Mauritius Accounting and Auditing Standards Committee

Comments on Exposure draft of proposed improvements to International Accounting Standards

IAS 1

Q1 – Yes

No fundamental changes, Emphasis on the disclosure requirements.

Q2 – No, leave the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes.

- Too prohibitive and should not impose on presentation
- Narrow down the definition of 'extraordinary item'
- Entities preparing the Financial Statements need to justify the choice and disclose adequately

Q3 – No, the liability should be classified as long term under the conditions described in the question.

Q4

(a) No, the liability should be classified as long term under the conditions described in the question.

(b) Yes

Q5 – Yes, but the Standard should provide more guidance as to what to disclose.

Q6 – Yes, but the Standard should provide more guidance as to what to disclose.

IAS 2

Q 1 – Yes

Q 2 – Yes

IAS 8

Q1 – Yes. The allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors.

Q 2 – Yes

IAS 10

Yes. The dividends declared after the Balance Sheet date should not be recognised as a liability. However the Standard should require that the proposed dividend is shown on the face of the balance sheet and in the statement of changes in equity as a separate component of equity. The proposed dividend would be an appropriation of retained earnings. The retained earnings balance will reflect the balance after the dividend has been paid.

IAS 15

No comments

IAS 16

Q 1 – Yes

Q 2 – Yes

Q 3 – Yes, but see below.

Some assets are depreciated on the basis of the number of hours used or the number of units produced.

- Should these assets be depreciated if they become temporarily idle or are retired from active use? If yes, on what basis should they be depreciated?

Paragraph 59 of the proposed IAS 16 should be amended to provide that these assets should not be depreciated.

IAS 17

Q1 – No. The Standard and the proposed changes do not provide for the situation below.

> Land around the coast of Mauritius and in certain other areas belongs to the state and is leased to entities carrying out economic activities. Leases are for periods of either 20 years with renewals at the option of the lessee for 3 further periods of 20 years or for periods of 99 years.
>
> The ownership of the land remains with the state and does not pass to the lessee at the end of the lease period.
>
> However in practice the lease of land is renewed for as long as the Company is in existence and carries on the activity for which the lease has been granted. If the leases are not renewed the entities would have going concern problems.

There is no initial cost for the leases. There is an annual rent that is, in certain cases, nominal. The rent is renegotiated at the renewal of the leases.

Entities in Mauritius have, on the basis of revaluations carried out by Chartered Valuation Surveyors, revalued the leasehold land or leasehold interest in the land and booked the amount as the carrying amount of the leasehold land with the corresponding credit to a Revaluation surplus.

The leasehold land is carried as part of property, plant and equipment in the financial statements and is not depreciated.

Under IAS 17.11, the leasehold land should be classified as an operating lease and cannot therefore be revalued. This will create problems for Mauritian entities when they apply IAS 17 for the first time.

The Standard should be revised so that leases of land, under the conditions described above, should be accounted for as if they were finance leases.

Paragraphs A3, A4, A5 and A6 of the Basis for Conclusions for the revisions to IAS 40 (Pages 348 and 349) tend towards this view. The effect of these leases differs very little from buying a property outright.

The same principle as in IAS 40 should be applied in IAS 17.

Q2 – Yes

IAS 21

Q1 – Yes, but the Standard should give more guidance on how to assess the functional currency of a company. For example:

A Mauritian offshore company has raised capital in the US and has invested the funds raised in India. The shareholders' currency is USD. The investments and investment income are in Indian rupees (INR). The Company is managed from Mauritius. Which is the Company's functional currency?

Q2 – Yes

Q3 – Yes

Q4 – Yes

Q5 – Yes

IAS 24

Q1 – No. Management compensation is a major related party transaction. This disclosure should be retained and the Standard should define the terms necessary to enable this amount to be disclosed.

Q2 – No, we are in favour of retaining the exemptions as set out in IAS 24.4(a), (b) and (c). The Standard should also provide that the disclosure of related party transactions is not required in the financial statements of a subsidiary if the owners of the minority interest unanimously agree to the non-disclosure.

