Forecast Financial Statements of Department

Statement of Common Accounting Policies

These accounting policies have been applied in the forecast financial statements of all departments and Offices of Parliament except as outlined in the statement of entity-specific accounting policies for individual departments or Offices of Parliament.

These forecast financial statements are prepared in accordance with section 41(1)(a)-(f) of the Public Finance Act 1989. The purpose of the forecast financial statements is to facilitate Parliament's consideration of appropriations for, and planned performance of, departments and Offices of Parliament.

Use of this information for other purposes may not be appropriate. It is not intended that these forecast financial statements be updated subsequent to publication.

Statement of Compliance

For the purposes of these forecast financial statements, the entity has been designated as a public benefit entity. These forecast financial statements for the year ended 30 June 2013 comply with Financial Reporting Standard 42: *Prospective Financial Statements.*

Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these statements. These statements have been prepared on a going-concern basis. The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These forecast financial statements are presented in New Zealand dollars, which is the entity's functional currency. All financial information presented has been rounded to the nearest thousand.

Judgements and Estimations

The preparation of forecast financial statements in conformity with FRS-42 requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these variations may be material.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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Where these judgements significantly affect the amounts recognised in the financial statements they are described in the statement of entity specific accounting policies.

Revenue

Revenue Earned through Operations

Revenue is derived through the provision of outputs to the Crown and from services to third parties. Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risk and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.

Interest Income

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Rental Income

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Expenses

Expenses are recognised in the period to which they relate.

Taxation

Departments and Offices of Parliament are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

Goods and Services Tax

These forecast financial statements are stated exclusive of GST, except for receivables and payables in the statement of financial position, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the statement of financial position.

Foreign Currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Debtors and Other Receivables

Debtors and other receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Inventories

Inventories are recorded at the lower of cost (calculated using the weighted average cost method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at cost adjusted where applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition. Inventories include harvested agricultural produce (eg, logs and wool). The cost of harvested agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

Biological Assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value less estimated costs to sell, with any realised and unrealised gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan. Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Property, Plant and Equipment

Property, plant and equipment, other than land and buildings, is stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence. Land and buildings are revalued with sufficient regularity to ensure that carrying value is not materially different from fair value at the end of the reporting period. Additions between revaluations are recorded at cost. Any capitalisation thresholds applied are set out in the statement of entity-specific accounting policies. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. The estimated useful lives are set out in the statement of entity-specific accounting policies. Items under construction are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

Borrowing Costs

Borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised.

Intangible Assets and Goodwill

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. Expenditure incurred on the research phase is expensed when it is incurred.

Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. The estimated useful lives are set out in the statement of entity-specific accounting policies.

Intangible assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

Intangible assets with finite lives (such as computer software) are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance. Goodwill is tested for impairment annually.

Accounts Payable

Payables are measured at amortised cost using the effective interest rate method. Information on other financial liabilities is included in the statement of entity specific accounting policies.

Employee Benefits

Pension Liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due.

Other Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination Benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported at the present value of the estimated future cash outflows.

Leases

Operating Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Finance Leases

Finance leases transfer, to the department as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the department expects to receive benefits from their use.

Other Liabilities and Provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

Statement of Cash Flows

The following are definitions of the terms used in the statement of cash flows:

- investing activities are those activities relating to the acquisition and disposal of non-current assets
- financing activities comprise capital injections by, or repayment of capital to, the Crown, and
- operating activities include all transactions and other events that are not investing or financing activities.

Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts to construct, purchase or lease capital assets that have been entered into at balance date. Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of that penalty or exit cost (ie, the minimum future payments).

Commitments are classified as:

- capital commitments, being the aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and
- non-cancellable operating leases with a lease term of more than one year.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

Changes in Accounting Policies

Any changes in accounting policies since the date of the last audited financial statements prepared under New Zealand generally accepted accounting practice are described in the statement of entity-specific accounting policies. The last audited financial statements (30 June 2012) were prepared in accordance with NZ IFRS (New Zealand Equivalents to International Financial Reporting Standards) as appropriate for public benefit entities.