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# Accounting Alert.

## Analysis of the latest accounting developments — March 2008 update

The last month has seen many important developments in IFRS, including the approval of revised standards which will significantly change the accounting for business combinations.

This Accounting Alert provides an overview of the key changes to accounting standards and interpretations during the month and provides links to documents with more detailed discussions of each of the topics.

We hope you find this information useful, and we look forward to bringing you further NZ IFRS updates throughout the year.

Kind Regards,

**Denise Hodgkins**  
National Technical Partner

### Revised Standards change the accounting for business combinations

In February 2008 the ASRB approved a revised NZ IFRS 3 Business Combinations and related revisions to NZ IAS 27 Consolidated and Separate Financial Statements. There are also consequential amendments to other standards, most notably NZ IAS 28 Investments in Associates and NZ IAS 31 Interests in Joint Ventures. These changes will have a significant impact on the accounting treatment for business combinations. The amendments are effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted but only back to an annual reporting period that begins on or after 30 June 2007.

The revised standards include changes and clarifications to the concepts applied in accounting for business combinations, including:

- a greater emphasis on the use of fair value, potentially increasing the judgement and subjectivity around business combination accounting, and requiring greater input by valuation experts;
- focussing on changes in control as a significant economic event – introducing requirements to remeasure interests to fair value at the time when control is achieved or lost, and recognising directly in equity the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control; and
- focussing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

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**Key changes to the standards include:**

**Acquisition costs.** Costs of issuing debt or equity instruments are accounted for under IAS 39. All other costs associated with the acquisition must be expensed, including reimbursements to the acquiree for bearing some of the acquisition costs. Examples of costs to be expensed include finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs, including the costs of maintaining an internal acquisitions department.

**Contingent consideration.** If the amount of contingent consideration changes as a result of a post-acquisition event (such as meeting an earnings target), accounting for the change in consideration depends on whether the additional consideration is an equity instrument or cash or other assets paid or owed. If it is equity, the original amount is not remeasured. If the additional consideration is cash or other assets paid or owed, the changed amount is recognised in profit or loss. If the amount of consideration changes because of new information about the fair value of the amount of consideration at acquisition date (rather than because of a post-acquisition event) then retrospective restatement is required.

**Goodwill and noncontrolling interest.** An option is added to NZ IFRS 3 to permit an entity to recognise 100% of the goodwill of the acquired entity, not just the acquiring entity's portion of the goodwill, with the increased amount of goodwill also increasing the noncontrolling interest [new term for 'minority interest'] in the net assets of the acquired entity. This is known as the 'full goodwill method'. Such noncontrolling interest is reported as part of consolidated equity. The 'full goodwill' option may be elected on a transaction-by-transaction basis.

**Pre-existing relationships and reacquired rights.** If the acquirer and acquiree were parties to a pre-existing relationship (for instance, the acquirer had granted the acquiree a right to use its intellectual property), this must be accounted for separately from the business combination. In most cases, this will lead to the recognition of a gain or loss for the amount of the consideration transferred to the vendor which effectively represents a 'settlement' of the pre-existing relationship. However, where the transaction effectively represents a reacquired right, an intangible asset is recognised and measured on the basis of the remaining contractual term of the related contract excluding any renewals. The asset is then subsequently amortised

over the remaining contractual term, again excluding any renewals.

**Intangible assets.** Must always be recognised and measured. There is no 'reliable measurement' exception.

**Step acquisition.** Prior to control being obtained, the investment is accounted for under NZ IAS 28, NZ IAS 31, or NZ IAS 39, as appropriate. On the date that control is obtained the previous ownership interests are recognised at their fair values with any resulting gain (or loss) recorded in the income statement.

**Acquiring additional shares in the subsidiary after control was obtained.** This is accounted for as an equity transaction with owners (like acquisition of 'treasury shares'). Goodwill is not remeasured.

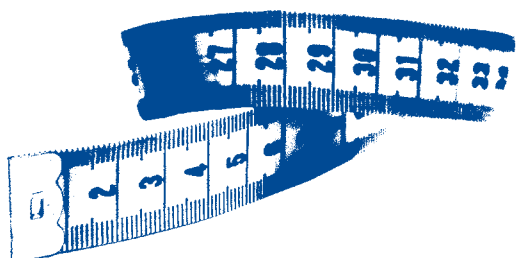
**Partial disposal of an investment in a subsidiary while control is retained.** This is accounted for as an equity transaction with owners, and gain or loss is not recognised.

**Partial disposal of an investment in a subsidiary that results in loss of control.** Loss of control triggers remeasurement of the residual holding to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognised in profit or loss. Thereafter, apply NZ IAS 28, NZ IAS 31, or NZ IAS 39, as appropriate, to the remaining holding.

**Transitional requirements.** The revised Standard must generally be applied on a prospective basis, with some exceptions. The prospective application will impact post-transition changes in ownership interests in subsidiaries but will not impact accounting for contingent consideration related to business combinations with an acquisition date prior to the date of transition.

