

FRS-24

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FINANCIAL REPORTING STANDARD NO. 24

1996

**INTERIM FINANCIAL STATEMENTS**

*Issued by the Financial Reporting Standards Board
Institute of Chartered Accountants of New Zealand*

*Approved December 1996 by the Accounting Standards Review Board
under the Financial Reporting Act 1993*

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*This Standard replaces SSAP-24: Interim Financial Statements (1989);
although that Statement will continue to apply until the completion of
interim accounting periods which end prior to 30 June 1997.*

*This Financial Reporting 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-24: Interim
Financial Statements, 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) other than as expressly exempted by the
terms of the Standard.*

*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 Interim financial statements are useful for providing investors and other external users with relevant information about the progress of the entity.

1.2 This Standard is based on the view that an interim period, like a financial year, is a discrete financial period of an entity. Interim financial statements are to be prepared in accordance with applicable financial reporting standards, except that the minimum level of disclosure in interim financial statements, as specified in this Standard, is less extensive. This minimum level of disclosure constitutes compliance with generally accepted accounting practice for interim financial statements.

1.3 The *Explanatory Foreword to General Purpose Financial Reporting* states that general purpose financial reports are intended to provide information to meet the needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. To enable entities to achieve this objective in relation to interim financial statements in a timely and cost effective manner, this Standard specifies that information in interim financial statements may be less extensive than the information in financial statements for the annual reporting period. However, when the interim financial statements are included in a registered prospectus this Standard does not apply.

1.4 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 interim financial statements of all entities except where the interim financial statements are included in a registered prospectus or are exempted by paragraph 2.2.

2.2 Entities which qualify in accordance with the *Framework for Differential Reporting* may apply differential reporting exemptions available under other financial reporting standards in addition to the specific exemptions in this Standard which are denoted with an asterisk(*).

2.3 This Standard does not apply to interim financial information which is expressed solely in general terms.

COMMENTARY

2.4 Examples of interim financial information, which is expressed solely in general terms, may include:

- (a) monthly statements produced by unit trusts; and
- (b) general banking information prepared for customers such as a key information summary.

However, where such reporting includes interim financial statements, the provisions of this Standard are to apply.

2.5 This Standard does not apply to interim financial statements included in or accompanying a registered prospectus as these will need to comply with the Securities Act and Regulations.

STANDARD

2.6 The financial reporting standards set out in this Standard shall apply to all interim financial statements 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 interim financial statements are completed, is likely to influence the users of the interim financial statements in making decisions or assessments.

2.7 This Standard applies to interim financial statements covering interim periods beginning on or after 1 July 1997.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 This Standard specifies the appropriate accounting practice and minimum disclosure requirements for interim financial statements.

4 DEFINITIONS

STANDARD

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

4.1 “Interim financial report” means a general purpose financial report which covers a period within an annual reporting period other than the annual reporting period.

4.2 “Interim financial statements” means statements included in an interim financial report that are prepared to communicate information about the interim financial performance, interim financial position and interim cash flows of the entity reporting.

COMMENTARY

4.3 Interim financial reports consist of:

- (a) interim financial statements;
- (b) interim non-financial statements; and
- (c) interim supplementary information which is additional to the information in the interim financial and non-financial statements.

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4.4 In this Standard “annual reporting period” includes periods which have been extended or reduced to accommodate a new balance date.

STANDARD

4.5 “Net surplus (deficit)” is the sum of an entity’s operating surplus (deficit) and extraordinary items.

4.6 “Operating surplus (deficit)” is a measure of financial performance resulting from transactions and other events during a period, excluding:

- (a) changes in equity resulting from the effect of extraordinary items;**
- (b) changes in reserves recognised in the statement of movements in equity;**
- (c) currency translation differences permitted to be recognised in the statement of movements in equity; and**
- (d) distributions to, and contributions by, owners.**

5 FINANCIAL REPORTING

Discrete Financial Period, Measurement and Recognition

STANDARD

5.1 Each interim period being reported on shall be treated as a discrete financial period.

COMMENTARY

5.2 Application of the discrete view of interim reporting to an interim period involves recognising transactions and other events on the basis of conditions existing for the interim period.

5.3 This Standard requires the discrete view to be adopted to ensure that results for an interim period reflect the economic activity of that period rather than outcomes based on assumptions about operations pertaining to the unexpired portion of the annual reporting period.

STANDARD

5.4 Interim financial statements shall include additional explanations in relation to the consequences of applying the discrete view where such explanations are necessary in order to achieve the objectives of general purpose financial reporting.

