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Issue 26, February 2005

Audit and Assurance

Accounting Alert

Analysis of the latest financial reporting developments

In this issue:

For more information visit:

- IASplus.com — a Deloitte website detailing IFRS "as it happens" as well as reporting on the current and proposed output of the IASB.
- deloitte.co.nz for New Zealand based publications including this Accounting Alert.

In this issue:

The Financial Reporting Standards Board (FRSB) has answered the question everyone has been asking —

"will there be differential reporting available under NZ IFRS?"

You'll be pleased to know the answer is "Yes" — in the short term anyway. The FRSB has issued an exposure draft proposing an interim framework for differential reporting under the NZ IFRS reporting regime.

The FRSB has also issued an exposure draft proposing an amendment to NZ IAS 36 to cater for non-cash generating assets held by public benefit entities and an exposure draft of IFRIC 3 on accounting for 'cap and trade' schemes for emission rights. It has also issued two IFRIC draft interpretations, D10 on accounting for the liability that arises in relation to new legislation in Europe for waste electrical equipment and D11 on applying IFRS 2 to certain changes in employee share purchase plans.

ED-98 Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Reporting Regime

New Zealand Standards Affected

Framework for Differential Reporting.

Overview

In order to meet the deadline to provide the New Zealand Equivalents to IFRSs for early adopters, to date the standards have been issued without consideration of differential reporting. Now that the stable platform of standards has been issued ready for early adopters, the FRSB has been considering what differential reporting exemptions would be appropriate. The exposure draft therefore proposes differential reporting concessions for entities applying the New Zealand equivalents to IFRSs.

This exposure draft is not a full review of the differential reporting regime in the context of IFRS. The proposed requirements are intended to be a short term regime until the International Accounting Standards Board (IASB) has completed its work on developing accounting standards for small and medium-sized entities and the Ministry of Economic Development (MED) has completed its review of the Financial Reporting Act 1993. Both of these projects may have an impact on what concessions are appropriate in a differential reporting regime.

The basic approach adopted by the FRSB has been to carry forward the existing exemptions from the current regime with a few exceptions, to exempt new disclosures under NZ IFRS where there is a corresponding NZ GAAP standard, and to consider NZ IFRS which address issues not previously addressed in existing NZ GAAP on a case by case basis to determine whether any exemptions are appropriate.

The deadline for comments on ED-98 to the FRSB is **25 February 2005**.

The proposed size criteria is the same as the proposed size criteria in the MED Discussion Document *Review of the Financial Reporting Act 1993 Part II*.

Qualifying Entities

The size criteria are proposed to be amended as follows:

- total income of $20.0 (currently $5.0) million;
- total assets of $10.0 (currently $2.5) million;
- 50 employees (currently 20).

The above proposed size criteria is the same as the proposed size criteria in the MED Discussion Document *Review of the Financial Reporting Act 1993 Part II* (November 2004) (A summary of the paper is included in the December edition of Accounting Alert).

Proposals in Relation to Specific Standards

NZ IAS 7 *Cash Flow Statements*

Currently qualifying entities are not required to present cash flow statements. However the proposed differential reporting framework requires full compliance with NZ IAS 7 for the following reasons:

- the cash flow statement is the primary statement most easily understood by infrequent users of financial statements;
- only a low level of judgement is required in order to understand the statement;
- it is a useful tool for analysing comparatives in a period of accounting policy change; and
- it provides important information that is not easily available from other financial statements.

NZ IAS 12 *Income Taxes*

Qualifying entities will be able to use the taxes payable method instead of complying with NZ IAS 12 and will not need to make the disclosures required by the standard where these relate to deferred taxation. Additional disclosures will be required compared to the current differential reporting exemptions especially where a qualifying entity elects to account for income tax in accordance with NZ IAS 12.

NZ IAS 24 *Related Party Disclosures*

Disclosure of key management personnel compensation is proposed to be exempted. Unlike the current framework, more information on an entity's related party relationships and transactions is proposed to be required to be disclosed, as related party transactions have the potential to have a significant impact on the reported financial statements.

