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DEPRECIATION, INCENTIVES AND CAPITAL EXPENDITURE

A STUDY OF NEW ZEALAND PUBLIC COMPANIES WITH
SPECIAL REFERENCE TO THE EFFICACY OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES

VOLUME II

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THIS BOOK MUST
NOT BE BORROWED

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APPENDIX A
SELECTED ORDINARY TAX RATES OF DEPRECIATION

In Exhibit A-1 selected maximum ordinary tax rates of depreciation applicable in the 1957-58 income year and in subsequent years are listed. For comparative purposes, the equivalent rates for plant, machinery and motor vehicles applicable from the 1940-41 income year until the 1957 rates applied are also given. The comparative rates for buildings first applied in the 1939-40 year.

Given the appropriate depreciation rate on plant, machinery or motor vehicles for taxation purposes and the expected useful life of the relevant asset, one can determine from Exhibit A-2 the residual value which would result in neither claim for a loss on the sale or disposal of the asset nor an assessment for depreciation recovered. For example, if the appropriate tax rate of depreciation were ten per cent on the diminishing value method plus twenty per cent special depreciation and if the expected life of the asset were ten years, the residual value would need to be approximately twenty per cent of the cost of the asset. If the expected residual value were about seven per cent and if the particular item were significant in relation to the aggregate of the firm's depreciable assets, then a strong case could be made for an increase in the depreciation rate to twenty per cent diminishing value plus twenty per cent special depreciation.¹ By reading down the columns for any given rate

¹If an allowance were granted on the straight-line method a rate of 9.3 per cent would be appropriate.

EXHIBIT A-1
SELECTED ORDINARY TAX RATES OF DEPRECIATION¹

	Maximum Rate of Depreciation	
	1940-41 to 1956-57	1957-58 and Subsequent Years
	%	%
A <u>Buildings: Straight-line Method</u>		
1. Reinforced concrete throughout	1.0	1.0
2. Brick, stone or concrete walled	1.5	2.0
3. Wooden framed	2.5	2.5
4. Affected by abrasives	4.0	4.0
B <u>Plant and Machinery: Diminishing Value Method</u>		
5. Except as otherwise specified	7.5	10.0
6. Operating 16 to 24 hours a day	10.0	15.0
7. Affected by abrasives	10.0	15.0
8. Operating 16 to 24 hours a day and affected by abrasives	12.5	20.0
C <u>Motor Vehicles: Diminishing Value Method</u>		
9. Except as otherwise specified	20.0	20.0

¹Source: Inland Revenue Department.

EXHIBIT A-2

RESIDUAL VALUE, GIVEN ESTIMATED LIFE OF ASSET AND RATE OF DEPRECIATION

Estimated Life of Asset in Periods	PERIODIC RATE OF DEPRECIATION ¹					
	10% D.V.	10% D.V. Plus 20% Special	15% D.V.	15% D.V. Plus 20% Special	20% D.V.	20% D.V. Plus 20% Special
	Residual Value as a Percentage of Cost of Asset at End of Period					
1	90.00	80.00	85.00	75.00	80.00	70.00
2	81.00	67.00	72.25	58.75	64.00	51.00
3	72.90	57.30	61.42	46.94	51.20	37.80
4	65.61	49.57	52.21	37.90	40.96	28.24
5	59.05	44.61	44.38	32.22	32.77	22.59
6	53.14	40.15	37.72	27.39	26.21	18.07
7	47.83	36.13	32.06	23.28	20.97	14.46
8	43.05	32.52	27.25	19.79	16.78	11.57
9	38.75	29.27	23.16	16.82	13.42	9.25
10	34.87	26.34	19.68	14.30	10.74	7.40
11	31.38	23.71	16.73	12.15	8.59	5.92
12	28.24	21.34	14.22	10.33	6.87	4.74
13	25.42	19.21	12.09	8.78	5.50	3.79
14	22.88	17.29	10.28	7.46	4.40	3.03
15	20.59	15.56	8.74	6.34	3.52	2.43
16	18.53	14.00	7.44	5.39	2.82	1.94
17	16.68	12.60	6.33	4.58	2.22	
18	15.01	11.34	5.39	3.89	1.79	
19	13.51	10.21	4.59	3.30		
20	12.16	9.19	3.90	2.80		
21	10.94	8.27	3.32	2.38		
22	9.85	7.44	2.83	2.02		
23	8.87	6.70	2.41	1.72		
24	7.98	6.03	2.05			
25	7.18	5.43	1.75			
26	6.46	4.89				
27	5.81	4.40				
28	5.23	3.96				
29	4.71	3.56				
30	4.24	3.20				
31	3.82	2.88				
32	3.44	2.59				
33	2.89	2.33				
34	2.60	2.10				
35	2.34	1.89				
36	2.11					
37	1.90					

¹D.V. denotes the diminishing value method. Special depreciation has been included at the rate of 10, 5, 3 and 2 per cent respectively in the first four years.

of depreciation, the amount net of accumulated depreciation claims at which an asset would be stated at the end of successive periods can be determined. The exhibit assumes that maximum depreciation is claimed in each period and that special depreciation, if applicable, is deducted at a rate of ten, five, three and two per cent respectively in each of the first four periods.

Assuming a negligible residual value (defined for the purpose of this discussion as less than two per cent of the cost of the asset) a ten per cent diminishing value rate implies a life of thirty-seven periods. A fifteen per cent rate implies a life of twenty-five periods and a twenty per cent rate implies a life of eighteen periods. In each case, a twenty per cent special depreciation deduction reduces the life of the asset for depreciation purposes by two periods.

APPENDIX B
FOUR SELECTED CASES RELATING
TO DEPRECIATION

The purpose of this appendix is to demonstrate by way of four selected cases that the law discussed in Chapter IV applies to the question of profits available for distribution only.¹ For other purposes, the Courts, often speaking through the judges quoted in that chapter, have taken a different approach to the question of depreciation.

Fletcher Moulton L.J. discussed the legal concept of profit in re The Spanish Prospecting Company Limited.² In the absence of an agreement to the contrary, he was of the opinion that :

"Profits implies a comparison between the state of a business at two specific dates usually separated by an interval of a year. The fundamental meaning is the amount of gain made by the business during the year. This can only be ascertained by a comparison of the assets of the business at two dates."³

The basis of asset valuation is therefore highly significant in determining profits. Fletcher Moulton L.J. considered the appropriate basis to be "market value", that is the "value in exchange".⁴ He added that profit was rarely determined

¹For a comprehensive discussion of the value of property and the treatment of depreciation for legal purposes, with special emphasis on the position in the United States of America, see James C. Bonbright, The Valuation of Property: A Treatise on the Appraisal of Property for Different Legal Purposes, Michie, Charlottesville, 1965.

² (1909) 1 Ch. 92.

³ ibid., 98.

⁴ ibid., 99.

in the above manner and that :

"... certain assumptions have become so customary in drawing up balance sheets and profit and loss accounts that it may almost be said to require special circumstances to induce parties to depart from them."⁵

The learned Judge went on to cite the treatment of depreciation as an example. He concluded that such procedures do not give assets their "true value either in use or exchange" and that "they rest on no settled principle".⁶

Although Fletcher Moulton L.J. acknowledged the practical benefits of determining profits under historic cost accounting, he stated that where the rights of third parties were involved, profits had to be calculated as closely as possible to the legal concept of profit.⁷ The Lord Justice explicitly stated that the legal concept of profit had no bearing on the vexed question of profits available for distribution.⁸

The judgement of Fletcher Moulton L.J. has been criticised by Johnston, Edgar and Hays.⁹ They have argued that the statement that profit has a "well-defined legal meaning" contrasts with that of Halsbury L.C. who stated in Dovey v. Cory¹⁰ that "... what are profits and what is capital may be a difficult and sometimes impossible problem to solve."¹¹

⁵loc.cit.

⁶ibid., 100.

⁷ibid., 101.

⁸loc.cit.

⁹T.R. Johnston, G.C. Edgar and P.L. Hays, The Law and Practice of Company Accounting in New Zealand, Butterworths, Wellington, 1972, 254-60.

¹⁰(1895-99) All E.R. Rep. 724.

¹¹T.R. Johnston, G.C. Edgar and P.L. Hays, op.cit., 257.

Secondly, Johnston, Edgar and Hays state that as the Spanish Prospecting Company Limited did not own fixed assets, the comments of Fletcher Moulton L.J. were obiter dicta.¹²

In Edwards v. Saunton Hotel Co. Ltd.¹³ the Court was required to decide three questions relating to the interpretation of a service contract. One of these was whether the amount charged for depreciation in the company's annual accounts was binding on the plaintiff for the purpose of calculating a "... commission of twenty per cent on the sum available for distribution by the company at the end of each year" ¹⁴

Atkinson J. stated that :

"... there is no dispute that depreciation properly ascertained must be, and ought to be, deducted from the sum earned in order to arrive at the true profits which the company has made."

He also quoted at length from the judgement of Fletcher Moulton L.J. However, Atkinson J. was of the opinion that :

"... it was never intended ... that there should be [a] fresh valuation every year, but it was intended ... that only a reasonable estimate of depreciation should be made for the purpose of getting at [sic] the plaintiff's commission."¹⁶

For the purposes of determining a reasonable estimate of depreciation, Atkinson J. suggested that the straight-line method be used.¹⁷

¹² ibid., 258.

¹³ (1942) 1 All E.R. 176.

¹⁴ ibid., 177.

¹⁵ ibid., 179.

¹⁶ loc.cit.

¹⁷ ibid., 180.

The 1887 case of Glasier v. Rolls,¹⁸ was an action for deceit relating to the rate of return a partnership was said to be earning. In ascertaining the profits of the partnership, it was stated that depreciation should be provided for two reasons :

"Firstly, profits must be deemed to be calculated as a prudent man of business would calculate them, that is, after making a fair allowance for depreciation. Secondly, ... an allowance is necessary, because with wasting property there is a constant consumption of capital and that ought not to enter into profits."¹⁹

Kekewich J. was of the opinion that the amount of depreciation was to be determined on the basis of the evidence submitted.

In the fourth case, Re Crabtree, Thomas v. Crabtree,²⁰ the "bookkeeping method" of providing for depreciation was also approved by the Court. This case resulted from an action by a life tenant who argued that as the assets of the business had been kept up to their value at the date of the testator's death, the life tenant was entitled to profits prior to the deduction of depreciation.

Swinfen Eady J., noting that the testator had deducted depreciation in determining the profits of the business prior to his death, stated that :

"... in the ordinary course of ascertaining the profits of a business ... it is ... essential that, in addition to all sums actually expended in repairing the machinery ... that there should be also written off a proper sum for depreciation ... varying with the class of machinery, with the nature of the business and with the life of the machinery."²¹

¹⁸ 42 Ch. 436.

¹⁹ ibid., 453.

²⁰ 106 L.T. 49.

²¹ ibid., 50.

On appeal, Cozens-Hardy M.R. and Fletcher Moulton L.J. adopted that part of Swinfen Eady J.'s judgement quoted above.

These cases, together with those discussed in Chapter IV, should be sufficient to demonstrate that depreciation is treated differently for different purposes at law. The appropriate treatment depends on the purpose for which profits are being determined.

APPENDIX CANALYSIS OF THE ANNUAL REPORTS OF PUBLIC COMPANIES:
SELECTION OF SAMPLE AND SOURCES OF ANNUAL REPORTSINTRODUCTION

In Part Two the methods used by certain companies in accounting for the depreciation of plant, machinery and buildings, deferred tax and investment allowance are analysed. The purpose of this appendix is to describe the procedures used in selecting the sample, the time period covered and the sources of data used in preparing the above analyses.

SELECTION OF SAMPLE

New Zealand domiciled public companies listed on a New Zealand Stock Exchange on 1 October, 1972 and engaged in significant manufacturing and/or transport activities were included in the sample. Companies which were not listed on a Stock Exchange were excluded as their annual reports are not readily available.¹ The activities given above qualify for special depreciation and investment allowances. The methods of accounting for these concessions and their effect on the capital expenditure decisions of firms (see Part Four) are of primary interest in this study. Some difficulty arose in determining the extent to which qualifying activities were undertaken by companies primarily engaged in non-qualifying

¹One company which was not listed on a Stock Exchange on 1 October, 1972 but had announced its intention to apply for listing and was subsequently listed was also included in the sample.

activities. As no reliable information is available on this, some inconsistencies may have arisen.

To eliminate smaller firms which were unimportant in relation to the larger companies, companies owning total assets net of accumulated depreciation of less than \$1.5 millions, or plant and machinery at cost of less than \$500,000, were excluded. Data for this purpose was taken from the latest annual report on 1 October, 1972. Eight firms which met other criteria were eliminated under this criterion.

On the basis of the above selection procedures one hundred and twelve companies qualified for inclusion in the sample. One of these companies, which was subject to a takeover bid in October, 1972 was also eliminated. This company was subsequently de-listed. The sample for analysis was, therefore, one hundred and eleven listed companies. This is equivalent to about forty-five per cent of all New Zealand companies listed on a Stock Exchange on 1 October, 1972.

The above sample is the same as that selected for purposes of a questionnaire survey (see Appendix O). This enables some of the analyses given in Part Two to be cross-checked with answers given by participants to the questionnaire survey.

An indication of the size and significance of the sample companies can be obtained from Exhibit C-1. A guide to the size and significance of the companies in relation to total industrial activity may be obtained by comparing the size of the companies with the aggregate of establishments surveyed for the Statistics of Industrial Production. Two or more

EXHIBIT C-1
THE SIZE OF SAMPLE COMPANIES¹

<u>Indicators of Size</u>	<u>\$ Millions</u>
1. Profit After-Tax	98.1
2. Depreciation Charged	69.1
3. Plant and Machinery at Cost	797.2
4. Plant and Machinery Net of Depreciation	382.2
5. Fixed Assets Net of Depreciation	1,023.5
6. Total Assets Net of Depreciation	2,166.0

¹Source: Compiled from the annual reports of one hundred and eleven companies for the year ended 31 December, 1971 or nearest balance date.

persons engaged in manufacturing, repairing or assembly of articles at any one place form an "establishment". Although there are differences in coverage and methods of compiling data, the comparison provides an indication of the overall significance of the sample companies.

The amount of plant and machinery owned by the one hundred and eleven companies on 31 December, 1971 or nearest balance date was \$382.2 millions. The equivalent amount for establishments surveyed in 1971-72 was provisionally estimated to be \$605.5 millions.² On this basis, the one hundred and eleven companies accounted for about sixty-three per cent. The figure for the sample companies includes plant and machinery which is not used in manufacturing, repairing or assembly of articles, whereas the amount given in the Statistics of Industrial Production excludes such plant and machinery. For this reason the above figure overstates (to an unknown degree) the size and significance of the sample. It should be apparent, however, that the one hundred and eleven companies account for a significant proportion of total industrial activity.

THE PERIOD OF STUDY

The period selected for study was from 1962 to 1973 (inclusive). This period was selected as the Commissioner³ of Inland Revenue's ruling that depreciation claims be limited to the amount of depreciation charged unless depreciation was previously charged in excess of that claimed applied until the income year which commenced on 1 April, 1963. In the 1963-64

²Department of Statistics, "Industrial Production 1971/72", News Release, 73/59, 25 September, 1973.

income year, companies were free to claim special depreciation without charging a similar amount. This ruling applied until the income year which commenced on 1 April, 1968. In that income year, and in subsequent years, taxpayers were able to claim ordinary and special depreciation without charging similar amounts. The period selected enables the effect of the Commissioner's rulings on the computation of the depreciation charge to be determined.

Some of the one hundred and eleven companies selected for study under the procedures given above were listed during the period from 1962 to 1973. These companies have been included in the sample from the year in which their annual report first covered a period or part of a period subsequent to listing on a Stock Exchange. Companies which were de-listed in 1973 have been excluded from the analyses for that year.

The annual report of a given calendar year is the report for the period which ends in that year. Thus the 1973 report of a company which balances on 31 March will cover the period from 1 April, 1972 to 31 March, 1973. Where a company published two reports in a given calendar year, both reports were analysed as if they were produced by separate companies.

SOURCES OF DATA

The main source of annual reports of the sample companies was a collection kept at the Department of Management Studies of the University of Waikato. In March, 1971 the writer organised an updating of this collection. As reports of some of the smaller companies were not included in this collection and as some companies were unable to supply annual reports from 1962, collections held by the following organisations

were also consulted :

- (1) Business News Section of the New Zealand Herald,
- (2) Financial News Section of the Auckland Star,
- (3) New Zealand Society of Accountants,
- (4) Wellington Stock Exchange Association.

These collections held 94.9 per cent of the 1,124 annual reports required for the investigations given above. The analyses in the remaining 5.1 per cent of cases were prepared from comparative data given in the immediately subsequent annual reports and from data disclosed in other reports. In addition, summaries produced by a financial service were perused.

The number of companies studied in each year and source of data used is presented in Exhibit C-2.

EXHIBIT C-2
NUMBER OF COMPANIES STUDIED IN EACH YEAR
AND SOURCE OF DATA

Year	Source of Data		Number of Companies Studied
	Annual Reports	Other	
1962	61	13	74
1963	64	12	76
1964	70	10	80
1965	75	9	84
1966	84	6	90
1967	91	3	94
1968	94	2	96 ¹
1969	98	1	99 ¹
1970	103	1	104
1971	108	-	108
1972	110	-	110
1973	109	-	109 ¹
Total	1,067	57	1,124

¹Includes two reports produced by one company in the same year following a change in balance date.

APPENDIX D
METHODS USED TO COMPUTE DEPRECIATION
CHARGES ON PLANT AND MACHINERY

INTRODUCTION

In this appendix the methods used by one hundred and eleven companies to compute their depreciation charges on plant and machinery during the period 1962 to 1973 (inclusive) are analysed.¹ The analysis is based on an examination of the annual reports of the relevant companies. In the first part of this appendix the methods used are classified and notes explaining the methods used by certain companies are presented. The second part discusses the disclosure of information on the methods used.

CLASSIFICATION OF METHODS USED

Four factors suggest that it should be possible to classify the methods used by listed companies to compute their depreciation charges on plant and machinery from data given in their annual reports. First, the Eighth Schedule of the Companies Act 1955 states that :

"... the following matters shall be stated by way of note, if not otherwise shown ...

- (4) Any material respects in which any items shown in the profit and loss account are affected - ...
- (b) ... by circumstances of an exceptional or non-recurrent nature; or
- (c) By any change in the basis of accounting."²

Secondly, a company's auditor is required to report whether

¹For a description of the procedures used in selecting the sample and sources of data, see Appendix C.

²Companies Act 1955, Eighth Schedule, par 15

the profit and loss account and balance sheet discloses a "true and fair" view and whether the disclosure requirements of the Eighth Schedule have been complied with.³

If the directorate did not disclose a material change in the method of computing the depreciation charge, one would expect the company's auditor to do so.

The third factor which encouraged certain companies to disclose the method of computing their depreciation charges was the Government's 1963 announcement that special and initial depreciation could be claimed without charging a similar amount :

"... subject to the Commissioner of Inland Revenue being satisfied that a company's accounts adequately disclose the position. Before agreeing the Commissioner will require to be assured by the company's auditor that he is satisfied that fair and proper disclosure has been made to the shareholders in the company's accounts."⁴

The charging of less depreciation than that claimed was so unusual that the Government felt that this procedure should be adequately disclosed. This was achieved by the Commissioner exercising his discretionary authority to permit a deduction for special depreciation. If a company did not

³ibid., s.166

⁴Hon. H.R. Lake, "Tax Exemption Concession", Statements by Ministers of the Crown, 23/63, 10. The Inland Revenue Department stated that the above disclosure requirement could be met either by :

"... a note to the company's balance sheet that special (and/or initial depreciation) of \$x has not been written off [charged] in the company's accounts but has been taken into account in calculating the tax provision, which has accordingly been reduced by \$y, or
A certificate from the company's auditor attached to the company's return of income that there has been an adequate disclosure of the effect of not writing off the depreciation." See "Special and Initial Depreciation : Statement by Minister of Finance", Public

adequately disclose that special depreciation was claimed without charging a similar amount, the Commissioner apparently decided that it was not fit for him to allow a deduction for special depreciation.⁵

There was no evidence to suggest that the Commissioner exercised his discretion to force a company to disclose that it charged more depreciation than that claimed, or that it charged and claimed the same amount of depreciation.

Statements issued by, or prepared for, the New Zealand Society of Accountants' Board of Research and Publications have recommended that companies disclose the method and basis used in computing depreciation charges.⁶

Company law and best accounting practice require, as a minimum, disclosure of material changes in the method of computing depreciation charges. In addition, the 1963 ruling by the Commissioner of Inland Revenue required disclosure of any special depreciation claimed in excess of that charged.

The methods used by the selected companies have been classified into the following six categories;

- A Depreciation charge computed using ordinary tax rates of depreciation,
- B Depreciation charge computed using ordinary and special tax rates of depreciation,

⁵See Land and Income Tax Amendment Act (No.2) 1962, s.7.

⁶See, for example, T.K. Cowan and F.V. Noble-Beasley, "Depreciation of Fixed Assets : Tentative Statement on Accounting Practice No.4", The Accountants' Journal, 46 (1968), 242, and the 1972 revision of that statement, New Zealand Society of Accountants, Board of Research and Publications, "Depreciation of Fixed Assets : Tentative Statement on Accounting Practice No.6", The Accountants' Journal, 51 (1972), 155.

- C Depreciation charged in excess of ordinary and special depreciation,
- D Depreciation charge computed on the straight-line method,
- E Method of computing depreciation charge not elsewhere included,
- U Method of computing depreciation charge is unknown.

Where a company used more than one of the above methods to compute its depreciation charge on plant and machinery for a given year, all methods used are indicated. The method which was used to compute the largest proportion of the total depreciation charge is listed first. Thus the classification "B/A" indicates that most of the depreciation charged was computed at ordinary and special tax rates of depreciation, and that some items of plant and machinery were depreciated for financial reporting purposes at ordinary tax rates of depreciation.

About five per cent of the annual reports required for this study were not available. In place of these, alternative sources of data (such as summaries supplied by a financial service) were used. Classifications based on these sources are indicated by an asterisk (for example, B*).

In addition to classifying the methods used by each company, the amount and quality of information given on the methods used has been graded on a scale of (i) to (iii). Where the method used in a given year was clear from the annual report for that year, the classification was given a (i) grading. In contrast, a (iii) grading indicates that little or no information was given in the relevant annual

report on the method used to compute the depreciation charge for that year. A (ii) grading indicates that although the method used was not clearly stated, there was some evidence which in the absence of information to the contrary would suggest that a given method was used. For example, the separate disclosure of ordinary and special depreciation without further information would suggest that the firm charged and claimed ordinary and special depreciation (B classification). In these cases a (ii) grading was awarded.

As the grading system relates to the amount and quality of information given in the annual reports examined, classification of methods from other sources have not been graded. Similarly, methods which were classified as unknown (U) have not been graded. This classification indicates that it was impossible to classify the method used by the company from its annual reports for the period from 1962 to 1973.⁷

On the basis of the above classification system, the methods used by one hundred and eleven companies to compute their depreciation charges between 1962 and 1973 are tabulated in Exhibit D-1.⁸ Comments on the methods used by certain companies are given in the notes to Exhibit D-1.

⁷Companies listed during the 1962 to 1973 period were included from the year in which the annual report first covered trading subsequent to listing. The methods used by some companies are classified as unknown for a lesser period. In these cases, the method used for part of the period was known, but there was insufficient information to classify the method used for the remainder of the period studied. At the same time, it was known that the method used previously or subsequently was not used for the period from 1962 to 1973.

⁸A first reading of annual reports for 1974 which were released by 1 August, 1974 indicates that there were no material changes in the methods used by the relevant companies in 1974, other than those indicated in the notes to Exhibit D-1.

which follow that exhibit. A summary of the methods used is presented in Chapter V.

EXHIBIT D-1

METHODS USED TO COMPUTE DEPRECIATION CHARGE ON PLANT AND MACHINERY 1962-1973

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
1	B (ii)	B (ii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	A (i)	A (i)
2							B (i)	B (i)	B (i)	B (i)	B (i)	B (i)
3									D (iii)	D (iii)	D (i)	D (i)
4	B (iii)	B (iii)	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (ii)	B (i)
5	B (ii)	C (i)	C (ii)	C (ii)	C (ii)	C (ii)	C (ii)	C (ii)	B (ii)	B (ii)	B (ii)	B (ii)
6									A (i)	A (i)	A (iii)	A (iii)
7	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (ii)	B (iii)	B (iii)	E (i)	A (i)	B (i)	B (i)
8						B (i)	B B/A (i) (i)	B (i)	B (i)	B (i)	B (i)	B (i)
9				U	U	U	U	U	U	U	U	U
10	U	U	U	U	U	U	U	U	U	U	U	U
11	C (iii)	C (iii)	C (iii)	C (iii)	C (iii)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
12	B (iii)	B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
13	B (iii)	B (i)	B (iii)	B (ii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
14	B (iii)	B (iii)	B (iii)	B (ii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (i)	B (iii)	B/D (i)
15	B*	B*	B*	B*	B*	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (iii)

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
16	B*	B*	B*	B*	B*	B*	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (i)
17	B (iii)	B (iii)	B (i)	B (i)	B (ii)	B (ii)	B (ii)	B (i)	B (i)	B (ii)	B (ii)	B (i)
18	U	U	U	U	U	U	U	U	U	U	U	U
19	B (i)	B (ii)	B (ii)	B (i)	B (i)	B (i)	B (ii)	B (ii)	B/A (i)	B/A (i)	B/A (i)	B/A (i)
20	B (ii)	B (ii)	B (i)	B (iii)	B (iii)	B (i)	B (iii)	B (i)	B (i)	B (iii)	B (i)	B (iii)
21	B (iii)	B (iii)	B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (iii)	D (i)	D (i)
22	B (iii)	B (iii)	B (iii)	B (iii)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A/D (i)
23	U	U	U	U	U	U	U	U	U	U	U	U
24		B*	B*	B (i)	B (i)	B (i)	B (ii)	B (ii)	B (ii)	B (i)	B (i)	B (i)
25	U*	U*	U	U	U	U	U	U	U	U	U	U
26										B (i)	B (iii)	B (iii)
27				U*	U	U	U	U	U	U	U	U
28				B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
29	B (i)	B (i)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
30	B*	B (iii)	B*	B (iii)	B (iii)	B (iii)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
31	C*	C*	C*	C*	C*	C (i)	C (i)	C (i)	C (iii)	C (iii)	C (iii)	U
32								D (iii)	D (iii)	D (iii)	D (i)	D (i)
33	U	U	U	U	U	U	U	U	U	U	U	U
34						C (i)	C (i)	C (i)	C (iii)	C (i)	C (iii)	C (iii)
35	B (i)	B (i)	B (i)	B (i)	B (i)	B (iii)	B (i)	B (i)	B (i)	B (iii)	B (iii)	B (iii)
36			B/A (i)	B (i)	B (ii)	B (i)	B (ii)	B (ii)	B (ii)	B/E (i)	D (i)	D (i)
37	B (iii)	B (iii)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)
38											B (iii)	B (i)
39	U	U	U	U	C (i)	U	U	U	U	U	U	U
40	B (i)	B (iii)	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i) B (i)
41	B (iii)	B (iii)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B/C (i)	B/C (i)	B/C (i)
42	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (ii)	B (ii)	D (i)	D (i)	D (i)
43	B (iii)	B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
44					U	U	U	U	U	U	U	U
45	B (iii)	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (ii)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
46	B (i)	B (i)	B (i)	B (i)	B (i)	B (iii)	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (i)
47	U*	U*	U	U	U	U	U	U	U	U	U	U
48	B*	B*	B*	B*	B*	B*	B*	B*	B*	B (ii)	B (ii)	B (ii)
49	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (i)	B (ii)	B (ii)
50	U*	U*	U*	U*	U*	U	U	U	U	U	U	U
51	B*	B*	B*	B*	B (iii)	B (iii)	B (i)	B/D (i)	B/D (ii)	B/D (ii)	B/D 1 (ii)	B (iii)
52												U
53	B (i)	B (iii)	E (ii)	E (ii)	E (ii)	E (ii)	E (ii)	E (ii)	E (i)	E (ii)	E (ii)	E (ii)
54	B*	B*	B (i)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B/C (i)	B/C (i)	B/C (i)	B/C (i)
55									E/B (i)	E/B (i)	E/B (i)	E/B (i)
56	B*	B*	B*	B*	B (i)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
57	B (iii)	B (iii)	B (iii)	A (i)	A (i)	A (i)	A (i)	A/D (ii)	A/D (ii)	D (i)	D (i)	D (i)
58				B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	A (i)	A (i)
59	B*	B*	B*	B*	B*	B*	B*	B (i)	B (i)	A (i)	D (i)	D (iii)
60					U	U	U	U	U	U	U	U

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
61	U*	U	U	U	U	U	U	U	U	U	U	U
62										U	U	U
63	U	U	U	U	U	U	U	U	U	U	U	U
64	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)
65	B (iii)	B (i)	B/D (ii)	B/D (ii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B/D (i)	B/D (i)
66	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)
67	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B/D (i)	D (i)	D (i)	D (i)
68	U	U	U	U	U	U	U	U	U	U	U	U
69	B (iii)	B (ii)	B (i)	B/A (i)	B/A (i)	B/A (i)	B/A (i)	B/A (iii)	B/A (iii)	B/A (ii)	B (iii)	B (iii)
70									U	U	U	U
71	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	C (i)	B (i)	B (i)	B (i)	B (i)	B (i)
72	U	U	U	U	U	U	U	U	U	U	U	B (i)
73			A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)
74								D (i)	D (i)	D (i)	D (i)	D (i)
75	U	U	U	U	U	U	U	U	U	U	U	U

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
76	B (i)	B (i)	B (i)	B (i)	C (iii)	B (i)	B (ii)	B (ii)	B (ii)	B (i)	B (i)	C (i)
77	B (iii)	B (iii)	B (iii)	C (i)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
78					U	U	U	U	U	U	U	U
79	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (iii)	B (iii)	B (i)	B (i)	B (i)
80		B (iii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	D (i)	D (i)	D (i)	D (i)
81											U	U
82	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B/D (i)	B/D (i)
83	U	U	U	U	U	U	U	U	U	U	U	U
84			D (iii)	D (i)	D (iii)	D (iii)	D (iii)	D (iii)	D (iii)	D (iii)	D (iii)	D (iii)
85	B (iii)	B (iii)	B (iii)	B (iii)	C (ii)	C (i)	C (i)	C (i)	C (ii)	D (i)	D (iii)	D (iii)
86								B (iii)	B (iii)	B (iii)	B (i)	B (ii)
87						B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
88	B (iii)	B (iii)	B (iii)	B (iii)	A (i)	A (i)	A (i)	A (i)	U	U	U	U
89						B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (i)	B (ii)
90	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
91	B (ii)	B (i)	B (i)	C (ii)	C (ii)	C (i)	B (ii)	B (iii)	B (ii)	B (ii)	B (ii)	B (iii)
92	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (iii)	B (i)	B (i)	C (ii)	C (i)	B (i)
93	B (iii)	B (iii)	B (iii)	B (iii)	B (ii)	B (iii)	B (ii)	C (i)	C (i)	C (i)	B (i)	B (i)
94			U	U	U	U	U	U	U	U	U	U
95										D/B (i)	D/B (i)	
96	B (iii)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A (i)	A/D (i)
97										B/A (ii)	B/A (ii)	B/A (ii)
98									U	U	U	U
99	B (iii)	B (iii)	B (iii)	B (iii)	A (ii)	A (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B/D (ii)
100					B (ii)	B (i)	B (ii)	A (i)	D/A (i)	D/A (iii)	D/A (iii)	D/A (iii)
101	B (ii)	B (i)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
102									B (iii)	B (iii)	B (i)	B (iii)
103	B (iii)	B (ii)	B (ii)	B (i)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	
104	U	U	U	U	U	U	U	U	U	U	U	U
105	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B/C (ii)	B/D (ii)	B (ii)	B (ii)

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
106	B (iii)	B (ii)	B (i)	B (i)	B (i)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)	B (ii)
107	B (i)	B (i)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B/E (iii)	B/E (iii)	B/E (iii)	B/E (iii)
108	C (i)	U	U	U	U	U	U	U	U	U	B/A (i)	B/A (i)
109					B (i)	B (i)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)	B (iii)
110	B (iii)	B (iii)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	B (i)	D (i)	D (i)	D (i)
111					U	U	U	U	U	U	U	U

Notes on Exhibit D-1Company
Number

5 The Directors' Report for 1963 stated that

"Your Directors consider that ...
depreciation allowances are inadequate
to cover obsolescence"

In addition to charging ordinary and special depreciation, the company charged \$60,000 which was credited to a provision for obsolescence and deducted from the gross amount at which plant and machinery was stated. A similar charge was made in each year until 1970. In that year, the provision was transferred to a reserve for the replacement of fixed assets. The 1963 charge for obsolescence was equivalent to eight per cent of profit after-tax. By 1969 the charge for obsolescence was equivalent to four per cent of profit after-tax. From 1963 to 1969 the accumulated charge for obsolescence was equivalent to less than five per cent of shareholders' equity.

6 A note to the 1970 Annual Report stated that the

"... Directors have not written off Special Depreciation this year in the books of the Company as they consider all assets conservatively valued."

Prior to listing on a New Zealand Stock Exchange, this company charged and claimed ordinary and special depreciation.