COMMENTARY

5.5 Additional explanations may be particularly relevant where cyclical factors have influenced the interim financial statements and therefore such interim financial statements may not be representative of the annual reporting period. In particular, adoption of the discrete view will affect accounting for income tax,

referred to in paragraph 5.7 (b). Examples of cyclical factors may relate to certain items of either revenue or expense that constitute permanent differences for tax purposes and thereby impact on the effective tax rate arising in an interim period. An explanation of why the specific effective tax rate could vary from the full-year tax rate could assist users to understand the interim financial statements.

STANDARD

5.6 Interim financial statements shall be prepared in accordance with the measurement and recognition principles contained in financial reporting standards as if any reference in those standards to “financial year” included reference to “interim financial period”. However, where non-current assets are required to be valued on an annual basis, this financial reporting standard permits, but does not require, such assets to be revalued also for the interim financial statements. Where such assets are revalued for the interim financial statements, the use of estimates by the governing body is permitted where this is justified on the basis of cost and timeliness. Where such estimates have been used, this shall be disclosed in the notes to the interim financial statements. In all cases where non-current assets have been revalued for the interim financial statements, the basis of valuation shall be disclosed.

COMMENTARY

5.7 The following commentary highlights certain issues encountered in the preparation of interim financial reports, but does not restrict the general application of financial reporting standards to such reports:

- (a) Certain entities are affected by cyclical factors so that their revenues or expenses are not evenly spread throughout the year. Such entities may have earned revenues or incurred expenses in an interim period which will not result in the flow of service potential or economic benefit until a later period. In this instance the *Statement of Concepts for General Purpose Financial Reporting* allows revenues or expenses that can be measured with reliability, and from which it is probable that service potential or future economic benefits will eventuate, to be recognised as liabilities or assets.
- (b) Taxpayers are to accrue income tax in accordance with SSAP-12: *Accounting for Income Tax*.
- (c) Extraordinary items are to be accounted for in interim financial statements in accordance with FRS-7: *Extraordinary Items and Fundamental Errors*, and their nature and amount are to be disclosed in the interim period in which they occur.

5.8 Where financial reporting standards state that they are not applicable to interim financial statements, such interim financial statements are not bound to be prepared in accordance with such standards.

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Disclosure

STANDARD

5.9 Paragraphs 5.11 to 5.23 specify the minimum disclosures required in interim financial statements. Disclosures that are included in interim financial statements, which are made in addition to the minimum disclosures specified in paragraphs 5.11 to 5.23, shall be consistent with the appropriate financial reporting standards that apply.

COMMENTARY

5.10 When additional disclosures are made which are consistent with an appropriate financial reporting standard, there is no requirement to provide all the disclosures required by that appropriate financial reporting standard. For example, if an entity disclosed audit fees, in its interim financial statements, it would be required to do so in accordance with FRS-9: *Information to be Disclosed in Financial Statements*. By providing this additional disclosure there would be no requirement to include all the additional disclosures required by FRS-9.

STANDARD

5.11 Disclosures in interim financial statements shall include:

(a) Financial Performance:

- **Total operating revenue;**
- **Operating surplus (deficit) before taxation;**
- **Tax expense (not including tax on extraordinary items);**
- **Operating surplus (deficit);**
- **Extraordinary items net of tax. There shall also be separate disclosure of the nature and amount of each extraordinary item.**
- **Net surplus (deficit). Any minority interest in the net surplus (deficit) shall also be separately disclosed in the statement of financial performance.**

Separate disclosure shall also be made of the following items included in operating revenue or operating expense:

- * • **Interest revenue;**
- **Interest expense and similar charges;**
- **The entity's share of the post-acquisition net surpluses (or deficits) of associates determined under the equity method.**

Items included in operating revenue or operating expense shall also be disclosed separately if they are of such incidence and size, or of such nature, that their disclosure is necessary to explain the performance of the entity. An

* Refer paragraph 2.2.

adequate description of each item shall be given to enable its nature to be understood.

(b) Financial Position:

(i) Either:

The following items shall be disclosed separately and appropriately described as “current” and/or “non-current” assets (whichever is applicable):

- receivables
- investments
- inventories
- bank balances, deposits and cash
- land, buildings, plant and equipment (net of accumulated depreciation)
- intangibles (net of accumulated amortisation)
- other assets.

The following items shall be disclosed separately and appropriately described as “current” and/or “non-current” liabilities (whichever is applicable):

- loans, including bank overdrafts, secured over assets of the entity
- unsecured loans
- accounts payable
- other liabilities.

