Response to:
Foreword to the IASB Improvements Project Exposure Draft
Dated: 21 August 2002
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IAS 1 PRESENTATION OF FINANCIAL STATEMENTS
QUESTIONS TENTATIVE FRSB VIEWS

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 paragraphs 13 – 16)?

Answer : Yes

The FRSB agrees with the proposed approach as it caters for situations where the regulatory framework prohibits departures.

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 paragraphs 78 and 79)?

Answer : Yes

The FRSB agrees with the proposal to prohibit the presentation of items of income and expense as "extraordinary items" in the income statement and the notes.

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 paragraph 60)?

Answer: No. Reason: Auckland City has maturing debt of different dates, some of which can be due for roll over in the following year. There is no doubt about the fact that these debts will be rolled over.
The agreement must be in writing and irrevocable.

The FRSB has not determined a view on this question and seeks views from constituents to assist it in finalising its response

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Question 4

Do you agree that:
(a) a long- term financial 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 paragraph 62)?
(b) if a lender was entitled to demand immediate repayment of a loan because the 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, during which time the lender cannot demand immediate repayment, the liability is classified as non- current if it is due for settlement 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 paragraphs 63 and 64)?

Answer:
Q4 (a) No
Reason: As explained in question 3.Agreement must be in writing and irrevocable.
Q4 (b) (i) Yes
Q4 (b) (ii) No
Reason: "probable "expresses uncertainty which is not adequate for classification therefore the liability should remain current.

The FRSB has not determined a view on this question and seeks views from constituents to assist it in finalising its response.

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 paragraphs 108 and 109)?

Answer: Yes

The FRSB agrees with the proposed additional disclosure requirements.

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 paragraphs 110 – 115)?

Answer: Yes provided that "key assumptions' are clearly defined.

The FRSB agrees with the proposed additional disclosure

IAS 2 INVENTORIES
QUESTIONS TENTATIVE FRSB VIEWS

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?

Answer: Yes

The FRSB agrees with the proposal to eliminate the LIFO method for determining the cost of inventories, which is in accordance with FRS- 4/ 5.18.
IPSAS 12 does not allow entities to use the LIFO method.

Question 2
IAS 2 requires 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 reversal of any write- down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?

Answer: Yes

The FRSB agrees that the requirements relating to the reversal of write- downs of inventories should be retained.

FRS- 4/ 5.28 requires reversal of write- downs of inventories when the circumstances that previously caused inventories to be written down no longer exist, but does not specify recognition in surplus or deficit.

IAS 8 NET PROFIT OR LOSS FOR THE PERIOD FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING
Question 1
Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see

paragraphs 20, 21, 32 and 33)?

Answer: Yes
Note: we have expressed agreement with the proposal even though we are unclear in reading the question exactly what the main point of the question is.

The FRSB agrees with the proposal to require that changes in accounting policies and corrections of errors should be accounted for retrospectively.

Question 2

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

Answer: Yes

The FRSB agrees with the proposal to eliminate the distinction between fundamental and other material errors

IAS 10, EVENTS AFTER THE BALANCE SHEET DATE

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)?

Answer: Yes

The FRSB has not determined a view on this question and seeks views from constituents to assist it in finalising its response
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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.)

Answer: Yes

The FRSB has not determined a view on this question and seeks views from constituents to assist it in finalising its response.

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)?

Answer: No. Reason: Assets held for disposal are more akin to investment assets and should be recognised at their estimated disposal value .If temporarily idle it should be depreciated using the twin tests of "carrying value" and "impairment".

The FRSB has not determined a view on this question and seeks views from constituents to assist it in finalising its response
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IAS 17, LEASES

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.

Answer: Yes

The Board supports the additional guidance, relating to the separation of leases of land from leases of buildings, to be included in the standard.

*This treatment of separating the leases is not explicit in SSAP- 18: Accounting for Leases but separation of the land from the buildings is explicit in FRS- 3: Accounting for Property, Plant and. Equipmen*t.

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?

Answer: Yes
SSAP- 18/ 4.18 allows for initial direct costs to be either expensed immediately, or allocated against income over the lease term.

The Board supports, for consistency with IAS 39 Financial Instruments: Recognition and Measurement, the proposal for capitalising initial direct costs incurred in negotiating a lease.

IAS 21, THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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?

Answer: Yes

The FRSB agrees with the principle of a functional currency but has concerns regarding the criteria and guidance provided to determine the functional currency. Concerns were expressed that the market driving the *price of an entity's goods and services is not necessarily the same as the economy in which the entity primarily generates and expends* cash.

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?