7 In 1970 and 1971, \$67,000 and \$51,000 respectively of special depreciation on plant and machinery was claimed only. Had these amounts been charged profit after-tax would have been reduced by 10.5 and 9.5

Company
Number

7
(cont.)

per cent respectively. In both periods a note to the Accounts stated that the "Directors are of the opinion that the value of the assets in question exceeds their book value." In 1972 the company claimed and charged ordinary and special depreciation. In the following year, the amount of depreciation claimed but not charged in 1970 and 1971 was debited in the Appropriation Account.

8 Special depreciation of \$83,000 arising from a major project was not charged in the nine months ended 31 December, 1968. Had this amount been charged, profit after-tax would have been forty-two per cent less than reported. The \$83,000 was charged as an extraordinary adjustment to profit before-tax in the following period. The Chairman stated that

"In view of the running-in period of new ... plant and the limited production achieved during the period special depreciation ... has not been charged in the accounts."

9 This company manufactures radios.

10 From the relationship between profits before-tax and taxation provision, it would appear that this company charges and claims the same amount of depreciation.

14 The depreciation charge on plant and machinery acquired in the 1972-73 year was computed on the straight-line method at a rate of twenty per cent. Changing fashions in the textile industry were given as the reason for adopting the straight-line method and the short life of plant and machinery.

16 This transport company is reviewing its depreciation

Company
Number

- 18 Under The Companies Accounts (Freezing Works Companies) Exemption Order 1956⁹ this company is not required to disclose its taxation provision. In 1972, certain hygiene expenditure was charged against revenue, although it was capitalised and is to be depreciated over four years for taxation purposes.
- 22 The straight-line method was used in 1973 to calculate the depreciation charged on certain new plant. The depreciation charge for that year of \$706,000 was \$91,000 less than it would have been had depreciation been computed on the diminishing value method at ordinary tax rates. All new manufacturing plant and machinery will, in future, be depreciated on the straight-line method.
- 23 This company manufactures metal products.
- 25 This company produces fencing materials.
- 27 This is a clothing manufacturer.
- 31 In the 1968 Annual Report a note stated that, in accordance with established procedure, depreciation was charged at a higher rate than that permitted for taxation purposes. There were no comments on the depreciation method in the 1970, 1971 or 1972 Annual Reports. In the 1973 Accounts it was stated "The Group has taken into account ... taxation allowances for ... Special Depreciation ... [in]
-

Company
Number31
(cont.)

calculating the taxation provision." This may indicate that the depreciation charge is now computed at ordinary tax rates on the diminishing value method.

32

Since the company was listed in 1969, the depreciation charge on plant and machinery has been computed on the straight-line method. The life of items of such plant and machinery was estimated to be not more than fourteen years except for service plant and machinery, the life of which was estimated to be not more than twenty years.

33

The company stated in 1967 that its depreciation policy was "... on a conservative basis". In 1970, it was stated that depreciation charged in excess of that claimed was less than that of the previous year. The Report of the Directors for 1971 stated that :

"Group results for the year incorporate a change in the basis of depreciating fixed assets. The depreciation charge for 1971 of \$842,000 is \$54,000 less than it would have been under the method used in previous years."

The amount at which the assets were stated net of accumulated depreciation at the commencement of the year was re-calculated on the new method. Although the nature of the change was not disclosed, it is interesting to speculate that the company adopted the straight-line method. (See notes on Company number 42.)

Company
Number

- 36 In its 1963 prospectus, this company stated that profit after-tax for the 1963-64 year was expected to be not less than \$100,000. There was no mention of any possible change in the method of computing the depreciation charge. In the 1964 Annual Report, special depreciation was claimed only. If special depreciation had been charged, reported profit after-tax would have fallen from \$113,000 to \$103,000. In 1968, the special depreciation which was claimed in 1964 was charged as an extraordinary item after consolidated net profit for the year. In 1971, half the ordinary depreciation on certain new plant and machinery was charged. Since 1972 the depreciation charge has been computed on the straight-line method. The company's Chairman reported that "We believe that ... [the straight-line method] is more equitable in the case of large items in that it does not unduly affect the profit in the first year or two." The accumulated depreciation charge was re-calculated on the new method.
- 39 This is a meat freezing company.
- 41 A note to the 1971-73 Annual Reports state that "The charge for depreciation has been calculated at rates not less than the maximum rates allowed by the Inland Revenue Department and includes Special Depreciation where applicable."

Company
Number

- 42 All of the ordinary shares of this company are owned by an Australian Company which is part of an international group which includes company number 33. In 1971 the straight-line method was adopted for financial reporting purposes. No reason was given for the change in depreciation method.
- 44 This is a chemical manufacturer.
- 47 This company is engaged in engineering activities.
- 50 This company is a clothing manufacturer.
- 51 From 1969 until 1972 the depreciation charge on a new hotel building, plant and furniture was computed as one-tenth of the aggregate amount of ordinary and special depreciation which was expected to be claimed in the first ten years of the life of the hotel. A note to the Annual Report stated that "The straight-line method of depreciation adopted will avoid the distortion of results which would occur under the old method, and still accords the company the full benefit of taxation allowances." During the 1972-73 year the relevant hotel was sold.
- 52 This company manufactures refrigerators.
- 53 Since 1964 this company has charged depreciation at ordinary tax rates, plus special depreciation which is charged in the reverse order to that in which it is claimed.
- 54 In the 1970, 1971 and 1973 Annual Reports

Company
Number54
(cont.)

depreciation charged on two assets was in excess of ordinary and special depreciation. The relevant tax rates were, in the opinion of the directors, inadequate. The depreciation charge on plant acquired as part of a new project was computed on the straight-line method in 1973.

55

Since 1969 most of this company's plant and machinery has been depreciated for financial reporting purposes at "rates which have proved adequate". These appear to be less than tax rates of ordinary and special depreciation.

57

In 1965 the Chairman stated that "It has been decided to take the opportunity offered by the Inland Revenue Amendment Act to claim the benefit of special depreciation without writing it off the books. Our experience has been that this has, at times, had a distorting effect."

In commenting on the announcement that ordinary depreciation could be claimed from the income year which commenced on 1 April, 1968 without charging a similar amount the company stated that :

"With high rates of ordinary and special depreciation applying to most of the Group, a change in the pattern of purchase of these assets can produce wide changes in the annual charges for depreciation. The effect of these fluctuations on the disclosed profit has been an unsatisfactory factor in many companies As far as our company is concerned this provision would enable us to spread depreciation more evenly over the life of an asset"

The straight-line method was adopted for a new

Company
Number57
(cont.)

aircraft which was acquired in 1969. It was not until 1971 that the company explicitly stated that the straight-line method had been adopted for new aircraft in 1969. In 1971, the Directors' Report stated that :

"In line with international airline practice the H.S.748 and Twin Otter aircraft have been depreciated on a straight-line basis since their purchase. Having regard to the future expansion and up-dating of our aircraft and coach fleets it is the opinion of your Directors that the adoption of the principles of straight-line depreciation would more correctly portray operating results, avoid distortion of costs and profitability and enable earnings to be more readily compared with previous years results. The Board of Directors has decided to depreciate all new aircraft, coaches, and plant by this method and to alter the basis of depreciation on existing coaches and plant from the diminishing value method to the straight-line method."

- 60 This company assembles and distributes motor vehicles.
- 61 This company distributes and manufactures automotive parts.
- 62 This is a builder and property developer with significant interests in electrical engineering.
- 63 This is a meat freezing company. As the Chairman stated in 1972 that certain special depreciation on buildings had been claimed but not charged, one might speculate that the company charges and claims ordinary and special depreciation on plant and machinery.
- 64 At least since 1962, this company has charged

Company
Number64
(cont.)

ordinary and special depreciation plus fifteen per cent of those amounts. From 1963 to 1970 the Directors stated that the total amount provided "...is no more than is reasonably necessary". A similar note was given in 1962. In 1971, a note stated that "The Directors consider the total amount provided to be no more than is reasonably necessary, particularly when due to current inflationary trends, the cost of replacing plant, machinery and equipment is increasing so rapidly." A similar note was given in 1972 and 1973.

65

In 1964, this company took over a company which was previously owned by English interests. The taken-over company's depreciation charge in 1964 and 1965 was computed on the straight-line method in line with its previous practice. In 1966, the depreciation charge was computed at tax rates in order to "... take advantage of accelerated depreciation". In 1972 and 1973, a major new item of plant and machinery was depreciated on the straight-line method for financial reporting purposes.

66

From 1962 to 1969 (inclusive) a note to the Accounts stated that "Depreciation has been written off at the full scale of rates allowed by the Inland Revenue Department". Since 1970, the equivalent note has stated that "Depreciation ... has been claimed at the maximum rates allowable

Company
Number66
(cont.)

by the Inland Revenue Department. No Special Depreciation has been claimed". This company charges and claims ordinary depreciation.

67

The following is an extract from the 1970 Directors' Report :

"... most overseas companies in the capital intensive pulp and paper industry in recent years have reported results incorporating depreciation calculated by means of the straight-line method Having regard to the rapid expansion of the company's activities it has been the opinion of your Directors for some time, that adoption of the principles of straight-line depreciation would more correctly portray operating results, avoid distortion of costs and profitability and enable earnings to be more readily compared with those of overseas companies".

In 1971, the straight-line method was used by all subsidiaries. The accumulated depreciation charge was re-calculated on the straight-line method. The life of items of plant , machinery and motor vehicles was estimated to be between three and twenty-five years.

68

In 1966, a note stated that the taxation provision had decreased as the company was able to claim special depreciation. Although the company's depreciation charge is computed differently from depreciation claimed, it is not clear what method is used. Since 1971, the depreciation charge on plant and machinery has been computed on the re-valued gross amount of those assets.

70

This company, which manufactures, retails and repairs

Company
Number

70
(cont.)

to merge several companies.

71

From 1961 to 1968 depreciation was charged in excess of ordinary and special depreciation

"... in order to make prudent provision for the obsolescence factor which appears inevitable in [the publishing] ... industry."

In 1970, the accumulated amount of depreciation charged in excess of that claimed was transferred to a reserve for obsolescence of machinery and buildings.

72

A note to the Accounts of this meat freezing company from 1960 to 1971 (inclusive) stated that

"Depreciation is written off in excess of Inland Revenue Department Rates, but is in the opinions of the Directors, adequate but not excessive."

In 1971 the accumulated depreciation charged in excess of that claimed amounted to about \$1.5 millions or ten per cent of fixed assets net of accumulated depreciation charge. In 1972, depreciation was again charged in excess of that claimed and the excess, together with the accumulated excess at the end of 1971, was credited to a building reserve. In 1973 it was stated that

"... with many items now qualifying for Special Depreciation your Directors consider the Inland Revenue Department Rates now adequate."

and that

"Depreciation ... has been accumulated since 1955 at the maximum rates allowed by the Inland Revenue for ordinary and special depreciation."

As it is not clear whether the depreciation charged

Company
Number

- 72 (cont.) or both, this company's depreciation method has been tabulated as "unknown" for the period 1962 to 1972.
- 73 This company was formed in 1961 to establish and operate an oil refinery.
- 74 Estimates of the profitability of this company, which were included in its 1966 prospectus, provided for depreciation to be charged on the straight-line method with an average life for buildings and plant of sixteen and two-thirds years. It is interesting to speculate whether this method would have been used had the Government not permitted ordinary depreciation on plant and machinery to be claimed without requiring a similar amount to be charged.
- 75 This is a large stock and station agent.
- 76 In 1966 this company charged an amount of \$20,000 in addition to ordinary and special depreciation as a special provision for obsolescence. This charge reduced after-tax profit from \$107,000 to \$87,000. The notes to the Accounts stated that
- "Full depreciation, both ordinary and special, on vessels, plant and vehicles ... has been provided. Your Directors watch this question very carefully so that the value of these items as set out in the balance sheet will be realistic."
- A note to the 1967 Accounts revealed that a special provision for obsolescence had been created in 1966. In 1967, the Directors stated that
- "... following study ... of vessel re-sale

Company
Number

76
(cont.)

prospects, book values and replacement costs it was decided that steadily rising cost of replacement tonnage should be provided by annual allocation from tax paid profits."

The provision was transferred to a reserve entitled 'Asset Replacement Reserve'.

In 1971, the Chairman stated that :

"Consideration was given to change of the method of treatment of depreciation to allow for the straightline method as is now being adopted by many undertakings. It was finally decided that it would be more prudent at this juncture, due to the wide variation in the value of second-hand vessels in various parts of the world to continue with the existing system of meeting the heavy charges of depreciation in the initial period of ownership of vessels."

In 1973, depreciation in excess of ordinary and special depreciation was charged to record a loss on the sale of a vessel subsequent to balance date.

78 This company manufactures hosiery.

79 This company was formed in 1971 to merge the interests of two companies engaged in printing, publishing and stationery activities. One company reported in 1968 that

"The rates of depreciation as laid down by the Inland Revenue Department are used by the company, as experience has shown these rates to be reasonable but not excessive for our type of business."

80 In 1970, the Directors wrote that the charging of ordinary and special depreciation on the historic

Company
Number

80
(cont.)

cost basis had :

"... resulted in disproportionate charges against profits between the early and later years of the life of an asset, and ... [had] not provided for the replacement of this asset at present-day prices. Your Directors have decided to write off against profits an equal amount of depreciation each year during the estimated life of the asset, in order to show operating costs and profits in a way regarded as a more correct portrayal of the year's trading."

The basis of valuation was changed to current replacement cost. Since 1971 depreciation on the difference between the replacement cost of plant and machinery and the historic cost of such items has been treated as an appropriation of tax-paid profits. This presentation means that "the Company's profits after taxation may readily be compared with those of other companies."

- 81 This company manufactures automotive parts.
- 83 This company manufactures metal products.
- 84 Information on the depreciation method used by this company between 1964 and 1973 (inclusive) was limited to a note in 1965 which stated that "The Company depreciates fixed assets on a straight-line basis at rates equivalent to or in excess of those allowable for ordinary depreciation by the Commissioner of Inland Revenue."
- 85 In the 1966 Annual Report, the Directors wrote that :

"High speed machinery of the kind installed in our factory acquired to operate continuously for extended hours each day, is subjected to greater than normal wear and tear. Further, with the advances being

Company
Number

85
(cont.)

made in the technical field today, such machinery is liable to obsolescence before the end of its normal working life. Your Directors have therefore considered it prudent that the Provision for Depreciation on Plant and Machinery should be at rates greater than those hitherto applied."

A note in 1968 stated that "Again depreciation on plant and machinery has been provided for at rates higher than the Inland Revenue Department's schedule rates." A similar note was given in 1967 and 1969. In 1970, the rates were further increased and, in the following year, the straight-line method was adopted.

"Until recently the law required that only the amount of depreciation actually written off in a taxpayer's books could be claimed as a tax deduction. Recent legislation enables New Zealand companies to follow the overseas practice of providing annually in their accounts for the amounts which directors consider to be a necessary and prudent charge for depreciation." (Emphasis added.)

Between 1966 and 1970 this company's Directors were of the opinion that it was "prudent" to charge depreciation at rates in excess of ordinary tax rates of depreciation.

86

The Chairman of this meat freezing company stated in his 1972 Address to Shareholders that "... in season and out we have found that the method adopted and rates used by the Inland Revenue Department for the calculation of [depreciation] deductions have been reasonably adequate." He went on to point out that most of the increase in the depreciation charge from \$789,000 in 1971 to \$1,823,000 in 1972 was

Company
Number

86 special depreciation on a recently completed major
, (cont.) capital expenditure project.

88 From 1966 until 1969 this company charged ordinary depreciation and claimed ordinary and special depreciation. The amount of special depreciation claimed only was disclosed in each year. The 1970 Directors' Report stated that :

"Depreciation written off is slightly less than last year due to the new basis adopted for Trawlers and Machinery and Plant. Previously on a Diminishing Value basis, the asset was never finally written off, whereas under the new rates more is written off in the early years, than in the later years when maintenance may be higher, the asset is totally written off the books well inside its expected life. The basis is therefore conservative and realistic."

A note also stated that

"Special Depreciation of \$76,566 has not been written off in the accounts of the company but has been claimed for taxation purposes."

This amount was equivalent to 44.2 per cent of profit after-tax. The amount claimed but not charged in 1969 was \$116,545 or 96.7 per cent of profit after-tax. The note announcing the new method is a little confusing. If the company had adopted the straight-line method then the statement that "... under the new rates more is written off in the early years, than in later years when maintenance may be higher ..." would not be applicable. The company may have adopted the sum of the digits method or some other programme allocating the cost of the asset to the relevant accounting periods. The depreciation charge may be

Company
Number

- 88 (cont.) overstated as the Directors state that assets are "... totally written off the books well inside [their] expected life." (Emphasis added.)
- 90 This company was taken over in 1973.
- 91 The Chairman of this company stated in 1965 that
"Full advantage has been taken of the depreciation rates permitted by the Inland Revenue Department, together with all special allowances to which we were entitled. The Board feels, however, that the depreciation allowances are still insufficient to keep our industry properly equipped with modern plant and new machines."
- 92 In 1971 depreciation was charged "... at approximately Inland Revenue rates ...". In 1972 fixed assets were re-valued and depreciation in that year was charged on the re-valued amount at rates in excess of tax rates of depreciation (including special depreciation).
- 93 The Chairman of this meat freezing company reported in 1969 that
"Because the Board is concerned at the inadequacy of many of the depreciation rates allowed by the Inland Revenue Department, we have written off the sum of \$78,014 over and above the allowed rates."
Amounts of \$150,910 and \$103,537 respectively were charged in excess of that claimed in 1970 and 1971. Depreciation charged in excess of that claimed was equivalent to 28.9, 42.4 and 23.6 per cent of profit after-tax in 1969, 1970 and 1971 respectively.
- 94 This company manufactures footwear.
- 95 Although the 1971 prospectus of this meat freezing

Company
Number95
(cont.)

company stated that the depreciation charge had been computed at rates approved for income tax purposes, the 1971 and 1972 Annual Reports disclosed that plant and machinery, other than motor vehicles, were depreciated on the straight-line method for financial reporting purposes. The company was taken over in 1973.

96

In the first two Profit and Loss Accounts of this company (1955 and 1956) ordinary and special depreciation were charged. In the 1957 Accounts the new ordinary tax rates of depreciation were used to compute the depreciation charge. Special depreciation on plant and machinery was not charged. It was probably felt that if special depreciation were claimed (and therefore charged) the resulting tax loss might not be offset against taxable income during the following six years. If this occurred the tax deduction for the relevant special depreciation would have been lost. From 1960, it appears that ordinary and special depreciation on plant and machinery were charged. In 1962 the last accumulated losses for taxation purposes were offset against taxable income earned in that year. The following year, the Directors took advantage of the new ruling that special depreciation could be claimed without requiring a similar amount to be charged. This practice was reported to have "... the great virtue of avoiding the

Company
Number

96
(cont.)

the distortion in a company's published results that was previously unavoidable in order to obtain the taxation benefit of the Allowance, which is intended as an incentive to industrial expansion."

This practice has been followed in every year since, except that in 1973 new plant and machinery was depreciated on the straight-line method for financial reporting purposes. Since 1963 the company has claimed accumulated depreciation in excess of that charged of \$7.2 millions or 12.2 per cent of shareholders' equity.

97

Prior to listing on a New Zealand Stock Exchange, this company appears to have charged and claimed ordinary and special depreciation. The depreciation charge on a machine, which was purchased in 1971 for \$71,510, has been computed at ordinary tax rates of depreciation.

98

This company is engaged in tourist and transport activities. In 1971 a note stated that

"Following an independent valuation of the coach fleet ... the basis of depreciation has been changed from the rates allowed by the Inland Revenue Department to rates sufficient to ensure that residual values will approximate realisations on disposal."

The nature of the change was not disclosed, nor was the method of computing the depreciation charge on other plant and machinery.

99

This firm is also engaged in transport activities. The 1973 depreciation charge on passenger coaches

Company
Number99
(cont.)

was computed on the straight-line method.

100

In 1969, the Chairman stated that :

"Special depreciation on plant being more in the nature of a tax incentive than a normal operating cost, it has been decided that for the year ended 31/3/69 and subsequent years, special depreciation on factory plant will not be written off in the books of account. Amending legislation last year gave companies greater discretion in providing for depreciation at rates which they consider realistic and adequate. The book value of the plant in the cable factory (much of which came from countries which did not devalue their currencies in November 1967), was carefully examined, and it was decided that, by reversing the special depreciation previously written off that plant in the cable factory's books, the asset would be shown at a value nearer to its current worth At the same time, a firm policy as to the future basis for calculating depreciation on the cable-making plant was set down, having regard to cost, estimated life and residual value."

In the following year the Directors reported that "... the straight-line method now adopted gives a fairer result for the cable factory which has a large investment in plant." The amount at which the relevant assets were stated net of accumulated depreciation computed at ordinary tax rates is to be allocated on the straight-line method over their remaining useful lives.

103

This company was taken over in 1973.

104

This company is a meat processor.

105

The depreciation charge on some manufacturing plant and machinery was computed on the straight-line method in 1970-71. It appears that the cost of the

Company
Number105
(cont.)

relevant plant was small in relation to the accumulated cost of the company's plant and machinery.

107

Since 1970 depreciation has not been charged on certain plant used in the manufacture of whiskey. The company's first whiskey was sold in 1973.

108

In 1962, the Directors reported that "Where considered necessary depreciation has been taken above that allowed by the Inland Revenue Department." As no information on the firm's depreciation method was given between 1963 and 1971 (inclusive), it is not clear whether the above practice applied in those years.

110

In 1970 it was reported that :

"The Directors have decided to take steps to alter the basis of calculating the depreciation charge against profits. Forward plans call for substantial capital investment and the depreciation charge will be evened out by adopting the practice of depreciating assets on a straight line basis appropriate to the nature of the asset and its anticipated economic life. In this way there will not be a heavy charge for ordinary and special depreciation when assets are first brought into use."

The accumulated depreciation charge at the commencement of the 1971 year was re-calculated on the new method.

111

This company manufactures electrical appliances.

DISCLOSURE OF INFORMATION ON THE METHODS
USED TO COMPUTE DEPRECIATION CHARGES ON
PLANT AND MACHINERY

In Exhibit D-1 the methods used by one hundred and eleven companies to compute their depreciation charges on plant and machinery are classified. The amount and quality of information given in each annual report on the method used was graded on a scale of (i) to (iii). A summary of the gradings given during the period from 1962 to 1973 is presented in Exhibit D-2. Firms which used a combination of methods in a given year have been separately classified, as the grading given was an average of the grading which would apply if each method had been used on its own.

It can be seen from Exhibit D-2 that a smaller percentage of those companies which charge ordinary and special depreciation (method B) qualified for a (i) grading than did other companies. The sole exception to this were those companies which used a method not elsewhere included (E). It is interesting to note that almost ninety-five per cent of those companies which charged depreciation computed at ordinary tax rates of depreciation were given a (i) grading. This probably reflects the Commissioner of Inland Revenue's ruling that special depreciation could be claimed without charging a similar amount, if the position were adequately disclosed to the company's shareholders.

From the totals given in Exhibit D-2 it can be seen that information on almost one-third of the methods graded were given a (iii) grading. In addition, information on the method

EXHIBIT D-2
GRADING OF INFORMATION ON METHOD OF COMPUTING
DEPRECIATION CHARGE 1962-1973

	GRADING ¹						Total	
	(i)		(ii)		(iii)		N	%
	N ²	%	N	%	N	%		
A Depreciation Charge Computed Using Ordinary Tax Rates of Depreciation	73	94.8	2	2.6	2	2.6	77	100
B Depreciation Charge Computed Using Ordinary and Special Tax Rates of Depreciation	189	34.1	166	30.0	199	35.9	554	100
C Depreciation Charged in Excess of Ordinary and Special Depreciation	39	62.9	11	17.7	12	19.4	62	100
D Depreciation Charge Computed on the Straight-line Method	32	65.3	-	-	17	34.7	49	100
E Method of Computing Depreciation Charge not Elsewhere Included	2	18.2	9	81.8	-	-	11	100
F Depreciation Charge Computed on more than one of the above Methods	36	61.0	14	23.7	9	15.3	59	100
Total:	371	45.8	202	24.8	239	29.4	812	100

¹The grading is based on the amount and quality of information disclosed on the method of computing the depreciation charge for a given year in the annual report for that year. A (i) grading indicates that the method was clearly stated in the directors' report, notes to the accounts, or chairman's (managing director's) review. In contrast, a (iii) grading indicates that little or no information was disclosed on the method used. A (ii) grading indicates that, although the method used was not clearly stated, there was some evidence which, in the absence of information to the contrary, would suggest that a given method was used. For example, the separate disclosure of ordinary and special depreciation only would suggest a B classification with a (ii) grading.

Methods which were classified as unknown (U) were not graded. Similarly, methods which were classified on sources of data other than the annual report for the relevant year were not graded.

²"N" denotes number.

used to compute the depreciation charge on plant and machinery given in two hundred and fifty-five annual reports was so inadequate that the methods used by the relevant companies could not be determined. Of the one thousand and sixty-seven annual reports examined, fifty-two per cent were given a (iii) grading or were not graded because the method used could not be determined.¹⁰

As the depreciation charge for the year is based upon a number of assumptions and estimates, it is important that the method of computing the charge be disclosed. This enables an informed reader to form an opinion on the adequacy of the depreciation charge and make any adjustment considered necessary in analysing the accounts. The above study reveals that in many annual reports the standard of disclosure in relation to depreciation during the period 1962 to 1973 fell short of recommended practice.

¹⁰This figure excludes fifty-seven classifications based on sources other than the relevant annual report.

APPENDIX E
DEPRECIATION OF BUILDINGS:
NOTES ON INDIVIDUAL COMPANIES

This appendix presents notes on the methods used by certain of the one hundred and eleven companies in computing their depreciation charges on buildings. Companies which are not referred to in the notes did not disclose any data on their methods between 1962 and 1973.

Company
Number

- 7 In 1970 some depreciation on buildings was claimed but not charged. It was stated that the "Directors are of the opinion that the value of assets in question exceeds their book value". In 1972 the amount of depreciation claimed and not charged in 1970 was debited in the Profit and Loss Appropriation Account.
- 11 From 1963 to 1965 the provision for depreciation on buildings included an amount "... to which extent the Board has considered it prudent to reduce book values". The following extract has been taken from the 1966 Annual Report. "It is the Directors' policy to write down recently acquired properties at the first opportunity to valuations which they consider prudent". As this objective had been achieved, a special charge was not made in 1966. In 1967 the company revalued most of its properties to latest Government valuation.

Company
Number

- 18 Following a substantial increase in profit in 1972, this meat freezing company charged certain hygiene expenditure against revenue. The relevant amount was required to be capitalised for taxation purposes. It is possible that some of this expenditure related to buildings.
- 19 Some initial depreciation was claimed but not charged in 1968.
- 21 Since 1971, buildings have been stated at estimated replacement cost and the depreciation charge has been computed on that basis.
- 29 From 1965 to 1973, this brewery company charged depreciation on buildings in excess of that permitted for taxation purposes. Since 1969, it has been stated that the amount charged in excess of that claimed is fifteen per cent of the depreciation claimed. In most years the Directors have stated that "... the overall provision is no more than is reasonable and necessary".
- 32 In 1972 it was disclosed that this company charged depreciation on buildings on the straight-line method with an estimated life of fifty years.
- 35 Since 1963, depreciation on the amount by which buildings were increased on a revaluation has been debited to the capital reserve created as a result of the revaluation.
- 51 In commenting on a new hotel which opened at the

Company
Number

51
(cont.)

end of 1968, the Chairman stated that :

"It is anticipated that the operational cost of this unit will bear somewhat heavily on the profit results of the hotel company in its initial years because of the annual write-off of top end depreciation.

I believe that depreciation allowance on hotel buildings to be quite inadequate, and it should be supplemented by an obsolescence allowance of at least 1½%."

In 1969, the first year in which the hotel operated, it was stated that :

"In the Hotel Company your Board has decided to use a straight-line method of depreciation in the case of the Rotorua International Hotel. ... the total of Special and Ordinary Depreciation on this Hotel Building, Plant and Furniture - \$776,591 - has been calculated at Departmental Rates for a ten year period, and 1/10th of this amount has been written off in this year's accounts....

The procedure is in line with recent tax legislation and in the opinion of your Board the basis of depreciation now adopted enables the presentation of a more accurate view of the operation of the hotel.... The straight line method of depreciation will avoid the distortion of results which would occur under the old method...".

Despite the 1968 comments that tax rates of depreciation on hotels were inadequate, the charge in 1969 was less than the amount which would have been charged had those rates been used. During the 1972-73 year, the relevant hotel was sold for a price in excess of the amount net of accumulated depreciation at which it was stated in the Company's financial accounts.

63

It appears from the Chairman's Report for 1972 that, since 1964, this meat freezing company has claimed special depreciation on certain buildings without

Company
Number

- 63 (cont.) charging a similar amount. The aggregate amount claimed and not charged was given as \$164,557.
- 64 At least since 1962 this brewing company has charged depreciation computed at the total amount of depreciation claimed, plus fifteen per cent of that amount. The depreciation charged in excess of that claimed appears to relate to plant and machinery, and buildings. In 1973 the Directors' Report stated that :
- "Your Directors consider the total amount provided to be no more than is reasonably necessary, particularly in the light of the continuing increase in the cost of replacement of fixed assets."
- 68 Buildings were revalued on current replacement cost basis in 1970. In 1971 the rate of depreciation was increased from 2.5 per cent to 3.3 per cent computed on the straight-line method.
- 71 The Chairman stated in the 1964 Annual Report that :
- "... this year your Directors have thought fit to write an additional amount of depreciation off the Shortland Street buildings account to cover the loss that is anticipated will be suffered when these premises are vacated in favour of Nelson Street."
- This procedure was followed until 1969 when it was stated that the change in premises had been delayed.
- 72 From 1960 to 1971 this meat freezing company disclosed that depreciation was charged in excess of that claimed. The amount charged was stated to be "adequate but not excessive". In the 1971 Annual Report it was stated that :

Company
Number

72
(cont.)

"The depreciation shown has been accumulated since 1955, and is the maximum amount allowed as deductible by the Inland Revenue Department. The directors have continued to provide depreciation at rates which in their opinion are adequate but not excessive. However, to ensure that stockholders are fully aware of the position the additional amount claimed [charged] in the past of \$1,462,905 together with a further \$47,534 provided in the current year, has been transferred to the Buildings Reserve and included in Shareholders' Funds."

This procedure conflicted with the requirements of the Eighth Schedule of the Companies Act 1955. If the amount charged were reasonably necessary for the purpose, it was required to be treated as a provision and not as a reserve.¹ The directorate stated that the charge was adequate but treated a portion of it as if the charge were excessive.

A criticism of this company's treatment of depreciation was published in The Accountants' Journal.² In 1973 the Chairman reported that

"... with many items now qualifying for Special Depreciation your Directors consider the Inland Revenue Rates now adequate. Should the position change they would revert to the former practice."

In that year ordinary and special depreciation were charged and the accumulated charge was computed in a similar manner.

It is not clear whether the depreciation charged in excess of that claimed from 1960 until 1972

¹Companies Act 1955, Eighth Schedule, par.2.

²G.J. Schmitt, "Depreciation Provisions and Reserves", The Accountants' Journal, 51 (1973), 402-3.

Company
Number

- 72 related to buildings, plant and machinery, or both.
(cont.) As the excess was transferred to a Buildings Reserve and as a deferred tax debit was not provided, one might assume that the excess was to a large extent charged on buildings. However, the Buildings Reserve was increased in 1962 and 1963 by appropriations.
- 74 Depreciation on plant, machinery and buildings has been charged on the straight-line method with an estimated life of sixteen and two-third years, since the company presented its first Profit and Loss Account in 1969.
- 77 The depreciation charge for 1970 was in excess of that claimed. There was no evidence that this practice was applied between 1962 and 1969, or in 1971 to 1973.
- 80 Since 1971 the depreciation charge on buildings has been computed on the replacement cost basis. The amount of depreciation provided on the excess of replacement cost over historic cost is debited in the Profit and Loss Appropriation Account.
- 84 It appears that depreciation on buildings is charged at rates equivalent to or in excess of those permitted for taxation purposes.
- 92 A note to the 1968 Annual Report stated that "Depreciation in excess of Inland Revenue Department rates has been written off Buildings. The

Company
Number92
(cont.)

amount, in the opinion of the Directors, is both prudent and warranted". Depreciation was computed on the schedule rates in 1969 and 1970. In the next two years, some depreciation on fixed assets was charged in excess of that claimed. In 1972 the amount at which fixed assets were stated was increased from \$9.5 millions to \$18.5 millions following an independent valuation. The amount of the increase in the gross amount at which the assets were stated was greater than the accumulated depreciation charge at the end of 1971. In 1973 the depreciation charge on fixed assets was computed at tax rates of depreciation.

96

As a result of charging ordinary and special depreciation on mill buildings and certain other buildings, these assets were stated net of accumulated depreciation charge in 1962 at an amount considerably below their "true value". For this reason, these buildings were revalued.

APPENDIX F
RESERVES FOR REPLACEMENT, RENEWAL AND DEPRECIATION
OF PLANT, MACHINERY AND BUILDINGS

INTRODUCTION

A number of public companies maintain depreciation, replacement or renewal reserves in addition to provisions for depreciation. The purpose and treatment of these reserves between 1962 and 1973 (inclusive) by the companies selected for study is examined in this appendix.¹ The reasons given for the creation/elimination, increase or decrease in relevant reserves are summarised. The reader will see that few directorates disclose to shareholders the reason for changes in reserves for depreciation or replacement of fixed assets.

Reserves arising from the revaluation of fixed assets or the recovery of depreciation charged on the disposal of plant, machinery or buildings are excluded from the study, unless the relevant amount is included in a depreciation, replacement or renewal reserve.

¹The methods used in selecting the sample companies are described in Appendix C.

