

# (Appendix A)

# Accounting Policies

This section explains the accounting policies applied in producing the Statement of Accounts.

## 1.1 General Principles

### 1.1.1 Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2012/13. This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are supported by IFRS and statutory guidance issued under section 7 of the 2011 Act.

### 1.1.2 Accounting Convention

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 1.1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

### 1.1.4 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

- For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.
- Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

### 1.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Supplies are recorded as expenditure in the period during which they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. For some quarterly payments including gas and electricity, expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and therefore does not have a material effect on the year's accounts.
- Works are charged as expenditure, once complete, prior to completion they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.
- Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

## 1.2 Policies primarily affecting the CIES

### 1.2.1 Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

### 1.2.2 Business Improvement Districts (BID)

A BID scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

### 1.2.3 Operating Leases

#### **Receivable (Council as lessor)**

Where the Council has granted an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

#### **Payable (Council as lessee)**

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

### 1.2.4 Employee Benefits

#### **Benefits Payable During Employment**

Wages and salaries, paid annual leave and paid sick leave are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of the holiday entitlements or for any form of leave, e.g. time off in lieu, which employees have earned during the year but are able to carry forward into the next financial year.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the CIES when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or are making an offer to encourage voluntary redundancy.

#### **Teachers Pension Scheme**

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes and the costs are charged to Children's and Education in the CIES.

#### **Defined Benefit Schemes (Local Government Pension Scheme)**

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased

as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **1.2.5 Charges to Service Revenue Accounts for Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

### **1.2.6 Financing and Investment**

The financing an investment line of the CIES is charged or credited for the following amounts relating to investments:

- Gain or loss on the difference between net sale proceeds and carrying value of investment properties.
- Rental income from investment properties
- Gains and losses on the repurchase or early settlement of borrowing.
- Interest costs and expected return on Defined Benefit pension schemes.

### **1.2.7 Other Operating Expenditure**

Other operating expenditure includes charges for:

- The proportion of receipts relating to HRA disposals payable to the Government
- Gains or losses on sale and derecognition of non-current assets (excluding investment properties)
- Actuarial gains or losses of Defined Benefit Pension Schemes, which are charged to the Pension Reserve

### **1.2.8 Overheads and Support Services**

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with the Service Reporting Code of Practice. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate. The costs of Corporate and Democratic and Non-Distributable costs are not charged to service revenue accounts but are shown as separate lines on the CIES.

### 1.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES based on the current market price of allowances, together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is subsequently discharged when the allowances are purchased retrospectively.

### 1.2.10 Landfill Allowance Schemes

When landfill is used an expense is charged to the CIES. This expense is matched by treating the use of landfill allowances allocated by DEFRA as government grants. Landfill used in excess of the allowances will appear as an expense in the form of allowances purchased from other Waste Disposal Authorities or a cash penalty paid to DEFRA.

Any residual allowances are measured at the lower of cost or net realisable value. However, due to the significant level of surplus landfill allowances available and trading being minimal, any surplus landfill allowances are judged to have no value.

### 1.2.11 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Explanatory Foreword.

### 1.2.12 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

## 1.3 Policies primarily affecting the Balance Sheet

### 1.3.1 Property, Plant and Equipment (PPE), Heritage Assets and Intangible Assets

#### **PPE - Recognition**

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it brings benefits to the Council for more than one financial year. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

#### **PPE - Surplus Assets**

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE 'Surplus', pending a decision on the future use of the asset.

#### **PPE - Private Finance Initiative (PFI) and Similar Contracts**

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRS 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as PPE, where they are accounted for in the same way as the other assets. The original recognition of

assets is at fair value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Fair Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are posted to the CIES. The final element is a payment towards the outstanding liability on the balance sheet.

### **PPE - Finance Leases**

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the PPE transfer from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

#### *Finance Leases – where the Council is Lessee*

The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE – applied to write down the lease liability and
- A finance charge which is debited to the Financing and Investment Income and Expenditure line in the CIES.

#### *Finance Leases – the Council as Lessor*

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

Lease rentals receivable are apportioned between the principal repayment which reduces the debtor balance and interest which is credited to the Financing and Investment Income and Expenditure line in the CIES.

### **Heritage Assets – Recognition**

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value until the assets related collection is externally valued within the heritage asset valuation cycle.

Items are omitted from the Balance Sheet where the Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

### **Intangible Assets – Recognition**

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences, are capitalised at cost.

### **Measurement**

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

## Section 10 (Appendix B) – Accounting Policies

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- Infrastructure for e.g. roads and bridges and community assets for e.g. parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.
- Council dwellings are valued at Existing Use Value for Social Housing as defined in the Royal Institute of Chartered Surveyors valuation manual. The valuation exercise was carried out in accordance with guidance issued by the Department for Communities and Local Government in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman and Mitchell.
- Other land and buildings are valued at fair value, the amount that would be paid for the asset in its existing use. Where insufficient market based evidence of fair value is available because an asset is specialised in nature, Depreciated Replacement Cost has been applied.
- Finance leases are recognised at fair value or the present value of the minimum lease payments if lower.
- Heritage assets are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are adjusted annually by the Council to provide an internal valuation which is used until the collection is periodically externally revalued.
- All other assets are valued at fair value.