The statement of financial position shall separately disclose the aggregates of:

- current assets
- non-current assets
- current liabilities
- non-current liabilities.

Or:

Where, because of the nature of the activity of the entity and to be consistent with its annual reporting practices, it is not appropriate to disclose the classifications listed directly above:

- the major components of assets and liabilities shall be disclosed in the broad order of their liquidity.

(ii) Equity (disclosing separately minority interest).

*** (c) Statement of Cash Flows:**

* Refer paragraph 2.2.

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- Gross cash inflows and outflows from operating activities;
 - Gross cash inflows and outflows from investing activities;
 - Gross cash inflows and outflows from financing activities;
 - Net increase (decrease) in cash held;
 - Cash balance at the beginning of the period; and
 - Cash balance at the end of the period.
- * (d) **Reconciliation with reported surplus (deficit) after taxation:**
- The notes to the interim financial statements shall provide a reconciliation of the surplus (deficit) after taxation with the net cash flow from operating activities separately disclosing the material items.
- * (e) **Investing and Financing Activities:**
- There shall be note disclosure in the interim financial statements of non-cash investing and financing transactions which affect assets and liabilities that have been recognised. Such notes shall be referenced to the appropriate items in the financial statements.
- (f) **Statement of Movements in Equity:**
- A reconciliation of equity at the beginning of the interim period with equity at the end of the interim period separately disclosing the material reconciling items.
- (g) **Sufficient additional information shall be disclosed, particularly regarding contingencies, commitments and other unrecognised items, to ensure that all relevant matters are adequately reported to users of the interim financial statements. These items shall be disclosed separately if they are of such incidence and size, or of such nature, that their disclosure is necessary to explain the performance, position or cash flows of the entity. An adequate description of each item shall be given to enable its nature to be understood.**

COMMENTARY

5.12 For the purposes of this Standard the term “unrecognised item” refers to asset and liability elements not reported, or not incorporated in amounts reported, in the statement of financial position. An example is an uncalled guarantee.

5.13 In determining disclosure requirements in paragraph 5.11(g) consideration should be given to both the risk to and likely impact on an entity reporting and any major changes from the position reported in the previous annual financial report.

* Refer paragraph 2.2.

* Refer paragraph 2.2.

Interim Financial Statements of a Group

STANDARD

5.14 Where the entity presenting the financial statements is a group, the interim financial statements shall be prepared on a consolidated basis and the interim financial statements of the parent need not be presented.

Reporting Period

STANDARD

5.15 The period covered by the interim financial statements shall be disclosed.

Comparative Information

STANDARD

5.16 Comparative information shall be shown for the previous corresponding interim period and the previous annual reporting period.

5.17 Interim comparative information for the previous corresponding interim period required by paragraph 5.16 need not be provided if the interim financial statements are being prepared for the first time.

Basis on Which Interim Financial Statements are Prepared

STANDARD

5.18 The interim financial statements shall include a statement that they are prepared under this Standard and should be read in conjunction with the previous annual financial report. Where there have been significant changes to the operational or financial circumstances, or the operational or financial environment, of the entity reporting since the previous financial annual report, these changes shall be disclosed.

COMMENTARY

5.19 An example of changed circumstances, referred to in paragraph 5.18, could include the acquisition or disposal of an industry segment within an entity.

5.20 Additional explanations may be disclosed to explain why the interim financial statements should be read in conjunction with the previous annual financial report. The main explanation would be that disclosure required in interim financial statements is less extensive than for an annual financial report.

Accounting Policies

STANDARD

5.21 The interim financial statements shall state whether the accounting policies used are consistent with those used in the previously published interim financial statements and previous annual financial report. If there

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have been changes in the accounting policies, there shall be full disclosure of the changes in accordance with FRS-1: *Disclosure of Accounting Policies*. Any new accounting policies shall be disclosed in accordance with FRS-1.

5.22 Where a qualifying entity takes advantage of differential reporting exemptions this fact shall be disclosed.

Events Subsequent to Reporting Date

STANDARD

5.23 The interim financial statements shall contain a description of each event that occurred after the reporting date in accordance with the requirements in FRS-5: *Accounting for Events Occurring after Balance Date*.

Disclosing the Impact of Adopting New Zealand Equivalents to IFRSs

STANDARD

5.24 All issuers shall disclose in their half-yearly and quarterly financial reports the impact of adopting New Zealand equivalents to IFRSs as required by FRS-41: *Disclosing the Impact of Adopting New Zealand Equivalents to IFRSs*.

COMMENTARY

5.25 Issuers has the same meaning as that defined in the Financial Reporting Act 1993, section 4. All other entities are encouraged to apply FRS-41 in the preparation of general purpose half-yearly and quarterly financial reports.

