the agreement for the sale and purchase of property. The appropriate calculations to determine income derived or expenditure incurred for the purchaser are shown below. The purchaser has a 31 March balance date and is the "issuer" for purposes of the accruals legislation.

The Credit Term of the agreement (1 February 1991 to 1 August 1991) is 181 days. As this is under twelve months the yield on bank bills must be ascertained in order to discount the purchase price.

The yield on bank bills of a similar term to the Credit Term on 20 December 1988 pursuant to Determination G23: Specified Rate, is 11.5%.

Method A of Determination G10B: Present Value Calculation Methods, is applied to calculate the present value as at 1 February 1991 ("the specified date") as follows—

R = 11.5% (the Specified Rate)

N = 2 (since the payments are at half yearly intervals)

$$F = \frac{R}{100 \times N}$$

$$= 0.0575$$

At 1 February 1991:

A = 0

B = $500,000 (Payable by the issuer or receivable by the holder, estimated to occur on 1 August 1991)

C = 0 (Payable by the holder or receivable by the issuer)

$$\text{whence present value at 1 February 1991} = \frac{A + B - C}{1 + F}$$

$$= \$472,813$$

To this must be added the $25,000 deposit, giving a total present value of $497,813. This amount is used as the basis for an accrual calculation.

For the purposes of recognising the expenditure incurred in the 1991 and 1992 income years Determination G3 or Determination G11A or an alternative method producing not materially different results may be used. (Note: As there is only one period of less than a year and no discount or premium a yield to maturity accrual method will produce the same result as spreading the difference between the present value and the total amount Payable on a daily basis over the term of the arrangement).

The amount allocated to each day in the period is:

$$\frac{\$(525,000 - 497,813)}{181} = \$150.20.$$

There are 58 days between 1 February and 31 March therefore expenditure incurred in the 1991 financial year is:

$$\$150.20 \times 58 = \$8,711.60$$

If settlement occurs as expected on 1 August 1991 a base price adjustment is calculated to determine income derived or expenditure incurred. The acquisition price for the purposes of the base price adjustment will be as calculated above.

Base Price Adjustment − a − (b + c) where:

a = all consideration paid = $525,000

b = the acquisition price = $497,813

c = expenditure incurred in previous income years = $8,711.60

bpa = $18,475.40, which is deemed to be expenditure incurred in the 1992 income year.

If, however, the settlement date differs from 1 August 1991 the acquisition price for the purposes of the base price adjustment should be recalculated using the method provided in this determination.

(3) The assets of a company are sold on a deferred Payment basis for a price which is in part to be determined by the profitability of the company over the next 36 months.

The terms of the arrangement are as follows:

Price:	$1,300,000 plus 10% of profits for the next three years
Deposit:	$100,000 paid on 10 September 1990
Possession:	1 February 1991
Settlement:	Half-yearly instalments of $200,000 on 1 August and 1 February plus 10% of profits on 1 February each year.

The cashflows in relation to the arrangement including the profits, forecast (based on previous company data and forecast trends in the business, costs, capital expenditures, etc.) by the buyer, are:

Date	Amount	Profit	Total
Deposit	100,000		100,000
1/8/91	200,000		200,000
1/2/92	200,000	25,000	225,000
1/8/92	200,000		200,000
1/2/93	200,000	30,000	230,000
1/8/93	200,000		200,000
1/2/94	200,000	40,000	240,000

The buyer and the seller were unable to agree on a lowest price which is why the percentage of profits option was adopted. An interest element has been capitalised into the cost of sale.

The seller (holder) is obliged to return accrual income associated with the transaction. The buyer (issuer) will seek a deduction for accrual expenditure incurred. As the lowest price was not agreed the discounted value method applies. This example looks at the calculations made by the buyer.

The Credit Term of the agreement (1 February 1991 to 1 February 1994) is 1,096 days (or 6 half year periods). As this is over twelve months the yield on New Zealand Government Stock of a similar term must be ascertained. The yield on Government Stock of a term similar to the Credit Term on 1 February 1991 pursuant to Determination G23: Specified Rate, is 10.0%.

In this case, the purchaser is the "issuer".

Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 1 February 1991 (the "specified date") as follows:

R = 10.0% (the Specified Rate)

N = 2 (since the payments are at half-yearly intervals)

$$F = \frac{R}{100 \times N}$$

$$= 0.05$$

At 1 August 1993:

A = 0

B = $200,000 + (0.10 x $400,000) (Payable by the issuer or receivable by the holder as at 1 February 1994)

C = 0 (Payable by the holder or receivable by the issuer)

therefore the present value at 1 February 1991 =

$$\frac{A + B - C}{1 + F}$$

$$= \$228,571$$

At 1 February 1993:

A = $228,571

B = $200,000