Assets included in the Balance Sheet at fair value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken.

Increases in valuations are credited to services within the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. Any gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### De Minimis Levels

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet.

Description	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

### Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

### Depreciation and Amortisation

Depreciation is provided for on all PPE assets. The annual charge to the CIES is calculated by dividing the value less any residual value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land, Heritage Assets, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – straight line allocation over the useful life on the building major components.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 years.
- Finance leases - over the lease term. If the lease term is shorter than the asset's estimated useful life and ownership of the asset does not transfer to the authority at the end of the lease period.
- Intangible assets – amortised on a straight line basis over the economic life, which is generally assessed to be 5 years.

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

### Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. A component value must be at least 20% of



the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

### 1.3.2 Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually according to market conditions.

### 1.3.3 Long Term Investments

#### Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

#### Available-for-sale Financial Assets

Available-for-sale assets are valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value..

### 1.3.4 PPE Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets held for sale are carried at the lower of carrying value and fair value less costs to sell.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

### 1.3.5 Inventories and Work in Progress

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

### 1.3.6 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March.

### 1.3.7 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet, initially at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the

carrying amount of the asset multiplied by the effective rate of interest for the instrument.

### 1.3.8 Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, the provision is reversed and credited back to the relevant service

Where some or all of the payment required to settle a provision is expected to be recovered from another party, for e.g. from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provisions are also set up for bad and doubtful debts, but are offset against the debtor balance on the balance sheet, rather than being included in the provisions figure.

### 1.3.9 Contingent Liabilities

Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is disclosed in the Explanatory Foreword/notes.

### 1.3.10 Contingent Assets

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### 1.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair value as follows:

- Quoted and unitised securities - current bid price
- Unquoted securities - professional estimate
- Property - market value.

Pension liabilities are measured on an actuarial basis, using an assessment of the future payments that will be made for retirement benefits earned to date by employees. This assessment includes assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted at the Balance Sheet date using a discount rate that takes into account the duration of the employer's liabilities and the requirements of IAS19. The discount rate chosen is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve.

### 1.3.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council

## 1.4 Policies Affecting the Cash Flow Statement

### 1.4.1 Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. Cash is represented by cash in hand and deposits with the Council's own bank. Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours. This includes Council deposits in other UK bank call accounts and Money Market Funds

## 1.5 Policies used to account on a Funding Basis

In a number of areas statutory provisions require the Council to account for transactions relating to the General Fund (and subsequently the amount to be raised from Council Tax) differently from the treatment required by IFRS. In each case the adjustment required is offset by a transfer to a specific reserve. The adjustments are shown within the MIRS as Adjustments between accounting basis and funding basis under regulations.

### 1.5.1 Depreciation, amortisation, revaluation gains and losses and impairment

Instead of these charges the Council is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (at least 4% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted with the Capital Adjustment Account.

For the HRA, depreciation is replaced by a contribution to the Major Repairs Reserve.

### 1.5.2 Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10k, the gain or loss on sale or disposal (including finance leases) is removed from the CIES and adjusted with the Usable Capital Receipts Reserve (sale proceeds) and the Capital Adjustment Account (carrying value in the Balance Sheet).

A proportion of receipts relating to HRA disposals is payable to the Government and a corresponding sum is therefore transferred back from the Capital Receipts Reserve to the General Fund.

### 1.5.3 Capital grants

Capital Grants are reversed out of the General Fund to the Capital Grants Unapplied Account. When the grant is applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

### 1.5.4 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Certain items of expenditure and related grant funding charged to the CIES under IFRS may be treated as capital for funding purposes. A transfer is made between the General Fund and the Capital Adjustment Account reserve for these items.

### 1.5.5 Termination Benefits - Pension Enhancements

Pension costs calculated according to IAS 19 are replaced by the actual pension payment for the year. The difference between the two transactions is transferred between the General Fund and the Pensions Reserve

### 1.5.6 Financial Liabilities

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The gain or loss is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between the two approaches is transferred between the General Fund and the Financial Instruments Adjustment Account.

### 1.5.7 Loans and Receivables

Statutory provisions allow the General Fund to be charged with the actual interest receivable for the financial year. The adjustment to the CIES for soft loans is therefore removed and adjusted with the Financial Instruments Adjustment Account.

## 1.6 Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Use of capital receipts to fund disposal proceeds
- Intangible Assets – Recognition of website development and other internally generated assets
- Derecognition or impairment of available for sale financial assets, loans and receivables
- Valuation of available for sale financial assets other than at quoted market price
- Restructuring of loan portfolios
- Treatment of soft loans

## **Section 10 (Appendix B) – Accounting Policies**

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