Notes on Individual CompaniesCompany
Number

- 4 The cost of life insurance premiums was debited to Plant and Premises Renewal Fund in 1962. There was no corresponding reserve account. In 1972, the account was renamed Life Insurance Investment Fund. No renewals have been financed from the fund since its creation in 1962.
- 5 An annual charge of \$60,000 from 1963 to 1969 for obsolescence was transferred from a provision to a Reserve for Increased Cost of Replacement of Fixed Assets in 1970. In that year, and in 1971 and 1972, \$1 million was appropriated to the reserve.
- 6 A Depreciation Reserve of \$27,182 was disclosed in the 1962 to 1965 Annual Reports. In 1966, the reserve was not shown and no reason was given or could be found in the Annual Report for the elimination of this reserve.
- 10 Prior to 1970, this company credited depreciation written-back on the revaluation of buildings to a Depreciation on Buildings Reserve. When a revalued building was sold the relevant amount was transferred from the above reserve to a Depreciation Recovered Reserve. In 1970, these reserves were renamed Capital Appreciation Reserve and Depreciation on Assets Reserve.

Company
Number

- 15 The 1966 Annual Report revealed that a Depreciation Reserve had been created prior to that year. In 1969, this reserve was increased by a appropriation and in 1972 the total amount of the reserve was transferred to General Reserve.
- 18 A Building and Plant Reserve which was stated at \$500,000 in 1961 was increased by an appropriation in 1964. In 1969, this reserve was transferred to General Reserve "... in accordance with modern practice".
- 21 From at least 1961, this company's Balance Sheet disclosed a Depreciation Reserve of \$7,926. In 1971, this amount was credited to the Profit and Loss Appropriation Account.
- 23 An insurance claim was credited to a Building Re-instalment Reserve in 1965. In 1969, the balance of the reserve was used in "... the restoration or replacement of plant assets partially or wholly destroyed by fire in May, 1967".
- 25 From at least 1963 this company's Balance Sheet disclosed a Reserve for Increased Replacement Cost of Assets of \$20,000.
- 35 From 1963 to 1973, depreciation on the amount by which buildings were increased as a result of a revaluation was debited to the Capital Reserve Account.
- A Depreciation Reserve which was disclosed

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- 35
(cont.) in the parent company's Balance Sheet from 1962 to 1964 was merged with General Reserve in 1965.
- 39 The 1962 Balance Sheet of this company included an item named "Provisions : Building and Plant Renewal". This item was disclosed separately between Shareholders' Equity and Current Liabilities. In the period from 1963 to 1964, this provision was increased by the transfer of \$100,000 from the Appropriation Account. As "... the programme of renewals [was] nearing completion ..." the amount was transferred to General Reserve in 1970.
- 40 A Depreciation Reserve was created in 1964 by an appropriation. In 1966, this reserve was credited to General Reserve.
- 44 From the first Annual Report issued subsequent to listing in 1966, it is evident that this company had a Special Depreciation capital reserve. This reserve was capitalised as part of a reconstruction of the company's capital structure. No information was given on the source or nature of the reserve.
- 45 A Machinery Replacement Reserve was created prior to 1962. In 1966, this reserve was transferred to General Reserve.
- 47 As part of "... a tidying up process towards further simplification of the balance sheet..." a Reserve for Increased Cost of Replacing Plant and Machinery was transferred to General Reserve in 1965.

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- 64 A Depreciation Reserve on fixed and current assets and investments, which was created prior to 1957 and not disclosed in the 1962 to 1967 Annual Reports, was transferred to General Reserve in 1968.
- 66 From 1962 to 1968, almost \$600,000 was appropriated to a Depreciation Reserve. In 1973, this reserve was transferred to General Reserve.
- 69 A Depreciation Reserve was capitalised in 1965. Prior to that year the reserve had not been disclosed and the source of the reserve is not clear from the Annual Report.
- 71 From 1964 to 1968 this company charged depreciation on buildings in excess of depreciation claimed. In 1970, buildings were revalued and more than \$1 million was transferred from a provision for depreciation on buildings to a reserve for obsolescence of buildings and machinery, which was included in Revenue Reserve.
- 72 A reserve created prior to 1955 was deducted from fixed assets until 1965. In that year the relevant amount was written-back to fixed assets and capitalised.
- Two reserves created prior to 1962 were Buildings Reserve and Obsolescent Freehold Property Reserve. The former was increased by appropriations in 1962 and 1963. In addition, accumulated depreciation charged in excess of that claimed from 1955 was credited to this reserve in 1972. There was no

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(cont.)

change in Obsolescent Freehold Property Reserve between 1963 and 1973.

76

In 1966, this company charged \$20,000 as a special provision for obsolescence. In the following year, this provision, together with an appropriation of \$50,000, was transferred to an Asset Replacement Reserve. Further amounts were appropriated to the reserve in 1968 and 1969. At the 1971 Annual General Meeting, the shareholders carried a resolution, moved by a director, to transfer the amount of the reserve to General Reserve.

77

A Plant Renewal Reserve was increased by an appropriation in 1962 and 1963. In 1967, this reserve was transferred to General Reserve.

78

A Reserve for Estimated Higher Cost of Replacement of Plant and Equipment was stated in 1961 and 1962 at \$12,638. This reserve was reduced in 1965, for an undisclosed reason, to \$1,526. In 1973, a capital profit on the sale of plant was credited to this reserve.

79

The 1961 and 1962 Annual Reports included a Depreciation Reserve of \$600,000. The following year the name of this reserve was changed to Plant Replacement Reserve "... which is a more suitable description of the purpose of this fund." The Plant Replacement Reserve was merged with Other Revenue Reserves in 1966.

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84

A note to the 1972 Accounts of this company stated:

"Asset Replacement Reserve: This reserve has been created by continuing to charge depreciation on certain equipment already fully depreciated in the Company's books and is to provide for future replacement of these assets at costs substantially above their original value. The amount previously held as a current provision has been transferred to this reserve."

Prior to 1972, the existence of the above practice, or the fact that a provision had been included in current liabilities, was not disclosed. The reserve was stated at \$40,637 in 1972 and \$63,156 in 1973. In both years the reserve accounted for less than four per cent of shareholders' equity. The above procedure may involve a conflict with the requirements of the Companies Act 1955. If it is "true and fair" to charge depreciation in excess of the cost of an asset against revenue, can the amount be properly treated as a reserve? Paragraph two of the Eighth Schedule states that :

"... any amount written off or retained by way of providing for depreciation, renewals, or diminution in value of assets ..."

shall be treated as a provision unless

"... the amount is in excess of that which in the opinion of the directors is reasonably necessary for the purpose, [in which case] the excess shall be treated for the purposes of this Schedule as a reserve and not as a provision."

Although the Eighth Schedule does not distinguish between a profit and loss account and an appropriation account, the overriding standard of a "true and fair view" may require that an amount which, in

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(cont.)

the opinion of the directors, is in excess of that reasonably necessary for the purpose to be appropriated and not charged.

The amount charged and credited to the reserve in 1973 was equivalent to approximately seven and a-half per cent of profit after-tax.

85

A Plant Replacement Reserve was created by an appropriation in 1966. This reserve was increased in 1967 and 1971. Following reconstruction of the group in 1972, this reserve was eliminated.

90

A Depreciation Reserve, which was created prior to 1962, was increased or decreased during 1962 to 1972 by gains and losses respectively on the disposal of fixed assets.

92

A Building Reserve, which was stated at \$700,000 from 1959 to 1963, was increased by appropriation in 1964. Part of the reserve was capitalised in 1965. Further appropriations to the reserve were made in 1970 and 1972. A Plant Replacement Reserve was created by appropriation in 1963. The amount of the reserve was increased in 1964, 1971 and 1972. There were no changes in these reserves in 1973.

104

A Building Reserve, which was established prior to 1962, was increased by an appropriation in 1962. Part of the reserve was capitalised in 1965 and an appropriation of tax-paid profits was made to

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(cont.)

maintain the reserve at the previous amount.

Further appropriations were made in 1966, 1968 and 1969. In 1971 this reserve was transferred to General Reserve.

105

Depreciation on the amount by which buildings were increased above historic cost on a revaluation was deducted from a capital reserve from 1964 to 1973.

108

The Directors' Report of 1962 stated that :

"The nature of the Groups's operations requires that substantial provisions not at present allowable as tax deductions must be made."

The relevant provisions consist of; doubtful debts, stock, and development and replacement provisions. Prior to 1962 these were aggregated and disclosed as a current liability under the term "Provisions". Since 1962 the relevant item has been disclosed between Shareholders' Equity and Long Term Liabilities as "... this method gives a better presentation of the position of current assets and liabilities".

The provision for development and replacement was increased by an appropriation in 1961, 1962 and 1966. In 1968, it was reported that :

"Anticipated expenditure has now come to charge for some items of Development and Replacement for which provision has previously been made and the sum of \$144,334 has been debited to this provision."

The Directors reported in 1970 that the above provisions had been consolidated and termed

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(cont.)

"Provisions for Debtors, Stock and Other Contingencies". This provision was increased by \$300,000 following a transfer of tax-paid profits. The Directors' Report included a statement that "Your Directors have always considered that provisions do not form part of Shareholders' Funds".

Since 1972, provision for doubtful debts has been deducted from the gross amount of debtors. In 1972, \$80,000 was transferred from the provision to revenue. The reason for this was not disclosed. As the provision now includes stock and other contingencies, it is doubtful whether, in terms of the Eighth Schedule of the Companies Act 1955, this amount is properly termed a provision rather than a reserve.

CONCLUDING COMMENTS

The above notes cover thirty-one of the one hundred and eleven companies (approximately thirty-five per cent) selected for study. The remaining companies did not maintain (or disclose) similar reserves during the period from 1962 to 1973 (inclusive).

From the above it can be seen that none of the companies which maintained reserves for the increased cost of replacing fixed assets, or for the replacement of assets, deducted the cost or part of the cost of replacements from the relevant reserves. The amount at which the reserves are stated appears to be arbitrarily determined. Moreover, the creation of

reserves for the replacement of fixed assets, similar to provisions for depreciation, does not ensure that cash will be available to finance replacements.

It is suggested that these reserves might be intended to indicate to the shareholders that the directorate regards the relevant amounts as not being available for distribution. However, there are examples in the above notes of reserves being transferred back to the appropriation account or being capitalised. It is unlikely that the establishment of reserves from after-tax profits would lead a financial analyst to dismiss the possibility that such amounts might be used for distributions.

From the above study it is impossible to determine the reasons behind the creation of reserves for replacement, renewal or depreciation. The treatment of these reserves appears to be unrelated to the question of providing for depreciation or the replacement of fixed assets.

APPENDIX G
DEPRECIATION AND INCOME TAX ALLOCATION:
A STUDY OF CERTAIN COMPANIES

INTRODUCTION

In this appendix the results of a study of the treatment of income tax allocation, arising from timing differences between depreciation charges and claims on plant and machinery, by the sample companies is presented.¹ From Exhibit D-1 it is possible to determine those sample companies which charged and claimed different amounts of depreciation during the period from 1962 to 1973. If income tax allocation were adopted, companies which charged less depreciation than that claimed would have provided a deferred tax credit and those companies which charged more depreciation than that claimed would have provided a deferred tax debit.² First, we determine whether deferred tax debits and credits were created when the amount of depreciation claimed was different from that charged. Secondly, we determine whether deferred tax credits which were created were charged or appropriated. Thirdly, the presentation of deferred tax credits in balance sheets is examined.

Classification System

The method of accounting for income tax allocation (if any) used by the relevant companies is presented in

¹The methods used in selecting the sample companies and sources of data used are described in Appendix C.

²For the purposes of this appendix and Chapter VI, a deferred tax debit is taken to be the converse of a deferred tax credit. In this context, a deferred tax debit is distinguished from a reduction in accumulated deferred tax credit.

Exhibit G-1. Notes on the methods used by certain of the companies follow that exhibit. The following classifications were used in preparing Exhibit G-1;

- W Deferred tax credit was charged in the profit and loss account,³
- X Deferred tax credit was deducted in the appropriation account,⁴
- Y Deferred tax credit was not provided,
- V Deferred tax debit was provided,
- Z Deferred tax debit was not provided,
- U Treatment of income tax allocation (if any) was unknown,
- T Although the method of computing depreciation charges differs from that used to compute depreciation claims, the amount charged and claimed in a given year was the same.

The presentation of accumulated deferred tax credit in the balance sheet is classified as follows:

- (i) Included in shareholders' equity,
- (ii) Included in term liabilities,
- (iii) Given as a separate item,
- (iv) Included in current liabilities.

A summary of the analysis presented in Exhibit G-1 is given in Chapter VI.

³ Reductions in accumulated deferred tax credit arising from charging more depreciation than that claimed in the later life of an asset are also indicated by "W" if the reductions were accounted for in the profit and loss account. A similar approach has been adopted in respect of other classifications.

⁴ Adjustments relating to prior periods or a change in the rate of tax have been excluded from classification "X".

EXHIBIT G-1

METHOD USED TO ACCOUNT FOR INCOME TAX ALLOCATION

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
1											Y	Y
3									Y	Y	W (iii)	W (iii)
5		Z	Z	Z	Z	Z	Z	Z				
6									Y	Y	Y	Y
7									W (iv)	W (iv)	(iv)	
8							W (iii)					
11	Z	Z	Z	Z	Z							
14												W (iv)
18				See notes to this exhibit.								
19									Y	Y	Y	Y
21											Z	Z
22					Y	Y	Y	Y	Y	Y	Y	Y
30							Y	W/X (ii)	W/X (ii)	W (ii)	W (ii)	W (ii)
31	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	
32								Y	Y	Y	T (iii)	W

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
34						Z	Z	Z	Z	Z	Z	Z
36			Y							Y	W (ii)	W (ii)
37			Y	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)
39					U							
41										Z	Z	Z
42										W (ii)	Y	Y
51								Y	Y	Y	Y	
53			W (iv)	W (iii)	W (iii)	W (iii)	Y (iii)	W (iii)	Y	Y	X (iii)	T (iii)
54									Z	Z	Z	Z/X (ii)
55									W (iii)	W (iii)	W (iii)	W (iii)
57				W (iv)	W (ii)	W (ii)	W (ii)	W (ii)	W (ii)	W (iii)	W (iii)	W (iii)
58											Y	Y
59										W (iii)	Y	Y
64	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z
65			Z	Z							W (iii)	W (iii)

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
66				See notes to this exhibit.								
67									W (ii)	W (ii)	W (ii)	W (ii)
69				Y	Y	Y	Y	Y	Y	Y	X (iii)	
71	Z	Z	Z	Z	Z	Z	Z					
72				See notes to this exhibit.								
73			Y	Y	W (iii)	W (iii)	W (iii)	W / W (iii/iii)	W (iii)	W (i)	W (i)	W (i)
74								Y	Y	Y	Y	Y
76					Z							Z
77				Z								
80									Z	Z	Z	Z
82											X (ii)	X (ii)
84			Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
85					Z	Z	Z	Z	Z	Y	Y	Y
88					Y	Y	Y	Y	W (i)	W (i)	Y (i)	Y (i)
91				Z	Z	Z						

Company Number	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
92										Z	Z	
93								Z	Z	Z		
95											W (iii)	
96		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	W (iii)
97										Y	Y	Y
99					Y	Y						W (iii)
100								Y	Y	Y	Y	Y
105									Z	X (ii)		
107									U	U	U	U
108	Z										W (iv)	W (iv)
110										W (ii)	W (ii)	W (ii)

Notes to Exhibit G-1Company
Number

3 The 1971 accounts contained the following note :

"No provision has been made in these accounts for deferred income tax because the value of accumulated depreciation recorded in the company's accounts ... exceed the accumulated value of depreciation claimed for taxation. It is anticipated that provisions for deferred income tax will be made in the future as this situation reverses because of the current heavy capital expenditure."

If tax allocation had been applied in the normal manner, one would have expected a deferred tax debit to have been established or a deferred tax credit created in a prior year and reduced in 1971. In 1972 the company established a provision for deferred taxation :

"Amounts have been set aside to provide for the additional taxes which may be payable in future years if accumulated depreciation charges to profit exceed amounts allowable as deductions for taxation purposes."

7 A provision for deferred tax was established in 1970 and increased in 1971 as some special and ordinary depreciation on plant, machinery and motor vehicles was claimed but not charged. In 1973, the amount of depreciation claimed in 1970 and 1971 was debited in the appropriation account and the provision for deferred tax was credited to that account.

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- 8 In the three-quarter year ended 31 December, 1968 special depreciation on certain new plant and machinery was not charged. A provision for deferred tax was established to record the liability for future tax which resulted from claiming special depreciation. In the following year, the relevant amount of special depreciation was charged as an extraordinary item in the profit and loss account. The provision for deferred tax was credited to the profit and loss account.
- 14 The provision for deferred tax was included in the tax charge for 1973 and in the provision for taxation disclosed in the balance sheet. A note disclosed that part of these items related to provision for deferred tax.
- 18 Although the method used by this meat freezing company to compute its depreciation charge is not clear from its Annual Reports, it is possible that a deferred tax debit arose from the treatment of depreciation on plant and machinery and/or buildings. Prior to 1972, the company did not disclose its taxation provision. In 1972, \$409,000 of hygiene expenditure was charged to revenue. Most of this expenditure was required to be capitalised and was depreciated at concessionary rates for taxation purposes. The company created a deferred tax debit (Taxation Allocated to Future Years) amounting to \$93,030. This account was disclosed as a separate

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(cont.)

item in the balance sheet after current assets and before intangible assets. The 1972 Annual Report also reveals that a deferred tax credit was created in 1970 and reported as Other Term Liabilities : Unsecured due in equal amounts of \$10,464 in 1971 to 1974. In 1972 this item was deducted from the deferred tax debit. It is speculated that the deferred tax credit arose from claiming certain expenses incurred in developing a computer system in an earlier period than that in which the relevant amounts were charged to revenue.

19

This company provides a deferred tax credit for forestry development expenditure which is claimed only but does not provide for deferred tax in respect of special depreciation which is claimed and not charged. These concessions are of a similar nature. As the life of most plant and machinery is considerably shorter than the period between the planting and harvesting of a forest, one might have expected deferred tax to be provided in respect of depreciation claimed and not charged rather than for forestry development expenditure.

30

In 1968 this company claimed \$128,762 for special depreciation which was not charged. This amount, plus \$187,105 claimed for investment allowance, eliminated any liability for current taxation. In 1969 the company again incurred a loss for taxation purposes and special depreciation of \$151,902 was

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(cont.)

claimed only. Depreciation was charged at maximum ordinary tax rates of depreciation. The company decided to provide a deferred tax credit for special depreciation claimed but not charged. However, it was apparently felt that normal tax allocation procedures would have resulted in an unsatisfactory profit after-tax from 1968 to 1970.⁵ It was decided to build up a deferred tax provision over a three-year period which would, at the end of that period, amount to fifty per cent of accumulated special depreciation claimed but not charged. The deferred tax provision was to be built up by charges against revenue and appropriations of tax-paid profit. Had a provision for deferred tax been created in 1968, an amount of \$12,223 would have been credited to tax expense in 1969 for ordinary depreciation which was not deductible. In the 1969 accounts, the company charged \$12,223 for deferred tax and appropriated \$50,000. A similar procedure was followed in 1970. In 1971 a note to the Annual Report stated that :

"In accordance with the Company's method of claiming Special Depreciation \$12,157 has been transferred this year from the Deferred Taxation Account. Special Depreciation claimed this year but not written off was \$37,412 while ordinary depreciation written off in the Accounts, but not allowable for taxation purposes was \$50,679. The amount shown in the Balance Sheet as Deferred

⁵ Excluding the recognition of a deferred tax debit for tax loss carried forward.

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30
(cont.)

Taxation \$124,805 is sufficient to cover the Company's future liability (at current taxation rates) in respect of taxation payable on Special Depreciation claimed for tax purposes but not as yet written off in the Books of Account."

A similar note was given in 1972 and 1973.

The above case highlights the effect that high rates of ordinary depreciation and special depreciation can have on reported profit, if a major increase in capital expenditure occurs. The company wished to charge ordinary depreciation, as it is subject to price control. If a deferred tax credit had been provided in 1968, 1969 and 1970 without recognising the future benefit arising from losses carried forward an unsatisfactory profit would have resulted. At the same time, the company did not feel that a tax loss should be recognised as an asset.

32

This company charges depreciation on the straight-line method. From 1969 to 1971 income tax allocation was not practised. In 1972 it was revealed that an income tax equalisation account had been established at the commencement of the period by adjusting the 1971 comparative figures. A note to the 1972 accounts stated that an adjustment to income tax equalisation account was not required in respect of the 1972 year. In 1973 the balance of the equalisation account was absorbed as depreciation charged exceeded depreciation claimed. It is not clear whether the depreciation charged exceeded depreciation claimed by such an

Company
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- 32 amount that a deferred tax debit would have been
(cont.) created had income tax allocation been consistently applied.
- 36 Although a deferred tax credit was not created when some depreciation was claimed but not charged in 1964 and 1971, a deferred tax credit was established following the adoption of the straight-line method in 1972.
- 37 Since 1964 special depreciation has been claimed only. In 1965 income tax allocation was adopted and an amount was transferred from reserves to provision for deferred taxation in respect of depreciation claimed and not charged in 1964.
- 39 As this meat freezing company does not disclose its taxation charge or provision, it is impossible to determine whether income tax allocation was applied in 1966 or in any other year.
- 42 The 1971 Annual Report revealed that the taxation charge included an amount for :
- "...deferred provision arising from postponement of tax liability due to claiming of depreciation at the higher rate of Diminishing Value Method whilst writing off on the Straight-line Method."
- In 1972 the deferred tax provision was credited to the appropriation account: "In accordance with Group Policy Deferred Tax is no longer provided." In the same year a current tax provision was not required as investment allowance, export tax incentives and depreciation claimed eliminated any

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(cont.)

liability for tax. In 1973 a small current tax provision was provided. Deferred tax provision was not reinstated.

53

In 1964 this company adopted the procedure of computing its depreciation charge at ordinary tax rates of depreciation plus special depreciation in the reverse order from that claimed. This had the effect of equalising the depreciation charge and claim over a five-year period. The company reported that as depreciation claimed in excess of that charged :

"... will be written off in later years, we have established a Deferred Tax Provision ... to be drawn on in the years in which this depreciation is written off [charged]."

In 1968 the company made a loss and the deferred tax provision was not increased. The following year a further loss was incurred. As depreciation charged exceeded that claimed, the deferred tax adjustment resulted in a lower loss after-tax than before-tax. The tax loss was not recognised as giving rise to a future tax benefit (asset). The deferred tax provision was credited to appropriation in 1970 following a further loss. In 1972 it was stated that :

"To avoid distortion of our accounts we provide for deferred tax as if we were claiming the depreciation actually written off in our accounts. By ... 1970 we had accumulated trading losses which could be offset against future tax liabilities. It is not the custom in New Zealand to show such 'tax credits' [deferred tax debits] in the balance sheet but it appeared anomalous to

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53
(cont.)

continue to provide for a future conditional tax liability in the balance sheet when such a liability was more than offset by losses carried forward ... by ... 1972 the losses available to set off against profits of future years had been reduced to \$7,500 and it appeared therefore advisable to reinstate this provision"

The deferred tax provision was reinstated by a transfer of tax-paid profits. In 1973 the difference between the amount of depreciation claimed and charged was immaterial.

54

From 1970 to 1973 depreciation totalling about \$23,500 was charged in excess of that claimed on some items. A deferred tax debit was not provided. In 1973 the depreciation charge on some items was computed on the straight-line method and a deferred tax credit was provided by appropriation of tax-paid profits. The amount at which the deferred tax credit was stated did not take into account the amount of depreciation charged in excess of that claimed on other items in 1973 or the accumulated amount since 1970.

55

A note in the 1970 to 1973 accounts stated that :

"The provision for deferred taxation records the long term liability for taxation resulting from the adoption of depreciation on the coach fleet and rental vehicles, which, in the opinion of the Directors, adequately reflects the life of those vehicles. The provision arises from the difference between the depreciation charged in the accounts and the depreciation allowed by the Inland Revenue Department for taxation purposes."

In 1973 the company did not provide for current taxation. Unless the company neither made a profit

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55
(cont.)

nor a loss for tax purposes, it would appear that a deferred tax credit was provided in respect of timing differences between depreciation claimed and charged, but the future benefit arising from tax loss carried forward was not recognised. The company qualifies for considerable tax allowances for tourist promotion expenditure.

57

A note to the Annual Reports for 1971 to 1973 stated that :

"The Provision for Deferred Taxation records the long term liability for taxation which results from claiming, for taxation purposes only both special and ordinary depreciation at Inland Revenue Department Rates on Aircraft, Vehicles and Plant as against the straight line method with a set residual value as used by the company."

Since 1970 the company has made a tax loss. Deferred tax has been computed on total taxable income prior to deducting depreciation claimed in excess of that charged and after deducting other concessions.

59

This company created a deferred tax credit in 1971. In the following year it was stated that :

"Because of the existence of losses in the Group which will be available to offset against future income for taxation purposes, it is not necessary to provide for deferred tax, which would otherwise have been \$42,282 and the further provision of \$55,164 last year is no longer required."

A further loss for tax purposes was incurred in 1973.

65

During 1972 this company took delivery of a new vessel costing in excess of \$3 millions. Depreciation on the vessel was charged at the rate of five

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Number

- 65 (cont.) per cent on the straight-line method. A deferred tax account was established "... for the taxation payable in the future on depreciation which at that time will not be deductible for taxation purposes." As taxation deductions of about \$1 million resulted in a tax loss, the deferred tax credit was reduced by the tax benefit expected from carrying the loss forward.
- 66 Income tax allocation does not arise as this company charges and claims ordinary depreciation. Special depreciation is not claimed.
- 67 In 1970 the Directors reported that :
- "The Company is now writing off in its accounts depreciation on a substantial portion of its assets at rates different from those allowed, and claimed, for taxation purposes. It will be appreciated that irrespective of the method used depreciation cannot exceed 100% of the cost price of any asset.... It is desirable that profit should not be affected by taxation higher or lower than would be expected in relation to the profit of any particular year due to the depreciation allowed for taxation purposes being different from that written off in the accounts at that time. This will be achieved by establishing a Provision for Deferred Taxation."
- 69 From 1965 to 1968 notes to the accounts revealed that some special depreciation was claimed only. There were no comments on the method of computing depreciation charges used in 1969 or 1970. In 1972 a note to the balance sheet stated that special depreciation claimed only in "this and prior years has reduced taxation by approximately \$16,000."

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69
(cont.) The 1972 Annual Report included the following note :

"The deferment of taxation amounting to \$14,400 arising from special depreciation claimed but not written off in prior years has this year been transferred to a Deferred Taxation Reserve." (Emphasis added.)

The reserve was created by an appropriation of tax-paid profits and was disclosed as a separate item in the balance sheet. The company made a loss in 1973 and the reserve (now renamed a provision) was credited to the appropriation account.

72 In Appendix D it was stated that this company charged depreciation in excess of that claimed on plant and machinery and/or buildings from 1960 until 1972. There is no evidence that a deferred tax debit was created.

73 This company reported a loss in its first two profit and loss accounts. Ordinary depreciation was charged and special depreciation was claimed only. In 1966 it was stated :

"Provision is ... made in the Accounts for a Deferred Taxation Reserve of \$880,000 representing the taxation benefit in the current year arising from the allowance for tax purposes of special depreciation which has not been written off in the Company's books." (Emphasis added.)

The purpose of the reserve was "... to ensure that an adequate amount is set aside for tax payable in the future". Although the company referred to deferred taxation as a reserve, this account was disclosed in the balance sheet as a separate item. By 1968 the reserve amounted to \$1.1 millions or 6.8 per cent of shareholders' equity.

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73
(cont.)

Since then depreciation charged has exceeded depreciation claimed.

In 1970 the company stated that the effect of the above procedure was :

"...to spread the tax benefits received from the ability to deduct depreciation at accelerated levels in the early years more evenly over the useful life of the assets.

The accumulated reduction in the Company's past annual tax liabilities by reason of special depreciation is \$696,000. This amount is held in a special reserve account, previously called Reserve for Deferred Taxation and now retitled Tax Equalisation Reserve. This reserve will continue to be used as required to spread the incidence of taxation more equitably over future years and in the opinion of the Directors the reserve is properly included in Shareholders' Funds." (Emphasis added.)

This method of balance sheet presentation was not supported by the company's auditors :

"Deferred Taxation of \$696,000 ... included in Shareholders' Funds as Taxation Equalisation Reserve should, in our opinion, be classified as a provision and be excluded from Shareholders' Funds. Subject to this remark the accounts ... comply with the Companies Act 1955 and give a true and fair view of the state of affairs and profit of the Company."

In 1972 and 1973 the Annual Report contained a similar presentation, note and qualified audit report.

74

This company has substantial accumulated tax losses. The future benefit of these is not recognised and a provision for deferred tax on depreciation claimed only is not provided.

80

In 1970 income tax allocation may not have applied as depreciation charged in excess of that claimed

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(cont.)

appears to be depreciation computed on the excess of replacement cost over historic cost. Since 1971 depreciation computed on historic cost has been charged in the profit and loss account and depreciation computed on the excess of replacement cost over historic cost has been debited in the appropriation account. As the former has exceeded the amount of depreciation claimed, a deferred tax debit would have been provided if tax allocation had been adopted.

85

From 1966 to 1970 this company appears to have charged more depreciation than that claimed. In 1971 the straight-line method was adopted and less depreciation was charged than that claimed. There is no evidence that income tax allocation was adopted during 1966 to 1973.

88

From 1966 to 1969 this company charged ordinary depreciation and claimed ordinary and special depreciation. A deferred tax credit was not provided. In 1970 the company altered its method of computing depreciation charges. The new method was not clearly disclosed. The Directors' Report stated :

"While there was no Tax liability ... due to Export Incentives, Special Depreciation Allowance and other concessions, we have provided \$40,000 towards equalisation of Taxation requirements in any future year when the then current allowances may be insufficient to offset Taxation due."

The Provision for Tax Equalisation was deducted in the profit and loss account to arrive at Net

Company
Number

88
(cont.)

Profit of Group after Providing for Tax Equalisation.
In the balance sheet the amount was included in
shareholders' funds. In 1970 and 1971 the accounts
contained the following note :

"Income Tax Equalisation - This represents
an amount transferred from Profit and Loss
Account to "equalise" the effect of normal
income tax in future years when special
allowances and incentives may not be
available to the same extent."

In 1972 it was stated that income tax equalisation
account had not been increased as :

"... increased Taxation incentives announced
by the Government during 1972 will increase
the carry forward already available to the
Company."

Similarly, in 1973 depreciation amounting to
\$137,283 was claimed in excess of that charged and
no transfer was made to income tax equalisation
account.

As income tax equalisation account is included in
shareholders' funds and as the amount transferred to
that account is not directly related to the amount
of the tax saving arising from special depreciation,
the above practice barely qualifies as income tax
allocation. As the company has not provided for
current income tax since 1968 and as the amount and
nature of the tax loss carried forward is not
disclosed, the amount at which deferred tax provision
would normally be stated is unknown.

95

In 1971 the company made a loss and charged more
depreciation than that permitted for taxation
purposes. It appears that the relevant amount related

Company
Number95
(cont.)

to depreciation on the excess of the revalued amount of plant and machinery over the historic cost of assets of that class. In 1972 tax was not payable as a result of depreciation claimed only, investment allowance and tax loss carried forward from 1971. An income tax allocation provision was established. In 1973 the company was taken over.

96

From 1963 to 1972 this pulp and paper company charged ordinary depreciation and claimed ordinary and special depreciation. A deferred tax credit was not provided. Having regard to the views on accounting for income tax allocation during the period from the 1963-64 income year to the 1968-69 year of Professor Schmitt (who was managing director of this company from 1963 to 1968) it is interesting to speculate that the net tax-paid charge for depreciation was planned.⁶ Prior to the 1968-69 income year this approach had considerable validity and did not imply complete rejection of income tax allocation. In 1973 the depreciation charge on major new items of plant and machinery was computed on the straight-line method. A deferred tax credit was established for ordinary and special depreciation claimed but not charged, including that claimed on assets acquired prior to 1973. If the directorate is now of the opinion that deferred tax

⁶ Professor Schmitt's views on income tax allocation in respect of differences between depreciation charged and claimed from 1963-64 and 1968-69 are described in Chapter VI.

Company
Number96
(cont.)

should be provided in respect of depreciation claimed only, it would appear that a provision should have been made in respect of the accumulated depreciation claimed but not charged. On this basis shareholders' equity would appear to be overstated by \$3.2 millions or about five per cent. The directorate, however, may be of the opinion that accumulated depreciation is excessive. In this case, the accumulated depreciation charge should be recalculated. It is interesting to speculate whether the company will extend the adoption of the straight-line method to all major assets in 1974 and will restate the accumulated charge on the new method.

100

In 1968 and 1969 significant losses were incurred by a new fixed-capital intensive project. Losses from these years, together with investment allowance, export incentives and depreciation claimed only eliminated the need for current tax provision from 1970 to 1973.

105

A note to the 1971 Annual Report stated that :

"The provision for deferred tax records the deferred liability which results from adopting the straight-line method of depreciating certain manufacturing assets."

This provision, which was immaterial in relation to total liabilities, was created by an appropriation of tax-paid profits. In the following year, the provision was credited to the appropriation account.

Company
Number

107 Depreciation was not charged on certain assets
from 1970 to 1973. It is not clear whether
depreciation was claimed on those assets.