NZ IAS 41 *Agriculture*

Based on the strong submissions received by the FRSB from constituents on the significant increase in compliance costs expected from implementing NZ IAS 41, the ED proposes partial exemption from the requirements. The exemptions particularly relate to allowing a cost option for measuring biological assets and agricultural produce. A number of disclosure exemptions are also proposed. The FRSB is also keen to receive feedback from constituents on how cost or other alternative measurement frameworks for various types of assets held by entities qualifying for differential reporting might be developed.

Summary of Proposed Concessions

Further details are set out in Appendix 1 of the ED.

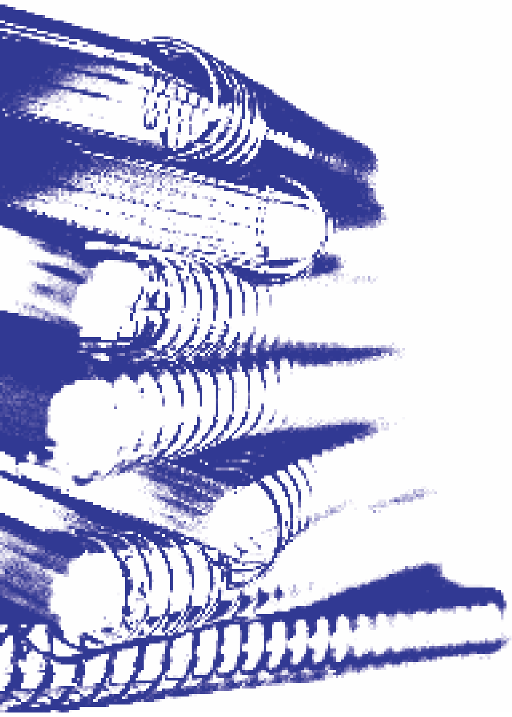
Full Exemption

NZ IAS 14 *Segment Reporting*
NZ SIC-29 *Disclosure – Service Concession Arrangements*

Partial Exemption

NZ IAS 1 *Presentation of Financial Statements*
NZ IAS 2 *Inventories*
NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
NZ IAS 11 *Construction Contracts*

NZ IAS 12 *Income Taxes*
NZ IAS 16 *Property, Plant and Equipment*
NZ IAS 17 *Leases*
NZ IAS 18 *Revenue*
NZ IAS 19 *Employee Benefits*
NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*
NZ IAS 23 *Borrowing Costs*
NZ IAS 24 *Related Party Disclosures*
NZ IAS 28 *Investments in Associates*
NZ IAS 32 *Financial Instruments: Disclosure and Presentation*
NZ IAS 36 *Impairment of Assets*
NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
NZ IAS 38 *Intangible Assets*
NZ IAS 40 *Investment Property*
NZ IAS 41 *Agriculture*
NZ IFRS 4 *Insurance Contracts*
NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
NZ SIC-32 *Intangible Assets – Web Site Costs*



Full Compliance (No Differential Reporting Concessions)

NZ IAS 7 *Cash Flow Statements*
NZ IAS 10 *Events after the Balance Sheet Date*
NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
NZ IAS 27 *Consolidated and Separate Financial Statements*
NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*
NZ IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
NZ IAS 31 *Interests in Joint Ventures*
NZ IAS 33 *Earnings per Share*
NZ IAS 34 *Interim Financial Reporting*
NZ IAS 39 *Financial Instruments: Recognition and Measurement*
NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*
NZ IFRS 2 *Share-based Payment*
NZ IFRS 3 *Business Combinations*
FRS-29: *Prospective Financial Information*
FRS-39: *Summary Financial Reports*
NZ SIC-7 *Introduction of the Euro*
NZ SIC-10 *Government Assistance — No Specific Relation to Operating Activities*
NZ SIC-12 *Consolidation — Special Purpose Entities*
NZ SIC-13 *Jointly Controlled Entities Non-Monetary Contributions by Venturers*
NZ SIC-15 *Operating Leases — Incentives*
NZ SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets*
NZ SIC-25 *Income Taxes — Changes in the Tax Status of an Entity or its Shareholders*
NZ SIC-31 *Revenue — Barter Transactions Involving Advertising Services*
NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Effective Date

The effective date is the same date as when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual reporting period beginning on or after 1 January 2005.