APPENDIX

Comparison of FRS-24 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 30 November 1996 and deals only with significant differences in the standards, is produced for information only and does not form part of the standards in FRS-24.

The Australian Accounting Standard comparable with FRS-24 is:

- AASB 1029 (1994): *Half-Year Accounts and Consolidated Accounts*.

The International Accounting Standards Committee (IASC) has not issued a standard on interim financial reporting comparable with FRS-24. At the date FRS-24 was approved, the IASC had published a Draft Statement of Principles on Interim Financial Reporting.

The following summarises the significant differences between AASB 1029 and FRS-24.

Application

AASB 1029 applies to disclosing entities required to prepare half-year accounts or consolidated accounts under the half-year financial reporting provisions of the Australian Corporate Law Reform Act 1994.

FRS-24 applies to interim financial statements of all entities. Entities which qualify for exemption in accordance with the *Framework for Differential Reporting* are permitted certain disclosure exemptions as stated in the Standard.

FRS-24 also excludes interim financial information which is expressed solely in general terms.

Financial Performance

AASB 1029 requires disclosure of the following items that are not required to be separately disclosed in FRS-24:

- in respect of companies listed on the Australian Stock Exchange, earnings per share disclosures and, if materially different, diluted earnings per share; and
- the applicable income tax on each extraordinary item.

AASB 1029 requires disclosure of dividends provided for or paid. FRS-24 does not require disclosure of dividends provided for or paid in the statement of financial performance. However, if material, this information is required to be disclosed in the statement of movements in equity.

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FRS-24 requires disclosure of the entity's share of associates' and other equity accounted operating surplus (deficit) and extraordinary items which are not required to be separately disclosed in AASB 1029.

Financial Position

The following list of disclosures highlights the differences in disclosure requirements between the AASB 1029 and FRS-24 in terms of financial position:

- AASB 1029 allows Australian banks to group assets and liabilities in an order that reflects their liquidity. FRS-24 allows this for all entities where, because of the nature of the activity of the entity and to be consistent with its annual reporting practices, it is not appropriate to disclose in terms of current/non-current.
- Provisions are not required to be separately disclosed in FRS-24.
- AASB 1029 requires disclosure of borrowings. FRS-24 requires separate disclosure of secured and unsecured loans.
- AASB 1029 requires aggregate disclosure of parent entity interest in the following classes of equity:
 - capital;
 - reserves; and
 - retained profits or accumulated losses.

FRS-24 requires the aggregate of equity, separately disclosing minority interest, to be disclosed.

Statement of Cash Flows

AASB 1029 requires disclosure of the following items not required by FRS-24:

- interest and other items of a similar nature received;
- dividends received;
- interest and other costs of finance paid;
- dividends paid; and
- income taxes paid.

AASB 1029 requires disclosure of operating cash inflows and cash outflows. FRS-24 requires disclosure of gross inflows and outflows for operating, investing and financing activities, a reconciliation with reported surplus (deficit) after tax and note disclosure of non-cash investing and financing activities.

Statement of Movements in Equity

FRS-24 requires disclosure of a reconciliation of equity at the beginning of the interim period with equity at the end of the interim period separately disclosing material reconciling items. AASB 1029 does not require disclosure of a statement of movements in equity.

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Additional Information

FRS-24 requires sufficient additional information to be disclosed, particularly as regards contingencies, commitments and other unrecognised items, to ensure that all relevant matters are adequately reported to users of the interim financial statements. AASB 1029 does not have a similar requirement.

Comparatives

AASB 1029 requires disclosure of comparative information for the previous corresponding half-year period in relation to the statement of financial performance and statement of cash flows. FRS-24 requires disclosure of comparative information for both the previous corresponding interim period and the previous annual reporting period relating to the statement of financial performance and statement of cash flows.

AASB 1029 and FRS-24 require similar disclosures of comparative information for the statement of financial position.

Attachment of External Auditor's Audit Report

AASB 1029 requires where neither the external auditor's audit report nor review report is attached to the financial report, that the entity disclose:

- whether the half-year accounts or consolidated accounts have been audited or reviewed;
- whether or not the audit report or audit review report was qualified; and
- the location at which the audit report or audit review report can be read or obtained.

FRS-24 does not state any requirements regarding audit/review, engagements or opinions.

HISTORY

Previously issued accounting standards superseded by this Financial Reporting Standard:

SSAP-24: Interim Financial Statements (issued August 1989 and effective for periods commencing on or after 1 October 1989).

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