APPENDIX H
RECOMMENDATIONS ON THE ACCOUNTING TREATMENT
OF INVESTMENT CREDITS AND CASH GRANTS

In this appendix, recommendations on the accounting treatment of investment credits and cash grants for financial reporting purposes are summarised. Special emphasis is given to the Accounting Principles Board's efforts to secure agreement on the treatment of investment credit.¹ The Opinions of this Board influenced Tentative Statements on Accounting Practice prepared for the Board of Research and Publications of the New Zealand Society of Accountants.

(a) American Institute of Certified Public Accountants

The Revenue Act of 1962 provided for an investment credit of up to seven per cent of the cost of certain new and used fixed assets placed in service after 31 December, 1961.² For taxation purposes, depreciation claims were to be computed on the cost of qualifying assets net of investment credit. This provision was deleted in 1964. The investment credit was suspended from 10 October, 1966 to 31 December, 1967 and was terminated on 18 April, 1969. It was re-introduced by the Revenue Act of 1971.

Accounting for investment credits has been a controversial subject. In 1962 the Accounting Principles Board considered the substance of investment credit and concluded that it was :

¹ The Accounting Principles Board was formed by the American Institute of Certified Public Accountants in 1959.

² The main provisions of the relevant legislation were summarised by Kenneth B. Berg and Fred J. Mueller, "Accounting for Investment Credits", The Accounting Review, 38 (1963), 554-6.

"... an administrative procedure to permit the taxpayer to withhold the cash equivalence of the credit from taxes otherwise payable and that it was not an element entering into the computation of taxes related to the income of the period."³

This view was based, in the Board's Opinion, on two points :

"First, ... earnings arise from the use of facilities, not from their acquisition. Second, the ultimate realization of the credit is contingent to some degree on future developments."⁴

The Opinion went on to state that :

"We conclude that the allowable investment credit should be reflected in net income over the productive life of acquired property and not in the year in which it is placed in service."⁵

This conclusion was adopted by a fourteen-to-six vote, which just achieved the two-thirds minimum. Moreover, the eight major firms of chartered accountants split four-to-four. Three of the dissenting firms made it known that they would not expect their clients to abide by Opinion No.2.⁶

In January, 1963 the Securities and Exchange Commission announced that it would accept either the method recommended in Opinion No.2 or the crediting of the full benefit of the credit to income tax expense in the year in which it was claimed.⁷

The Accounting Principles Board issued an amended

³ American Institute of Certified Public Accountants, Accounting Principles Board, "Accounting for the Investment Credit", Opinion No.2, American Institute of Certified Public Accountants, New York, 1962, 6, par.8.

⁴ ibid., 7, par.12.

⁵ ibid., 7, par.13.

⁶ Thomas F. Keller and Stephen A. Zeff, "The Investment Tax Credit", in Thomas F. Keller and Stephen A. Zeff (eds.) Financial Accounting Theory II : Issues and Controversies, McGraw-Hill, New York, 1969, 418.

⁷ loc.cit.

Opinion in March, 1964.⁸ By this time, the credit did not reduce the basis on which depreciation claims were computed.

The revised Opinion stated that

"... the authority of the Opinions of this Board rests upon their general acceptability. The Board, in the light of events and developments accruing since the issuance of Opinion No.2, has determined that its conclusions as there expressed have not attained the degree of acceptability which it believes is necessary to make the opinion effective."⁹

The Board was of the view that the amendment referred to above did "not change the essential nature of the credit"¹⁰ and that :

"... while the method of accounting for the investment credit recommended in ... Opinion No.2 should be considered to be preferable, the alternative method of treating the credit as a reduction of Federal income taxes of the year in which the credit arises is also acceptable."¹¹

This Opinion did little to meet one of the aims of the Accounting Principles Board, which was to "narrow the areas of difference and inconsistency in practice".¹² Maurice Moonitz, in dissenting from the conclusion of Opinion No.4, wrote that :

"... while it is conceivable that the tax reduction method may be right, or that cost reduction may be right, or that both are wrong and some other unspecified possibility right, the investment credit cannot be two different things at one and

⁸American Institute of Certified Public Accountants, Accounting Principles Board, "Accounting for the 'Investment Credit'", Opinion No.4, American Institute of Certified Public Accountants, New York, 1964.

⁹ibid., 22, par.9.

¹⁰ibid., 22, par.8.

¹¹ibid., 22, par.10.

¹²See Reed K. Storey, The Search for Accounting Principles : Today's Problems in Perspective, American Institute of Certified Public Accountants, New York, 1964, 55.

the same time."¹³

In 1967 the Accounting Principles Board prepared a new exposure draft on accounting for taxes.¹⁴ In this draft it was stated that the Board "has concluded that the circumstances surrounding the investment credit do not justify alternative treatments".¹⁵ The Board's draft recommendation was similar to the recommendation contained in Opinion No.2. An Assistant Secretary to the Treasury (Tax Policy) was one of the many people who made submissions opposing the draft recommendation.¹⁶ He argued that the investment credit was intended to be a selective reduction in the effective rate of income tax¹⁷ and that :

"... a mandate to defer the benefit arising from the investment credit could well blunt its effectiveness as an incentive to modernization and expansion."¹⁸

This exposure draft was withdrawn.

When the re-introduction of investment credit was being considered in 1971, the Accounting Principles Board issued a further exposure draft.¹⁹ The draft recommendation again required that the investment credit be reflected in income

¹³ American Institute of Certified Public Accountants, Accounting Principles Board, Accounting for the 'Investment Credit', Opinion No.4, op.cit., 24.

¹⁴ Thomas F. Keller and Stephen A. Zeff, op.cit., 419.

¹⁵ loc.cit.

¹⁶ Letter from Stanley S. Surrey to Accounting Principles Board, reprinted in Thomas F. Keller and Stephen A. Zeff (eds.), op.cit., 447-9.

¹⁷ ibid., 447.

¹⁸ ibid., 449.

¹⁹ Gilbert Simonetti Jr., "Taxation : Accounting for the Investment Credit", The Journal of Accountancy, 133(1972), 75.

over the life of the relevant assets.²⁰ The Acting Secretary of the Treasury wrote to the Chairman of the Senate Finance Committee stating that :

"The Treasury Department's overriding interest in seeking the credit is to create jobs both in the short run and the long run by stimulating the purchase of new machinery and equipment The vast majority of companies ... reflect the benefit of the credit immediately in earnings. It seems self evident that these businessmen will have less motivation to purchase new equipment if the benefits of the credit are not reflected in operating results when realized, as they have been in the past

Accordingly, since any change in the pre-existing well-established financial accounting practice might operate to diminish the job-creating effect of the credit, the Treasury Department strongly supports a continuation of the optional treatment

If it is concluded that the desired objective - optional treatment for accounting purposes - cannot be achieved by committee report language, then the Treasury Department will support a legislative resolution of this matter."²¹

An amendment was made to the Revenue Bill which provided that :

"... no taxpayer shall be required to use any particular method of accounting for investment credit."²²

Moreover, the method used after the date of the Act was required to be consistently applied. It was necessary to seek permission from the Secretary of the Treasury before changing the method used in accounting for investment credit.²³

Following the above amendment, the Accounting Principles Board withdrew its exposure draft and expressed its strong opposition to the determination of accounting principles by

²⁰ loc.cit.

²¹ Letter from Charles E. Walker to Russell B. Long, Chairman of the Senate Finance Committee, quoted by Gilbert Simonetti, op.cit., 76.

²² Gilbert Simonetti Jr., op.cit., 77.

²³ loc.cit. The Act also required disclosure of the method of accounting for investment credit.

the legislature.²⁴ The present position permits companies to account for investment credit by the method adopted prior to 10 December, 1971.

(b) Institute of Chartered Accountants in England and Wales

In 1966 a system of cash grants was introduced in place of initial and investment allowances.²⁵ The relevant provisions provided that depreciation claims (capital cost allowances) were to be computed on the cost of the relevant assets net of the grants. In certain circumstances the grants were repayable at a later date. In 1967, the Council of the Institute recommended that :

- "(a) Grants should be applied in reduction of the purchase price of the assets to which they relate, with a consequential reduction in the amounts charged to revenue by way of depreciation of the assets or writing off the relevant expenditure. If the amount of the grants is material, the description of the amount at which the assets are shown in the balance sheet should make it clear that the grants have been deducted, or
- (b) Assets should be shown in the balance sheet at cost before deduction of grant and the grants shown in the liabilities section, separate from capital and reserves, as a deferred credit pending transfer to profit and loss account at a rate consistent with that at which the relevant depreciation charge is computed."²⁶

The statement also stated that other methods, although not

²⁴ ibid., 76.

²⁵ Great Britain Department of Economic Affairs, Investment Incentives, Cmnd.2874, H.M.S.O., London, 1966. The grant system was replaced in 1970 by a first year capital cost allowance scheme. See Great Britain Department of Economic Affairs, Investment Incentives, Cmnd.4516, H.M.S.O., London, 1970.

²⁶ Institute of Chartered Accountants in England and Wales, "Recommendation on Accounting Principles No.24 : Accounting Treatment of Investment Grants", in Thomas F. Keller and Stephen A. Zeff (eds.), op.cit., 451.

preferred, would not necessarily impair the presentation of a true and fair view provided that the method adopted was adequately disclosed.²⁷

In 1973 an exposure draft on accounting for regional development grants was published.²⁸ It proposed that :

"Grants relating to fixed assets under the Industry Act 1972 should initially be treated as deferred credits pending transfer to profit and loss account on a basis which fairly reflects the benefit over the expected useful life of the asset."²⁹

(c) Institute of Chartered Accountants of Scotland

In a paper prepared by the Research and Publications Committee it was recommended that the 1966 cash grants should be accounted for by the following method :

"The transfer of the grant to capital reserve (less a proportion transferred to taxation equalisation account and brought back to profit and loss account over the life of the asset as an offset against the extra tax suffered by reason of the reduced writing down allowances."³⁰

The committee was of the opinion that the grant should not be reflected in the profit and loss statement at any time³¹ as :

"A side-effect of this may be that the benefit of the investment grant is being passed on to the shareholders by way of dividend or to the consumer

²⁷ loc.cit.

²⁸ These grants were authorised by the Industry Act 1972.

²⁹ Institute of Chartered Accountants England and Wales, Accounting Standards Steering Committee, "The Accounting Treatment of Grants under the Industry Act 1972 : ED9", Accountancy, 84(1973), 10.

³⁰ Institute of Chartered Accountants of Scotland, Research and Publications Committee, "Accounting for Investment Grants", in Thomas F. Keller and Stephen A. Zeff (eds.), op.cit., 455.

³¹ Except for the amount transferred to taxation equalisation account.

as a subsidy to him in the form of lower prices, thus vitiating the purpose of the grant to stimulate investment."³²

The above paper contrasts with that of the Institute of Chartered Accountants in England and Wales. However, the Scottish Institute and the Institute of Chartered Accountants in England and Wales published the same exposure draft on the treatment of grants authorised by the Industry Act 1972.³³

(d) Canadian Institute of Chartered Accountants

Recommendations of the Accounting and Auditing Research Committee of the above institute provide for alternative treatment depending on whether the availability of the relevant Government grant is, or is not, a "determining influence" in a decision to locate in a particular area, to undertake a particular project or to acquire a particular fixed asset.³⁴ If the "determining influence" criterion is met, then the grant should be deducted from the cost of the relevant asset or assets. If the criterion is not met, the grant is credited to a reserve account.³⁵

³² loc.cit.

³³ See Institute of Chartered Accountants of Scotland, Research and Publications Committee, "The Accounting Treatment of Grants under the Industry Act 1972 : ED9", The Accountants' Magazine, 77(1973), 132-3.

³⁴ A. Berkshire and C.W. Hayward, "Government Grants : Windfalls, Subsidies or Income?", The Canadian Chartered Accountant, 103(1973), 40.

³⁵ loc.cit.

APPENDIX I
INVESTMENT ALLOWANCES

INTRODUCTION

In addition to depreciation concessions, taxpayers have been entitled to claim an investment allowance on certain assets at various times since 1963. The following note summarises the history of investment allowances in New Zealand.

Certain assets used on the West Coast of the South Island have qualified for an investment allowance on different conditions from those applicable elsewhere. To distinguish between the West Coast investment allowance and the general investment allowance, the former is referred to as the "West Coast allowance" and the latter is termed "investment allowance". These allowances are discussed separately.

INVESTMENT ALLOWANCE

As part of the 1963 Budget proposals, an investment allowance of ten per cent on the cost of a wide range of new agricultural and manufacturing plant, machinery or equipment was introduced.¹ The legislation, which was complex, provided for a deduction in the year in which the qualifying asset was first used.² Assets "first received or taken" into the premises of the taxpayer at which they were first used on,

¹ Hon. H.R. Lake, "Financial Statement", Appendix to the Journals of the House of Representatives, 1963, 1, B-6, 10. For this purpose "new" "means not having previously been either used by any person or acquired or held by any person for use by that person". See Land and Income Tax Amendment Act (No.2) 1963, ss.11 and 12.

² Land and Income Tax Amendment Act (No.2) 1963, ss.11 and 12.

or after, 1 August, 1963 qualify for the allowance.³ Qualifying assets which were used in part to produce exempt income qualified for a lesser deduction at the discretion of the Commissioner.⁴ The deduction was granted to the owner of qualifying assets and was in addition to ordinary and special depreciation. In effect taxpayers were entitled to claim one hundred and ten per cent of the cost of a qualifying asset over its life. The investment allowance was not recoverable on the sale of a qualifying asset and taxpayers were not required to deduct the allowance from the cost of the relevant asset.

The objective of the investment allowance was to encourage investment and thereby increase production.⁵

In 1965 investment allowance was extended to plant and machinery owned by a taxpayer and used for the purpose of carrying on a fishing business.⁶ Qualifying expenditure included costs of a capital nature incurred in making structural alterations to any boat used, or to be used, for fishing purposes. Plant and machinery acquired or constructed by the taxpayer on, or after, 1 April, 1964 qualified for the allowance.

In the 1965 Budget, the Minister of Finance stated that the investment allowance and other incentives designed to

³ loc.cit. Special provisions applied in the case of plant and machinery manufactured by the person who first used that plant and machinery.

⁴ loc.cit.

⁵ Hon. H.R. Lake, "Financial Statement", Appendix to the Journals of the House of Representatives, 1965, 1, B-6, 6.

⁶ Land and Income Tax Amendment Act 1965, s.21.

encourage increased production and exports "continued to have most encouraging results".⁷ In the 1966 Financial Statement the Minister stated :

"The purpose of the ... investment allowance ... has been primarily to stimulate the installation of new plant and equipment. Because of the necessity to limit imports of these items in present circumstances, it has been decided to suspend the investment allowance"⁸

The Minister expressed the hope that the allowance would be re-introduced in 1967.⁹ The investment allowance was granted on qualifying items acquired under a binding contract completed on, or before, 16 June, 1966.¹⁰

It was not until 1970 that the allowance was re-introduced. The purpose of the allowance was stated to be to encourage :

"... manufacturers to invest in up-to-date machinery and equipment, and to permit greater capital intensification to help remove the constraint imposed by the overall shortage of labour."¹¹

The legislation was similar to that authorising the earlier allowance.¹² New plant and machinery used in agricultural, manufacturing or fishing activities qualified for a ten per cent deduction. The allowance applied to qualifying assets acquired and first used on, or after,

⁷ H.R. Lake, 1965, op.cit., 6.

⁸ H.R. Lake, "Financial Statement", Appendix to the Journals of the House of Representatives, 1966, 1, B-6, 4.

⁹ loc.cit.

¹⁰ loc.cit.

¹¹ Hon. R.D. Muldoon, "Financial Statement", Appendix to the Journals of the House of Representatives, 1970, 1, B-6, 14.

¹² Land and Income Tax Amendment Act 1970, ss.22,23 and 25.

26 June, 1970.

The legislation authorising the investment allowance was amended in 1971 to permit that allowance to continue after the terminating date for qualifying assets forming part of an approved development plan.¹³

In 1972 the investment allowance was substantially expanded. The Minister stated :

"... one of the major objectives of this Budget is to stimulate economic activity ... improved productivity in activities not now covered by the investment allowance should be given encouragement."¹⁴

All new assets, other than buildings, qualifying for special depreciation, acquired pursuant to a contract, development plan or similar scheme entered into on, or after, 23 June, 1972 qualified for an allowance of twenty per cent.¹⁵ New plant and machinery which qualified for special depreciation and which was acquired on, or after, 1 April, 1972 and before 23 June, 1972 qualified for a ten per cent allowance.¹⁶

In extending the investment allowance the Minister of Finance went on to :

"... stress that the government regards the investment allowance as an instrument designed to stimulate investment It should not be regarded as a permanent feature of the tax system, but rather as one likely to be varied, or withdrawn as economic conditions dictate.

Manufacturers and others should therefore plan on the assumption that investment allowance

¹³ Land and Income Tax Amendment Act 1971, s.6(3).

¹⁴ Hon. R.D. Muldoon, "Financial Statement", Appendix to the Journal of the House of Representatives, 1972, 1, B-6, 44.

¹⁵ Land and Income Tax Amendment Act (No.2) 1972, s.14(7). Note that this Act merged the legislative provisions relating to the investment allowance applicable to agricultural, manufacturing and fishing activities.

¹⁶ loc.cit.

will not be extended beyond 31 March, 1974."¹⁷

Although an extension of the twenty per cent investment allowance to 31 March, 1975 was announced in the 1973 Budget, the Government stated that the additional ten per cent would be terminated at that date.¹⁸ In the meantime, more selective forms of assistance were to be developed.¹⁹

In the 1974 Financial Statement it was stated that the investment allowance, together with certain concessionary rates of depreciation, are to be replaced by a single first year depreciation allowance.²⁰ The new scheme will take effect from 1 April, 1975.²¹

WEST COAST ALLOWANCE

A twenty per cent investment allowance on new plant, machinery and buildings (including extensions to existing buildings) used in a re-development project on the West Coast of the South Island was introduced in 1963.²² Although the allowance was subject to prior approval of the Minister of Finance, all manufacturing and agricultural activities were approved for the purposes of the allowance.²³ The deduction was in addition to depreciation allowances and an alternative

¹⁷ Hon. R.D. Muldoon, 1972, op.cit., 45.

¹⁸ Hon. W.E. Rowling, Financial Statement, Government Printer, Wellington, 1973, 15.

¹⁹ loc.cit.

²⁰ Hon. W.E. Rowling, Financial Statement, Government Printer, Wellington, 1974, 11.

²¹ loc.cit.

²² Hon. H.R. Lake, op.cit., 10.

²³ This means that non-manufacturing and non-agricultural activities required approval. Note also that the amount of qualifying expenditure on buildings also requires approval.

to the investment allowance discussed above.

New plant and machinery and buildings acquired, installed, erected or extended on or after 11 July, 1963 qualified for the allowance.²⁴ The aim of the incentive was to attract :

"... new industry to the area and generally encourage a more viable economic structure."²⁵

In the following year, the allowance was extended to cover second-hand assets acquired or installed on, or after, 1 April, 1964, provided that the allowance had not been previously claimed in respect of the asset by any taxpayer.²⁶

From 17 June, 1966, the allowance was continued at the reduced rate of ten per cent in the case of plant and machinery, other than where a binding contract was completed on, or before, 16 June, 1966.²⁷

Section 117C, which authorised the West Coast allowance, was amended in 1967 to permit that allowance to continue where a development plan was approved prior to its terminating date.²⁸

In 1969 the rate on plant and machinery was increased to twenty per cent. The new rate applied to qualifying assets acquired or installed on, or after, 27 June, 1969.²⁹

The allowance was partly merged with the investment allowance discussed above in 1972. The combined effect of the sections was that new plant and machinery qualified for a

²⁴Land and Income Tax Amendment Act (No.2) 1963, s.13.

²⁵Hon. H.R. Lake, 1963, op.cit., 10.

²⁶Land and Income Tax Amendment Act 1964, s.33.

²⁷Land and Income Tax Amendment Act 1966, s.18.

²⁸Land and Income Tax Amendment Act (No.2) 1967, s.16.

²⁹Land and Income Tax Amendment Act 1969, s.19.

thirty per cent allowance if it were acquired or installed on, or after, 23 June, 1972, except where a binding contract was completed, or where a development plan or similar scheme was approved prior to that date.³⁰ Buildings and second-hand plant and machinery continued to qualify for the twenty per cent allowance.

In the 1973 Budget, the government announced an alternative form of selective assistance based on cash grants and interest-free loans to assist regional development.³¹ Consequently, the expiry date for the West Coast allowance was not extended. This allowance was therefore terminated on 31 March, 1974.³²

³⁰Land and Income Tax Amendment Act (No.2) 1972, s.14.

³¹Hon. W.E. Rowling, op.cit., 18-20.

³²Land and Income Tax Amendment Act 1973, First Schedule.

APPENDIX JMEASURING THE BENEFIT OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES

Theoretically the benefit to a firm of a concessionary rate of depreciation or an investment allowance may be measured by comparing the net present value of each capital expenditure proposal with and without the concession. This is a short-run measure as it assumes no change in the level of output, availability of finance, payments to factors of production, or the price of output.

Although the above approach enables the benefit of the concession to be measured for a given proposal, it is too complex to assist in generalising the overall effects of the concession. First, it is necessary to know the amount and timing of cash inflows and outflows for each proposal. Secondly, the extent to which a change in net present value will affect a firm's decision will depend on the magnitude of net present value of the proposal prior to the introduction of the concession.¹ Thirdly, the timing of tax payments, the discount rate and, to a lesser extent, the tax rate may differ from firm to firm. In the case of the discount rate, this may also be expected to differ from proposal to proposal.

An alternative approach might be to determine the change in the internal rate of return resulting from the introduction of a taxation concession. This approach suffers from the

¹ Given capital rationing, the acceptance or rejection of a proposal would also depend on the net present value of competing proposals.

conceptual limitations of the internal rate of return method, which are more serious than those of the net present value method, and from the defects given above.

For these reasons a perfect measure of the theoretical effect of special depreciation and the investment allowance on the decisions of firms in the short run is not possible. On the other hand, by introducing simplifying assumptions it is possible to estimate the approximate change in net present value resulting from these incentives. This may then be expressed as a percentage of the cost of the qualifying asset or assets.

The after-tax discount rate is a significant variable in determining the present value of taxation incentives and concessions. We will assume that this rate is unaffected by the introduction or withdrawal of special depreciation and investment allowances.

The "real" benefit of special depreciation and investment allowances, according to Helliwell, depends on the alternative use of the firm's funds.² The "indicated" benefit of these allowances is given by discounting at the target rate of return. The after-tax discount rates assumed in the following computations are based on the target rates of return of companies surveyed.³ We will, therefore, be primarily

² J.F. Helliwell, Taxation and Investment : A Study of Capital Expenditure Decisions in Large Corporations, Studies of the Royal Commission on Taxation No. 3, Queen's Printer, Ottawa, 1966, 151.

³ The distinction drawn by Helliwell depends on the appropriate discount rate. Thus if fifteen per cent is the alternative return on funds, a fifteen per cent discount rate will give the real benefit of the allowance. To the extent that the target rates used in the computations are appropriate marginal rates, both the real and indicated effects of the allowances may be computed.

concerned with the indicated benefits of these allowances. The range of discount rates selected are; six, nine, twelve and fifteen per cent.

As the activities of public companies are of particular interest in this study, it seems reasonable to assume that a forty-five per cent tax rate is applicable. The last day for the payment of company tax (without incurring a penalty) depends on the balance date of the company for financial reporting purposes. Subsisting companies are currently being converted to the pay-as-you-earn system. When this change is completed, all companies will pay two instalments during the year based on estimated income and a terminal adjustment will be made in the following year.

It is assumed that the qualifying asset is acquired and first used on, or before, the last day for payment of the first instalment. This assumption permits companies to include the allowances under study in their estimate of taxable income. It is further assumed that the benefit from these deductions is received at the time of the payment of the first and second instalments. As the first instalment amounts to one-third of the estimated tax, we may assume that one-third of the benefit of any deduction is received at the time of paying that instalment. The remainder of the benefit from special depreciation and investment allowances is assumed to be received on the payment of the second instalment. Final adjustments and the acquisition of a qualifying asset later in the year are ignored.

To avoid the transitional effects of converting subsisting companies to the pay-as-you-earn system, it was decided to compute the benefit of the allowances for the dates for tax payments which will be applicable in the 1974-75 and subsequent

income years. The most frequently occurring lag between the commencement of the financial year and the last day for payment of the first instalment of tax is three to four months. This lag applies to companies balancing in January, May, June, July, October, November and December. The lag between the second instalment and the commencement of the financial year is about ten months for companies balancing in the above months, with the exception of June and October. Companies balancing in other months have a first lag of between five to seven months and a second lag of nine months and eleven to thirteen months. It was decided that a lag of three months for the first instalment and ten months for the second instalment would be representative of the dates for tax payments. This avoids the need to compute the benefit of special depreciation and investment allowances for companies with differing balance dates. Furthermore, the error introduced by this simplification is relatively small.⁴

The life of the asset and the ordinary tax rate of depreciation are significant variables in calculating the benefit of special depreciation. As most plant and machinery has a life of between ten and twenty-five years, a range of values for the life of the asset starting and ending with these lives are used. It is assumed that at the end of the life of the asset, its undepreciated cost is claimed for tax purposes at the time of the second payment in the final year

⁴ For example, a special depreciation allowance on an asset having a ten, fifteen, twenty and twenty-five year life, given a discount rate of six per cent and an ordinary rate of depreciation of ten per cent would give a benefit of 0.15 per cent, 0.15 per cent, 0.13 per cent and 0.08 per cent respectively less than that calculated in Table IX-1 if it is assumed that the total deduction is claimed at the end of each year.

of the life of the asset.

Items of plant and machinery qualify for ten per cent depreciation on the diminishing value method. In addition, assets which are used under abnormal conditions qualify for higher rates. For the purposes of determining the approximate change in net present value resulting from special depreciation allowance, ordinary tax rates of depreciation of ten and twenty per cent are used. Since the re-introduction of special depreciation in 1960, the allowance has been a total of twenty per cent, and from 1 April 1966 that rate has been spread over four years at ten, five, three and two per cent respectively.⁵ All of the calculations assume special depreciation at that rate.

The discount rate has been compounded monthly. There are two reasons for selecting this period. First, short term funds may be deposited with financial institutions so that they are compounded at least monthly. Thus this period appears to conform with alternatives available to companies. Secondly, monthly compounding enables the above tax lag to be conveniently incorporated in the calculations.

The above assumptions have been employed in estimating the change in present value from the concessions under study. For this reason, the results are intended to indicate the order of magnitude only. For different assumptions and values of the variables, different results would be obtained.

⁵ On assets costing less than \$4,000, the claim is allowed over one or two years. A firm may also claim special depreciation over five years, six, five, four, three and two per cent respectively. As this alternative involves a lesser benefit under normal circumstances, it is ignored in the following calculations.

APPENDIX K
RESPONSIVENESS TO THE TIMING EFFECT OF
SPECIAL DEPRECIATION AND INVESTMENT
ALLOWANCES COMPARED

The purpose of this appendix is to attempt to explain why four firms were responsive to the timing effect of investment allowance and not to special depreciation. A wide range of relationships is studied below.

Special depreciation and investment allowances were ranked in order of their relative importance by those companies which answered question twenty-seven. In Exhibit K-1 the ranking of special depreciation allowance relative to a ten per cent investment allowance is compared with the responsiveness of participants to these allowances and to the

EXHIBIT K-1
RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES: CLASSIFIED
BY PREFERENCE OF PARTICIPANTS FOR THESE ALLOWANCES

	Preferred Allowance		Total
	Special Depreciation	Investment Allowance	
Responsive to both Allowances	3	1	4
Responsive to the Investment Allowance only	4	0	4
Total	7	1	8

Not analysed: One firm which was responsive to both allowances and did not answer question twenty-seven.

investment allowance only.¹ Three of the four firms which were responsive to both allowances preferred special depreciation allowance to a ten per cent investment allowance. It is surprising, however, that the four firms which answered "Yes" to question 16D and "No" to question 16A(i) ranked special depreciation allowance ahead of a ten per cent investment allowance. Two of these firms also ranked special depreciation allowance ahead of a twenty per cent investment allowance. No reason could be found from the data collected to explain this apparent inconsistency.² The data contained in Exhibit K-1 does not reveal a statistically significant relationship ($p = 0.5$).

To determine whether those firms which were responsive to investment allowance only account for depreciation for financial reporting purposes in a significantly different manner from that of firms which were responsive to both allowances, Exhibit K-2 was prepared. Firms which charge and claim ordinary and special tax rates of depreciation on plant and machinery are compared with those using other depreciation methods. Where a firm used a combination of methods, such that it did not fall into any one group, both groups were credited with that firm. These results are not statistically significant ($p = 0.51$).

¹From the 26 June, 1970 to 22 June, 1972 a ten per cent investment allowance on certain new plant and machinery was applicable.

²Question twenty-seven was one of the least satisfactorily answered question.

EXHIBIT K-2
RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES: CLASSIFIED
BY THE METHOD OF ACCOUNTING FOR DEPRECIATION

	Method of Accounting for Depreciation		Total
	Claim and Charge Ordinary & Special Depreciation	Other	
Responsive to both Allowances	4	3	7
Responsive to Investment Allowance only	2	2	4
Total	6	5	11

Number analysed: Nine firms.

EXHIBIT K-3
RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES: CLASSIFIED
BY THE ADEQUACY OF ORDINARY TAX RATES OF DEPRECIATION

	Ordinary Tax Rates of Depreciation		Total
	At Least Adequate	Inadequate	
Responsive to both Allowances	1	4	5
Responsive to the Investment Allowance only	2	2	4
Total	3	6	9

In Exhibit K-3 the answers given by firms which were responsive to both allowances or to investment allowance only are classified by whether ordinary tax rates of depreciation provide an inadequate or at least an adequate allowance for fair wear and tear, and for obsolescence, of plant and machinery (see question 7(a)). The results disclosed in this exhibit are not statistically significant ($p = 0.41$).

The responsiveness of companies to the timing effect of special depreciation and investment allowances or the investment allowance only is compared with the capital expenditure decision techniques used by these firms in Exhibit K-4. Nine different techniques were used by the

EXHIBIT K-4

RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION AND INVESTMENT ALLOWANCES: CLASSIFIED
BY CAPITAL EXPENDITURE DECISION TECHNIQUES

	Capital Expenditure Decision Techniques		Total
	Discounted Cash Flow	Other	
Responsive to both Allowances	3	6	9
Responsive to the Investment Allowance only	3	3	6
Total	6	9	15

Number analysed: Seven firms.

Not analysed: Two firms which were responsive to both allowances. One did not use any recognised decision techniques and the other answered the brief questionnaire only.

seven firms which are analysed. The responsiveness of firms to the allowances under study is unrelated to capital expenditure decision techniques employed ($p = 0.46$).

The above discussion discloses that within the confines of data collected in the questionnaire no statistically significant reason could be found for the four firms which were responsive to the investment allowance and not to special depreciation allowance. In a previous chapter we saw that a ten per cent investment allowance increased the net present value of capital expenditure proposals by a larger amount than a twenty per cent special depreciation allowance.³ The difference was more significant for short-life proposals and for those qualifying for high rates of ordinary depreciation. The four firms may find that the investment allowance is of sufficient size to have a marginal influence whereas special depreciation allowance may have too small an impact to influence the timing of their capital expenditure.

³See pages 207-209.

APPENDIX L
THE FLEXIBILITY OF CAPITAL EXPENDITURE PLANS

It is of interest to determine whether those firms which were responsive to special depreciation and investment allowances planned for the purchase of significant items of plant and machinery for shorter or longer periods than did other participants. We will also determine whether firms which answered "Yes" to questions 16A(i) or 16D advanced or postponed the planned purchase of plant and machinery to a greater extent than did other companies. To investigate these points, the answers given to questions 16A(i) and 16D will be classified by the answers given to questions eleven, twelve and thirteen. The latter group of questions was not included in the brief questionnaire.

Exhibit L-1 presents the answers to question 16A(i) classified by the length of forward programme for the purchase of significant items of plant and machinery. Of the five participants which were responsive to special depreciation, one did not answer question eleven on the length of its forward programme and a second completed the brief questionnaire which did not include an equivalent question. Because of the small expected frequencies the length of planning was divided into two categories; those planning for a period of two financial years or less and those planning for more than two years. The one responsive firm falling in the first category planned for a period of one financial year. The results given in the exhibit disclose no statistically significant relationship

EXHIBIT L-1
RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION ALLOWANCE: CLASSIFIED BY THE LENGTH
OF FORWARD PROGRAMME FOR THE PURCHASE OF PLANT
AND MACHINERY

	Length of Forward Programme Number of Financial Years		Total
	Two Years or Less	More Than Two Years	
Responsive	1	2	3
Not Responsive	21	20	41
Total	22	22	44

Not analysed: One firm which did not answer question eleven and nine companies which answered the brief questionnaire only.

EXHIBIT L-2
RESPONSIVENESS TO THE TIMING EFFECT OF INVESTMENT
ALLOWANCE: CLASSIFIED BY THE LENGTH OF FORWARD
PROGRAMME FOR THE PURCHASE OF PLANT AND MACHINERY

	Length of Forward Programme Number of Financial Years		Total
	Two Years or Less	More Than Two Years	
Responsive	3	4	7
Not Responsive	19	17	36
Total	22	21	43

Not analysed: One firm which did not answer question eleven and nine companies which answered the brief questionnaire only.

