

assurance adviser

Grant Thornton 

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Inaugural Grant Thornton 2003 Not for Profit Sector Survey

We have had an overwhelming response to the Inaugural Grant Thornton 2003 Not for Profit Sector Survey. We are currently collating the replies and writing the report which summaries all the information gathered and compares some of the responses with a similar survey carried out by Grant Thornton in the UK.

Several key findings of the Not for Profit survey, include:

- The sustainability of funding is a substantial issue
- There is concern about governance issues and the role of trustees
- Retaining and motivating staff and volunteers is a major concern
- 36% of respondents operate without a formal health and safety programme.

The report will be available on our website www.grantthornton.co.nz in December.

FRS-3: Accounting for Property Plant & Equipment

This standard was issued in March 2001 and replaces SSAP-28: Accounting for Fixed Assets and parts of SSAP-3: Accounting for Depreciation. It applies to the general purpose financial reports of all entities and is applicable for general purpose financial reports ending on or after 31 March 2002.

FRS-3 has some radical changes to the recording and disclosure of property, plant and equipment (PPE) which impact on all reporting organisations.

Componentisation - When the components of an item of PPE have different useful lives or provide benefits to the entity in different patterns, thus requiring different depreciation rates and methods, the cost of the item must be allocated to its component and each component must be accounted for separately. For example, a building consists of three components - building shell, building services (lift, air conditioning) and building fit out. Componentisation is not required if materially the same total depreciation expense and carrying amounts will otherwise result.

Donated or subsidised items of PPE - Cost of donated or subsidised item of PPE must be its fair value at the date of acquisition, together with any costs directly incurred by the donee in bringing the item to working condition for its intended use. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The amount of the donation or subsidy received must be recognised in the Statement of Financial Performance.

Capitalisation of Borrowing Costs - Borrowing costs (interest and other costs incurred in connection with the borrowing of funds) that are directly attributable to the acquisition or construction of an item of PPE must be capitalised. A differential reporting exemption is available. If taken, the entity must expense all borrowing costs as incurred. There is also a transitional provision where an entity is not required to capitalise borrowing costs until periods ending on or after 31 March 2004

Revaluations - A valuation carried out for purposes other than financial reporting, for example a rating valuation (government valuation) is not to be used as the basis for recording a revaluation unless the basis of valuation has been confirmed as appropriate by an independent valuer. An entity is permitted to cease revaluing a class of PPE if:

- The change will result in information about the class of item that is more relevant or reliable;
- Continual revaluations for that class of item cannot be justified for materiality or cost-benefit reasons.

Impairment - This part of the standard applies to all PPE except those revalued. Where the future economic benefits embodied in an item of PPE are directly related to its ability to generate net cash inflows, the carrying amount of the item must be reviewed at each reporting date to assess whether there is any indication that the item may be impaired.

The carrying amount of an item of PPE whose future economic benefits are not directly related to its ability to generate net cash inflows must not exceed the following at the reporting date

- Net market value
- Depreciated replacement cost

Disclosure Requirements - In respect of each class of PPE (a class being a category of assets that have a similar nature or function in the operations of the entity)

- Measurement bases used for determining the gross carrying amount
- The depreciation methods used
- Depreciation rates used or useful lives.

In respect of each class of PPE and in total for all classes:

- Gross carrying amount, accumulated depreciation charges, and the carrying amount
- Total depreciation charge for the period
- Total impairment losses recognised during the period
- Total impairment losses reversed during the period
- The amount of borrowing costs capitalised during the period.

When a class of PPE is stated at revalued amounts the following must be disclosed in respect of that class:

- The revaluation surplus
- The intervals at which valuations take place
- The dates and amounts of valuations supporting the recognised valuations
- The name and qualifications of the valuer
- The bases of the valuations
- Any significant assumptions or limiting conditions upon which the valuations are based.

New Senior International Appointment

April Mackenzie has been appointed to the newly created position of Director of International Financial Reporting for Grant Thornton, and will be based in New York.

April has extensive standard setting experience. She previously worked for the Institute of Chartered Accountants of New Zealand as the international representative of the Institute in the areas of accounting standard setting, including liaison with international standard setting bodies.

Best practice in implementation and harmonisation of international standards is a priority for Grant Thornton so that our clients know that we deliver a high quality of service for them, wherever we operate in the world.

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