

ZAMBIA INSTITUTE OF CHARTERED ACCOUNTANTS

ZICA=S COMMENTS ON IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

IAS 1: PRESENTATION OF FINANCIAL STATEMENTS

Question 1

ZICA does not agree. This would give leeway to creative accounting. Instead, standards (IFRS) should be improved and enhanced to remove deficiencies which appear to make them inhibit presentation of truth and fairness in financial statements.

Question 2

ZICA does not agree. Some items are clearly extraordinary. The users should be given sufficient information to discount the effect of extraordinary items.

Question 3

Agreed. This will result in a fairer presentation. However, any such agreement should be disclosed as a post balance sheet event in the notes.

Question 5

Yes ZICA agrees with (proposed paragraphs 108 and 109) that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts for items in the financial statements. Such disclosures will give the context in which the material information in the statements were recognised.

Question 6

ZICA does not agree with this proposition. The problem is that the assumptions are likely to be so many and so far fetched that it may be difficult to determine their carrying amounts on them.

IAS 2: INVENTORIES

Question 1

ZICA agrees with the IASB proposal that the LIFO method for determining the cost of inventories should be eliminated. This will be in line with the Zambia Revenue Authority (ZRA) view. The ZRA does not recognise LIFO as a method of stocks valuation.

Question 2

ZICA is apprehensive about the proposed change as it would give room to creative accounting in order to try and smooth the profits as a result of the unjustified reversal of previous write-downs or provisions.

IAS 8: NET PROFIT OR LOSS FOR PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES

Question 1

We agree with this proposal as it will reduce the number of alternatives and make different entities financial statements more comparable.

Question 2

We do not agree with the removal of the distinction between fundamental and material errors. Such a change would mean adjusting even for errors which have a clearly immaterial effect in the truth and fairness of the accounts. Further we need to maintain a certain level of judgement and not be too rule-based.

IAS 10: EVENTS AFTER BALANCE SHEET DATE

The proposed change is supported on the grounds that the proposed dividends after Balance sheet date do not provide additional information of a liability existing at Balance sheet date. However, the liability should immediately be recognised in any interim statement produced thereafter.

IAS 15: INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES (PROPOSED WITHDRAWAL OF THIS STANDARD)

ZICA again puts forward two view points:

Firstly, ZICA gives a response of An objection to the proposed withdrawal of the standard≡ in order to satisfy the circumstances observed over the years.

On the other hand, as much as ZICA agrees with the withdrawal of the standard, the Institute is of the view that the Board must consider developing another standard which will address this issue again in the future.

It may now appear that the standard is not so necessary at the moment given its background, but the effects of Achanging prices≡ especially for enterprises operating in environments with dynamic economic, social and technological forces may cause financial statements to be misleading if this is not taken into account.

If certain guidelines which make it mandatory for entities who meet the set criteria to apply this standard, then it can be considered for adoption.

IAS 16: PROPERTY, PLANT AND EQUIPMENT

Question 1

We agree with the use of fair values, as defined in the standard, to be used in the measure of exchange of items.

Question 2.

We agree that all intangibles should be measured at fair value.

Question 3

We also agree that the depreciation should not cease except for assets where the depreciation method is directly related to the use of the asset such as flying hours for the Aircraft engines.

IAS 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Question 2

ZICA does not agree with the view advanced. But if it were to do so, the functional currency as defined, ZICA proposes then that the functional currency should be used along with the currency of the country from which business is conducted.

The Income Tax Act in Zambia does in fact allow for example, mining companies to use the US Dollar but with approval from the Commissioner General. This implies that the functional currency is the one preferred for information purposes.

.Furthermore ZICA agrees that for companies with subsidiaries in other countries, they can agree (for internal purposes) the reporting currencies for their subsidiaries.