($p > 0.05$).¹ A similar analysis for the investment allowance reveals a similar result (see Exhibit L-2).²

Question twelve requested companies to indicate whether the planned purchase of any significant items of plant and machinery had been postponed in the five year period ended 31 December, 1971 or nearest balance date. The answers to this question are related to the responsiveness of firms to special depreciation allowance in Exhibit L-3. The responsiveness of firms to this allowance is independent of whether the planned purchase of plant and machinery was postponed during the relevant period.³

EXHIBIT L-3

RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL DEPRECIATION: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed Planned Purchase of Plant and Machinery	Did not Postpone Planned Purchase of Plant and Machinery	Total
Responsive	2	2	4
Not Responsive	28	12	40
Total	30	14	44

Not analysed: One firm which did not answer question 12(a) and nine companies which completed the brief questionnaire only.

The two firms which were responsive to the timing effect

¹ χ^2 (corrected) equals zero, df. equals one.

² χ^2 (corrected) equals zero, df. equals one.

³ χ^2 (corrected) equals 0.04, df. equals one.

of special depreciation and postponed the planned purchase of plant and machinery did so as a result of a revised and less favourable assessment of demand for, and the profitability of, the planned output (see question 12(b)).

An analysis of the responsiveness of firms to the timing effect of the investment allowance, classified by whether the planned purchase of significant items of plant and machinery was postponed is presented in Exhibit L-4. As with the analysis for special depreciation, differences revealed by this exhibit relate to chance.⁴ Two of the four firms which were responsive to the timing effect of the investment allowance and postponed the planned purchase of plant and machinery did so for the reason given in the discussion of special depreciation allowance. One other firm answered

EXHIBIT L-4

RESPONSIVENESS TO THE TIMING EFFECT OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed Planned Purchase of Plant and Machinery	Did not Postpone Planned Purchase of Plant and Machinery	Total
Responsive	4	3	7
Not Responsive	25	11	36
Total	29	14	43

Not analysed: One firm which did not answer question 12(a), one firm which did not answer question 16D and nine companies which completed the brief questionnaire only.

⁴ χ^2 (corrected) equals 0.03, df. equals one.

that difficulties in obtaining finance from external sources resulted in the postponement of the planned purchase of plant and machinery. The fourth firm gave three reasons; an insufficient generation of internal sources of finance, a less favourable assessment of demand for, and profitability of, the planned output and changing processing methods in the particular industry.

Question fourteen requested firms to indicate whether the planned purchase of plant and machinery had been brought forward during the five year period ended 31 December, 1971 or nearest balance date. Three firms which advanced the planned purchase of plant and machinery answered that such assets were acquired at an earlier date than if special depreciation had not been available (see Exhibit L-5). This compared with one firm which did not advance the purchase of plant and machinery but answered "Yes" to question 16A(i).

EXHIBIT L-5

RESPONSIVENESS TO THE TIMING EFFECT OF SPECIAL
DEPRECIATION: CLASSIFIED BY THE ADVANCEMENT OF
THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Advanced Planned Purchase of Plant and Machinery	Did not Advance Planned Purchase of Plant and Machinery	Total
Responsive	3	1	4
Not Responsive	21	18	39
Total	24	19	43

Not analysed: Two firms which did not answer question 14(a) and nine companies which completed the brief questionnaire only.

The differences disclosed in Exhibit L-5 relate to chance.⁵

Two of the three companies which advanced the planned purchase of plant and machinery did so as a result of a revised assessment of demand for, and the profitability of, the planned output. One other firm advanced the planned purchase of plant and machinery as internally generated sources of finance were available.

Of the eight firms which were responsive to the timing effect of investment allowance and which answered question fourteen, four advanced the planned purchase of plant and machinery (see Exhibit L-6). The results disclosed by this exhibit are not statistically significant.⁶

EXHIBIT L-6

RESPONSIVENESS TO THE TIMING EFFECT OF INVESTMENT
ALLOWANCE: CLASSIFIED BY THE ADVANCEMENT OF THE
PLANNED PURCHASE OF PLANT AND MACHINERY

	Advanced Planned Purchase of Plant and Machinery	Did not Advance Planned Purchase of Plant and Machinery	Total
Responsive	4	4	8
Not Responsive	20	14	34
Total	24	18	42

Not analysed: Two firms which did not answer question 14(a) and nine companies which completed the brief questionnaire only.

As three of the firms were the same as those which were responsive to special depreciation allowance and advanced

⁵ χ^2 (corrected) equals 0.09, df. equals one.

⁶ χ^2 (corrected) equals zero, df. equals one.

the planned purchase of plant and machinery, the reasons given above also apply. In addition, one further firm answered that the availability of external finance, a revised assessment of demand and profitability and changes in the investment allowance resulted in the advancement of the planned purchase of plant and machinery.

Although two firms answered in question fourteen that investment allowance had resulted in the acquisition of plant and machinery at an earlier time than planned, one of these companies answered that the planned purchase of new plant and machinery was not brought forward as a result of the re-introduction of the investment allowance in 1970 (see question twenty-one). This company also answered "No" to question 16D. The second firm gave the opposite answer to these questions. Both companies were not responsive to the suspension or abolition of investment allowance (see questions seventeen and eighteen).⁷

The above discussion reveals no statistically significant relationships between the answers given to questions 16A(i) and 16D and the length of forward programme for the planned purchase of plant and machinery or the extent to which items in such plans were postponed or advanced.

⁷ Questions seventeen and eighteen are discussed in Chapter XII.

APPENDIX M
ESTIMATING NET OUTPUT FORGONE AS A RESULT OF
DELAYING OR ABANDONING CAPITAL EXPENDITURE
PROJECTS FOLLOWING THE SUSPENSION OR ABOLITION
OF INVESTMENT ALLOWANCE

In this appendix a method is suggested which might be used to estimate the amount of net output forgone if capital expenditure projects were delayed or abandoned following the suspension or abolition of investment allowance. The suggested approach is applied to provide a first estimate of net output (net value added) which would have been forgone in 1971 if participants delayed or abandoned capital expenditure project approvals as indicated by their answers to questions 17(2) and 18(2). Inadequate data severely limits the reliability of this exercise.

If capital expenditure projects are delayed or abandoned as a result of the suspension or abolition of investment allowance, it would be interesting to compare the net output forgone with the additional taxation arising from the suspension or abolition of investment allowance. It would also be interesting to compare net output forgone with the cost in terms of tax deductions for investment allowance which would have been incurred if investment allowance could have been applied only to projects which would have been abandoned or delayed without that allowance. The net output forgone should be computed for the entire life of projects which would be abandoned and for the period during which projects would be delayed. However, such an exercise is impossible on the basis

of available data. A less ambitious investigation would be to estimate net output forgone in the first year in which the relevant projects would have been abandoned or suspended and to compare this with the cost in terms of taxation deductions for investment allowance granted in respect of all qualifying assets.

A significant problem arises from the need to determine the amount of net output contributed by capital expenditure projects which would be delayed or abandoned if investment allowance were suspended or abolished. It appears reasonable to compute a marginal capital-output ratio to link capital expenditure to net output. As projects which would be influenced by the suspension or abolition of investment allowance might be expected to be less profitable than projects which would be undertaken without investment allowance, a marginal capital-output ratio appears to be appropriate. One method of computing a marginal capital-output ratio would be to determine the change in net output which occurred during a given year and to ascertain the aggregate amount of capital expenditure projects first brought into operation in that year. A disadvantage of this approach is that the entire change in net output is assumed to relate to the new capital expenditure projects. No allowance is made for changes in capacity utilisation, the number of establishments surveyed or inflation.¹ Despite this disadvantage, the above approach

¹It may be possible to make some allowance for inflation and for changes in capacity utilisation on the basis of price indices and data on hours worked respectively. However, refinements of this nature are not made as other estimates are subject to such a wide margin of error that such adjustments would not significantly affect the results given below.

appears to be the best available.

From the answers given to questions 17A(2) and 18A(2) it was estimated that the abolition or suspension of investment allowance would have resulted in a decline in minor capital expenditure approvals of \$1 million and \$1.5 millions respectively in the 1971 year. Three participants would also have delayed or abandoned major capital expenditure projects. As these companies were not requested to indicate the value of the relevant major projects, it is assumed that these firms delayed or abandoned all of their capital expenditure projects in 1971. On this basis the value of capital expenditure projects which would not have been undertaken in 1971 would have been between \$1 million and approximately \$7 millions.

Provisional Industrial Production Statistics for the 1971-72 year indicate that net output increased by \$132.8 millions over that of the previous year.² In 1971-72 capital expenditure projects amounting to \$252.2 millions were brought into operation.³ On this basis each marginal dollar of capital expenditure resulted in an increase of net output of about fifty cents in 1971-72. Thus the capital expenditure projects which would not have been approved by participants in 1971 had investment allowance been suspended or abandoned might have contributed between \$0.5 millions and \$3.5 millions to net output. This compares with the taxation forgone as a result of claims for investment allowance by all participants

²Department of Statistics, "Industrial Production 1971/72", News Release, 73/59, 25 September, 1973.

³loc.cit.

of about \$3.3 millions.

It would be desirable to apply the above suggested method to capital expenditure which would have been delayed or abandoned if special depreciation were suspended or abolished. However, this would raise an additional problem in that the taxation forgone as a result of claims for special depreciation is more difficult to estimate.

It should not be necessary to stress that the above calculation is based on inadequate data and important assumptions, which might apply in respect of a large cross section of industrial activity but may be unreasonable in respect of a few marginal projects. The above is intended to illustrate a suggested approach which might provide an interesting result if suitable data were available.

APPENDIX NTHE SUSPENSION OR ABOLITION OF SPECIAL DEPRECIATION
OR INVESTMENT ALLOWANCE AND THE FLEXIBILITY OF THE
PLANNED PURCHASE OF PLANT AND MACHINERY

In this appendix the relationship between the responsiveness of firms to the suspension or abolition of special depreciation or investment allowance and the flexibility of the planned purchase of plant and machinery is examined.¹ The four variables investigated are; the length of forward programme for the planned purchase of significant items of plant and machinery and the postponement, abandonment and advancement of the planned purchase of significant items of plant and machinery.

Firms which have a longer forward programme for the purchase of significant items of plant and machinery may be more responsive to taxation incentives and concessions than those firms which do not have a forward programme or plan for a short period. The former firms may advance implementation of the plans in order to qualify for concessions, whereas firms with no forward programme might be required to develop proposals from scratch in order to qualify.

In Exhibits N-1 to N-4 the responsiveness to the suspension or abolition of special depreciation or investment allowance is classified by the length of forward programme for the purchase of significant items of plant and machinery. The responsiveness of firms which have a forward programme

¹The answers given to questions 17A(1), 17A(2), 18A(1) and 18A(2) are classified by the answers given to questions eleven to fourteen.

EXHIBIT N-1RESPONSIVENESS TO THE SUSPENSION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE LENGTH OF FORWARD PROGRAMME FOR THE PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Length of Forward Programme		Total
	Not More Than Two Years	More Than Two Years	
Responsive	4	2	6
Not Responsive	18	18	36
Total	22	20	42

Not analysed: One firm which did not answer question eleven and nine participants which completed the brief questionnaire only. One of these companies was responsive.

EXHIBIT N-2RESPONSIVENESS TO THE SUSPENSION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE LENGTH OF FORWARD PROGRAMME FOR THE PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Length of Forward Programme		Total
	Not More Than Two Years	More Than Two Years	
Responsive	4	2	6
Not Responsive	18	17	35
Total	22	19	41

Not analysed: One firm which did not answer question eleven and nine participants which completed the brief questionnaire only. One of these companies was responsive.

EXHIBIT N-3RESPONSIVENESS TO THE ABOLITION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE LENGTH OF FORWARD PROGRAMME FOR THE PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Length of Forward Programme		Total
	Not More Than Two Years	More Than Two Years	
Responsive	4	1	5
Not Responsive	18	19	37
Total	22	20	42

Not analysed: One firm which did not answer question eleven and nine participants which completed the brief questionnaire only. All of these companies were not responsive.

EXHIBIT N-4RESPONSIVENESS TO THE ABOLITION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE LENGTH OF FORWARD PROGRAMME FOR THE PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Length of Forward Programme		Total
	Not More Than Two Years	More Than Two Years	
Responsive	4	1	5
Not Responsive	18	18	36
Total	22	19	41

Not analysed: One firm which did not answer question eleven and nine participants which completed the brief questionnaire only. All of these companies were not responsive.

covering a period two years or less is compared with that of firms which have a forward programme covering a period of more than two years. The data given in the above exhibits reveals that responsiveness to the suspension or abolition of the allowances under study is independent of the length of forward programme for the purchase of significant items of plant and machinery.²

In the next four exhibits (Exhibits N-5 to N-8) the responsiveness to the suspension or abolition of special depreciation or investment allowance is classified by whether the planned purchase of significant items of plant and machinery was postponed in the five-year period ended 31 December, 1971 or nearest balance date. Firms which postponed the planned purchase of such assets in the recent past may be more responsive to special depreciation and investment allowances than other firms.

Five of the seven firms which were responsive to the suspension of special depreciation and investment allowances answered that they had postponed the planned purchase of plant and machinery during the relevant period. Three of the five firms which were responsive to the abolition of these allowances gave a similar answer. These results are not statistically significant.³

²For the suspension of special depreciation and investment allowances X^2 (corrected) equals 0.13 and 0.08 respectively. For the abolition of special depreciation and investment allowances X^2 (corrected) equals 0.74 and 0.59 respectively. In all cases df. equals one.

³For the suspension of special depreciation and investment allowances X^2 (corrected) equals 0.07 in both cases. For the abolition of special depreciation and investment allowances X^2 (corrected) equals zero and 0.01 respectively. In all cases df. equals one.

EXHIBIT N-5RESPONSIVENESS TO THE SUSPENSION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed the Planned Purchase of Plant and Machinery	Did Not Postpone the Planned Purchase of Plant and Machinery	Total
Responsive	5	2	7
Not Responsive	24	11	35
Total	29	13	42

Not analysed: One firm which did not answer question 12(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-6RESPONSIVENESS TO THE SUSPENSION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed the Planned Purchase of Plant and Machinery	Did Not Postpone the Planned Purchase of Plant and Machinery	Total
Responsive	5	2	7
Not Responsive	23	11	34
Total	28	13	41

Not analysed: One firm which did not answer question 12(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-7RESPONSIVENESS TO THE ABOLITION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed the Planned Purchase of Plant and Machinery	Did Not Postpone the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	26	11	37
Total	29	13	42

Not analysed: One firm which did not answer question 12(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-8RESPONSIVENESS TO THE ABOLITION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE POSTPONEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Postponed the Planned Purchase of Plant and Machinery	Did Not Postpone the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	26	11	37
Total	29	13	42

Not analysed: One firm which did not answer question 12(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

To test whether the responsiveness to the suspension or abolition of these allowances is related to whether participants abandoned the planned purchase of significant items of plant and machinery in the five-year period ended 31 December, 1971 or nearest balance date Exhibits N-9 to N-12 were prepared. Three of the thirteen firms which abandoned the planned purchase of plant and machinery were responsive to the suspension or abolition of the allowances being investigated. Firms which abandoned the planned purchase of plant and machinery were no more responsive to the suspension or abolition of special depreciation or investment allowance than were other firms.⁴

A similar analysis, in which the responsiveness of firms to the suspension or abolition of special depreciation or investment allowance is classified by whether the planned purchase of significant items of plant and machinery was brought forward in the five years ended 31 December, 1971 or nearest balance date, is presented in Exhibits N-13 to N-16. As with the above analyses, firms which advanced the planned purchase of significant items of plant and machinery were no more responsive to the suspension or abolition of special depreciation or investment allowance than were other firms.⁵

From the above investigation, we may conclude that the responsiveness of firms to the suspension or abolition of

⁴ For the suspension of special depreciation and investment allowance X^2 (corrected) equals 0.13 and 0.07 respectively. For the abolition of special depreciation and investment allowances X^2 (corrected) equals 0.09 and 1.08 respectively. In all cases df. equals one.

⁵ For the suspension of special depreciation and investment allowances X^2 (corrected) equals zero and for the abolition of these allowances X^2 (corrected) equals 0.16. In all four cases df. equals one.

EXHIBIT N-9RESPONSIVENESS TO THE SUSPENSION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE ABANDONMENT OF THE PLANNED PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Abandoned the Planned Purchase of Plant and Machinery	Did Not Abandon the Planned Purchase of Plant and Machinery	Total
Responsive	3	4	7
Not Responsive	10	26	36
Total	13	30	43

Not analysed: Nine companies which answered the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-10RESPONSIVENESS TO THE SUSPENSION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE ABANDONMENT OF THE PLANNED PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Abandoned the Planned Purchase of Plant and Machinery	Did Not Abandon the Planned Purchase of Plant and Machinery	Total
Responsive	3	4	7
Not Responsive	10	25	35
Total	13	29	42

Not analysed: Nine companies which answered the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-11RESPONSIVENESS TO THE ABOLITION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE ABANDONMENT OF THE PLANNED PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Abandoned the Planned Purchase of Plant and Machinery	Did Not Abandon the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	10	28	38
Total	13	30	43

Not analysed: Nine companies which answered the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-12RESPONSIVENESS TO THE ABOLITION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE ABANDONMENT OF THE PLANNED PURCHASE OF SIGNIFICANT ITEMS OF PLANT AND MACHINERY

	Abandoned the Planned Purchase of Plant and Machinery	Did Not Abandon the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	10	27	37
Total	13	29	42

Not analysed: Nine companies which answered the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-13RESPONSIVENESS TO THE SUSPENSION OF SPECIAL DEPRECIATION ALLOWANCE: CLASSIFIED BY THE ADVANCEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Advanced the Planned Purchase of Plant and Machinery	Did Not Advance the Planned Purchase of Plant and Machinery	Total
Responsive	3	3	6
Not Responsive	19	16	35
Total	22	19	41

Not analysed: Two firms which did not answer question 14(a) and nine participants which completed the brief questionnaire only. One of these firms was responsive.

EXHIBIT N-14RESPONSIVENESS TO THE SUSPENSION OF INVESTMENT ALLOWANCE: CLASSIFIED BY THE ADVANCEMENT OF THE PLANNED PURCHASE OF PLANT AND MACHINERY

	Advanced the Planned Purchase of Plant and Machinery	Did Not Advance the Planned Purchase of Plant and Machinery	Total
Responsive	3	3	6
Not Responsive	20	14	34
Total	23	17	40

Not analysed: Two companies which did not answer question 14(a) and nine firms which completed the brief questionnaire only. One of these firms was responsive.

EXHIBIT N-15RESPONSIVENESS TO THE ABOLITION OF SPECIAL DEPRECIATION
ALLOWANCE: CLASSIFIED BY THE ADVANCEMENT OF THE PLANNED
PURCHASE OF PLANT AND MACHINERY

	Advanced the Planned Purchase of Plant and Machinery	Did Not Advance the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	19	17	36
Total	22	19	41

Not analysed: Two firms which did not answer question 14(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

EXHIBIT N-16RESPONSIVENESS TO THE ABOLITION OF INVESTMENT ALLOWANCE:
CLASSIFIED BY THE ADVANCEMENT OF THE PLANNED PURCHASE OF
PLANT AND MACHINERY

	Advanced the Planned Purchase of Plant and Machinery	Did Not Advance the Planned Purchase of Plant and Machinery	Total
Responsive	3	2	5
Not Responsive	20	15	35
Total	23	17	40

Not analysed: Two firms which did not answer question 14(a) and nine participants which completed the brief questionnaire only. All of these firms were not responsive.

special depreciation or investment allowance is independent of the length of forward programme for the planned purchase of significant items of plant and machinery and of whether the planned purchase of such items was postponed, abandoned or advanced.

APPENDIX O
METHODOLOGY FOR MAIL QUESTIONNAIRE
SURVEY OF PUBLIC COMPANIES

INTRODUCTION

In this appendix the methods employed in conducting a mail questionnaire survey of certain public companies are presented. The size and significance of participants in relation to non-participants and to total industrial activity is also discussed. A copy of the covering letter, questionnaire, follow-up letter, cover letter for the brief questionnaire, the brief questionnaire and the tabulated results are presented as exhibits at the end of this appendix.

SAMPLE SELECTION

New Zealand domiciled public companies listed on a New Zealand Stock Exchange and engaged in significant manufacturing and/or transport activities were included in this survey. Companies not listed on a Stock Exchange were excluded, as financial information relating to their recent past is not readily available. The availability of such information has made it possible to use the same samples for PART TWO and to cross-check some of the comments drawn from Annual Reports. Companies engaged in activities other than those given above did not qualify for special depreciation and investment allowances. The effect of these concessions on the capital expenditure decisions of firms and the methods of accounting for them are of primary interest in this study. Some difficulty arose in determining

the extent to which qualifying activities were undertaken by firms primarily engaged in non-qualifying activities. As no reliable information is available on this, some inconsistencies may have arisen. To date, no information has come to the attention of the writer suggesting that a firm was wrongly included or excluded under this criterion.

To eliminate smaller firms which were unimportant in relation to the larger companies, companies owning total assets net of depreciation of less than \$1.5 millions or plant and machinery at cost of less than \$500,000 were excluded. Data for this purpose was taken from the latest published Annual Report on 1 October, 1972. Eight firms which meet other criteria given, were eliminated under this criterion.

On the basis of the above selection procedures, one hundred and twelve companies qualified for inclusion in the sample. One of these companies, which was subject to a takeover bid at the time of mailing the questionnaire, was also eliminated. This company was subsequently de-listed. The sample for the survey was therefore one hundred and eleven listed companies. This is equivalent to about forty-five per cent of all New Zealand companies listed on a Stock Exchange on 1 October, 1972.

METHOD OF COLLECTING DATA

A mail questionnaire approach was adopted for this survey. This method enables an executive to complete the questionnaire at his own convenience, enables a wide geographical spread of participants, provides comparable data and avoids the need for considerable field work by the writer. The chief disadvantage of the questionnaire

method is that one is limited in the extent to which interesting answers may be followed-up. Moreover, answers which are unclear or conflict with other answers cannot be clarified. The questionnaire may also be answered by a person with insufficient knowledge of the subject matter or it may be answered in a hurry and with insufficient thought as to the most appropriate answer.

As the relative strengths and weaknesses of various methods of collecting data are widely discussed elsewhere, further comment on this aspect of the survey is not necessary.¹

DRAFTING OF THE QUESTIONNAIRE

In all surveys there is a trade-off between the amount of data requested and the desired participation rate. The penalty for seeking too much data is a significant decline in the participation rate.

As little empirical research on depreciation policy has been undertaken in New Zealand, there was little information as to those aspects which would provide the most fruitful results. Moreover, the number of companies was rather small and hence a series of pre-tests was not feasible. It was decided to include a larger number of questions than might otherwise be advisable and to accept a lower participation rate.

¹See, for example, W.J. Goode and P.K. Hatt, Methods in Social Research, McGraw-Hill, New York, 1952; C.A. Moser and G. Kalton, Survey Methods in Social Investigation, Heinemann, London, 1971, 256-349; Des Raj, The Design of Sample Surveys, McGraw-Hill, New York, 1972, 116-25. For a criticism of the use of the questionnaire method in studying capital expenditure, see Robert Eisner, "Interview and Other Survey Techniques and the Study of Investment" in National Bureau of Economic Research, Problems of Capital Formation: Concepts, Measurement, and Controlling Factors, Princeton University, New Jersey, 1957, 513-8.

As participants were given the opportunity of replying anonymously, questions relating to the size and growth of the companies were included in the questionnaire. In retrospect, this may not have been necessary as only four questionnaires were completed anonymously. It may be argued that the omission of these questions may have increased the participation rate.

Although a number of questions were objective, key questions required an expression of opinion on a hypothetical situation. This was necessary to evaluate the probable effect of a change in policy. One would expect the answers to these questions to be less reliable than those given to factual questions. Furthermore, the answers given may depend on the view of the particular person who completed the questionnaire rather than that of the true decision-maker in the company.

The ordering of questions was intended to provide a logical sequence and also to introduce the participants to those questions which were expected to be more easily answered prior to answering questions sixteen to eighteen which were the key hypothetical questions.

The majority of questions were highly structured (Yes/No or Yes/No/N.A.). In addition, participants were invited to add any comments which they considered would be helpful. Although these comments are quoted to illustrate certain answers, it would be unwise to assume that they apply to companies other than those which made the comments.

THE FORMAL TESTING OF THE DRAFT QUESTIONNAIRE

Four of the one hundred and eleven companies were selected for the testing of the draft questionnaire. These companies were selected as their financial executives were

expected to take a more-than-average interest in the project and to offer constructive criticisms of the draft from the participant's point of view. On average the four test companies were larger than the sample as a whole. Their activities covered a wide range and therefore the test covered the various incentives and concessions.

A member of the staff of the Department of Management Studies wrote to the selected executives, who were personally known, seeking their co-operation. All four executives agreed to participate and were mailed a copy of the draft questionnaire. Difficulties which arose in answering the questionnaire were discussed in an interview which lasted one hour. Helpful comments were also obtained on the content of the questionnaire.

An executive of a subsidiary of one company included in the one hundred and eleven companies and one academic (who was not directly concerned with supervision of this study) also participated in the formal testing of the questionnaire.

During the testing phase, the 1972 Budget was presented. As changes were made to the investment allowance and the increased exports tax incentive, question twenty-nine was added and questions twenty-seven and twenty-eight were modified. The companies participating in the testing of the questionnaire were requested to answer the additional and amended questions.

The answers given by the four companies which tested the draft questionnaire and were included in the sample have been analysed with the answers given by other participants. The comments arising from interviews with these companies and a follow-up interview with the chief executive

and an assistant general manager of a large participant have been treated as if such comments were added to their questionnaires.

SURVEY PROCEDURES

Two copies of the questionnaire (one of which was to be retained as a record of the company's answers) were mailed to the selected companies in three batches on 27, 30 and 31 October, 1972. The questionnaires were accompanied by a covering letter personally addressed to the secretary or similar officer (example, controller).² A pre-addressed, reply-paid envelope was also enclosed.

Early in November, Professor Schmitt wrote to eight prominent company directors, requesting their support for the investigation, should the questionnaire be brought to their notice. These directors served on the Boards of twenty-four different companies.³

On 6 February, 1973 companies other than those known to have replied were sent a follow-up letter.⁴ This requested these companies to reply by 16 March, emphasised the need for a representative sample, gave the percentage of questionnaires completed to date, emphasised the importance of the subject matter, reiterated that the tabulated results would be circulated and thanked those companies which replied anonymously. Although further questionnaires were not mailed, companies were informed that additional copies could be obtained by

²A copy of the covering letter and the questionnaire is presented in Exhibit O-3 which follows this appendix.

³There was no statistically significant difference in the participation rate from the twenty-four companies compared with that of other companies ($p > 0.05$).

⁴A copy of the follow-up letter is given in Exhibit O-4.

writing. One such request was received.

From an analysis of questionnaires completed by the end of February, it was possible to identify a trend in answers and to determine key questions. A much briefer questionnaire was therefore prepared.⁵ The sequence of questions was amended in some cases to obtain a suitable layout, although related questions were not separated.

On 22 March, non-participants were requested to complete at their convenience the brief questionnaire. As with the original questionnaire, two copies of the brief questionnaire were mailed to each firm. The covering letter was also brief, as the relevant officers had presumably read the original covering letter and the follow-up letter.⁶

The return of completed questionnaires, other than anonymous questionnaires, was acknowledged by a letter addressed to the person who completed the questionnaire (where this was known) or the officer to whom the questionnaire was originally sent. One company which was unable to participate, refused a request that the questionnaire be completed by a division of its group. Two companies which did not answer questions seventeen and eighteen were sent a further copy of these questions. One of these companies returned the completed questions. Those companies which indicated that they were unable to participate in the survey were thanked for writing.

⁵ To distinguish between the questionnaires, the long questionnaire which was mailed in October will be referred to as the "original questionnaire" and this shorter questionnaire will be termed the "brief questionnaire".

⁶ A copy of the covering letter and the brief questionnaire is given in Exhibit O-5.

No information was obtained on non-participants, other than that obtained from the Annual Reports of these companies. As these companies may differ in some significant way from participants, the results of this survey should be regarded as applicable to the fifty-five participants only.

PARTICIPATION RATE

Of the one hundred and eleven companies requested to participate in the survey, forty-six (forty-one per cent) completed the original questionnaire and nine (eight per cent) completed the brief questionnaire. The total participation rate of 49.5 per cent was close to the target rate of fifty per cent. The effects of the various follow-up procedures are presented in Exhibit O-1.

BIAS OF ANSWERS

As this survey examined an important area of public policy, it is possible that answers given were influenced by the desire to promote as far as possible the sort of conclusions which might support those changes in government policy desired by participants. For example, if participants desired an increase in ordinary tax rates of depreciation they might understate the adequacy of those rates in order that a conclusion might be drawn that they were inadequate. Such a conclusion might be used later to support a case for an upward revision of ordinary tax rates of depreciation. It should not be assumed that the bias is in one direction. Participants may understate the effect of special depreciation on the nature, timing and amount of capital expenditure to promote a conclusion that the effectiveness of this allowance might be improved by increasing the rate of special depreciation allowance. Alternatively, participants might overstate

the effectiveness of the above allowance to promote the view that a reduction in the rate of special depreciation allowance or its withdrawal would result in a considerable adverse change in the nature, timing and amount of capital expenditure undertaken by participants.

The magnitude of bias is impossible to assess and no allowance has been made in tabulating the answers, or in the statistical analysis.

EXHIBIT O-1
REPLIES TO MAIL QUESTIONNAIRE

	Number of Companies	Per Cent of Sample
<u>A. Original Questionnaire</u>		
(i) Completed Prior to Mailing of Follow-up Letter	31	28
(ii) Completed After Mailing of Follow-up Letter	15 ¹	13
Original Questionnaire Completed	— 46	— 41
<u>B. Brief Questionnaire</u>		
(i) Completed by 2 October, 1973	9 —	8 —
Total Questionnaires Completed:	55	49
<u>C. Refusals</u>	9	8
<u>D. No Reply</u>	47 —	43 —
Total:	111 —	100 —

¹Two of these were completed after the mailing of the brief questionnaire.

TABULATION OF ANSWERS

All of the completed questionnaires have been analysed. Although some questions were not answered or the answers were conflicting or unclear, all companies satisfactorily answered at least one group of related questions (for example, questions six to ten on taxation rates of depreciation). Answers which were unclear or inconsistent have been recorded as if the question were not answered. Where possible, the answers given to questions were cross-checked with information given in the Annual Reports of participants. In general, the questionnaires were well answered.

The answers to all questions were tabulated by the writer. Completed questionnaires were given an identification symbol which was listed on summary sheets for each question. The appropriate answer was transcribed from the questionnaire to the correct column of the summary sheet on the line indicated by the symbol. Totals were reconciled with the number of participants. All steps in tabulating the results were double checked.

A copy of the tabulated results of the survey was mailed to participants in November, 1973 and participants were again thanked for their assistance (see Exhibit O-6).

STATISTICAL METHODS

Although the proportion of firms indicating a particular answer to a question may differ from the proportion giving an alternative answer (or alternative answers), the differences may relate to chance. It is therefore necessary to employ statistical tests to determine whether the observed results differ significantly from the expected results. Three tests are employed; the binomial, chi-squared and

Fisher tests.⁷ The selection and application of these tests have been made on the basis of the principles given by Sidney Siegel in Nonparametric Statistics: For the Behavioral Sciences.⁸

The null hypothesis, that there is no difference in the answers given, may be falsely rejected on the basis of sample data. The probability of such a mistake, which is given by α , is not greater than 0.05. This is a customary level of significance.

In comparing the answers given to any one question and some other factor (for example, size of participants), it has been necessary to aggregate some of the answers given. This is necessary as a small expected frequency prohibits the use of the chi-square test. In particular, it has been necessary to omit from the analysis those firms for which some of the relevant data is not available. It would have been preferable to treat these firms as a separate classification and to include them in the statistical analysis. The number of firms falling into this category is given under each table. These problems arise from the sample size.

In the tabulated answers and in the text the percentage given for any one answer is calculated from the total of "Yes" and "No" (or equivalent) given. Those firms which answered that the question was not applicable or did not answer the relevant question were excluded in calculating the percentages and in preparing other analyses.

⁷ For the chi-squared test, chi-squared is given by x^2 and the degree of freedom is given by df.

⁸ Sidney Siegel, Nonparametric Statistics: For the Behavioral Sciences, McGraw-Hill, New York, 1956, 35-47 and 95-111.

MEASURE OF SIZE AND GROWTH

Appropriate measures of the size and growth of participants were required to determine whether the answers given were independent of these factors.

The most appropriate measure of size appeared to be the accumulated cost of plant and machinery.⁹ This measure gives an indication of the importance of depreciation policy on plant and machinery to participants and is at the same time independent of firms' depreciation policies. The main disadvantage of this measure is that price changes tend to invalidate comparisons over time.

Owing to the small number of completed questionnaires it was necessary to limit the number of classifications. For this reason firms are termed small or large in relation to size and as slow or fast in respect of growth. A small firm is defined as one which owned plant and machinery having an accumulated cost (that is gross of depreciation) on 31 December, 1971 or nearest balance date of less than \$5 millions. The size of two firms which anonymously answered the brief questionnaire is unknown. Of the remaining fifty-three participants, twenty-nine are classified as small and twenty-four as large firms.

The increase in the accumulated cost of plant and machinery during the five year period ended 31 December, 1971 or nearest balance date over the cost of such assets on the base date (31 December, 1966 or nearest balance date) has been used as a measure of growth. This measure is related to the measure of size. Three firms which were not

⁹Other measures considered were: the cost and amount net of depreciation of fixed and total assets, amount net of depreciation of plant and machinery and the value of sales.

established as listed companies on the base date did not disclose their rate of growth.

The most frequently used measure of growth, the change in number of employees, was rejected as a negative growth may indicate the replacement of men by machines. The measure adopted identifies the rate of acquisition of plant and machinery.

