



**EXPLANATORY GUIDE A1: ACCOUNTING STANDARDS
FRAMEWORK (FOR-PROFIT ENTITIES UPDATE)**

(EG A1 (FP Entities Update))

Issued by the External Reporting Board

December 2012

This Explanatory Guide outlines the legal obligation on entities to prepare general purpose financial reports in accordance with generally accepted accounting practice (GAAP) in New Zealand, and the accounting standards that should be applied by those entities. It also sets out the roles and functions of the External Reporting Board (XRB) and its sub-Board the New Zealand Accounting Standards Board (NZASB) in issuing accounting standards.

This Explanatory Guide is based on Standard XRB A1 (FP Entities Update). It is an explanatory document and has no legal status.

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ISBN 978-1-927238-17-2

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1. Introduction

Purpose and Content of this Explanatory Guide

- 1 This Explanatory Guide (EG A1 (FP Entities Update)) provides an overview of the reporting requirements for entities that have a statutory obligation to prepare general purpose financial reports (GPFR) in accordance with generally accepted accounting practice (GAAP) in New Zealand.
- 2 The contents of this Explanatory Guide reflect the requirements of Standard XRB A1 *Accounting Standards Framework (For-Profit Entities Update)* (XRB A1 (FP Entities Update)) which applies to entities reporting for periods beginning on or after 1 December 2012. A previous version of EG A1 (EG A1: *Overview of Accounting Standards* - issued in July 2011) related to a previous version of XRB A1 and applies to entities reporting for periods beginning on or before 30 November 2012.
- 3 This Explanatory Guide has been issued for explanatory purposes only and has no legal status. It covers four main topics:
 - The roles and responsibilities of the External Reporting Board (XRB Board), and its sub-Board the New Zealand Accounting Standards Board (NZASB);
 - The legal requirement on certain entities to prepare financial reports that comply with generally accepted accounting practice (GAAP) and what GAAP consists of;
 - The standards and other documents issued by the XRB and the NZASB, and the legal standing of those documents; and
 - The standards and other pronouncements that reporting entities are required to comply with, including the tiers and suites of standards that apply to particular reporting entities.
- 4 A separate Explanatory Guide (EG A2 *Overview of the Accounting Standard Setting Process*) provides an overview of the process that the XRB Board expects the NZASB to follow in developing, or adopting, and issuing accounting standards.
- 5 In this Explanatory Guide:
 - “Accounting standard” has the same meaning as “financial reporting standard” and includes “applicable financial reporting standard” as defined in the Financial Reporting Act 1993;
 - A reference to a “section” is to a section of the Financial Reporting Act 1993 unless otherwise stated;
 - A reference to a “paragraph” is to a paragraph of this Explanatory Guide;
 - The terms “reporting entity”, “group” and “accounting period” have the respective meanings given in section 2 of the Financial Reporting Act 1993;
 - The terms “local authority” and “council controlled organisation” have the respective meanings given in the Local Government Act 2002;
 - The term “state sector bodies” means the Government Reporting Entity and all Departments and Offices of Parliament, as respectively defined in the Public Finance Act 1989, and Crown Entities, as defined in the Crown Entities Act 2004; and
 - Other terms used, which are defined in the Financial Reporting Act 1993, have the same meanings as in that Act.

The New Accounting Standards Framework

- 6 In April 2012, the Minister of Commerce accepted a new New Zealand Accounting Standards Framework submitted by the XRB Board. The new Accounting Standards Framework¹ reflects the XRB Board’s decision to adopt a multi-standards approach in New Zealand². The new Accounting Standards Framework comprises

¹ A copy is available for downloading from the XRB website:
http://xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Framework.aspx

² The decision to adopt a multi-standards approach followed an extensive consultation and deliberation process undertaken by the XRB Board and its predecessor, the Accounting Standards Review Board (ASRB). Further information about this process and the rationale for the multi-standards approach is available on the XRB website:
http://xrb.govt.nz/Site/Financial_Reporting_Strategy/ASRB_History/default.aspx

different suites of accounting standards for for-profit entities and for public benefit entities (PBEs), together with a formalised tier structure. The tier structure is designed to better balance the relative costs and benefits of reporting by entities of different sizes.

- 7 The new Accounting Standards Framework is being implemented in three stages:
- Stage 1 mainly involving changes to the accounting standards for for-profit entities and is effective for reporting periods beginning on or after 1 December 2012;
 - Stage 2 mainly involving changes to the accounting standards for public sector PBEs and is expected to be effective for reporting periods beginning on or after 1 July 2014; and
 - Stage 3 mainly involving changes to the accounting standards for (private) not-for-profit entities and is expected to be effective for periods beginning on or after 1 April 2015.
- 8 Standard XRB A1 (FP Entities Update) is the standard that gives legal effect to Stage 1 – the aspects of the new Accounting Standards Framework that apply to for-profit entities. As outlined in paragraph 2, this version of EG A1 reflects that Standard i.e. Stage 1 of the implementation of the new Accounting Standards Framework. As part of the implementation of Stage 2 and Stage 3 of the new Accounting Standards Framework Standard XRB A1 will be revised and reissued. This Explanatory Guide (EG A1) will similarly be revised and reissued as part of each stage of the roll-out of the new Framework.