ED-99 Impairment of Non-Cash Generating Assets by Public Benefit Entities: A Proposed Amendment to NZ IAS 36 Impairment of Assets

New Zealand Standards Affected

NZ IAS 36 Impairment of Assets

Overview

The ED proposes the following requirements to be added to NZ IAS 36 in relation to public benefit entities:

- with regard to non-cash generating assets, value in use will be deemed to be depreciated replacement cost; and
- the adoption of a class basis in respect of recognising impairment gains and losses will be permitted.

These requirements are in line with the approach adopted in AASB 136 *Impairment of Assets* in Australia.

The proposed amendments will become operative for a period beginning on or after 1 January 2006 for public benefit entities that elect to adopt NZ IFRS for a period beginning before 1 January 2007.

Public benefit entities adopting NZ IFRS prior to 1 January 2006 are encouraged to adopt the amended NZ IAS 36 at the same time.

ED NZ IFRIC Interpretation 3 *Emission Rights*

Overview

The interpretation relates to issues around 'cap and trade' schemes that have been introduced to encourage reductions in greenhouse gas emissions by several governments. Some schemes have created an active market for the rights or allowances that are given to participating entities by a government or its agency. Participants are required to deliver allowances equal to their actual emissions at the end of a specified period.

The interpretation deals with operational 'cap and trade' schemes only and states that:

- rights or allowances are intangible assets that are required to be recognised in the financial statements in accordance with IAS 38 *Intangible Assets*.
- when allowances are issued to a participant by a government or its agent for less than the fair value, the difference between the amount paid and the fair value is a government grant. Such a grant should be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
- When a participant produces emissions, it should recognise a provision for its obligation to deliver allowances in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- Other assets may need to be reviewed for impairment when the requirements under an emission rights scheme reduce the cash flows generated by those assets.

Comments are due to the FRSB by **15 February 2005**.

Interpretations are part of IASB's authoritative literature and hence financial statements may not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation issued by the International Financial Reporting Interpretations Committee.

IFRIC Draft Interpretation D10 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

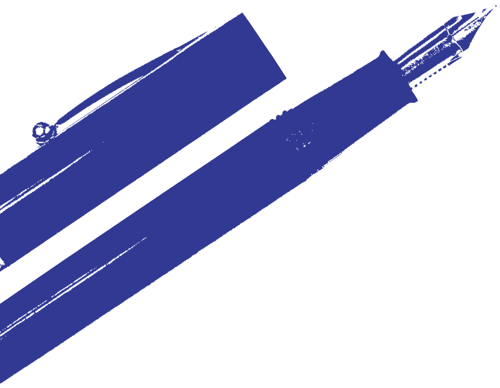
Overview

The European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE) has raised issues as to when the liability for the decommissioning of WE&EE for certain electrical goods manufacturers should be recognised.

The draft interpretation provides guidance on what constitutes an obligating event in relation to an entity's obligation to contribute to the waste management costs in respect of WE&EE under IAS 37.

The consensus is that participation in the market in the measurement period is the obligating event in accordance with paragraph 14(a) of IAS 37.

The deadline for comments to the IASB is **11 February 2005**.



IFRIC Draft Interpretation D11 *Changes in Contributions to Employee Share Purchase Plans*

Overview

This draft provides guidance in relation to how to apply IFRS 2 *Share-based Payment* when:

- an employee ceases to contribute to an Employee Share Purchase Plan (ESPP) and consequently, no longer has the ability to buy shares under the plan; or
- an employee moves from one ESPP to another.