A serious difficulty with any measure of growth arises from takeovers and mergers. These produce artificial growth as the aggregate of productive plant and machinery is not increased. From the tabulated answers to question 4(d) it can be seen that a larger proportion of fast growth firms answered that their rate of growth was significantly affected by takeovers and mergers. As there appeared to be no simple solution to this problem, no adjustments were made to the measure of growth.

Twenty-seven companies which increased their cost of plant and machinery by less than seventy-five per cent were termed slow growth firms. Twenty-three other firms form the fast growth group. Three of the former group answered that their growth was significantly affected by takeovers and mergers. The growth of five firms could not be calculated. Two of these answered anonymously and three, which commenced operations or were listed during the five year period, answered that the question was not applicable.

THE SIZE AND SIGNIFICANCE OF PARTICIPANTS

The fifty-three (forty-eight per cent) known participants were on average larger than non-participants (including two anonymous participants). They accounted for fifty-eight per

cent of total profit after-tax of the one hundred and eleven companies and more than sixty per cent of; depreciation charged, plant and machinery, fixed assets and total assets (see Exhibit O-2). The depreciation charged by participants was equivalent to seventy-eight per cent of profit after-tax compared with seventy per cent for non-participants.

The above indicators would suggest that participants were on average larger than were non-participants and that a higher proportion of those firms for which depreciation policy was particularly important completed the questionnaire.

The total of capital expenditure incurred on plant and machinery by participants in the year ended 31 December, 1971 or nearest balance date was \$74 millions.¹⁰ This figure was significantly influenced by the amount of capital expenditure undertaken by one company. Excluding that participant, the average per firm was \$940,000.

Further information on the size of participants may be obtained from the tabulated answers to questions three to five.

A guide to the size and significance of participants in relation to total industrial activity may be obtained by comparing the size of participants with the aggregate of establishments surveyed for the Statistics of Industrial Production. Two or more persons engaged in manufacturing, repairing or assembly of articles at any one place form an "establishment". Although there are differences in coverage and methods of compiling data, the comparison provides an indication of the overall significance of participants.

¹⁰The total given excludes four firms which did not answer question five.

EXHIBIT O-2

THE SIZE OF PARTICIPANTS COMPARED WITH THE
SIZE OF PARTICIPANTS AND NON-PARTICIPANTS¹

Indicators of Size	Participants	Participants Plus Non- Participants	Participants as a Percentage of Participants and Non-Participants
1. Profit After-Tax (\$ millions)	56.5	98.2	57.6
2. Depreciation Charged (\$ millions)	44.1	69.1	63.8
3. Depreciation Charged: Profit After-Tax (%)	78.1	70.4	-
4. Plant and Machinery at Cost (\$ millions)	488.3	797.2	61.2
5. Plant and Machinery Net of Depreciation (\$ millions)	250.8	382.2	65.6
6. Fixed Assets Net of Depreciation (\$ millions)	651.5	1,023.5	63.6
7. Total Assets Net of Depreciation (\$ millions)	1,338	2,166	61.8

¹Two participants which replied anonymously are included as non-participants.

Source: Compiled from the Annual Reports of one hundred and eleven companies for the year ended 31 December, 1971 or nearest balance date.

The amount of plant and machinery net of depreciation owned by participants on 31 December, 1971 or nearest balance date was \$250.8 millions. The equivalent amount for establishments surveyed in 1971-72 was provisionally estimated to be \$605.5 millions.¹¹ On this basis participants accounted for about forty per cent of the total. The total capital expenditure on plant and machinery brought into use between the second day of the 1970-71 year and the first day of the 1971-72 year was provisionally estimated to be \$252 millions.¹² In the year ended 31 December, 1971 or nearest balance the capital expenditure of participants amounted to \$74 millions or thirty per cent of the amount given for establishments.

From the above it can be seen that participants accounted for not less than thirty per cent of the total activity. When allowance is made for the fact that assets and capital expenditure other than that used in manufacturing, repairing or assembly have been excluded from the industrial production statistics and included in the aggregates for participants, this figure would appear to overstate (to an unknown degree) the size and significance of participants. It should be apparent, however, that the fifty-five participants account for a significant proportion of total industrial activity.

¹¹ Department of Statistics, "Industrial Production 1971/72", News Release, 73/59, 25 September, 1973.

¹² loc.cit.

EXHIBIT O-3
COVERING LETTER AND QUESTIONNAIRE USED
IN MAIL SURVEY OF PUBLIC COMPANIES



University of Waikato

HAMILTON . NEW ZEALAND . TELEPHONE 65-179

SCHOOL OF MANAGEMENT STUDIES

30 October, 1972

I am currently studying, under the supervision of Professor G.J. Schmitt, for a Doctor of Philosophy degree in Management Studies at the above University. I am writing to seek your assistance with my investigations by requesting you to arrange for the completion of the enclosed questionnaire.

My research topic is "A Survey of Depreciation Policies of New Zealand Public Companies". An important part of this study is an attempt to determine by direct enquiry the effect on the extent, nature and timing of capital expenditure of additional, supplementary and special depreciation allowances.

The enclosed questionnaire is being forwarded to approximately one hundred leading public companies. It is felt that knowledge of the experience of these companies will assist in providing a realistic evaluation of the effects of the above allowances.

As this questionnaire is concerned with capital expenditure decisions, it is suggested that the questionnaire might appropriately be completed by the officer most closely associated with the financial evaluation of capital expenditure proposals.

Access to data from individual replies to this questionnaire will be restricted to Professor Schmitt and myself. I should like to point out that our interest is in the general situation rather than the position of individual companies. In addition, no information that could be related to an individual company will be included in any report of this research without the explicit approval of the company concerned.

The tabulated results of this survey will be forwarded to participants. To enable you to compare your answers with those of other participants it is suggested that you might retain a copy of the questionnaire and your answers. For this purpose a second copy of the questionnaire has been enclosed.

I trust that you will feel that a comprehensive study of these allowances is important and will assist me in this task. I look forward to receiving the completed questionnaire, and would be most appreciative of any comments or suggestions you may wish to make.

Yours sincerely,

G.E. DWYER

QUESTIONNAIREDepreciation AllowancesIntroduction

This questionnaire, for the most part, seeks to make comparisons of an actual situation with the position which would exist if a given policy change were to occur, while all other factors remained constant. This approach enables the relevant variables to be isolated from the other numerous factors which influence capital expenditure decisions.

Interpretation

The term "approved capital expenditure project" is used to denote those projects on which the management or Board of Directors (whichever is relevant) has taken a firm decision to proceed. This will usually (though not always) mean that the company has undertaken a commitment to an external party in respect of some significant part of the project. It is desired to distinguish approval of the project, as such, from the approval of capital expenditure outlays which may follow many months after a firm decision to proceed with the project has been made.

For the purposes of this questionnaire, the term "plant and machinery" should be given a broad interpretation to include items which, although not falling under that heading, are nevertheless, (in a broad sense) the plant or machinery of a particular type of undertaking (e.g. ships, aircraft).

Procedure

The questions listed below are generally of two types, i.e. Yes/No (or Yes/No/N.A.) questions and multiple choice questions. In the case of the former type the incorrect answer(s) should be deleted, whereas the latter type may be answered by placing a tick in the box alongside the most appropriate answer. Each question is independent of prior and subsequent questions, although parts of questions are related. If a question is not applicable to your company "N.A." should be placed in the box alongside any one of the possible answers for that question.

In answering this questionnaire please feel free to add any additional comments or explanations which you consider may be helpful.

1. Please give your company's name. If your company prefers to remain anonymous please omit this question.

Name of Company :

2. Please rank the following activities in descending order of their importance (so far as they are significant) to your company. That is, place a "1" beside the most important activity and a "2" beside the second most important activity etc. Those activities which are not applicable to your company should be omitted.

A. Manufacturing:

- (i) Meat processing, ()
- (ii) Beverages, ()
- (iii) Other food, ()
- (iv) Woollen mills, ()
- (v) Clothing, ()
- (vi) Forestry and wood products, ()
- (vii) Pulp and paper, ()
- (viii) Printing and publishing, ()
- (ix) Drugs and chemicals, ()
- (x) Non-metallic minerals, ()
- (xi) Metals and machinery, ()
- (xii) Electrical machinery and appliances, ()
- (xiii) Motor vehicle assembly, ()
- (xiv) Plastic products, ()
- (xv) Rubber products, ()
- (xvi) Manufacturing not elsewhere included;
- (a) ()
- (b) ()
- (c) ()

B. Other than manufacturing :

- (xvii) Construction, ()
- (xviii) Engineering, ()
- (xix) Hotels and motels, ()
- (xx) Property development, ()
- (xxi) Retail, ()

- (xxii) Stock and station agency, ()
- (xxiii) Transport, ()
- (xxiv) Wholesale, ()
- (xxv) Other than manufacturing not elsewhere included ;
- (a) ()
- (b) ()
- (c) ()

3. Was the value of your company's sales for the year ended 31 December 1971 or nearest balance date between :

- (i) 0 and under \$5 millions,
- (ii) \$5 millions and under \$10 millions,
- (iii) \$10 millions and under \$20 millions,
- (iv) \$20 millions and under \$50 millions, or
- (v) \$50 millions and over (please specify to nearest \$10 millions) ?

\$..... M

4. (a) Was the accumulated cost (i.e. book value plus accumulated depreciation) of your company's plant and machinery on 31 December 1971 or nearest balance date between :

- (i) 0 and under \$1 million,
- (ii) \$1 million and under \$2 millions,
- (iii) \$2 millions and under \$4 millions,
- (iv) \$4 millions and under \$10 millions, or
- (v) \$10 millions and over (please specify to nearest \$10 millions)?

\$..... M

(b) Does your company lease a significant proportion of its plant and machinery ?

YES / NO

(c) What was the increase in your company's accumulated cost of plant and machinery during the five year period ended 31 December 1971 or nearest balance date, expressed as a percentage of the accumulated cost of plant and machinery on 31 December 1966 or nearest balance date * ?

.....%

* This question might appropriately be answered from information contained in the Annual Reports of your company. There is no need to adjust for revaluations, takeovers or mergers which may have occurred during the relevant period.

(d) Is your answer to question 4(c) significantly affected by takeovers or mergers ?

YES / NO

5. In the year ended 31 December 1971 or nearest balance date what was the amount of capital expenditure incurred * on items of plant and machinery ?

\$.....,000

6. (a) For taxation purposes ordinary depreciation is intended to provide for the annual loss caused by fair wear and tear, other than that which can be made good by repairs. Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising (which are covered by question given below) are the Inland Revenue Department's current rates of ordinary depreciation applicable to your company's plant and machinery :

- (i) Inadequate,
- (ii) Adequate, or
- (iii) More than adequate,

for this purpose (i.e. loss through wear and tear) ?

If you ticked 6(a)(i) please answer (b).

(b) Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising, do ordinary tax rates of depreciation plus special depreciation on your company's plant and machinery provide :

- (i) An inadequate,
- (ii) An adequate, or
- (iii) A more than adequate,

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

* For the purposes of this question "capital expenditure incurred" may be taken to be cash outlaid on capital items during the financial year after adjusting for accruals.

7. (a) Is an adequate allowance for obsolescence, in addition to wear and tear, of your company's plant and machinery, provided by ordinary tax rates of depreciation?

YES / NO

If you answered "NO" to question 7(a) please answer (b).

- (b) Is an adequate allowance for obsolescence, in addition to wear and tear, of your company's plant and machinery provided by ordinary tax rates of depreciation plus special depreciation ?

YES / NO

8. Does your company consider that ordinary rates of depreciation for taxation purposes should allow for increases in the cost of replacing plant and machinery resulting from inflation*?

YES / NO

9. (a) Does your company consider that depreciation charged against revenue for financial reporting purposes ** should allow for increases in the cost of replacing plant and machinery as a result of inflation ?

YES / NO

If you answered "YES" to question 9(a) please answer (b).

- (b) Does your company consider that plant and machinery should be revalued *** to allow for the effects of inflation ?

YES / NO

* This question might appropriately be considered from a policy point of view and hence any limitations contained in current legislation or existing Departmental policy should be ignored.

** For the purposes of this questionnaire the term "financial reporting purposes" refers to the published Annual Accounts of public companies.

*** For the purposes of this questionnaire the word "revalue" should be broadly interpreted to include adjustments for general price level changes, specific price changes, or annual (or periodic) write-up of assets based on a valuer's report.

10. Ignoring the question of replacing or selling buildings when prices are rising, do ordinary tax rates of depreciation on your company's buildings provide :

- (i) An inadequate,
- (ii) An adequate, or
- (iii) A more than adequate,

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

11. Does your company generally prepare a forward programme for the purchase of significant items of plant and machinery for a period of :

- (i) 1 financial year,
- (ii) 2 financial years,
- (iii) 3 financial years,
- (iv) 4 financial years, or
- (v) 5 or more financial years,

before a firm decision to proceed with the purchase is taken by the Board of Directors or management (whichever is relevant) ?

12. (a) Has the planned purchase of any significant items of plant and machinery been postponed at any time during the five year period ended 31 December 1971 or nearest balance date ?

YES / NO

If you answered "YES" to question 12(a) please answer (b).

- (b) Was the postponement of the planned purchase of plant and machinery caused by :

- (i) High interest rates ? YES / NO
- (ii) Difficulties in obtaining finance from external sources ? YES / NO
- (iii) Insufficient generation of finance from internal sources ? YES / NO
- (iv) A revised and less favourable assessment of demand for the planned output, and/or a revised and less favourable assessment of the project's profitability ? YES / NO

(v) Others (please specify) ?

.....
.....
.....
.....

13. (a) Has the planned purchase of any significant items of plant and machinery been abandoned at any time during the five year period ended 31 December 1971 or nearest balance date ? YES / NO

If you answered "YES" to question 13(a) please answer (b).

(b) Was the abandonment of the planned purchase of any significant items of plant and machinery caused by :

(i) High interest rates ? YES / NO

(ii) Difficulties in obtaining finance from external sources ? YES / NO

(iii) Insufficient generation of finance from internal sources ? YES / NO

(iv) A revised and less favourable assessment of demand for the planned output, and/or a revised and less favourable assessment of the project's profitability ? YES / NO

(v) Others (please specify) ?

.....
.....
.....
.....

14. (a) Has the planned purchase of any significant items of plant and machinery been brought forward during the five year period ended 31 December 1971 or nearest balance date ? YES / NO

If you answered "YES" to question 14(a) please answer (b).

(b) Was the advancement of the planned purchase of any significant items of plant and machinery caused by :

- (i) Low interest rates ? YES / NO
- (ii) Availability of external sources of finance ? YES / NO
- (iii) Availability of internally generated sources of finance ? YES / NO
- (iv) A revised and more favourable assessment of demand for the planned output, and/or a revised and more favourable assessment of the project's profitability ? YES / NO
- (v) Others (please specify) ?
-
-
-
-

15. What was the most significant constraint on further capital expenditure * by your company during the year ended 31 December 1971 or nearest balance date :

- (i) Insufficient finance;
 - (aa) from internal sources, and/or
 - (bb) from external sources,
- (ii) An inadequate return on capital expenditure projects considered by the Board of Directors or management, being of a type;
 - (aa) related to activities normally pursued by your company, and/or
 - (bb) related to activities not normally pursued by your company,
- (iii) Insufficient personnel to action projects considered, or
- (iv) Others (please specify) ?
-
-
-
-

* That is capital expenditure in addition to that undertaken.

16. Has your company acquired, erected or extended qualifying assets * during the year ended 31 December 1971 or nearest balance date, at an earlier time than they would have been acquired, erected or extended if the allowances given below had not been available :

A. Special depreciation on;

- | | | |
|-------|--|---------------|
| (i) | Plant and machinery (s.114A) ? | YES / NO / NA |
| (ii) | Employee accommodation (s.114A(1b)) ? | YES / NO / NA |
| (iii) | Cool stores for meat or meat products
(ss.114A(1BB) and (1BC))? | YES / NO / NA |
| (iv) | Hotels for tourist accommodation
(s.114D) ? | YES / NO / NA |

B. Additional depreciation on ;

- | | | |
|------|---|---------------|
| (v) | Plant, machinery or equipment used for
scientific research (s.113B) ? | YES / NO / NA |
| (vi) | Buildings used for processing or storage
of fish or fish products (s.114C) ? | YES / NO / NA |

C. Supplementary depreciation on hotels or motels
(s.113AA) ?

YES / NO / NA

D. Investment allowances (ss.117A and 117D) ?

YES / NO / NA

E. West Coast development allowance (s.117C) ?

YES / NO / NA

F. Deduction of forestry development expenditure
(s. 91(1b)) ?

YES / NO / NA

G. Research grants ?

YES / NO / NA

* This term refers to those assets which qualify for the individual allowances listed. To assist the respondent to identify qualifying assets the appropriate section of the Land and Income Tax Act is given in this and similar questions.

17. (a) If any allowance (given in the columns to the right) is not applicable to your company, please enter "N.A." in that allowance's column.

(b) For each allowance applicable to your company assume that the allowance had been suspended on 31 December 1970 or nearest balance date while other allowances had remained unaltered. Also assume that it was generally considered that the allowance would be re-introduced in 3 - 4 years.

(A) Would the value of capital expenditure projects (other than major * projects) approved during the year ended 31 December 1971 or nearest balance date have been :

- (i) larger,
- (ii) the same,
- (iii) smaller by between 0 and 5%,
- (iv) smaller by between 5% and 10%,
- (v) smaller by more than 10% (please estimate percentage),

than the value of capital expenditure projects actually approved during that year which have qualified, or will qualify, for the relevant allowance ** ?

(B) Did your company approve any major capital expenditure projects in the year ended 31 December 1971 or nearest balance date ?

YES / NO

If you answered "YES" to question 17(b)(B) please answer 17(b)(C).

(C) Would any major capital expenditure projects approved during the year ended 31 December 1971 or nearest balance date have been *** :

- (i) abandoned ?
- (ii) delayed ?

	1	2	3	4	5	6	7	8	9	10	11	12
	Special depreciation on plant & machinery. (s.114A)	Investment allowance. (s.117A & 117D)	West Coast development allowance. (s.117C)	Special depreciation on employee accommodation. (s.114A (1B))	Special depreciation on cool stores for meat or meat products. (s.114A(1B) & (1BC))	Additional depreciation on buildings satisfying meat hygiene regulations. (s.114B)	Additional depreciation on buildings for processing or storage of fish. (s.114C)	Special depreciation on hotels for tourist accommodation. (s.114D)	Supplementary depreciation on motels or hotels. (s.113AA)	Forestry development expenditure. (s.91(1b))	Additional depreciation on plant, machinery or equipment used for scientific research. (s.113B)	Research grants.
(i)												i
(ii)												ii
(iii)												iii
(iv)												iv
(v)												v
(i)												i
(ii)												ii
	1	2	3	4	5	6	7	8	9	10	11	12

* For the purposes of this questionnaire a "major capital expenditure project" is defined as one which would substantially alter the size or nature of your company.

** Respondents may find questions 17(b)(A), 17(b)(C) and question 18(a)(A) and 18(a)(C) (which are similar to those given above) difficult to answer as the information required may not be readily available. Should this be the case, the respondent is requested to answer these questions as accurately as possible and to indicate whether the answers given are :

(i) Guesstimates (ii) Opinions or (iii) Reasonably reliable statements of your company's position.

*** The assumptions given in question 17(b) also apply to part (C) of that question.

18. (a) For each allowance applicable to your company * assume that the allowance had been abolished on 31 December 1970 or nearest balance date while other allowances had remained unaltered. Also assume that it was generally considered that the allowance would not be re-introduced.

(A) Would the value of capital expenditure projects (other than major projects) approved during the year ended 31 December 1971 or nearest balance date have been :

- (i) larger,
- (ii) the same,
- (iii) smaller by between 0 and 5%,
- (iv) smaller by between 5% and 10%,
- (v) smaller by 10% or more (please estimate percentage),

than the value of capital expenditure projects actually approved during that year which have qualified, or will qualify, for the relevant allowance ?

(B) Did your company approve any major capital expenditure projects in the year ended 31 December 1971 or nearest balance date ?

YES / NO

If you answered "YES" to question 18(a)(B) please answer 18(a)(C).

(C) Would any major capital expenditure projects approved during the year ended 31 December 1971 or nearest balance date have been **

- (i) abandoned ?
- (ii) delayed ?

	1	2	3	4	5	6	7	8	9	10	11	12
	Special depreciation on plant and machinery (s.114A)	Investment allowance. (s.117A & 117D)	West Coast development allowance. (s.117C)	Special depreciation on employee accommodation. (114A(1B))	Special depreciation on cool stores for meat or meat products. (ss.114A(1B) and (1BC))	Additional depreciation on buildings satisfying meat hygiene regulations. (s.114B)	Additional depreciation on buildings for processing or storage of fish. (s.114C)	Special depreciation on extensions or erection of hotels for tourist accommodation. (s.114D)	Supplementary depreciation on hotels or motels. (s.113AA)	Forestry development expenditure (s.91(1b))	Additional depreciation on plant, machinery or equipment used for scientific research. (s.113B)	Research grants.
i												i
ii												ii
iii												iii
iv												iv
v												v
i												i
ii												ii
	1	2	3	4	5	6	7	8	9	10	11	12

* The allowances given in columns 1 - 12 are the same as the allowances given in question 17. For this reason allowances which are not applicable to your company may be omitted.

** The assumptions given in question 18(a) also apply to part (C) of that question.

19. Was the planned purchase of any significant items of new plant and machinery postponed as a result of the withdrawal of the investment allowance in 1966 ? YES / NO

20. Was the planned purchase of any significant items of new plant and machinery abandoned as a result of the withdrawal of the investment allowance in 1966 ? YES / NO

21. Was the planned purchase of any significant items of new plant and machinery brought forward as a result of the re-introduction of the investment allowance in 1970 ? YES / NO

22. (a) Has your company approved capital expenditure projects which would not have been approved if the investment allowance had not been re-introduced in 1970 ? YES / NO

If you answered "YES" to question 22(a) please answer (b) and (c).

(b) Have any of the capital expenditure projects which have been approved, but would not have been approved had the investment allowance not been re-introduced, related to major projects (i.e. those projects which substantially alter the size or nature of your company) ? YES / NO

(c) Would the value of capital expenditure projects (other than major projects) which would not have been approved had the investment allowance not been re-introduced be between :

- (i) 0 and under 5%,
- (ii) 5% and under 10%,
- (iii) 10% and under 15%, or
- (iv) 15% or more (please estimate the percentage),

.....%

of the value of actual capital expenditure projects approved since the re-introduction of the investment allowance ?

23. For financial reporting purposes does your company account for the investment allowance by :

- (i) Deducting the saving in tax (arising from claiming the allowance) from the cost of qualifying assets, or
- (ii) Claiming the allowance for taxation purposes without making any adjustments to the books of account, other than to the tax provision, or
- (iii) Other (please specify) ?

24. What is the most significant advantage of special depreciation to your company * :

- (i) Increased liquidity,
- (ii) Higher rate of return on projects than would otherwise be the case, or
- (iii) Other (please specify) ?

25. In the last published financial accounts of your company was depreciation on plant and machinery :

- (i) Claimed for taxation purposes and charged against revenue for financial reporting purposes at the maximum rates (ordinary plus special) permitted by the Inland Revenue Department, or
- (ii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, ordinary tax rates of depreciation were charged against revenue and a deferred tax credit was provided for financial reporting purposes, or

* If you are unable to indicate "the most significant advantage" you might appropriately answer by indicating more than one alternative.

(iii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, for financial reporting purposes depreciation was charged against revenue at ordinary tax rates without providing a deferred tax credit, or

(iv) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, depreciation was charged against revenue on the straight-line basis without providing a deferred tax credit for financial reporting purposes, or

(v) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, depreciation was charged against revenue on the straight-line basis with a deferred tax credit provided for financial reporting purposes, or

(vi) Charged against revenue for financial reporting purposes at rates in excess of the maximum rates permitted for taxation purposes by the Inland Revenue Department, or

(vii) Other (please describe) ?

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26. (a) Please rank the following methods of determining the price of your company's products and/or services in descending order of their importance as measured by sales value. That is, place a "1" in the space provided beside the method which is used to determine the price of the largest proportion of your company's sales and a "2" beside the second most important method. If two or more methods are of equal importance they may be given the same ranking. For any method which is not applicable or is insignificant to your company please enter "N.A." in the space beside that method.

- (i) Price control or similar Government regulations, ()
- (ii) The cost of manufacturing and marketing the product or producing the service rendered, ()
- (iii) The market price of similar products produced, or services rendered, by competitors, ()
- (iv) Other (please specify).

.....

If you indicated that part (i) and/or part (ii) in question 26(a) is applicable to your company please answer (b).

(b) Please briefly describe the method by which depreciation is generally calculated for the purposes of determining the cost of your company's products or services.

.....

27. Please rank the following incentives or concessions in descending order of their importance to your company. That is, place a "1" in the box beside the most important incentive or concession and a "2" beside the second most important etc. If two or more incentives or concessions are of equal importance they may be given the same ranking. If any incentive or concession is not applicable to your company please place "N.A." in the box beside that incentive or concession.

For the purposes of column (a) your order of importance should reflect the situation prior to the 1972 Budget. In column (b) you should indicate your order of importance after allowing for the amendments to the investment allowance, the West Coast development allowance and the increased exports incentive which

were announced in the 1972 Budget.

- (i) Additional depreciation (ss.113B & 114B)
- (ii) Export market development expenditure (s.129A)
- (iii) Forestry development expenditure (s.91(1b))
- (iv) Increased exports tax incentive (s.129B)
- (v) Investment allowance (ss.117A and 117D)
- (vi) Research grants
- (vii) Special depreciation (ss.114A and 114D)
- (viii) Supplementary depreciation (s.113AA)
- (ix) Tourist promotion expenditure (s.129A)
- (x) West Coast development allowance (s.117C)
- (xi) Others (please specify)

a	b

.....

28. (a) Does your company qualify for the increased exports tax incentive ?

YES / NO

If you answered "YES" to question 28(a) please answer (b), (c) and (d).

(b) What was the value of your company's export goods * expressed as a percentage of total sales for the year ended 31 December 1971 or nearest balance date ?

.....%

(c) Are your company's export goods generally manufactured by using:

- (i) Surplus capacity on existing plant and machinery,
- (ii) Plant and machinery specifically purchased for the manufacture of goods for export,
- (iii) Plant and machinery which, although not specifically purchased for the manufacture of goods for export, was purchased with sufficient capacity to accommodate expected domestic and export manufacture, or

* For the purpose of this questionnaire "export goods" are defined as goods of a type which qualify for the increased exports tax incentive (section 129B of the Land and Income Tax Act.)

(iv) Other (please specify) ?

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(d) Will the change in the base period on which increased exports tax incentive is calculated, announced in the 1972 Budget, be of benefit to your company in the year ended 31 December 1972 or nearest balance date ?

YES / NO

If you answered "YES" to question 28(d) please answer (e).

(e) Would the value of your company's base period sales, calculated by the formula operating prior to 1 April 1972, be less than expected sales of export goods for the year ended 31 December 1972 or nearest balance date ?

YES / NO

29. (a) In the 1972 Budget, the investment allowance was increased from 10% to 20% and extended to include types of new plant and machinery which previously qualified for special depreciation but not for the investment allowance. At the same time the Government stressed that the investment allowance should not be regarded as a permanent feature of the tax system. Please describe the effect (if any) that the Budget statement on the investment allowance has had, or is likely to have, on your company's capital expenditure programmes *.

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* If the effect of the Budget statement on the investment allowance has been, or is likely to be, an increase in your company's capital expenditure, an estimate of the order of magnitude of that increase would be greatly appreciated.

(b) Please describe the difference in effect (if any) which the Budget statement on the investment allowance would have had on your company's capital expenditure programme if that statement had not stressed that the investment allowance was not a permanent feature of the tax system.

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30. (a) In selecting capital expenditure projects, does your company employ any of the following techniques :

- (i) Discounted cash flow ;
 - (aa) net present value ? YES / NO
 - (bb) internal rate of return ? YES / NO
- (ii) Accounting rate of return * ? YES / NO
- (iii) Payback period ? YES / NO
- (iv) Others (please specify) ?

.....
.....
.....
.....

If you answered "YES" to question 30(a) part (i), or (ii) and/or specified an alternative under part (iv), please answer (b).

If you answered "YES" to part (iii) please answer (f).

(b) Does your company evaluate capital expenditure projects on:

- (i) An after-tax, and/or
 - (ii) A pre-tax,
- basis ?

* For the purposes of this questionnaire the "accounting rate of return" may be taken to be the average annual increase in net profits, expressed as a percentage of the capital expenditure required to obtain that increase in net profits.

If you ticked 30(b)(i) please answer (c). If you ticked 30(b)(ii) please answer (d) and (e). If you ticked 30(b)(i) and (ii) please answer (c), (d) and (e).

(c) Does your company's after-tax cut-off rate generally range between :

- (i) 0 and 6%,
- (ii) 6% and under 8%,
- (iii) 8% and under 9%,
- (iv) 9% and under 10%, or
- (v) 10% and over (please specify the percentage) ?

.....%

(d) Does your company's pre-tax cut-off rate generally range between :

- (i) 0 and under 12%,
- (ii) 12% and under 14%,
- (iii) 14% and under 16%,
- (iv) 16% and under 20%, or
- (v) 20% and over (please specify the percentage) ?

.....%

(e) Please briefly state your company's reasons for evaluating capital expenditure projects on a pre-tax basis.

.....

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(f) Is the payback period calculated on :

- (i) An after-tax, and/or
- (ii) A pre-tax,

basis ?

If you ticked 30(f)(i) please answer (g). If you ticked 30(f)(ii) please answer (h) and (i). If you ticked 30(f)(i) and (ii) please answer (g), (h) and (i).

(g) Does your company's cut-off period calculated on an after-tax basis, generally range between :

- (i) 0 and under 2 years,
- (ii) 2 years and under 3 years,
- (iii) 3 years and under 4 years,
- (iv) 4 years and under 5 years, or
- (v) 5 years and over (please specify the number of years) ?

.....

(h) Does your company's cut-off period, calculated on a pre-tax basis, generally range between :

- (i) 0 and under 2 years,
- (ii) 2 years and under 3 years,
- (iii) 3 years and under 4 years,
- (iv) 4 years and under 5 years, or
- (v) 5 years and over (please specify the number of years) ?

.....

(i) Please briefly state your company's reasons for evaluating capital expenditure projects on a pre-tax basis *.

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31. When deciding whether to scrap or sell any significant items of plant and machinery, is the book value of such plant and machinery regarded by your company as relevant to that decision ?

YES / NO

* If you answered question 30(e) please omit this question.

EXHIBIT O-4

FOLLOW-UP LETTER USED IN MAIL SURVEY OF

PUBLIC COMPANIES



University of Waikato

HAMILTON : NEW ZEALAND : TELEPHONE 67-119

SCHOOL OF MANAGEMENT STUDIES

6 February, 1973

In October last year, I sought your assistance with my research project entitled "A Survey of the Depreciation Policies of New Zealand Public Companies" by requesting you to arrange for the completion of my questionnaire.

The response to my request for assistance has been encouraging. Thirty percent of the questionnaires have been completed and respondents include many of the largest companies in New Zealand. A preliminary perusal of completed questionnaires indicates that interesting views will arise from this study. To ensure that the survey is fully representative of the views of public companies in general, a high response rate is desirable. If your company has not already replied, I would be most grateful if the questionnaire could be completed and returned.

As completion of this questionnaire requires a knowledge of policy factors and an expression of opinion and judgement, it is recognized that the personal attention of a senior executive may be required. This is, however, inherent in the nature of the enquiry and the importance of the subject matter. There is every reason to hope that the results of the survey, which will be circulated, will be of sufficient interest and value to repay respondents for their trouble.

It is intended to analyse all questionnaires received by March 16 and therefore completion of the questionnaire by that date would be appreciated. This will allow me sufficient time to circulate the tabulated results of this survey in July.

Should you require further copies of the questionnaire or should you have any queries, please write.

As the questionnaire may be returned anonymously, your company may have already participated in my survey. If this is so, I sincerely thank you for your assistance.

Yours sincerely,

G.E. DWYER.

EXHIBIT O-5
COVERING LETTER AND BRIEF QUESTIONNAIRE
USED IN MAIL SURVEY OF PUBLIC COMPANIES



University of Waikato

HAMILTON : NEW ZEALAND : TELEPHONE 67.119

School of Management Studies

22 March, 1973

In October last year, I sought your help with my investigation of depreciation policies of New Zealand companies.

To date forty percent of the questionnaires have been completed. However, a number of companies have apparently found the amount of time required to complete the questionnaire to be unduly long. A much briefer questionnaire has therefore been prepared.

If your company has not returned the original questionnaire, I would be most grateful if the brief questionnaire could be completed at your convenience.

Yours sincerely,

G. E. Dwyer

QUESTIONNAIREDEPRECIATION ALLOWANCES

- 1 Please give your company's name. If your company prefers to remain anonymous, please omit this question.

Name of Company : _____

- 2 (a) For taxation purposes ordinary depreciation is intended to provide for the annual loss caused by fair wear and tear, other than that which can be made good by repairs. Ignoring the question of obsolescence and the replacement of plant and machinery when prices are rising, are the Inland Revenue Department's current rate of ordinary depreciation applicable to your company's plant and machinery :

- (i) Inadequate,
(ii) Adequate, or
(iii) More than adequate

for this purpose (i.e. loss through wear and tear) ?

If you ticked 2 (a) (i) please answer (b).

