Principal accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Changes in accounting policies

The accounts reflect the adoption in the year of two new accounting standards: FRS18 Accounting policies and FRS19 Deferred tax. The adoption of FRS18 did not require any change in accounting policies. The adoption of FRS19 required a change in accounting policy and subsequent restatement of prior year figures, as detailed in note 34 on page 51.

FRS17 Retirement benefits has not been adopted in this accounting period, but the disclosures required under the transitional arrangements can be found in note 7 on page 42.

Basis of consolidation

All subsidiary accounts are made up to 31 March and are included in the consolidated accounts. The Group accounts comprise the consolidated accounts of the Company and its subsidiaries. A separate profit and loss account is not presented in respect of the Company, as provided by section 230 of the Companies Act 1985.

Goodwill

Goodwill arising on acquisitions prior to 31 March 1998 has been written off against reserves. On disposal of a business, the gain or loss on disposal includes that goodwill previously written off on acquisition. Following the introduction of FRS10 in the year ended 31 March 1999, the Group chose not to restate goodwill that had been eliminated against reserves.

Goodwill arising on acquisitions after 1 April 1998 is capitalised and amortised on a straight line basis over its estimated useful life, with a maximum of 20 years.

Investments in subsidiary undertakings

Investments in subsidiary undertakings including long term loans are included in the balance sheet of the Company at the lower of cost and the expected recoverable amount. Any impairment is recognised in the profit and loss account.

Investments in associated undertakings

Investments in undertakings, other than subsidiary undertakings, in which the Group has a substantial interest (20% or more) and over which it exerts significant influence are treated as associated undertakings.

Translation of foreign currencies

Overseas companies' profits, losses and cash flows are translated at average exchange rates for the year, and assets and liabilities at rates ruling at the balance sheet date. Exchange differences arising on foreign currency net investments are taken to reserves. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Financial instruments

Gains and losses on hedging instruments are not recognised in the performance statements until the exchange movement on the item being hedged is recognised.

Turnover

Turnover represents the sale of goods and services and is stated net of sales taxes.

Operating expense classification

Cost of sales comprises the cost of goods delivered to customers.

Distribution and marketing expenses include all operating company expenses, together with Supply Chain, Product Management, Media Publishing, Facilities, Information Systems and e-Commerce process expenses.

Administration expenses comprise Business Development, Strategic Planning, Finance, Legal and Human Resources process expenses, together with the expenses of the Group Board and the former Group Executive Committee.

Pension costs

The Group operates a pension scheme providing benefits based on final pensionable pay for all eligible employees in the United Kingdom. The scheme is administered by a corporate trustee and the funds are independent of the Group's finances. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the working lives with the Group of those employees who are in the scheme. There are no significant prepayments or provisions included in the balance sheet. In addition to the UK scheme, pension benefits are provided elsewhere in the Group through defined contribution, defined benefit and government schemes. Transitional disclosures under FRS17 can be found in note 7.

Principal accounting policies continued

Long Term Incentive Plan
The consolidated profit and loss account includes the income and administration expenses of the Long Term Incentive Plan, and the consolidated and Company balance sheets include the assets and liabilities of the Plan. Shares in the Company, held by the trust established to administer the Plan, are shown as fixed asset investments. Where options over shares are awarded to executives the value of the expected award is amortised on a straight line basis over the period of service of the executives in respect of which the awards are made.

Government grants
Government grants related to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the asset to which the grants relate. The amortised balance of capital grants is included within creditors.

Depreciation
No depreciation has been charged on freehold land. Other assets have been depreciated to residual value, on a straight line basis at the following annual rates:

Freehold buildings	2%
Leasehold premises	term of lease, not exceeding 50 years
Warehouse systems	10-20%
Motor vehicles	25%
Mainframe computer equipment	20%
Network computer equipment	33%
Portable computers	50%
Computer software costs	20-33%
Other office equipment	20%

Stocks
Stocks are valued at the lower of cost and net realisable value. Work in progress and goods for resale include attributable overheads.

Catalogue costs
Prior to the issue of a catalogue, all related costs incurred are accrued and carried as a prepayment. On the issue of a catalogue, these costs are written off over the life of the catalogue, which mainly varies between 6 and 12 months. Major investments in new catalogue production systems are written off over the period during which the benefits of those investments are anticipated, such period not to exceed three years.

Net debt
Net debt comprises net cash and liquid resources less borrowings. Net cash comprises cash in hand and held with qualifying financial institutions in current accounts or overnight deposits net of overdrafts with qualifying financial institutions. Liquid resources include government securities and term deposits with qualifying financial institutions and are classified as investments under current assets. Borrowings represent term loans from qualifying financial institutions together with capital instruments classified as liabilities under FRS4.

Deferred taxation
Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19 (see note 27).

Leases
The Group has no material assets held under finance leases.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the course of the lease period. The benefits of rent free periods and similar incentives are credited to the profit and loss account on a straight line basis over the period up to the date on which the lease rentals are adjusted to the prevailing market rate.

Employee Share Trust
Where shares are issued to the Electrocomponents Qualifying Employee Share Ownership Trust ("QUEST") an amount representing the difference between market value and the option price is transferred from the profit and loss account to the share premium account.