The consensus is:

- when an employee ceases to contribute to an ESPP during his/her employment and is no longer able to buy shares under the plan, the event should be recognised as a cancellation. The entity is required to recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period in accordance with paragraph 28(a) of IFRS 2.
- when an employee changes from one ESPP to another:
  - If the new ESPP replaces the original ESPP, the event is to be recognised as a modification of the original grant of equity instruments.
  - If the new ESPP is not identified as replacing the original ESPP, then the employee's cessation of participation in the original ESPP should be recognised as a cancellation and the commencement of participation in the new ESPP as a new grant of equity instruments.

The deadline for comments to the FRSB is **13 February 2005**.

New Zealand Equivalents to IFRS

"The New Zealand Equivalents to IFRS can be viewed on the ICANZ website www.icanz.co.nz"

The Accounting Standards Review Board approved the stable platform of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) on 24 November 2004. The standards can be viewed on the Institute of Chartered Accountants of New Zealand (ICANZ) website.

The following accounting standards are available for viewing on the website:

New Zealand Equivalents to IFRS

- NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*
- NZ IFRS 2 *Share-based Payment*
- NZ IFRS 3 *Business Combinations*
- NZ IFRS 4 *Insurance Contracts*
- NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

New Zealand Equivalents to IAS

- NZ IAS 1 *Presentation of Financial Statements*
- NZ IAS 2 *Inventories*
- NZ IAS 7 *Cash Flow Statements*
- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 10 *Events after the Balance Sheet Date*
- NZ IAS 11 *Construction Contracts*
- NZ IAS 12 *Income Taxes*
- NZ IAS 14 *Segment Reporting*
- NZ IAS 16 *Property, Plant & Equipment*
- NZ IAS 17 *Leases*
- NZ IAS 18 *Revenue*
- NZ IAS 19 *Employee Benefits*
- NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- NZ IAS 23 *Borrowing Costs*
- NZ IAS 24 *Related Party Disclosures*
- NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
- NZ IAS 27 *Consolidated and Separate Financial Statements*
- NZ IAS 28 *Investments in Associates*

- NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*
- NZ IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions*
- NZ IAS 31 *Interests in Joint Ventures*
- NZ IAS 32 *Financial Instruments: Disclosure and Presentation*
- NZ IAS 33 *Earnings per Share*
- NZ IAS 34 *Interim Financial Reporting*
- NZ IAS 36 *Impairment of Assets*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS 38 *Intangible Assets*
- NZ IAS 40 *Investment Property*
- NZ IAS 41 *Agriculture*

New Zealand Equivalents to IFRIC

- NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

New Zealand Equivalents to SIC

- NZ SIC-7 *Introduction of the Euro*
- NZ SIC-10 *Government Assistance – No Specific Relation to Operating Activities*
- NZ SIC-12 *Consolidation – Special Purpose Entities*
- NZ SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- NZ SIC-15 *Operating Leases - Incentives*
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- NZ SIC-31 *Revenue – Barter Transactions Involving Advertising Services*
- NZ SIC-32 *Intangible Assets – Web Site Costs*

Important Dates

The FRSB's timetable is aligned to that of the IASB. As the IASB issues exposure drafts or standards, the FRSB will issue them as New Zealand equivalent exposure drafts or standards having made additions, where necessary, to ensure they are sector neutral. As a result the NZ agenda is subject to change as deliberations of the IASB proceed.

An up to date timetable is available at www.iasplus.com/agenda/timetabl.htm

Keep track of these important dates for responding on Exposure Drafts to the FRSB.

Comments Due in February 2005:

- MED Discussion Document: *Review of the Financial Reporting Act 1993 Part II*
- ED-98 Framework for Differential Reporting for Entities Applying the New Zealand Equivalent to IFRSs Reporting Regime
- ED-99 Impairment of Non-Cash Generating Assets by Public Benefit Entities: A Proposed Amendment to NZ IAS 36 Impairment of Assets
- ED NZ IFRIC Interpretation 3 *Emission Rights*
- IFRIC Draft Interpretation D10 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- IFRIC Draft Interpretation D11 *Changes in Contributions to Employee Share Purchase Plans*

All exposure drafts are available through the Institute's website: www.icanz.co.nz

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