

Institute of Chartered Accountants of New Zealand
FINANCIAL REPORTING STANDARD NO. 20
1994



ACCOUNTING FOR SHARES ISSUED UNDER A DIVIDEND ELECTION PLAN

*Issued by the Financial Reporting Standards Board
Institute of Chartered Accountants of New Zealand
Approved June 1994 by the Accounting Standards Review Board
under the Financial Reporting Act 1993*

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This Standard replaces SSAP-20: Accounting for Shares Issued Under a Dividend Election Plan (1986), although that Statement will continue to apply until the completion of accounting periods which end prior to 30 September 1994.

This Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting published by the Council, Institute of Chartered Accountants of New Zealand.

The Accounting Standards Review Board (the Board) has approved FRS-20: Accounting for Shares Issued Under a Dividend Election Plan, for the purposes of the Financial Reporting Act 1993, to apply to reporting entities, the Crown and all departments, Offices of Parliament and Crown entities (each of which is defined in the Act).

The Board has also approved this Standard to apply to local authorities (as defined in the Act) from 1 July 1998.

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1 INTRODUCTION

COMMENTARY

1.1 This Standard deals with accounting for the issue of shares under a dividend election plan and disclosure in general purpose financial reports.

1.2 This Standard does not address the income tax consequences of dividend election plans. Those consequences depend on the detail of the relevant tax legislation and of each dividend election plan.

1.3 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

2.1 This Standard applies to the general purpose financial reports of all entities.

2.2 The financial reporting standards set out in this Standard shall apply to all financial reports where such application is of material consequence. A statement, fact or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.

2.3 This Standard applies to general purpose financial reports covering periods ending on or after 30 September 1994.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 The purpose of this Standard is to require that shares issued under a dividend election plan are accounted for:

- (a) in accordance with the economic substance of the transaction; and
- (b) consistently both by the company issuing the shares and by the shareholders receiving the shares.

4 DEFINITIONS

STANDARD

The following terms are used in this Standard with these meanings:

4.1 “Dividend election plan” is any plan under which shareholders are offered the choice of receiving dividends (whether interim or final) in cash, or in shares, or in a combination of cash and shares.

COMMENTARY

4.2 Dividend election plans vary. Some dividend election plans may offer shares in lieu of cash while others may offer cash in lieu of shares.

STANDARD

4.3 “Strike price” is the share price specified in a dividend election plan to establish equivalence between the alternatives of dividends in cash or dividends in shares.

COMMENTARY

4.4 The strike price is usually determined as a proportion of the average market price of that class of shares between predetermined dates.

5 FINANCIAL REPORTING

Accounting by a Company Operating a Dividend Election Plan

STANDARD

5.1 A company that issues a dividend under a dividend election plan shall record and disclose the total proposed dividend liability as if all shareholders were to receive their dividends in cash. When, however, the company can estimate with reasonable certainty the amount of the dividend that shareholders will choose to receive in cash, then the company shall:

- (a) record a dividend liability of the amount estimated to be paid in cash; and**
- (b) where components of equity are separately disclosed, establish a share election reserve for the balance to be distributed as shares.**

COMMENTARY

5.2 Where a company issues shares under a dividend election plan, a view is that the company has received present cash value by retaining cash instead of distributing cash as a dividend payment.

5.3 The share election reserve is to be created at balance date by transfer from the source of the dividend. The number of shares issued to shareholders who choose to receive their dividend in shares is to be determined by dividing the equivalent dividend in cash by the strike price. Shares subsequently issued under a dividend election plan are to be recorded by crediting paid-in capital and debiting the share election reserve with the amount which the shareholders would have received if they had elected to receive the dividend in cash. Once the dividend has

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been paid, it may be necessary to simultaneously transfer the balance from the share election reserve to the provision for dividend account.

Disclosure

STANDARD

5.4 Dividends paid and payable in cash and in shares shall be disclosed separately in the notes to the financial report.

Accounting by Shareholders of a Company Operating a Dividend Election Plan

STANDARD

5.5 The receiving shareholders shall record as a dividend the amount receivable as if the whole dividend was in cash. The value recognised shall be equal to the number of shares received times the strike price.

COMMENTARY

5.6 Where shares are received as a dividend, a view is that the receiving shareholders have received a cash dividend and have immediately reinvested that cash in an issue of new shares.

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APPENDIX

Comparison of FRS-20 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 15 March 1994 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-20.

The International Accounting Standards Committee, the Australian Accounting Standards Board and the Australian Accounting Research Foundation have not issued a financial reporting standard equivalent to FRS-20.

HISTORY

Previously issued accounting standards superseded by this Financial Reporting Standard:

SSAP-20: Accounting for Shares Issued Under a Dividend Election Plan (issued June 1986 and effective for periods beginning on or after 1 January 1986).

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