- (b) Ignoring the question of obsolescence and the replacement of plant and machinery when prices are rising, do ordinary tax rates of depreciation plus special depreciation on your company's plant and machinery provide :

- (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

- 3 (a) Is an adequate allowance for obsolescence, in addition to wear and tear, of your company's plant and machinery provided by ordinary tax rates of depreciation ?

YES / NO

If you answered "NO" to question 3 (a) please answer (b).

- (b) Is an adequate allowance for obsolescence, in addition to wear and tear, of your company's plant and machinery provided by ordinary tax rates of depreciation plus special depreciation ?

YES / NO

4 Ignoring the question of replacing or selling buildings when prices are rising, do ordinary tax rates of depreciation on your company's buildings provide :

- (i) An inadequate,
- (ii) An adequate, or
- (iii) A more than adequate

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

5 What was the most significant constraint on further capital expenditure * by your company during the year ended 31 December 1971 or nearest balance date :

- (i) Insufficient finance;
 - (aa) from internal sources, and / or
 - (bb) from external sources,
- (ii) An inadequate return on capital expenditure projects considered by the Board of Directors or management, being of a type;
 - (aa) related to activities normally pursued by your company, and / or
 - (bb) related to activities not normally pursued by your company,
- (iii) Insufficient personnel to action projects considered, or
- (iv) Others (please specify) ? _____

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* That is capital expenditure in addition to that undertaken.

6 In the year ended 31 December 1971 or nearest balance date, what was the amount of capital expenditure incurred * on items of plant and machinery ? \$ _____,000

7 Has your company acquired, erected or extended qualifying assets ** during the year ended 31 December 1971 or nearest balance date, at an earlier time than they would have been acquired, erected or extended if the allowances given below had not been available :

- (i) Special depreciation on plant and machinery (s. 114A) ? YES / NO / NA
- (ii) Investment allowances (ss. 117A and 117D) ? YES / NO / NA

8 What is the most significant advantage of special depreciation to your company *** :

- (i) Increased liquidity,
- (ii) Higher rate of return on projects than would otherwise be the case, or
- (iii) Other (please specify) ? _____
- _____
- _____
- _____

* For the purposes of this question "capital expenditure incurred" may be taken to be cash outlaid on capital items during the financial year after adjusting for accruals.

** This term refers to those assets which qualify for the individual allowances listed. To assist the respondent to identify qualifying assets the appropriate section of the Land and Income Tax Act is given in this and similar questions.

*** If you are unable to indicate "the most significant advantage" you might appropriately answer by indicating more than one alternative.

10 For each allowance given in Columns 1 and 2 assume that the allowance had been abolished on 31 December 1970 or nearest balance date while the other allowance has remained unaltered. Also assume that it was generally considered that the allowance would not be re-introduced.

(a) Would the value of capital expenditure projects (other than major projects) approved during the year ended 31 December 1971 or nearest balance date have been :

- (i) Larger,
- (ii) The same,
- (iii) Smaller by between 0 and 5%
- (iv) Smaller by between 5 and 10%,
or
- (v) Smaller by 10% or more (please estimate percentage)

than the value of capital expenditure projects actually approved during that year which have qualified, or will qualify, for the relevant allowance ?

(b) Would any major capital expenditure projects approved during the year ended 31 December 1971 or nearest balance date have been * :

- (i) Abandoned ?
- (ii) Delayed ?

	1	2
	Special depreciation on plant & machinery (s. 114A).	Investment allowance (s. 117A x 117D).
i		
ii		
iii		
iv		
v		
	YES / NO / NA	YES / NO / NA
	YES / NO / NA	YES / NO / NA
	1	2

* The assumptions given in question 10 above also apply to part (b) of that question.

11 In the published financial accounts of your company for the year ended 31 December 1971 or nearest balance date was depreciation on plant and machinery :

- (i) Claimed for taxation purposes and charged against revenue for financial reporting purposes at the maximum rates (ordinary plus special) permitted by the Inland Revenue Department, or
- (ii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, ordinary tax rates of depreciation were charged against revenue and deferred tax credit was provided for financial reporting purposes, or
- (iii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, for financial reporting purposes depreciation was charged against revenue at ordinary tax rates without providing a deferred tax credit, or
- (iv) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, depreciation was charged against revenue on the straight-line-basis without providing a deferred tax credit for financial reporting purposes, or
- (v) Claimed for taxation purposes at the maximum rates permitted by the Inland Department whereas, depreciation was charged against revenue on the straight-line-basis with a deferred tax credit provided for financial reporting purposes, or
- (vi) Charged against revenue for financial reporting purposes at rates in excess of the maximum rates permitted for taxation purposes by the Inland Revenue Department, or
- (vii) Other (please describe) ? _____

I thank you for your assistance in completing the above questions.

G. E. Dwyer, School of Management Studies
University of Waikato, Private Bag
HAMILTON

EXHIBIT O-6

COVERING LETTER AND TABULATED RESULTS
OF MAIL SURVEY OF PUBLIC COMPANIES



University of Waikato

HAMILTON : NEW ZEALAND : TELEPHONE 67-119

SCHOOL OF MANAGEMENT STUDIES

31 October 1973

In October last year, I requested your Company to participate in a "Survey of the Depreciation Policies of New Zealand Public Companies". I am pleased to enclose a copy of the tabulated results of this survey and trust that these will be of interest to you.

Should you desire further information on the results or wish to make any comments on them, please write.

I thank those Companies which were able to participate for their very kind assistance.

Yours sincerely,

G.E. DWYER.

DEPRECIATION POLICIESINTRODUCTION:

The total number of responses to each question given by "T", is 46 or 55 (in both cases reduced by number of respondents not answering the particular question or indicating that the question was not applicable). This difference arises from the inclusion of answers by nine respondents who completed a brief questionnaire containing certain key questions only. Questions, or parts of questions, included in the brief questionnaire are denoted by a "B" in the right hand margin opposite the tabulated answers to the relevant question.

To assist those who completed the brief questionnaire to compare their answers with those of other companies, the list below gives the number of each question included in the brief questionnaire and the number of a similar question in the original questionnaire.

<u>Question No. in Brief Questionnaire</u>	<u>No. of Equivalent Question in Original Questionnaire</u>
2	6
3	7
4	10
5	15
6	5
7	16 A(1) and D
8	24
9	17 Columns 1 and 2
10	18 Columns 1 and 2
11	25.

2. PARTICIPANTS CLASSIFIED BY MOST IMPORTANT ACTIVITY

	<u>Number of Participants</u>	<u>% Participation*</u>	
<u>Manufacturing:</u>			
(i)	Meat processing	3	33
(ii)	Beverages and other food	6	67
(iii)	Woollen mills and clothing	5	62
(iv)	Forestry and wood products (including newsprint, pulp and paper)	3	43
(v)	Printing and publishing	3	43
(vi)	Drugs and chemicals (including chemical fertilisers)	5	71
(vii)	Non-metallic minerals	2	25
(viii)	Metals and machinery	8	67
(ix)	Manufacturing not elsewhere included	8	37
	Total Manufacturing:	43	48
<u>Other than Manufacturing:</u>			
(x)	Transport	4	57
(xi)	Retail and wholesale	5	45
(xii)	Other than manufacturing not elsewhere included	1	20
	Total other than Manufacturing:	10	45
	Not specified	2	-
	GRAND TOTAL:	55	49

* Participants as a percentage of participants plus non-participants.

3. Was the value of your company's sales for the year ended 31 December 1971 or nearest balance date between :

- (i) 0 and under \$5 millions,
(ii) \$5 millions and under \$10 millions,
(iii) \$10 millions and under \$20 millions,
(iv) \$20 millions and under \$50 millions, or
(v) \$50 millions and over (please specify to nearest \$10 millions) ?

T.

N	%
12	28
8	19
9	21
6	14
8	18
43	100

Not answered 3.

4. (a) Was the accumulated cost (i.e. book value plus accumulated depreciation) of your company's plant and machinery on 31 December 1971 or nearest balance date between :

- (i) 0 and under \$1 million,
(ii) \$1 million and under \$2 millions,
(iii) \$2 millions and under \$4 millions,
(iv) \$4 millions and under \$10 millions, or
(v) \$10 millions and over (please specify to nearest \$10 millions) ?

T.

N	%
10	19
9	17
4	8
13	24
17	32
53	100

Not answered 2.

- (b) Does your company lease a significant proportion of its plant and machinery ?

Yes 2 (4%)
No 44 (96%)

- (c) What was the increase in your company's accumulated cost of plant and machinery during the five year period ended 31 December 1971 or nearest balance date, expressed as a percentage of the accumulated cost of plant and machinery on 31 December 1966 or nearest balance date ?

- (i) 0 and less than 50%
(ii) 50% and less than 100%
(iii) 100% and less than 300%
(iv) 300% and over

Not applicable 3, Not answered 2.

T.

N	%
18	36
15	30
12	24
5	10
50	100

- (d) Is your answer to question 4(c) significantly affected by takeovers or mergers?

- (i) 0 and less than 50%
(ii) 50% and less than 100%
(iii) 100% and less than 300%
(iv) 300% and over

T.

Yes	%*
-	-
5	33
6	50
4	80
15	30

Not answered 2

* "Yes" as a percent of total in class (see 4(c) above).

5. In the year ended 31 December 1971 or nearest balance date what was the amount of capital expenditure incurred * on items of plant and machinery ?

- (i) 0 and under \$100,000
 (ii) \$100,000 and under \$500,000
 B (iii) \$500,000 and under \$1 million
 (iv) \$1 million and under \$2 millions
 (v) \$2 millions and over

N	%
9	18
16	31
11	21
7	14
8	16
T. 51	100

Not answered 4.

6. (a) For taxation purposes ordinary depreciation is intended to provide for the annual loss caused by fair wear and tear, other than that which can be made good by repairs. Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising (which are covered by question given below) are the Inland Revenue Department's current rates of ordinary depreciation applicable to your company's plant and machinery :

- (i) Inadequate,
 B (ii) Adequate, or
 (iii) More than adequate,

N	%
19	35
32	58
4	7
T. 55	100

for this purpose (i.e. loss through wear and tear) ?

If you ticked 6(a)(i) please answer (b).

- (b) Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising, do ordinary tax rates of depreciation plus special depreciation on your company's plant and machinery provide :

- (i) An inadequate,
 B (ii) An adequate, or
 (iii) A more than adequate,

N	%
5	26
14	74
-	-
T. 19	100

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

* For the purposes of this question "capital expenditure incurred" may be taken to be cash outlayed on capital items during the financial year after adjusting for accruals.

7. (a)	Is an adequate allowance for <u>obsolescence</u> , in addition to wear and tear, of your company's <u>plant and machinery</u> provided by <u>ordinary tax</u> rates of depreciation?	Yes	24	(44%)
B		No	31	(56%)
		T.	55	

If you answered "NO" to question 7(a) please answer (b).

(b)	Is an adequate allowance for <u>obsolescence</u> , in addition to wear and tear, of your company's <u>plant and machinery</u> provided by <u>ordinary tax</u> rates of depreciation <u>plus special</u> depreciation ?	Yes	16	(52%)
B		No	15	(48%)
		T.	31	

8.	Does your company consider that <u>ordinary</u> rates of depreciation for <u>taxation purposes</u> should allow for increases in the cost of replacing plant and machinery resulting from inflation*?	Yes	33	(75%)
		No	11	(25%)
	Not answered 2.	T.	44	

9. (a)	Does your company consider that depreciation charged against revenue for <u>financial reporting purposes</u> ** should allow for increases in the cost of replacing plant and machinery as a result of inflation ?	Yes	27	(64%)
		No	15	(36%)
		T.	42	

Not answered 4.

If you answered "YES" to question 9(a) please answer (b).

(b)	Does your company consider that plant and machinery should be <u>revalued</u> *** to allow for the effects of inflation ?	Yes	21	(87%)
		No	3	(13%)
	Not answered 3.	T	24	

* This question might appropriately be considered from a policy point of view and hence any limitations contained in current legislation or existing Departmental policy should be ignored.

** For the purposes of this questionnaire the term "financial reporting purposes" refers to the published Annual Accounts of public companies.

*** For the purposes of this questionnaire the word "revalue" should be broadly interpreted to include adjustments for general price level changes, specific price changes, or annual (or periodic) write-up of assets based on a valuer's report.

10. Ignoring the question of replacing or selling buildings when prices are rising, do ordinary tax rates of depreciation on your company's buildings provide :

- B (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate,

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

Not answered 1.

11. Does your company generally prepare a forward programme for the purchase of significant items of plant and machinery for a period of :

- (i) 1 financial year,
(ii) 2 financial years,
(iii) 3 financial years,
(iv) 4 financial years, or
(v) 5 or more financial years,

before a firm decision to proceed with the purchase is taken by the Board of Directors or management (whichever is relevant) ?

Not answered 1.

12. (a) Has the planned purchase of any significant items of plant and machinery been postponed at any time during the five year period ended 31 December 1971 or nearest balance date ?

Yes	31	(69%)
No	14	(31%)
T.	45	

If you answered "YES" to question 12(a) please answer (b).

- (b) Was the postponement of the planned purchase of plant and machinery caused by :

- | | | | | |
|-------|---|-----|----|-------|
| (i) | High interest rates ? | Yes | 4 | (13%) |
| (ii) | Difficulties in obtaining finance from external sources ? | Yes | 5 | (16%) |
| (iii) | Insufficient generation of finance from internal sources ? | Yes | 11 | (35%) |
| (iv) | A revised and less favourable assessment of demand for the planned output, and/or a revised and less favourable assessment of the project's profitability ? | Yes | 20 | (65%) |

N	%
21	39
27	50
6	11
T.	54

N	%
14	31
9	20
9	20
-	-
13	29
T.	45

(v) Others (please specify) ? 11 (35%)
 The majority of answers listed related to the impact of Government policy on import licensing and protection on the domestic market.

13. (a) Has the planned purchase of any significant items of plant and machinery been abandoned at any time during the five year period ended 31 December 1971 or nearest balance date ?

Yes	13	(28%)
No	33	(72%)
T.	46	

If you answered "YES" to question 13(a) please answer (b).

(b) Was the abandonment of the planned purchase of any significant items of plant and machinery caused by :

(i) High interest rates ?	Yes	-	
(ii) Difficulties in obtaining finance from external sources ?	Yes	1	(8%)
(iii) Insufficient generation of finance from internal sources ?	Yes	3	(23%)
(iv) A revised and less favourable assessment of demand for the planned output, and/or a revised and less favourable assessment of the project's profitability ?	Yes	10	(77%)
(v) Others (please specify) ?		5	(38%)

The effect of technological change and Government's refusal to approve takeover proposals under the Overseas Takeover Regulations.

14. (a) Has the planned purchase of any significant items of plant and machinery been brought forward during the five year period ended 31 December 1971 or nearest balance date ?

Yes	24	(55%)
No	20	(45%)
T.	44	

If you answered "YES" to question 14(a) please answer (b).

Not answered 2.

(b) Was the advancement of the planned purchase of any significant items of plant and machinery caused by :

(i)	Low interest rates ?	Yes	-	
(ii)	Availability of external sources of finance ?	Yes	3	(12%)
(iii)	Availability of internally generated sources of finance ?	Yes	2	(8%)
(iv)	A revised and more favourable assessment of demand for the planned output, and/or a revised and more favourable assessment of the project's profitability ?	Yes	20	(83%)
(v)	Others (please specify) ?		5	(22%)
	Two companies specified the re-introduction of the investment allowance.			
			
			
			

15. What was the most significant constraint on further capital expenditure by your company during the year ended 31 December 1971 or nearest balance date :

- (i) Insufficient finance;
 - (a) from internal sources,
 - (b) from external sources,
 - (c) from internal and external sources
- (ii) An inadequate return on capital expenditure projects considered by the Board of Directors or management, being of a type;
 - (a) related to activities normally pursued by your company,
 - (b) related to activities not normally pursued by your company,
 - (c) related to all activities (both normally and not normally pursued by your company)
- (iii) Insufficient personnel to action projects considered, or
- (iv) Others
 - No constraint.
 - Not answered 1.

N.	%
8	15
1	2
11	20

11	20
----	----

2	5
---	---

2	4
---	---

5	9
---	---

9	17
---	----

5	9
---	---

54	100
----	-----

B

T.

16. Has your company acquired, erected or extended qualifying assets * during the year ended 31 December 1971 or nearest balance date, at an earlier time than they would have been acquired, erected or extended if the allowances given below had not been available :

		Yes	No	%	N.A
B **	A. Special depreciation on;				
	(i) Plant and machinery (s.114A) ?	5	49	9	-
	(ii) Employee accommodation (s.114A(1b)) ?	-	12	-	33
	(iii) Cool stores for meat or meat products (ss.114A(1BB) and (1BC))?	-	4	-	41
	(iv) Hotels for tourist accommodation (s.114D) ?	1	2	33	42
	B. Additional depreciation on ;				
	(v) Plant, machinery or equipment used for scientific research (s.113B) ?	1	13	7	31
	(vi) Buildings used for processing or storage of fish or fish products (s.114C) ?	-	1	-	44
	C. Supplementary depreciation on hotels or motels (s.113AA) ?	-	3	-	42
	D. Investment allowances (ss.117A and 117D) ?	9	44	17	1
	E. West Coast development allowance (s.117C) ?	1	2	33	42
	F. Deduction of forestry development expenditure (s. 91(1b)) ?	-	4	-	41
	G. Research grants ?	1	12	8	32
Not answered 1.					

* This term refers to those assets which qualify for the individual allowances listed. To assist the respondent to identify qualifying assets the appropriate section of the Land and Income Tax Act is given in this and similar questions.

** The brief questionnaire contained parts A(1) and D only.

Two respondents did not answer this question.

17. (a) If any allowance (given in the columns to the right) is not applicable to your company, please enter "N.A." in that allowance's column.

(b) For each allowance applicable to your company assume that the allowance had been suspended on 31 December 1970 or nearest balance date while other allowances had remained unaltered. Also assume that it was generally considered that the allowance would be re-introduced in 3 - 4 years.

(A) Would the value of capital expenditure projects (other than major * projects) approved during the year ended 31 December 1971 or nearest balance date have been :

- (i) larger,
(ii) the same,
(iii) smaller by between 0 and 5%,
(iv) smaller by between 5% and 10%,
(v) smaller by more than 10% (please estimate percentage),

than the value of capital expenditure projects actually approved during that year which have qualified, or will qualify, for the relevant allowance ** ?

(B) Did your company approve any major capital expenditure projects in the year ended 31 December 1971 or nearest balance date ?

If you answered "YES" to question 17(b)(B) please answer 17(b)(C).

(C) Would any major capital expenditure projects approved during the year ended 31 December 1971 or nearest balance date have been *** :

- (i) abandoned ?
(ii) delayed ?

	1	2	3	4	5	6	7	8	9	10	11	12											
	Special depreciation on plant & machinery (s.114A)	Investment allowance (s.117A & 117D)	West Coast development allowance (s.117C)	Special depreciation on employee accommodation (s.114A (1B))	Special depreciation on cool stores for meat or meat products (s.114A(1B) & (1BC))	Additional depreciation on buildings satisfying meat hygiene regulations (s.114B)	Additional depreciation on buildings for processing or storage of fish (s.114C)	Special depreciation on hotels for tourist accommodation (s.114D)	Supplementary depreciation on motels or hotels (s.113AA)	Forestry development expenditure (s.91(1b))	Additional depreciation on plant, machinery or equipment used for scientific research (s.113B)	Research grants.											
	1	2	41	34	40	40	43	41	41	40	35	33											
	No.	%	No.	%	No.	No.	No.	No.	No.	No.	No.	No.	No.										
i	-	-	-	-	-	-	-	-	-	-	-	-	i										
ii	45	86	44	86	3	10	4	4	1	3	3	4	8	9	ii								
iii	3	6	3	6	-	-	-	-	-	-	-	-	-	-	iii								
iv	3	6	3	6	-	-	-	-	-	-	-	1	1	1	iv								
v	1	2	1	2	-	-	-	-	-	-	-	-	-	1	v								
T	52	100	51	100	3	10	4	4	1	3	3	4	9	11									
YES / NO	33/18	34/16	3/0	7/2	3/1	3/1	1/0	2/1	2/1	3/1	5/3	7/3											
Not answered.																							
	1	1	-	1	1	1	-	1	1	-	1	-											
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No							
i	-	32	-	33	-	3	-	6	-	2	-	2	-	1	-	1	-	3	-	4	-	7	i
ii	3	29	3	30	1	2	-	6	-	2	-	2	-	1	-	1	-	3	-	4	-	7	ii
	1	2	3	4	5	6	7	8	9	10	11	12											

* For the purposes of this questionnaire a "major capital expenditure project" is defined as one which would substantially alter the size or nature of your company.

** Respondents may find questions 17(b)(A), 17(b)(C) and question 18(a)(A) and 18(a)(C) (which are similar to those given above) difficult to answer as the information required may not be readily available. Should this be the case, the respondent is requested to answer these questions as accurately as possible and to indicate whether the answers given are :

(i) Guesstimates 1 (ii) Opinions 4 or (iii) Reasonably reliable statements 10 of your company's position. Not answered 27

*** The assumptions given in question 17(b) also apply to part (C) of that question.

Two respondents did not answer this question.

(a) For each allowance applicable to your company * assume that the allowance had been abolished on 31 December 1970 or nearest balance date while other allowances had remained unaltered. Also assume that it was generally considered that the allowance would not be re-introduced.

(A) Would the value of capital expenditure projects (other than major projects) approved during the year ended 31 December 1971 or nearest balance date have been :

- (i) larger,
- (ii) the same,
- (iii) smaller by between 0 and 5%,
- (iv) smaller by between 5% and 10%,
- (v) smaller by 10% or more (please estimate percentage),

than the value of capital expenditure projects actually approved during that year which have qualified, or will qualify, for the relevant allowance ?

(B) Did your company approve any major capital expenditure projects in the year ended 31 December 1971 or nearest balance date ?

If you answered "YES" to question 18(a)(B) please answer 18(a)(C).

(C) Would any major capital expenditure projects approved during the year ended 31 December 1971 or nearest balance date have been **

- (i) abandoned ?
- (ii) delayed ?

		1		2		3		4		5		6		7		8		9		10		11		12					
		Special depreciation on plant and machinery (s.114A)		Investment allowance. (s.117A & 117D)		West Coast development allowance. (s.117C)		Special depreciation on employee accommodation. (114A(1B))		Special depreciation on cool stores for meat or meat products. (ss.114A (1B) and (1BC))		Additional depreciation on buildings satisfying meat hygiene regulations. (s.114B)		Additional depreciation on buildings for processing or storage of fish. (s.114C)		Special depreciation on extensions or erection of hotels for tourist accommodation. (s.114D)		Supplementary depreciation on hotels or motels. (s.113AA)		Forestry development expenditure (s.91(1b))		Additional depreciation on plant, machinery or equipment used for scientific research. (s.113B)		Research grants.					
N.A.		1		2		41		34		40		40		43		41		41		40		35		33					
		No. %		No. %																									
i		-		-		-		-		-		-		-		-		-		-		-		-		i			
ii		47 90		46 90		3		10		4		4		1		3		3		4		8		9		ii			
iii		1 2		1 2		-		-		-		-		-		-		-		-		-		-		iii			
iv		3 6		3 6		-		-		-		-		-		-		-		-		1		-		iv			
v		1 2		1 2		-		-		-		-		-		-		-		-		-		2		v			
T		52 100		51 100		3		10		4		4		1		3		3		4		9		11					
YES / NO		33/18		34/16		3/0		7/2		3/1		3/1		1/0		2/1		2/1		3/1		5/3		7/3					
		Not answered																											
		1		1		-		1		1		1		-		1		1		-		1		-					
		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No		Yes No			
i		-		32		1 32		-		3		-		6		-		2		-		1		-		1		i	
ii		3 29		2 31		1 2		-		6		-		2		-		1		-		1		-		3		ii	
		1		2		3		4		5		6		7		8		9		10		11		12					

* The allowances given in columns 1 - 12 are the same as the allowances given in question 17. For this reason allowances which are not applicable to your company may be omitted.

** The assumptions given in question 18(a) also apply to part (C) of that question.

19.	Was the <u>planned purchase of any significant items of new plant and machinery postponed as a result of the withdrawal of the investment allowance in 1966 ?</u>	Yes	1	(2%)
		No	44	(98%)
		T.	45	
	Not answered 1.			
20.	Was the <u>planned purchase of any significant items of new plant and machinery abandoned as a result of the withdrawal of the investment allowance in 1966 ?</u>	Yes	-	
		No	45	(100%)
	Not applicable 1.			
21.	Was the <u>planned purchase of any significant items of new plant and machinery brought forward as a result of the re-introduction of the investment allowance in 1970 ?</u>	Yes	7	(15%)
		No	39	(85%)
		T.	46	
22. (a)	Has your company <u>approved capital expenditure projects which would not have been approved if the investment allowance had not been re-introduced in 1970 ?</u>	Yes	7	(16%)
		No	38	(84%)
		T.	45	
	Not answered 1.			

If you answered "YES" to question 22(a) please answer (b) and (c).

(b)	Have any of the capital expenditure projects which have been approved, but would not have been approved had the investment allowance not been re-introduced, related to <u>major projects</u> (i.e. those projects which substantially alter the size or nature of your company) ?	Yes	1	(14%)
		No	6	(86%)
		T.	7	

(c) Would the value of capital expenditure projects (other than major projects) which would not have been approved had the investment allowance not been re-introduced be between :

- (i) 0 and under 5%,
- (ii) 5% and under 10%,
- (iii) 10% and under 15%, or
- (iv) 15% or more (please estimate the percentage)

of the value of actual capital expenditure projects approved since the re-introduction of the investment allowance ?

N.	%
1	14
3	43
2	29
1	14
T.	100

23. For financial reporting purposes does your company account for the investment allowance by :

- (i) Deducting the saving in tax (arising from claiming the allowance) from the cost of qualifying assets, or -
- (ii) Claiming the allowance for taxation purposes without making any adjustments to the books of account, other than to the tax provision, or 44
- (iii) Other (please specify) ?
 Not applicable 2.

24. What is the most significant advantage of special depreciation to your company * :

- (i) Increased liquidity, N 43 % 80
- (ii) Higher rate of return on projects than would otherwise be the case, or 4 7
- (iii) Other (please specify) ?
 . (i) and (ii) jointly 4 7
 . Others 3 6
 Not applicable 1. T. 54 100

25. In the last published financial accounts of your company was depreciation on plant and machinery :

- (i) Claimed for taxation purposes and charged against revenue for financial reporting purposes at the maximum rates (ordinary plus special) permitted by the Inland Revenue Department, or N 28 % 53
- (ii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, ordinary tax rates of depreciation were charged against revenue and a deferred tax credit was provided for financial reporting purposes, or 2 4

* If you are unable to indicate "the most significant advantage" you might appropriately answer by indicating more than one alternative.

- (iii) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, for financial reporting purposes depreciation was charged against revenue at ordinary tax rates without providing a deferred tax credit, or

2	4
---	---
- (iv) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, depreciation was charged against revenue on the straight-line basis without providing a deferred tax credit for financial reporting purposes, or

5	9
---	---
- (v) Claimed for taxation purposes at the maximum rates permitted by the Inland Revenue Department whereas, depreciation was charged against revenue on the straight-line basis with a deferred tax credit provided for financial reporting purposes, or

5	9
---	---
- (vi) Charged against revenue for financial reporting purposes at rates in excess of the maximum rates permitted for taxation purposes by the Inland Revenue Department, or

3	6
---	---
- (vii) Other (please describe) ?
 - More than one of the above

6	11
---	----
 - Other

2	4
---	---
 - T.
 -
 -
 - Not answered 2.

53	100
----	-----

26. (a) Please rank the following methods of determining the price of your company's products and/or services in descending order of their importance as measured by sales value. That is, place a "1" in the space provided beside the method which is used to determine the price of the largest proportion of your company's sales and a "2" beside the second most important method. If two or more methods are of equal importance they may be given the same ranking. For any method which is not applicable or is insignificant to your company please enter "N.A." in the space beside that method.

The answers to this question are tabulated to disclose the number of times each method was ranked "1".

		N	%
(i)	Price control or similar Government regulations,	14	30
(ii)	The cost of manufacturing and marketing the product or producing the service rendered,	21	46
(iii)	The market price of similar products produced, or services rendered, by competitors,	8	17
(iv)	Other (please specify).		
	.. Two or more of the above ranked "1" equal.	3	7
	46	100
		
		

T.

If you indicated that part (i) and/or part (ii) in question 26(a) is applicable to your company please answer (b).

(b) Please briefly describe the method by which depreciation is generally calculated for the purposes of determining the cost of your company's products or services.

(i)	Diminishing value method:		
	(a) at maximum (ordinary plus special) tax rates of depreciation,	8	23
	(b) at maximum ordinary rates of depreciation,	4	12
(ii)	Straight line method,	12	35
(iii)	Units of production or usage method,	4	12
(iv)	Depreciation not taken into consideration in setting price,		
(v)	Other	2	6
	Not answered 4.	4	12
		34	100

Four of the companies using the straight line method for pricing use the diminishing value method for financial reporting.

27. This question requested companies to rank in order of importance a large number of incentives and concessions.

The results presented below give the relative ranking of special depreciation and the investment allowance. Other incentives, which were not applicable to a significant number of respondents, have been omitted.

Column (a) discloses the relative importance of these allowances prior to the 1972 Budget, whereas column (b) gives the ranking after allowing for amendments to the investment allowance which was announced in that Budget.

Number of respondents ranking:

- (i) Special depreciation as more important than the investment allowance,
- (ii) The investment allowance as more important than special depreciation,
- (iii) Special depreciation as important as the investment allowance.
- T. Not answered and not applicable 12.

(a)		(b)	
N	%	N	%
23	68	17	50

8	23	16	47
---	----	----	----

3	9	1	3
34	100	34	100

23. (a) Does your company qualify for the increased exports tax incentive ?

Yes 34 (74%)
No 12 (26%)

If you answered "YES" to question 28(a) please answer (b), (c) and (d).

- (b) What was the value of your company's export goods * expressed as a percentage of total sales for the year ended 31 December 1971 or nearest balance date ?

0 - 1%

over 1% - 2%

over 2% - 4%

over 4% - 10%

over 10% -

Not answered 3.

N	%
9	29
7	23
7	23
6	19
2	6
31	100

- (c) Are your company's export goods generally manufactured by using:

- (i) Surplus capacity on existing plant and machinery,
- (ii) Plant and machinery specifically purchased for the manufacture of goods for export,
- (iii) Plant and machinery which, although not specifically purchased for the manufacture of goods for export, was purchased with sufficient capacity to accommodate expected domestic and export manufacture, or

N	%
10	30

2	6
---	---

16	49
----	----

* For the purpose of this questionnaire "export goods" are defined as goods of a type which qualify for the increased exports tax incentive (section 129B of the Land and Income Tax Act.)

(iv) Other (please specify) ?

- More than one of the above
-
-
-
- Not answered 1.
-
-
-

	5	15
T.	33	100

(d) Will the change in the base period on which increased exports tax incentive is calculated, announced in the 1972 Budget, be of benefit to your company in the year ended 31 December 1972 or nearest balance date ?

Yes	26	(84%)
No	5	(16%)

Not answered 3.

If you answered "YES" to question 28(d) please answer (e).

(e) Would the value of your company's base period sales, calculated by the formula operating prior to 1 April 1972, be less than expected sales of export goods for the year ended 31 December 1972 or nearest balance date ?

Yes	23	(88%)
No	3	(12%)

29. (a) In the 1972 Budget, the investment allowance was increased from 10% to 20% and extended to include types of new plant and machinery which previously qualified for special depreciation but not for the investment allowance. At the same time the Government stressed that the investment allowance should not be regarded as a permanent feature of the tax system. Please describe the effect (if any) that the Budget statement on the investment allowance has had, or is likely to have, on your company's capital expenditure programme .

- (i) Minor advancement in timing of capital expenditure,
- (ii) Significant advancement in timing of capital expenditure,
- (iii) Considerable advancement in timing of capital expenditure,
- (iv) Minor increase in the amount of capital expenditure
- (v) Significant effect on the amount of capital expenditure,
- (vi) No direct effect on the timing or the amount of capital expenditure,

N	%
13	29

3	7
---	---

2	4
2	4

4	9
---	---

	21	47
T.	45	100

Not answered 1.

(b) Please describe the difference in effect (if any) which the Budget statement on the investment allowance would have had on your company's capital expenditure programmes if that statement had not stressed that the investment allowance was not a permanent feature of the tax system.

. The Budget statement emphasising the temporary nature of . .
 . the investment allowance positively influenced 9 companies.
 . Two companies did not answer this part of the question and
 . the remaining 13 were unaffected by the statement.

30. (a) In selecting capital expenditure projects, does your company employ any of the following techniques :

- (i) Discounted cash flow ;
 - (aa) net present value ?
 - (bb) internal rate of return ?
- (ii) Accounting rate of return ?
- (iii) Payback period ?
- (iv) Others (please specify) ?

Yes	%
16	35
19	41
33	72
21	46
2	4

Number of the above methods employed by each company :

- (i) None of the methods,
- (ii) One of the methods,
- (iii) Two of the methods,
- (iv) Three of the methods,
- (v) Four or more of the methods

N	%
5	11
17	37
8	17
8	17
8	18
T. 46	100

If you answered "YES" to question 30(a) part (i), or (ii) and/or specified an alternative under part (iv), please answer (b).

If you answered "YES" to part (iii) please answer (f).

(b) Does your company evaluate capital expenditure projects on:

- (i) An after-tax,
- (ii) A pre-tax, or
- (iii) An after-tax and a pre-tax basis ?

