EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

IAS 1

Question 1

Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

Response

The proposed paragraphs deal with situations when a departure from a standard by a company is likely to achieve fair presentation. However no consideration is given to the situation where a country, on a national basis, fails to achieve fair presentation through the application of a standard. In Zimbabwe although the application of IAS 29 is believed by the profession to result in fair presentation management maintain that it is misleading.

Question 2

Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see the proposed paragraphs 78 and 79)?

Response

Yes, we agree that all items of income and expenses whatever their magnitude form part of the company's operations and do not need separate disclosure. However the treatment of items such as non-recurring abnormal should be clarified under the project "Reporting Financial Performance".

Question 3

Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?

Response

Since the refinancing arrangement has only been made after the balance sheet date, we agree that the liability should still remain current. Agreed that this is not an adjusting event, however would expect comment in the notes.

Question 4

Do you agree that:

(a) a long term liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

Response

Agreed that if the lender, at the balance sheet date, has an absolute right to demand repayment immediately, the liability remains a current liability, even if, after the balance sheet date ,the lender agreed not to demand repayment.

b) if a lender was entitled to demand immediate repayment of a loan because an entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand repayment, the liability is classified as non-current if it is due for resettlement, without that breach of the loan agreement at least twelve months after the balance sheet date and:

(i) the entity rectifies the breach within the period of grace; or
(ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

Response

Agreed, that the liability should be classified as non-current if prior to the balance sheet date a grace period has been extended in which to correct the breach and
(i) the borrower has corrected the breach
(ii) when the financial statements are authorised for issue ,the grace period has not yet expired.
Provided that where the evidence that the breach will be rectified is strong, would also expect note disclosure.

Question 5

Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?

Response

No, there are reservations regarding the usefulness of the disclosures and that they will be very generally worded.

Question 6

Do you agree that an entity should disclose key assumptions about the future ,and other sources of measurement uncertainty ,that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year(see proposed paragraphs 110-115)?

Response

No. In the current Zimbabwe economy this information would be too general to be of use to the reader. More appropriately addressed in the financial review by management.

IAS 2

Question 1

Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO)method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2 ?

Response

Agreed that the allowed alternative treatment of LIFO be eliminated.

Question 2

IAS 2 requires the reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30).IAS 2 also requires the amount of any write-down of inventories to be recognised in profit or loss (paragraph 31).
Do you agree with retaining those requirements ?

Response

Agreed that these requirements be retained, added to which the disclosure of amounts of write-downs of inventory to net realisable value.

IAS 8

Question 1

Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and correction of errors, meaning that those changes and corrections should be accounted retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20,21,32,33)?

Response

Agreed that all voluntary changes in accounting policy and correction of errors will be accounted for retrospectively by adjusting the opening balance of retained earnings and restating prior periods. Hence the cumulative effect recognition in income will be prohibited .However the restating of comparative information for a particular prior period will not be required if restating the information would require undue cost or effort.

Question 2

Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Response

Agreed that this distinction now becomes unnecessary.

IAS 10 – No invitation to comment.

IAS 15 – Proposal for the standard to be withdrawn.

IAS 16

Question 1

Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

Response

The present paragraphs 21 and 22 distinguish between what is essentially a sale of one asset and acquisition of another (dissimilar) and an exchange of assets with a similar use in the same line of business. This difference would seem pertinent to revenue recognition.

Question 2

Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38,Intangible Assets, proposed as a consequence of the proposal described in Question 1.)

Response

Response would be the same as that for question 1.

Question 3

Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

Response

There may be instances where an asset may be temporarily idle on a seasonal basis, if the useful life of the asset has been set taking this into account then we agree with the proposal. If the situation giving rise to the temporary idleness was unplanned and the asset is depreciated on a unit of production basis this would seem to create a different situation.

IAS 17

Question 1

Do you agree that when classifying a lease of land and buildings ,the lease should be split into two elements – a lease of land and a lease of buildings The land element is generally classified as an operating lease under paragraph 11 of IAS 17,Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

Response

The proposed split is not practical in this country and any apportionment would be arbitrary.