Answer: Yes: Provided that the chosen currency must enhance reporting not detract from it.

The FRSB agrees with the proposal that a reporting entity should be permitted to present its financial statements in any currency that it chooses.

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)?

Answer: Yes

The FRSB agrees with the proposal that entities should translate their financial statements into the presentation currency using the same method as is required for translating a foreign operation for inclusion in the entity's financial statements.

Question 4

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

Answer: Yes

The FRSB agrees with the proposal to remove the allowed alternative to capitalise certain exchange differences.

Question 5

Do you agree that
(a) goodwill and
(b) fair value adjustments to assets and liabilities
that arise on the 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)?

Answer: Yes

The FRSB agrees with the proposal to treat the goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation as assets and liabilities of the foreign operation and to translate the balances at the closing rate.

IAS 24, RELATED PARTY DISCLOSURES

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'.

Answer: No
Reason: Post Enron and others this is now seem as a major source of concern. The debate in the US on accounting for stock options

The FRSB agrees with the proposal 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.

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 that entity belongs (see paragraph 3)?

Answer: No. Reason: Agree with the FRSB

The FRSB disagrees with the proposal 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 the consolidated financial statements for the group to which that entity belongs.

ED- 91/ 11.3 requires the disclosure of such transactions because the external users of the financial statements need to be made aware of the level of support provided by related parties.

IAS 27, CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES

Question 1

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

Answer: Yes

The FRSB agrees with the proposal to exempt entities from preparing consolidated financial statements when all the criteria in paragraph 8 are met.
Entities in New Zealand are currently only exempted from preparing consolidated financial statements in the circumstances outlined in FRS 37 paragraph 5.3 and 5.5.

Question 2

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

Answer: Yes

The FRSB agrees with the proposal that minority interests should be presented in the consolidated balance sheet within equity, but separately from the parent shareholders' equity.

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)?

Answer: Yes

Do you agree that if investments in subsidiaries, jointly controlled entities and associates that 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)?

Answer: Yes

The FRSB has not finalised its view on these questions and seeks views from constituents to assist it in finalising its response.

IAS 28, ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

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)?

Answer: Yes

The FRSB agrees with the proposal that IAS 28 and IAS 31 should not apply to investments by such entities that are measured at fair value in accordance with IAS 39, when such measurement is well- established practice in those industries.

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)?

Answer: **No (agree with FRSB)**

The FRSB agrees an investment in an associate should be reduced to nil when an associate incurs losses in excess of its equity. However, when an investor has other interests such as long term receivables with the associate, the FRSB's tentative view is that such long term receivables *should be subject to an impairment test rather than a mechanical write down of that interest.*

IAS 33, EARNINGS PER SHARE

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?

Answer: Yes

The FRSB agrees with the proposal that contracts that may be settled either in ordinary shares or in cash should be included as potential ordinary shares in the calculation of diluted earnings per share.

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 (i. e. 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).

Answer: Yes

The FRSB agrees, for consistency, with the proposed approach to the year- to- date calculation of diluted earnings per share
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IAS 40, INVESTMENT PROPERTY

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?

Answer: Yes

The FRSB agrees with the proposal to amend the definition of investment property to permit the inclusion of property interests held under operating leases where these conditions are met
.

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?

Answer: Yes

The FRSB agrees with the proposal that a lessee that classifies a property interest held under an operating lease as investment

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?

Answer: Yes

SSAP- 17 currently requires annual valuations of investment properties, but the FRSB is comfortable with the decision of the IASB.

Background reference

IAS1 Presentation of Accounting Statements

Question 1

Para.13 – compliance would be misleading = departure from standard to achieve fair disclosure.

Para.14-The statement "complying with the significant requirements of" or in compliance with the accounting requirements of " International Accounting Standards.

- Financial statements must give guidance on how the fair presentation is met and determining when a departure is necessary.

Prominent disclosure of the circumstances surrounding a departure.

Para.15 A fair representation requires:

(a) selecting and applying accountancy policies in accordance with paragraph 20
(b) presenting information, including accounting policies, in a manner which provides relevant reliable, comparable and understandable in formation ; and
(c) providing additional disclosures when the requirements in International Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the enterprise's financial position and financial performance.

Para.16 Departure is not appropriate simply because another treatment would also give a fair presentation.

Question 2

Para.78 Enterprises are encouraged to present the analysis in paragraph 77 on the face of the income statement.

Para.77. An enterprise should present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise.

Para.79. Expense items are further sub-classified in order to highlight a range of components of financial performance which may differ in terms of stability, potential for gain or loss and predicability.