N	%
21	54
9	23
9	23
T. 39	100

If you ticked 30(b)(i) please answer (c). If you ticked 30(b)(ii) please answer (d) and (e). If you ticked 30(b)(i) and (ii) please answer (c), (d) and (e).

(c) Does your company's after-tax cut-off rate generally range between :

- (i) 0 and 6%,
- (ii) 6% and under 8%,
- (iii) 8% and under 9%,
- (iv) 9% and under 10%, or
- (v) 10% and over (please specify the percentage) ?

N	%
1	3
2	7
6	21
6	21
14*	28
T. 29	100

Not answered 1.

(d) Does your company's pre-tax cut-off rate generally range between :

- (i) 0 and under 12%,
- (ii) 12% and under 14%,
- (iii) 14% and under 16%,
- (iv) 16% and under 20%, or
- (v) 20% and over (please specify the percentage) ?

N	%
1	6
2	12
1	6
6	38
6	38
T. 16	100

Not answered 2.

(e) Please briefly state your company's reasons for evaluating capital expenditure projects on a pre-tax basis.

Of the 9 respondents using pre-tax rates (for methods other than the payback period), 4 did so to avoid the effect of changes in tax including incentives. One company used pre-tax rates in conformity with the policy of an overseas parent company.

Not answered 4.

(f) Is the payback period calculated on :

- (i) An after-tax,
- (ii) A pre-tax or
- (iii) After-tax and pre-tax basis.

N	%
12	63
5	26
2	11
T. 19	100

If you ticked 30(f)(i) please answer (g). If you ticked 30(f)(ii) please answer (h) and (i). If you ticked 30(f)(i) and (ii) please answer (g), (h) and (i).

* 10% and less than 12% 4, 12% and less than 15% 5, 15% and over 5.

(g) Does your company's cut-off period calculated on an after-tax basis, generally range between :

- (i) 0 and under 2 years,
- (ii) 2 years and under 3 years,
- (iii) 3 years and under 4 years,
- (iv) 4 years and under 5 years, or
- (v) 5 years and over (please specify the number of years) ?

N	%
-	-
2	14
3	21
3	21
6	43
T 14	100

(h) Does your company's cut-off period, calculated on a pre-tax basis, generally range between :

- (i) 0 and under 2 years,
- (ii) 2 years and under 3 years,
- (iii) 3 years and under 4 years,
- (iv) 4 years and under 5 years, or
- (v) 5 years and over (please specify the number of years) ?

N	%
1	14
-	-
3	43
2	29
1	14
T 7	100

(i) Please briefly state your company's reasons for evaluating capital expenditure projects on a pre-tax basis *.

Of the 5 companies using the payback method exclusively on a pre-tax basis, 4 used other pre-tax methods and are included in 30(e) above. The remaining respondent used this method for small proposals in addition to other after-tax methods.

31. When deciding whether to scrap or sell any significant items of plant and machinery, is the book value of such plant and machinery regarded by your company as relevant to that decision ?

Yes	15	(34%)
No	29	(66%)
T	44	

Not answered 2.

* If you answered question 30(e) please omit this question.

APPENDIX P
METHODOLOGY FOR MAIL QUESTIONNAIRE SURVEY OF
CERTAIN CHARTERED ACCOUNTANTS IN PUBLIC PRACTICE

INTRODUCTION

In this appendix the methods used in conducting a mail questionnaire survey of the views on accounting for depreciation, deferred tax and investment allowance of certain chartered accountants in public practice are described. A copy of the covering letter, questionnaire, follow-up letter and tabulated results are presented as exhibits at the end of this appendix.

SAMPLE SELECTION

The accounting firms engaged in the audit of the one hundred and eleven companies selected for study were tabulated from the latest annual report on 1 October, 1972.¹ It was found that twelve firms, which audited two or more of the sample companies, were engaged in the audit of eighty-five of the sample companies (seventy-seven per cent). A further twenty-six accounting firms were engaged in auditing the remaining sample companies. It was decided that a survey of the views of those firms engaged in the audit of two or more sample companies would provide an adequate coverage.

DRAFTING OF THE QUESTIONNAIRE

The questionnaire method was adopted as it was thought that this method of collecting data would be most convenient

¹ See Appendix O.

for participants.² The questions sought the official views of the participating firms. However, it was acknowledged that some firms may not have formulated a general policy on all of the aspects of depreciation policy covered by the questions. In these situations, it was suggested that participants might appropriately reply by giving the answer which they believed to be most widely held by members of their firms. It is impossible to determine the extent to which the answers given reflect the views of the persons who completed the questionnaire rather than the official views of their firms.

The draft questionnaire was pilot tested by a chartered accountant engaged in public practice who was expected to take a more than average interest in the project. The draft questionnaire was completed and later a discussion was held in which the draft was examined from the participant's point of view.³ An academic with teaching and research interests in auditing and financial accounting theory also reviewed the draft. Helpful comments were received from both persons.

SURVEY PROCEDURES

Two copies of the questionnaire (one of which was to be retained as a copy of the firm's answers) were mailed to a member of the twelve selected firms. The member selected in each case was either the senior partner of the firm or a

²The strengths and weakness of this method are briefly discussed in Appendix O.

³The answers given in the pilot test were not included in the tabulated answers. Another member of the firm which tested the draft questionnaire, who was resident in a different centre, was requested to arrange for completion of the final questionnaire.

partner known to be active in research or educational activities of the New Zealand Society of Accountants. The questionnaires were sent to four members resident in both Auckland and Wellington and the remaining three were sent to members resident in other centres. The questionnaires were mailed on 1 November, 1972 and a pre-addressed, reply-paid envelope was enclosed.⁴

On 28 February, 1973 a follow-up letter was mailed to those firms which had not replied by that date.⁵ This requested firms to complete the questionnaire by 30 March, 1973. Two firms which indicated that they would participate in the survey but had not completed the questionnaire by the end of June were telephoned. This procedure did not result in the completion of the questionnaires.

After allowing for one firm which submitted a joint answer with another firm, following a merger of the two firms, five of the eleven firms completed the questionnaire. This gave a participation rate of forty-five per cent. Three of the completed questionnaires came from Auckland and two from Wellington. None of the questionnaires sent to other centres was completed. Three of the participants were engaged in the audit of eight or more of the sample companies.⁶ In aggregate the five participants were engaged in the audit of about fifty-three per cent of the one hundred and eleven listed manufacturing companies.

⁴ A copy of the covering letter and of the questionnaire are given in Exhibit P-1.

⁵ A copy of the follow-up letter is given in Exhibit P-2.

⁶ Of the eleven firms requested to participate in the survey, six were engaged in the audit of eight or more of the sample companies.

It had been hoped that a larger number of accounting firms would have participated in the survey. Three of the eleven firms did not reply to correspondence on the questionnaire. The reason for non-participation is not clear. However, from the telephone conversations with two non-participants it appears that the following two reasons were important. First, the questionnaire requested the "official" views of the participants. It appears that some firms engaged in the audit of listed manufacturing companies had few official views on the subject matter of the questionnaire. Secondly, the questions were described by one participant as "too demanding". This statement was made in reference to those questions requesting participants to state a reason for the answer given to an earlier part of the same question. It would appear that some accounting firms have given less thought to issues which are important in determining the truth and fairness of the profit and loss statement and balance sheet than one might have expected.

Firms which completed the questionnaire were thanked for their assistance. The answers given by the five firms were tabulated and a copy was sent to the participants.⁷ In tabulating the answers, alternatives given in the case of an amount being immaterial were ignored.

Although the participants were engaged in the audit of fifty-three per cent of the sample companies which were selected for study, it would be unwise to draw firm conclusions from the participants' answers.⁸ These may reflect

⁷The tabulated answers are given in Exhibit P-3.

⁸The answers are statistically significant for $\alpha = 0.05$ if the five participants are of the same opinion.

the views of the person who completed the questionnaire, those of most of the partners, or the official views of the firm. For this reason, the answers should be viewed as a first guide only. There is a need for further research on the views on accounting for depreciation, deferred tax and investment allowance of chartered accountants in public practice.

EXHIBIT P-1
COVER LETTER AND QUESTIONNAIRE USED IN
MAIL SURVEY OF CHARTERED ACCOUNTANTS IN
PUBLIC PRACTICE



University of Waikato

HAMILTON . NEW ZEALAND . TELEPHONE 65-179

SCHOOL OF MANAGEMENT STUDIES

1 November, 1972

I am currently studying, under the supervision of Professor G.J. Schmitt, for a Doctor of Philosophy degree in Management Studies at the above University. I am writing to seek your assistance with my investigations by requesting you to arrange for the completion of the enclosed questionnaire.

My research topic is "A Survey of Depreciation Policies of New Zealand Public Companies". An important part of this study is an attempt to determine by direct enquiry the views on accounting for depreciation of leading Chartered Accountants in public practice.

The enclosed questionnaire is being forwarded to twelve Chartered Accountants, representing the leading firms engaged in the audit of public companies. It is felt that knowledge of the views of these firms will assist in providing a realistic examination of current depreciation practices.

Access to data from individual replies to the questionnaire will be restricted to Professor Schmitt and myself. I should like to point out that our interest is in the general situation rather than the position of the individual firms. In addition, no information that could be related to an individual firm will be included in any report of this research without the explicit approval of the firm concerned.

The tabulated results of this survey will be forwarded to participants. To enable you to compare your answers with those of other participants it is suggested that you might retain a copy of the questionnaire and your answers. For this purpose a second copy of the questionnaire has been enclosed.

I trust that you will feel that a comprehensive study of depreciation policy is important and will assist me in this task. I look forward to receiving the completed questionnaire and would be most appreciative of any comments or suggestions you may wish to make.

Yours sincerely,

G.E. DWYER

QUESTIONNAIREDEPRECIATION ALLOWANCESINTRODUCTION

This questionnaire, for the most part, seeks to obtain the official views of accounting firms engaged in the audit of companies listed on the New Zealand Stock Exchange. It may therefore be helpful for the respondent to assume that the questions had been addressed to his firm by clients, generally included in the above category, seeking his firm's advice. It is acknowledge, however, that an accounting firm may not have formulated a general policy on all of the aspects of depreciation policy covered by the questions given below. In such situations, it is suggested that the respondent might appropriately reply by giving the answer which he believes to be most widely held by members of his firm.

PROCEDURE

The questions listed below are generally of two types, i.e. Yes/No questions and multiple choice questions. In the case of the former type, the incorrect answer should be deleted, whereas the latter type may be answered by placing a tick in the box alongside the most appropriate answer. Each question is independent of prior and subsequent questions, although parts of questions are related. If a question is not applicable to your firm "N.A." should be placed in the box alongside any one of the possible answers for that question.

In answering this questionnaire please feel free to add any additional comments or explanations which you consider may be helpful.

1. (a) For taxation purposes ordinary depreciation is intended to provide for the annual loss caused by fair wear and tear, other than that which can be made good by repairs. Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising (which are covered by questions given below), are the Inland Revenue Department's current rates of ordinary depreciation on plant and machinery, in your firm's opinion, generally *:

- (i) Inadequate,
(ii) Adequate, or
(iii) More than adequate,

for this purpose (i.e. loss through wear and tear) ?

If you ticked 1(a)(i) please answer (b).

- (b) Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising, do ordinary tax rates of depreciation plus special depreciation on plant and machinery, in your firm's opinion, generally provide :

- (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate,

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

2. Ignoring the question of replacing or selling buildings when prices are rising, do ordinary tax rates of depreciation on buildings, in your firm's opinion, generally provide :

- (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate,

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

* The word "generally" is used in this and following questions to indicate that the respondent should ignore atypical cases. In questions which refer to "special circumstances" atypical cases should be included.

3. (a) Does your firm consider that adequate allowance for obsolescence, in addition to wear and tear, of plant and machinery is generally provided by ordinary tax rates of depreciation ? YES / NO

If you answered "NO" to question 3(a) please answer (b).

(b) Does your firm consider that adequate allowance for obsolescence, in addition to wear and tear, of plant and machinery is generally provided by ordinary tax rates of depreciation plus special depreciation ? YES / NO

4. Does your firm consider that ordinary rates of depreciation for taxation purposes should generally allow for increases in the cost of replacing plant and machinery as a result of inflation * ? YES / NO

5. (a) Does your firm consider that depreciation charged against revenue for financial reporting purposes should generally allow for the increase in the cost of replacing plant and machinery as a result of inflation ? YES / NO

If you answered "YES" to question 5(a) please answer (b).

(b) Does your firm consider that plant and machinery should generally be revalued ** to allow for the effects of inflation ? YES / NO

6. (a) Is your firm of the opinion that listed companies should generally compute depreciation on plant and machinery by a particular method (e.g. straight-line, diminishing value etc.)? YES / NO

If you answered "YES" to question 6(a) please answer (b), (c) and (d).

(b) Is your firm of the opinion that listed companies should generally compute depreciation on plant and machinery by :

- (i) The straight-line,
- (ii) The diminishing value, or
- (iii) Other method (please specify) ?

.....
.....

* This question should be considered from a policy point of view and hence any limitations contained in current legislation or existing Departmental policy should be ignored.

** The word "revalue" should be broadly interpreted to include adjustments for general price level changes, specific price changes or annual (or periodic) write-up of assets based on a valuer's report.

(c) Please briefly state your firm's argument in support of your answer to question 6(b).

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(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should compute depreciation on plant and machinery by a method other than that given in your answer to question 6(b) ?

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7. (a) Is your firm of the opinion that listed companies should generally charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

YES / NO

(b) Please briefly state your firm's argument in support of your answer to question 7(a).

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If you answered "YES" to question 7(a) please answer (c). If you answered "NO" to question 7(a) please answer (d).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

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(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

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8. (a) Is your firm of the opinion that a deferred tax credit should generally be provided when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against revenue for financial reporting purposes ?

YES / NO

(b) Please briefly state your firm's argument in support of your answer to question 8 (a).

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If you answered "YES" to question 8 (a) please answer (c) and (d).
If you answered "NO" to question 8 (a) please answer (e).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not provide a deferred tax credit when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against revenue for financial reporting purposes ?

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(d) Given that the current year's excess of depreciation claimed for taxation purposes over depreciation charged against revenue for financial reporting purposes has a material effect on net profit, would your firm qualify its audit report if a deferred tax credit were not provided ?

YES / NO

(e) In what special circumstances (if any) would your firm be of the opinion that a listed company should provide a deferred tax credit when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against revenue for financial reporting purposes ?

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9. (a) Does your firm regard a deferred tax credit, arising from claiming depreciation for taxation purposes in excess of the current year's depreciation charged against revenue for financial reporting purposes, as :

- (i) A provision,
- (ii) A reserve,
- (iii) Either a provision or a reserve (i.e. that these words are interchangeable), or
- (iv) Other (please specify) ?

.....

(b) Please briefly state your firm's argument in support of your answer to question 9 (a).

.....

10. (a) Given that a listed company has decided to provide a deferred tax credit, would your firm be of the opinion that this item should generally be classified in the balance sheet under :

- (i) Shareholders' funds,
- (ii) Long term liabilities;
 - (aa) with the amount expected to mature within the financial year classified under current liabilities, or
 - (bb) without classifying the amount expected to mature within the financial year under current liabilities,
- (iii) A separate classification, or
- (iv) Other (please specify) ?

.....

(b) Please briefly state your firm's argument in support of your answer to question 10(a).

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.....

(c) Given that a deferred tax credit is a material item would your firm qualify its audit report if this item were generally classified in the balance sheet of a listed company under :

- (i) Shareholders' funds ? YES / NO
- (ii) Long term liabilities ? YES / NO
- (iii) Current liabilities ? YES / NO
- (iv) A separate classification ? YES / NO

11. (a) Given that a listed company has decided to provide a deferred tax credit, would your firm generally be of the opinion that the annual addition to accumulated deferred tax credit should be debited in :

- (i) The profit and loss account ;
 - (aa) as a non-recurring or exceptional item (i.e. "below the line"), or
 - (bb) as a recurring or unexceptional item (i.e. "above the line"),
- (ii) The appropriation account, or
- (iii) Other (please specify) ?

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(b) Please briefly state your firm's argument in support of your answer to question 11(a).

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(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should debit the annual credit for deferred tax (given that a deferred tax credit is to be provided) in an account other than that given in your answer to question 11(a) ?

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.....

12. Given that there is a permanent increase (decrease) in the rates of taxation, would your firm be of the opinion that the accumulated deferred tax credit should be increased (decreased) accordingly * ?

YES / NO

13. (a) Is your firm of the opinion that a deferred tax debit (i.e. taxes currently payable, but related to the earnings of future years) should generally be provided when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ** ?

YES / NO

* For the purposes of this question a change in the rates of taxation may be taken to be permanent unless the Government states that the change is intended to be temporary and unless the business community generally considers the change to be temporary.

** For the purposes of this questionnaire a deferred tax debit is taken to be the converse of a deferred tax credit. A deferred tax debit may be provided when the Directors decide to charge a greater amount of depreciation for financial reporting purposes than is claimed for taxation purposes. In this context, a deferred tax debit is distinguished from a reduction in accumulated deferred tax credit.

(b) Please briefly state your firm's argument in support of your answer to question 13 (a).

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.....

If you answered "YES" to question 13 (a) please answer (c) and (d).

If you answered "NO" to question 13 (a) please answer (e).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not provide a deferred tax debit when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ?

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.....

(d) Given that the current year's excess of depreciation charged against revenue for financial reporting purposes over depreciation claimed for taxation purposes has a material effect on net profit, would your firm qualify its audit report if a deferred tax debit were not provided ?

YES / NO

(e) In what special circumstances (if any) would your firm be of the opinion that a listed company should provide a deferred tax debit when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ?

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14. Does your firm consider that the methods of calculating depreciation provision (straight-line, diminishing value, etc.) should be disclosed in the published financial reports of listed companies ? YES / NO

15. Does your firm consider that the bases of calculating depreciation provision (historic cost, revaluation, etc.) should be disclosed in the published financial reports of listed companies ? YES / NO

16. What does your firm consider to be the most significant advantage of special depreciation to listed companies * :

(i)	Increased liquidity,	<input type="checkbox"/>
(ii)	Higher rate of return than would otherwise be the case, or	<input type="checkbox"/>
(iii)	Other (please specify) ?	
	
	

17. (a) Is your firm of the opinion that listed companies should generally account for the investment allowance by a particular method ? YES / NO

If you answered "YES" to question 17 (a) please answer (b), (c) and (d).

* If you are unable to indicate "the most significant advantage", you might appropriately answer by indicating more than one alternative.

(b) Is your firm of the opinion that the investment allowance should generally be accounted for in the books of account of listed companies by :

- (i) Deducting the saving in tax (arising from claiming the allowance) from the cost of qualifying assets, or
- (ii) Claiming the allowance for taxation purposes without making any adjustment to the books of account other than to the taxation provision, or
- (iii) Other (please specify) ?

.....

(c) Please briefly state your firm's argument in support of your answer to question 17(b).

.....

(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should account for the investment allowance in its books of account by a method other than that given in your answer to question 17(b) ?

.....

18. Preamble

This question may be difficult to answer as the data required to do so may not be examined in the course of an audit. Should this be the case, you might appropriately answer by providing a guesstimate of the position. For this reason care will be exercised in interpreting the answers to this question.

Does the number of your firm's listed company clients who use the capital expenditure techniques given to the right, expressed as a percentage of all listed company clients of your firm, range between :

- (i) 0 and less than 25%,
- (ii) 25% and less than 50%, or
- (iii) 50% and over ?

Discounted cash flow	Payback period	Other

EXHIBIT P-2

FOLLOW-UP LETTER USED IN MAIL SURVEY OF
CHARTERED ACCOUNTANTS IN PUBLIC PRACTICE



University of Waikato

HAMILTON . NEW ZEALAND . TELEPHONE 65-179

SCHOOL OF MANAGEMENT STUDIES

28 February, 1973

In November last year I sought your assistance with my research project entitled "A Survey of the Depreciation Policies of New Zealand Public Companies" by requesting you to arrange for the completion of my questionnaire.

If you have not already replied, I would be most grateful if the questionnaire could be completed and returned. As I intend to analyse all questionnaires received by March 30, completion of the questionnaire by that date would be greatly appreciated. This will allow me sufficient time to circulate the tabulated results of this survey during May.

Should you require further copies of the questionnaire or should you have any queries, please write.

Yours sincerely,

G.E. DWYER

EXHIBIT P-3
COVERING LETTER AND TABULATED RESULTS OF
MAIL SURVEY OF CHARTERED ACCOUNTANTS IN
PUBLIC PRACTICE



University of Waikato

HAMILTON . NEW ZEALAND . TELEPHONE 65.179

SCHOOL OF MANAGEMENT STUDIES

11 December 1973

In November last year, I requested your firm to participate in a survey of the views on depreciation of leading accounting firms engaged in the audit of public companies. I am pleased to enclose a copy of the tabulated results of this survey, and trust that these will be of interest to you.

I thank you for your very kind support of this project.

Yours sincerely,

G.E. DWYER

INTRODUCTION

Of the eleven firms requested to participate in the survey, five completed the questionnaire.* Participants tended to be larger than non-participants.

Although the questionnaire attempted to determine the official views of accounting firms, most participants indicated that an official policy had not been formulated on all aspects of accounting for depreciation covered by the questionnaire. For this reason care should be exercised in interpreting the results of the survey.

*Twelve firms were originally requested to participate. However, two firms which merged last year submitted a combined answer.

1. (a) For taxation purposes ordinary depreciation is intended to provide for the annual loss caused by fair wear and tear, other than that which can be made good by repairs. Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising (which are covered by questions given below), are the Inland Revenue Department's current rates of ordinary depreciation on plant and machinery, in your firm's opinion, generally *:

- (i) Inadequate,
(ii) Adequate, or
(iii) More than adequate,

2
3
-

for this purpose (i.e. loss through wear and tear) ?

If you ticked 1(a)(i) please answer (b).

- (b) Ignoring the questions of obsolescence and the replacement of plant and machinery when prices are rising, do ordinary tax rates of depreciation plus special depreciation on plant and machinery, in your firm's opinion, generally provide :

- (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate,

1
1
-

allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

2. Ignoring the question of replacing or selling buildings when prices are rising, do ordinary tax rates of depreciation on buildings, in your firm's opinion, generally provide :

- (i) An inadequate,
(ii) An adequate, or
(iii) A more than adequate,

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allowance for the annual loss caused by fair wear and tear, other than that which can be made good by repairs ?

* The word "generally" is used in this and following questions to indicate that the respondent should ignore atypical cases. In questions which refer to "special circumstances" atypical cases should be included.

3. (a) Does your firm consider that adequate allowance for obsolescence, in addition to wear and tear, of plant and machinery is generally provided by ordinary tax rates of depreciation ? - / 5
YES / NO

If you answered "NO" to question 3(a) please answer (b).

- (b) Does your firm consider that adequate allowance for obsolescence, in addition to wear and tear, of plant and machinery is generally provided by ordinary tax rates of depreciation plus special depreciation ? 4 / 1
YES / NO

4. Does your firm consider that ordinary rates of depreciation for taxation purposes should generally allow for increases in the cost of replacing plant and machinery as a result of inflation * ? 2 / 3
YES / NO

5. (a) Does your firm consider that depreciation charged against revenue for financial reporting purposes should generally allow for the increase in the cost of replacing plant and machinery as a result of inflation ? 4 / 1
YES / NO

If you answered "YES" to question 5(a) please answer (b).

- (b) Does your firm consider that plant and machinery should generally be revalued ** to allow for the effects of inflation ? 3 / 1
YES / NO

6. (a) Is your firm of the opinion that listed companies should generally compute depreciation on plant and machinery by a particular method (e.g. straight-line, diminishing value etc.)? 5 / -
YES / NO

If you answered "YES" to question 6(a) please answer (b), (c) and (d).

- (b) Is your firm of the opinion that listed companies should generally compute depreciation on plant and machinery by :

- (i) The straight-line,
- (ii) The diminishing value, or
- (iii) Other method (please specify) ?

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* This question should be considered from a policy point of view and hence any limitations contained in current legislation or existing Departmental policy should be ignored.

** The word "revalue" should be broadly interpreted to include adjustments for general price level changes, specific price changes or annual (or periodic) write-up of assets based on a valuer's report.

(c) Please briefly state your firm's argument in support of your answer to question 6(b).

All firms supported their answer to 6(b) by arguing that the method indicated gave a better allocation of an asset's cost over its life and hence a better matching of expenses with revenue.

(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should compute depreciation on plant and machinery by a method other than that given in your answer to question 6(b) ?

Two firms stated that a company could compute depreciation by the diminishing value method, if this method was adopted by the Directors. One firm answered that a company should use the diminishing value method if earnings were larger in the asset's initial years and if maintenance expenses significantly increased during the asset's later life.

7. (a) Is your firm of the opinion that listed companies should generally charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

- / 4
YES / NO

One firm gave a qualified answer.

(b) Please briefly state your firm's argument in support of your answer to question 7(a).

The firm preferring the diminishing value method was of the opinion that special should be charged in those cases where the rate of depreciation (excluding special) was inadequate. The remaining firms opposed the charging of special depreciation because of its distorting effect on income and as special was regarded as an incentive unrelated to obsolescence, wear and tear.

If you answered "YES" to question 7(a) please answer (c). If you answered "NO" to question 7(a) please answer (d).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

Where the rate of depreciation (without special) was adequate.
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(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should charge special depreciation on plant and machinery against revenue for financial reporting purposes ?

Two firms were of the opinion that an inadequate rate of depreciation (excluding special) would justify the charging of special depreciation.
Two other firms did not state any special circumstances.
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8. (a) Is your firm of the opinion that a deferred tax credit should generally be provided when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against 5 / - revenue for financial reporting purposes ? YES / NO

(b) Please briefly state your firm's argument in support of your answer to question 8 (a).
All five firms stated that recognition of a future tax liability was necessary to properly match tax expense with related revenue.
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If you answered "YES" to question 8 (a) please answer (c) and (d).
If you answered "NO" to question 8 (a) please answer (e).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not provide a deferred tax credit when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against revenue for financial reporting purposes ?

One firm indicated that a company need not provide a
deferred tax credit where the tax payment was deferred
indefinitely or spread over a number of years such that
each payment was immaterial. A further firm gave a
similar reply quoting the situation where the amount
involved is consistent from year to year.
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(d) Given that the current year's excess of depreciation claimed for taxation purposes over depreciation charged against revenue for financial reporting purposes has a material effect on net profit, would your firm qualify its audit report if a deferred tax credit were not provided ?

4* / 1
YES / NO

(e) In what special circumstances (if any) would your firm be of the opinion that a listed company should provide a deferred tax credit when the current year's depreciation claimed for taxation purposes exceeds depreciation charged against revenue for financial reporting purposes ?

Not applicable 5.
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9. (a) Does your firm regard a deferred tax credit, arising from claiming depreciation for taxation purposes in excess of the current year's depreciation charged against revenue for financial reporting purposes, as :

* Two of the four firms would not qualify their audit reports if the position was adequately disclosed by way of a note to the accounts.

- (i) A provision,
- (ii) A reserve,
- (iii) Either a provision or a reserve (i.e. that these words are interchangeable), or
- (iv) Other (please specify) ?
 "A deferred credit" (not being a provision or a reserve). 1.

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(b) Please briefly state your firm's argument in support of your answer to question 9 (a).

One firm answering (i) quoted the definition of a provision from the Companies Act. The answer to (ii) was for "want of a better description".
 The firm answering (iii) regards a deferred tax credit as an equalisation balance which could be used for a dividend distribution.

10. (a) Given that a listed company has decided to provide a deferred tax credit, would your firm be of the opinion that this item should generally be classified in the balance sheet under :

- (i) Shareholders' funds,
- (ii) Long term liabilities;
 - (aa) with the amount expected to mature within the financial year classified under current liabilities, or
 - (bb) without classifying the amount expected to mature within the financial year under current liabilities,
- (iii) A separate classification, or
- (iv) Other (please specify) ?

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(b) Please briefly state your firm's argument in support of your answer to question 10(a).

Two firms indicated that the credit could be classified as a term liability. (One added that the current portion would be classified as a current liability while the other indicated that no part should be regarded as current). One firm distinguished the credit from a term liability as it did not have a fixed termination date.

(c) Given that a deferred tax credit is a material item would your firm qualify its audit report if this item were generally classified in the balance sheet of a listed company under :

(i)	Shareholders' funds ?	4 / 1	YES / NO
(ii)	Long term liabilities ?	1 / 4	YES / NO
(iii)	Current liabilities ?	3 / 2	YES / NO
(iv)	A separate classification ?	0 / 5	YES / NO

11. (a) Given that a listed company has decided to provide a deferred tax credit, would your firm generally be of the opinion that the annual addition to accumulated deferred tax credit should be debited in :

- (i) The profit and loss account ;
 - (aa) as a non-recurring or exceptional item (i.e. "below the line"), or
 - (bb) as a recurring or unexceptional item (i.e. "above the line"),
- (ii) The appropriation account, or
- (iii) Other (please specify) ?

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(b) Please briefly state your firm's argument in support of your answer to question 11(a).

All firms argued that the charge against revenue for deferred tax should be treated similar to the charge for tax currently payable.

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should debit the annual credit for deferred tax (given that a deferred tax credit is to be provided) in an account other than that given in your answer to question 11(a)?

No special circumstances 5.

12. Given that there is a permanent increase (decrease) in the rates of taxation, would your firm be of the opinion that the accumulated deferred tax credit should be increased (decreased) accordingly * ?

5 / 0
YES / NO

13. (a) Is your firm of the opinion that a deferred tax debit (i.e. taxes currently payable, but related to the earnings of future years) should generally be provided when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ** ?

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YES / NO

* For the purposes of this question a change in the rates of taxation may be taken to be permanent unless the Government states that the change is intended to be temporary and unless the business community generally considers the change to be temporary.

** For the purposes of this questionnaire a deferred tax debit is taken to be the converse of a deferred tax credit. A deferred tax debit may be provided when the Directors decide to charge a greater amount of depreciation for financial reporting purposes than is claimed for taxation purposes. In this context, a deferred tax debit is distinguished from a reduction in accumulated deferred tax credit.

(b) Please briefly state your firm's argument in support of your answer to question 13 (a).

The three firms answering "yes" stated that a deferred tax debit was part of tax allocation which aimed to properly match tax expense with related revenue. Two firms were opposed to the recognition of future tax assets.

If you answered "YES" to question 13 (a) please answer (c) and (d).

If you answered "NO" to question 13 (a) please answer (e).

(c) In what special circumstances (if any) would your firm be of the opinion that a listed company should not provide a deferred tax debit when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ?

Two firms would not favour the creation of a deferred tax debit, where there was doubt as to the company's ability to earn sufficient profits to benefit from the deferred asset.

(d) Given that the current year's excess of depreciation charged against revenue for financial reporting purposes over depreciation claimed for taxation purposes has a material effect on net profit, would your firm qualify its audit report if a deferred tax debit were not provided ? Not applicable 2.

2* / 1
YES / NO

(e) In what special circumstances (if any) would your firm be of the opinion that a listed company should provide a deferred tax debit when the current year's depreciation charged against revenue for financial reporting purposes exceeds depreciation claimed for taxation purposes ?

Where a company, in its first year of operations, charges a full year's depreciation whereas the tax claim is limited to six months depreciation.

* One firm would not qualify its audit report if the position was adequately disclosed by way of a note to the accounts.

14. Does your firm consider that the methods of calculating depreciation provision (straight-line, diminishing value, etc.) should be disclosed in the published financial reports of listed companies ? 4 / -
YES / NO

Not Answered 1.

15. Does your firm consider that the bases of calculating depreciation provision (historic cost, revaluation, etc.) should be disclosed in the published financial reports of listed companies ? 4 / -
YES / NO

Not Answered 1.

16. What does your firm consider to be the most significant advantage of special depreciation to listed companies * :

(i) Increased liquidity, 2

(ii) Higher rate of return than would otherwise be the case, or -

(iii) Other (please specify) ? 2

A more realistic charge for depreciation 1.

A more realistic charge for depreciation and increased liquidity 1.

Not answered 1.

17. (a) Is your firm of the opinion that listed companies should generally account for the investment allowance by a particular method ? 4 / 1
YES / NO

If you answered "YES" to question 17 (a) please answer (b), (c) and (d).

* If you are unable to indicate "the most significant advantage", you might appropriately answer by indicating more than one alternative.

(b) Is your firm of the opinion that the investment allowance should generally be accounted for in the books of account of listed companies by :

(i) Deducting the saving in tax (arising from claiming the allowance) from the cost of qualifying assets, or

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(ii) Claiming the allowance for taxation purposes without making any adjustment to the books of account other than to the taxation provision, or

3

(iii) Other (please specify) ?

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(c) Please briefly state your firm's argument in support of your answer to question 17(b).

Three firms were of the opinion that investment allowance was a tax incentive which should be reflected in the year in which it is claimed. One firm acknowledged that investment allowance was an incentive, but argued that the benefit should be reflected over the asset's life.
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(d) In what special circumstances (if any) would your firm be of the opinion that a listed company should account for the investment allowance in its books of account by a method other than that given in your answer to question 17(b) ?

No special circumstance.
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18. Preamble

This question may be difficult to answer as the data required to do so may not be examined in the course of an audit. Should this be the case, you might appropriately answer by providing a guesstimate of the position. For this reason care will be exercised in interpreting the answers to this question.

Does the number of your firm's listed company clients who use the capital expenditure techniques given to the right, expressed as a percentage of all listed company clients of your firm, range between :

- (i) 0 and less than 25%,
- (ii) 25%,
- (iii) 50%,
- Not answered
- Total.

Discounted cash flow	Payback period	Other
2	1	1
1	1	1
1	1	1
1	2	2
5	5	5

Three respondents stated that their answers were "guesses".

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