

Forestry partnerships and financial reporting

Andrew Caddie*

Recent legal developments of possible interest to the forestry sector in the areas of taxation and financial reporting include:

- Removal of limitation of numbers for ordinary partnerships;
- Publication of financial reporting standard FRS 4 relating to accounting for inventories.

Partnership Limits

A little-known effect of the Companies Act reforms over the last year has been the removal of Section 456 of the Companies Act 1955, which formerly prohibited the creation of partnerships of more than 25 persons. The limitation has **not** been re-enacted in the 1993 Companies legislation or elsewhere. Accordingly it is now possible for forestry promoters or farmers to put together partnerships of more than 25 persons.

Previously it has been necessary to divide a block into several sections and to create a partnership for each one since the entry costs in respect of a larger land area would have been too high for individual investors if limited to 25 in number. Alternatively, partnerships of qualifying companies have been put together at considerable extra cost and administrative effort.

The new legal position should lead to significant simplification and may be of some benefit to forestry promoters.

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Law Reform

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or felling" has been extended to "any activity".

Given the detailed nature of the proposed amendment it is recommended that those with interests in this area should carefully work through the changes to gauge their effect against their own particular operations.

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Financial Reporting

The Financial Reporting Act 1993 gives statutory effect to formal accounting standards. These standards must be complied with by all companies and issuers of securities when preparing financial statements (which must be prepared within five months of balance date).

One such statement is FRS4 relating to Inventories. This generally requires that all inventories must be accounted for at the lesser of cost or market value. Certain items are **excluded** from the concept of "inventory" in FRS4, significantly among these being **forestry crops**. This is a new development of significance to foresters wishing to show their forest at true value in their accounts.

However, an anomaly could arise when the crop is harvested.

At that point, the exception in FRS4 ceases to apply and the logs or sawn timber become **inventory** until such time as sold. They must then be recorded in the books at cost (which will almost always be **lower** than market value).

The effect may be to radically reduce the balance sheet of a forestry company, since the identifiable cost of the harvest will be **low** in relation to the market value of the (previously) growing trees (and of course the true market value of the logs or sawn timber itself).

A submission can be made to the Accounting Standards Review Board, the statutory body responsible for the promulgation of binding accounting standards. Those who wish to discuss such a submission can contact the author.

Constructing a stream gauging station



Constructing a stream gauging station near the mouth of a mature radiata pine catchment in the Marlborough Sounds. Photo: Landcare