Key changes to the revised NZ IAS 27 include the requirement to record changes in a parent's ownership interest in a subsidiary that do not result in a loss of control within shareholders' equity and the requirement upon loss of control of a subsidiary to remeasure to fair value the remaining investment in the former subsidiary. By consequential amendment to NZ IAS 28 and NZ IAS 31, the treatment required for loss of control is extended to investments in associates and joint ventures. The revised NZ IAS 27 also requires a parent to attribute the minority interest's share of total comprehensive income to the minority interest even when this would result in the minority interest having a deficit balance.

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The revised NZ IFRS 3 includes some definitions specific to Public Benefit Entities not included in the international version of the standard. Additionally, the revised New Zealand standard includes Differential Reporting exemptions in relation to certain disclosure requirements.

Deloitte's IFRS Global Office has published a special edition [IAS Plus Newsletter on the Revisions to IFRS 3 and IAS 27 \(122K\)](#). The newsletter includes a table comparing the new IFRS requirements for business combinations and related transactions with the existing ones and a table of the major differences remaining between IFRS and US GAAP in relation to business combinations.

### NZ IAS 32 and NZ IAS 1 Amended for Puttable financial instruments and obligations arising on liquidation

The ASRB has recently approved amendments to NZ IAS 32 and NZ IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation. These amendments are intended to improve the accounting for certain types of financial instruments that have characteristics similar to ordinary shares but were previously required to be classified as financial liabilities.

As a result of the recent amendments, some entities may now be able to classify as equity certain puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The amendments are most likely to impact unit trusts and other limited-life entities, cooperative companies, and certain partnerships. Careful analysis will be required as there are a number of criteria which must be met in order to classify these instruments as equity.

Additional disclosures are required about the instruments affected by the amendments.

The amendments will apply for annual periods beginning on or after 1 January 2009, with earlier application permitted.

Read more in the [Deloitte IAS Plus Newsletter \(101K\)](#).

### Amendment of IFRS 2 Share-Based Payment clarifies vesting conditions and cancellations

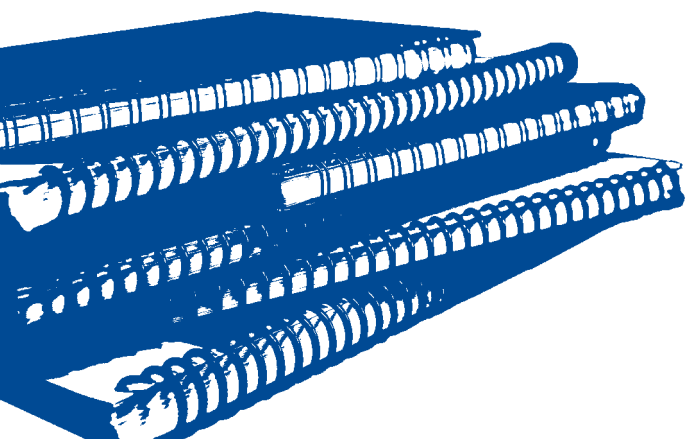
In February 2008, the ASRB approved final amendments to IFRS 2 Share-based Payment to clarify the terms 'vesting conditions' and 'cancellations' as follows:

- Vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Under IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. The fair value also includes market-related vesting conditions.
- All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately. Any payments made with the cancellation (up to the fair value of the equity instruments) is accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

The amendment is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted.

There are no differential reporting concessions relating to these amendments.

Read more in the [Deloitte IAS Plus Newsletter \(126K\)](#).



## Revised NZ IAS 1 changes the presentation of the financial statements

In our January Accounting Alert we advised that the IASB had issued a revised IAS 1 Presentation of Financial Statements. The key changes from the existing version of the standard were to require an entity to:

- Present all non-owner changes in equity (that is, 'comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.
- Present a statement of changes in equity showing all transactions with owners in their capacity as owners.
- Present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements.
- Disclose income tax relating to each component of other comprehensive income.

More Details: The Deloitte IFRS Global Office has published a special edition IAS Plus Newsletter on the revised standard.

Follow the link below to access the newsletter:

[Deloitte IAS Plus Newsletter \(119K\)](#).

The ASRB has approved the New Zealand equivalent to IAS 1 and has included New Zealand-specific guidance including:

- Additional definitions, including definitions specific to Public Benefit Entities (PBEs), application guidance on when an entity may be considered to be a PBE, and additional guidance for PBE's on assessing whether an entity is a going concern.

- Additional disclosure requirements for New Zealand entities such as the designation of the entity as a profit-oriented entity or a PBE. The New Zealand-specific disclosure requirements are largely consistent with those under the existing version of the standard.
- Presentation requirements for entities presenting a Statement of Service Performance and entities presenting prospective financial statements.
- Exemptions from certain requirements in the standard for Public Benefit Entities and entities qualifying for Differential Reporting concessions.