The second part of the proposed paragraph 3 - "… that are made available or published with consolidated financial statements for the group in which that entity belongs" - is not clear. Does this mean that the financial statements of the subsidiary should be attached to the consolidated financial statements

IAS 27

Q1 – Yes, but the proposed paragraph 8(d) is too restrictive.

We suggest that it should be changed to "the immediate or ultimate parent publishes consolidated financial statements that are prepared using pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards to that of the International Accounting Standards Board.

Q2 – Yes

Q3 (1) – No, in the investor's separate financial statements, the option to account for the investment in the subsidiary, jointly controlled entity and associate using the equity method should be retained.

Other comments:

In Mauritius, fair values as evidenced by quoted prices for investments are not always available. Hence, the option to account for the above investments in accordance with IAS 39 will, in most cases, not be adopted. The use of the equity method would give relevant information to the users of the separate FS. The Standard should provide that, whatever the method used, the dividend income from subsidiaries/jointly controlled entities/associates should be disclosed in the notes to the financial statements.

In addition, it is to be noted that the proposed IAS 28, in paragraph 8A, requires the use of the equity method for an investment in an associate when an investor does not prepare consolidated financial statements because it does not have any subsidiaries. Hence, it would be inconsistent to require use of the equity method in this case while, at the same time, prohibit the use of the equity method for an investment in an associate in the separate financial statements of an investor (when the investor has subsidiaries).

Q3 (2) – Yes

<u>Other comments</u>

1. In the proposed paragraph IAS 27.13, if a subsidiary was excluded from consolidation on the grounds that control was intended to be temporary, what would happen if the intended subsequent disposal of that subsidiary did not materialise within 12 months from the acquisition date? It would be better to retain the previous requirement of the "subsequent disposal in the near future" and leave the assessment open to judgement based on the particular circumstances of the case. Although intention counts, the Company must also show that it is taking actions towards the disposal.

2. The requirement in the existing IAS 27.32(a) to provide a listing of significant subsidiaries and other related information should be retained.

IAS 28

Q1 – Yes

Q2 – Yes

<u>Other comments</u>

1. Under IAS 27.8, no consolidated financial statement is required from an intermediate parent if it is wholly owned or virtually wholly owned.

   The ED proposes to extend this exemption to all intermediate parents, if the owners of the minority interests unanimously agree.

   IAS 28 requires all investors to account for associates under the equity method.

   The IAS 27.8 exemption should be extended to wholly owned subsidiaries or to subsidiaries where the owners of the minority interests unanimously agree that the subsidiaries need not equity account their associates in their financial statements. These subsidiaries would own shares in associates but would not have subsidiaries. There would not, in the cases of these subsidiaries, be a question of preparing separate financial statements.

2. Following paragraph 8 of the proposed revised IAS, if an associate was excluded from equity method accounting on the grounds that the investment was intended to be temporary, what would happen if the intended subsequent disposal of that associate did not materialise within 12 months from the acquisition date? It would be better to retain the previous requirement of the "subsequent disposal in the near future" and leave the assessment open to judgement based on the particular circumstances of the case.

3. The requirement in the existing IAS 28.27(a) to provide a listing of significant associates and other related information should be retained.

4. Paragraph 8A of the proposed revised IAS 28 requires the use of the equity method for an investment in an associate when an investor does not prepare consolidated financial statements because it does not have any subsidiaries. It would be inconsistent to require the use of the equity method in this case while, at the same time, prohibit the use of the equity method for an investment in an associate in the separate financial statements of an investor (when the investor has subsidiaries) as per the proposed revised IAS 27. We suggest that the proposed IAS 27 be amended. (See comments on IAS 27).

IAS 33

Q 1 – Yes

Q 2 – Yes

IAS 40

Q 1 – Yes

Q 2 – Yes

Q3 – Yes