Frequently asked questions for RAP 7 (Jun 2012)

1. Changes in accounting standards

RAP 7 (2012) Paragraph 15 states that "During the period from which RAP is effective until the next re-issue of the RAP 7, the RAP will not be subject to any mandatory changes resulting from changes in accounting standards."

What is the **general principle** for the application of new or revised FRSs that are:

i. Issued and effective as at 30 June 2012?
Answer: Unit trusts are required to apply the recognition and measurement requirements of FRSs that are issued and effective for annual periods beginning on or before 30 June 2012 in the preparation of financial statements under RAP 7 (2012).

ii. Issued but not yet effective as at 30 June 2012 or to be issued in the future?
Answer: Unit trusts are allowed to voluntarily adopt new or revised FRSs that are issued but not yet effective as at 30 June 2012 or to be issued in the future in the preparation of financial statements under RAP 7 (2012) in the reporting period that these FRSs become effective. If the new or revised FRSs allow for early adoption, unit trusts are also allowed to voluntarily early apply these FRSs in the preparation of financial statements under RAP 7 (2012).

2. Expenses

RAP 7 (2012) Paragraph 34 states that "At present there are some diversity in the treatment of expenses incurred in respect of transacting in financial instruments. To facilitate comparability between unit trusts, all expenses relating to the purchase and sale of financial instruments should be charged against income, regardless of any alternative treatment which may be permitted in determining the distribution."

Question A: What are considered as financial instruments for the purposes of the paragraph above?

Answer: This paragraph is only applicable to financial instruments within the scope of FRS 39 which are accounted for at fair value through profit or loss.

Question B: How should transaction costs be presented in the Statement of Total Return?

Answer: Transaction costs should be presented in expenses before net income, either as a separate line item or included as part of other expenses. These costs should not form part of the net gains/(losses) (i.e. fair value changes) on financial instruments within the scope of FRS 39 which are accounted for at fair value through profit or loss.

3. Distributions

RAP 7 (2012) Paragraph 39 states that "Distributions should be accrued for at the reporting date if the manager has the discretion to declare distributions without the need for unitholder or trustee approval and a legal or constructive obligation has been created."

Question: When should accruals for distributions be made?

Answer: Accruals for distributions should be made at the point in time when the necessary approvals have been obtained and a legal or constructive obligation has been created.

When the manager has the discretion to declare distributions without further approvals from the trustee or unitholders, the distributions are accrued at the point in time when they are appropriately authorised by the board of directors of the manager (if required by the corporate governance practices of the manager) and a legal or constructive obligation has been created.

If the necessary approvals are obtained after the reporting date but before the financial statements are authorised for issue, the distributions are not accrued as at the reporting date.

4. Generally Accepted Accounting Principles (GAAP)

Question: What are generally accepted accounting principles (GAAP) referred to in RAP 7 (2012)?

Answer: In the context of RAP 7 (2012), GAAP refers to Singapore GAAP which includes Singapore Financial Reporting Standards (FRS), Interpretations of FRS and Recommended Accounting Practices.