### Key Differential Reporting concessions include:

- Qualifying entities are not required to present a statement of changes in equity when there have been no transactions between the entity and its owners in their capacity as owners and no adjustments to opening retained earnings in either the current or prior period.
- Qualifying entities electing to account for income taxes under the income taxes payable method are permitted to disclose the aggregate amount of income tax relating to components of other comprehensive income rather than the income tax relating to each component.

### Key concessions for Public Benefit Entities include:

- PBEs electing to disclose expenses using the function of expense method may disclose expenses classified by output (being the goods and services produced by the entity).
- PBEs are exempt from the requirement to present a statement of financial position as at the beginning of the earliest comparative period when applying an accounting policy retrospectively, making a retrospective restatement, or reclassifying items in the financial statements.



## Draft interpretations address distributions of non-cash assets to owners and customer contributions

### NZ IFRIC D23 Distributions of Non-Cash Assets to Owners

NZ IFRIC D23 proposes guidance on how an entity should measure:

- distributions of assets other than cash when it pays dividends to its owners acting in their capacity as owners.
- Distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

NZ IFRIC D23 would not apply to a distribution of an asset to another entity within the same consolidated group.

NZ IFRIC D23 proposes that all types of distributions of non-cash assets would be measured at the fair value of the assets distributed. Therefore:

- When an entity incurs an obligation to distribute non-cash assets to its owners (a dividend payable), it should measure the obligation at the fair value of the non-cash assets.
- If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.
- When an entity settles the dividend payable, it should recognise any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

- If the fair value of the asset changes between the date on which the dividend is declared and the date of settlement, the entity should remeasure the liability through equity. This will impact the amount of the gain or loss recorded to profit or loss on settlement.

The Interpretation, if finalised, would apply prospectively, that is, to future distributions.

The draft interpretation issued by the FRSB includes some differential reporting concessions in relation to the proposed disclosure requirements.

Comments are due to the FRSB by **4 April 2008** and the IFRIC by **25 April 2008**.

Download the [Request for Comment \(75 K\)](#)

Download the [IFRIC Draft Interpretation \(230 K\)](#)

### NZ IFRIC D24 Customer Contributions

Customer contributions are transactions in which an entity – the access provider – receives an asset it uses to provide access to an ongoing supply of goods or services to a customer or customers. In some cases, the access provider receives cash which it must use to acquire or construct the asset that will provide access.

NZ IFRIC D24 proposes the following accounting for the receipt of customer contributions:

- The entity receiving the customer contribution must assess whether the contribution qualifies for recognition as an asset, and if so, the entity must recognise the asset as property, plant and equipment at its fair value.
- The entity receiving the customer contribution must recognise the obligation to provide access to goods or services on its balance sheet. The obligation is initially recorded at the fair value of the contribution received.

- The period over which revenue is recognised is the period over which the entity has an obligation to continue to provide access to a supply of goods or services using the contributed asset, which cannot exceed the useful economic life of the asset.

- When an entity receives a cash contribution it must assess whether the asset acquired or constructed will meet the criteria for recognition as property plant and equipment. If so, the entity must measure the asset in accordance with IAS 16 and the obligation by reference to the cash contribution. If not, the entity must account for the cash contribution as proceeds for providing the asset to the customer in accordance with IAS 11 or IAS 18 as appropriate.

- The entity must assess whether the ongoing arrangement to provide access to a supply of goods or services using the contributed asset contains a lease. The assessment is made in accordance with IAS 17 and IFRIC 4.

If finalised, the Interpretation would be applied prospectively, that is, for all future transactions.

Comments are due to the FRSB by **4 April 2008** and the IFRIC by **25 April 2008**.

Download the [Request for Comment \(74 K\)](#)

Download the [IFRIC Draft Interpretation \(202 K\)](#)

More Details: The Deloitte IFRS Global Office has published a special edition IAS Plus Newsletter on the draft Interpretations IFRIC D23 and IFRIC D24.

Follow the link below to access the newsletter:

[IAS Plus: Global Newsletter - IFRIC D23 and IFRIC D24](#)

Queries or comments regarding Alert can be directed to the editor, Veronica Harley, ph +64 (9) 303 0968, email address: [vharley@deloitte.co.nz](mailto:vharley@deloitte.co.nz).

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The Editor, PO Box 33, Auckland.

Ph +64 (0) 9 309 4944. Fax +64 (0) 9 309 4947.

### New Zealand Directory

**Auckland** PO Box 33, Ph +64 (0) 9 309 4944, Fax +64 (0) 9 309 4947

**Hamilton** PO Box 17, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810

**Wellington** PO Box 1990, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023

**Christchurch** PO Box 248, Ph +64 (0) 3 379 7010, Fax +64 (0) 3 366 6539

**Dunedin** PO Box 1245, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650

**Internet address** <http://www.deloitte.co.nz>

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