Question 3

Para.60. A liability should be classified as a current liability when it:
(a) is expected to be settled in the normal course of the enterprise's operating cycle; or
(b) is due to be settled within twelve months of the balance sheet date.
All other liabilities should be classified as non-current liabilities.

Para.63.An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

(a) the original term was for a period of more than twelve months;
(b) the enterprise intends to refinance the obligation on a long-term basis ;and
(c) that intention is supported by an agreement to refinance , or to reschedule payments, which is completed before the financial statements are approved.

Question4

Para.62. Other current liabilities are not settled as part of the current operating

Question 2

Para.75.As a minimum, the face of the income statement should include line items which present the following amounts;
(g) extraordinary items.

New Zealand accounting for extraordinary items
FRS-7 Extraordinary Items and Fundamental

4.1 "Extraordinary items" are those items of revenue or expense which derive from events or transactions that;

(a) are not expected to occur **frequently**, and
(b) are **distinct from** the **ordinary operations** of the entity, and
(c) are outside the control or influence of managers or owners.

5**.6 Extraordinary items shall be disclosed separately in the statement of financial performance following the operating surplus.**

"5.7 The amount of each extraordinary item shall be shown individually either on the face of the statement of financial performance or in the notes to the financial report. …. An adequate description of each extraordinary item shall be given to enable its nature to be understood."

5.8 It is considered that only on rare occasions will items of revenue or expense fall within the definition of extraordinary items.

5.9 Each of the three criteria specified in the definition of an extraordinary item is to be met before an item of revenue or expense is classified as extraordinary. These three criteria are:

(a) the event or transaction is expected to **occur infrequently;**
(b) the event or transaction is **distinct from the ordinary operations of the entity**;
(c) the event or transaction is **outside the control or influence of managers or owners**.

Expected frequency of occurrence

5.10 The determination of whether or not a particular event or transaction is reasonably expected to occur usually involves determining its occurrence in the past and the likelihood of its recurrence in the future. An event or transaction is deemed to recur, or be likely to recur, if it is similar in nature to, although not precisely the same as, another event or transaction. For example gains and losses from the write-down or sale of fixed assets, including land and investments, and investments, are the results of normal business risks and are not to be considered extraordinary. Similarly, bad debt losses, which are the result of normal business risks, are not to be considered extraordinary. Similarly, bad debt losses, which are the result of normal business risks, are not to be considered extraordinary. In a forestry operation, risks of loses by fire or strong winds are usually a normal business risk, but losses by cyclone or tornado, when these events are not anticipated in the area and would not have been considered a normal business risk, maybe considered extraordinary.

Outside the Control or Influence of Managers or Owners

5.12 A transaction or event is presumed to be outside the control or influence of management or owners if their decisions or determinations do not normally influence the occurrence of that transaction or event. For example, a loss arising from earthquake damage, where such a loss is not reasonably expected to occur, or is not a normal business risk, is to be considered extraordinary. Other examples are the expropriation of property or the destruction of property by action external to the entity where the likelihood of either such event occurring was not high. However, a gain or loss arising because of a change of plan to sell an asset rather than holding it is not to be considered extraordinary because the result was within the control or influence of management.

Presentation of Extraordinary Items

5.14 **Each extraordinary item** is to be **shown separately** and described suitably either on the face of the statement of financial performance or in the notes to the financial report. Individual elements of revenue and expense (excluding taxation) which derive from a single extraordinary transaction or event constitute a single extraordinary item and therefore are to be aggregated. There may be circumstances when' although the net result of an extraordinary event is not significant in itself, it may be necessary to show separately the financial elements of extraordinary revenue and extraordinary expense for the financial report to give a fair presentation.

IAS 8 Net Profit or Loss for The Period Fundamental Errors and Changes in Accounting.

Question 1
Para.20 The following disclosures should be made for each discontinued operation:
(a) the nature of the discontinued operation;
(b) the industry and geographical segments in which it is reported in accordance with International Accounting Standard IAS 14, Reporting Financial Information by Segment;
(c) the effective date of discontinuance for accounting purposes;
(d) the manner of discontinuance (sale or abandonment);
(e) the gain or loss on discontinuance and the accounting policy used to measure that gain or loss; and
(f) the revenue and profit or loss from the ordinary activities of the operation for the period, together with the corresponding amounts for each prior period presented.
(g)
Para.21.discontinuance is the result of events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore not expected to recur frequently or regularly, the income or expense that arise from the expropriation may qualify as an extraordinary item.

Para.32.Fundamental Errors.-if a significant effect on the financial statements.
The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.

Para.33.Correction of fundamental errors distinguished from changes in accounting estimates.