Question 2

Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

Response

Agreed ,assuming that the alternative to expense initial direct costs up front, will be eliminated.
Agreed as long as costs to be capitalised include both internal and external costs.

IAS 21

Question 1

Do you agree with the proposed definition of functional currency as “the currency of the primary economic environment in which the entity operates” and the guidance proposed in paragraphs 7 – 12 on how to determine what is an entity’s functional currency?

Response

We agree that the measurement/functional currency of each entity within a group is the currency of the country that drives that entity’s economics.

Question 2

Do you agree that a reporting entity(whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

Response

We agree that free choice of presentation currency should be allowed as long as the translation process is as follows (assuming the functional currency is not hyperinflationary): assets, liabilities and equity items at closing rate income and expense items at the rate on the transaction date; all resulting exchange differences recognised as a separate component of equity. The reasons for presentation in a currency different from the functional currency should be disclosed (together with the detail of the restatement required under IAS 29).

Question 3

Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity’s financial statements (see paragraphs 37 and 40)?

Response

Agreed, with variations depending on whether the functional or presentation currency is hyperinflationary.

Question 4

Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

Response

We believe that the alternative treatment should be allowed for the historic cost financial statements in a hyperinflationary economy. In practice the capitalisation of both borrowing costs and exchange differences is reversed in the restatement process under IAS 29 as being in partial recognition of the effects of inflation.

Question 5

Do you agree that

(a) goodwill and
(b) fair value adjustments to assets and liabilities

that arise on acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45) ?

Response

There would seem to be implications arising from the proposal where the financial statements of the acquirer and the acquired entity is not presented in terms of IAS 29.The Standards do not appear to deal with this situation. Differences will arise in terms of paragraph 41,re comparative figures, on which one needs to specify how to deal with.

IAS 24

Question 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

Response

We agree with the decision not to require the disclosure. Management would include directors and in many countries the disclosure of their compensation is covered by other legislation. In respect of other management there is a problem with identification of the management team and what constitutes compensation. However corporate governance disclosure now include information on the Remuneration Committee which helps to cover the issue.

Question 2

Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which the entity belongs (see paragraph 3)?

(Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B.)

Response

We support the alternative view as set out in Appendix B.

IAS 27

Question 1

Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

Response

Agreed as long as the entity has disclosed the reason for not publishing consolidated financial statements and the name of the parent that publishes consolidated financial statements that comply with IFRS is disclosed .

Question 2

Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholder's equity (see paragraph 26)?

Response

Agreed that the minority interest in a business represents a form of shareholders' equity that is used to finance the business.

Question 3

Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39,Financial Instruments Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Response

Agreed that in the investor's separate financial statements such investments should be carried at either cost or accounted for in accordance with IAS 39.However the investor's separate financial statements should disclose -

- the reason why separate statements are disclosed
- the existence of consolidated, proportionately consolidated, or equity method financial statements; and
- a description of the method used to account for investments in subsidiaries, associates, and jointly controlled entities.

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Response

Agreed that there should be consistent application in both scenarios.

IAS 28

Question 1

Do you agree that IAS 28 and IAS 31,Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39,Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

Response

Agreed that these investments should be excluded from the scope of IAS 28 and 31 as covered by IAS 39.

Question 2

Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate, but also other interests such as long-term receivables (paragraph 22)?

Response

Agreed as long as an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from the entity's investment in equity.

IAS 33

Question 1

Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

Response

Agreed.

Question 2

Do you agree with the following approach to the year-to-date calculation of diluted earnings per share

(as illustrated in Appendix B, examples 7 and 12)?

- The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).

- The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.
- Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

Response

- Agreed that consideration should b e taken into account of diluted earnings during the interim periods.
- Likewise cognisance should be taken of the average market price of shares during the interim periods rather than a year to date average.
- Agreed that contingently issuable shares should be weighted for interim periods rather than being included in the computation of diluted earnings per share from the beginning of the year-to-date reporting period.

IAS 40

Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:

(a) the rest of the definition of investment property is met; and
(b) the lessee uses the fair value model set out in IAS 40,paragraphs 27-49?

Response

Agreed

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

Response

Agreed

Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

Response

Agreed.