasons for it and its financial effects should be disclosed in financial statements.

### **The issue of Gibraltar Accounting Standards**

15. The GSA has agreed to formally adopt United Kingdom accounting standards as issued by the ASB, which will be accompanied by Interpretative Notes (ITN's). The principal purpose of ITN's is to cite the recommended practice in situations where Gibraltar and United Kingdom legislation conflict and also in situations where reference is made in the ASB's accounting standards to United Kingdom legislation and no corresponding Gibraltar legislation has been enacted.
  16. The ITN, issued by the Society, together with the ASB's accounting standard is referred to as a Gibraltar Financial Reporting Standard ("GFRSs") or Gibraltar Statement of Standard Accounting Standards ("GSSAPs"). GFRSs together with GSSAPs are collectively referred to as Gibraltar Accounting Standards.
  17. GASs are circulated as an exposure draft by the GSA's Technical Committee. An exposure draft is published to allow an opportunity for all interested parties to comment on the proposals and for the Technical Committee to gauge the appropriateness and level of acceptance of those proposals.
  18. Although the Technical Committee weighs carefully the views of interest parties, the ultimate content of an ITN must be determined by the Committee's judgement, in conjunction with the Society's President, based on research, public consultation and careful deliberation about the benefits and costs of providing the resulting information.
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