2. Roles of the XRB Board and the NZASB

- 9 The XRB is an independent Crown Entity established under section 22 of the Financial Reporting Act 1993 and subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 10 The functions of the XRB are specified in the Financial Reporting Act 1993. In relation to accounting standards they comprise:
- Developing and issuing accounting standards and amendments to accounting standards for application by entities that have a statutory obligation to prepare financial statements in accordance with generally accepted accounting practice (GAAP) in New Zealand (section 24(1)(a));
 - Developing and implementing strategies for the issue of accounting standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 24(1)(c));
 - Giving directions or guidance as to the accounting policies that have authoritative support within the accounting profession in New Zealand (section 24(1)(d));
 - Liaising with international or national organisations that have responsibility for accounting standard setting (section 24(1)(g));
 - Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an accounting standard (section 26); and
 - Establishing a system for tiers of financial reporting that impose different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate (section 34).
- 11 While all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has decided to delegate the responsibility for accounting standard setting to a sub-board, the NZASB. The NZASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.
- 12 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZASB. The financial reporting strategy setting function (required by section 24(1)(c) of the Financial Reporting Act 1993) includes the establishment of the accounting standards framework.
- 13 The NZASB is responsible for developing and issuing accounting standards, and giving directions and guidance about accounting policies that have authoritative support in New Zealand. In doing so the NZASB must:
- Operate within the accounting standards framework established by the XRB Board;
 - Liaise with the Australian Accounting Standards Board (AASB) with the objective of harmonising accounting standards in Australia and New Zealand for for-profit entities; and
 - Ensure an appropriate consultation process (due process) is followed – see EG A2 *Overview of the Accounting Standard Setting Process* for an explanation of these requirements.
- 14 The NZASB operates under delegated authority from the XRB Board.

3. Obligation to Comply with GAAP

Requirement to Prepare

- 15 Various pieces of legislation require certain entities to prepare financial statements in accordance with GAAP. Those entities are:
- “Reporting entities”³ (required by the Financial Reporting Act 1993);
 - Local authorities and council controlled organisations (required by the Local Government Act 2002); and
 - State sector bodies (required by the Public Finance Act 1989 and the Crown Entities Act 2004).
- 16 Other entities may voluntarily prepare financial reports in accordance with GAAP.
- 17 Two Bills currently before Parliament - the Financial Reporting Bill, 2012 and the Financial Markets Conduct Bill, 2012 – include proposals that will make changes to this legislative framework. If enacted those proposals will result in most small and medium sized for-profit entities no longer having to prepare financial statements that comply with GAAP; while all Registered Charities would be required to comply with XRB or NZASB Standards for the first time.
- 18 It is important to note that those proposals have not yet been enacted. Accordingly, the current legislative requirement to prepare financial statement that comply with GAAP is as outlined in paragraph 15 and the accounting standards framework that currently applies (and which is outlined in this Explanatory Guide) reflects that legislative framework. When the legislative framework changes, the accounting standards framework, Standard XRB A1, and EG A1 (this Guide) will be revised accordingly.

Definition of GAAP

- 19 For entities subject to the Financial Reporting Act 1993, GAAP is defined in section 3 of that Act and means compliance with:
- (a) Applicable accounting standards; and
 - (b) Where there is no applicable accounting standard or rule of law, accounting policies that are appropriate to the circumstances of the reporting entity and have authoritative support within the accounting profession in New Zealand.
- 20 In the case of state sector bodies, local authorities and council controlled organisations, GAAP is defined in the Local Government Act 2002, the Public Finance Act 1989, and the Crown Entities Act 2004 and means compliance with:
- (a) Applicable accounting standards, so far as those standards apply to the state sector body, local authority or council controlled organisation; and
 - (b) In relation to matters for which no provision is made in accounting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate in relation to the state sector body, local authority or council controlled organisation and have authoritative support within the accounting profession in New Zealand.
- 21 In accordance with these definitions, accounting standards issued by the XRB Board or the NZASB are the primary indicators of GAAP in New Zealand. They set out the recognition, measurement, presentation and disclosure requirements for transactions and events that are important in the preparation of GPFR, including those that may arise in specific industries.

General Purpose Financial Reports

- 22 GPFR comprises financial statements accompanied by:
- (a) Non-financial information, such as a statement of service performance; and
 - (b) Explanatory material, including that required by legislation.
- Non-financial information and explanatory material may also be included in the financial statements.

³ These are defined in the Financial Reporting Act 1993 and comprise issuers, companies other than exempt companies (as defined by section 6A), and persons required by any Act, other than the Financial Reporting Act 1993, to comply with the Financial Reporting Act 1993 as if they were a reporting entity;

- 23 The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR is seeking to provide information to a range of general purpose users with different interests in that information. GAAP reflects this⁴.
- 24 By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually demand SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or the Department of Statistics, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

True and Fair View

- 25 The Financial Reporting Act 1993 requires that the financial statements of a reporting entity or group give a “true and fair view” of the entity's or group's financial performance, financial position and, where required, cash flows (sections 11 and 14). Similarly state sector bodies and local authorities are required to prepare statements that “fairly reflect” their financial position and financial and non-financial performance.
- 26 The general presumption is that in order for GPFR to show a true and fair view (or fairly reflect their financial position and performance) they must comply with GAAP i.e. applicable accounting standards. In the rare circumstances that compliance with GAAP does not result in financial reports giving a true and fair view, the Financial Reporting Act 1993 provides for additional information and explanations to be provided to give a true and fair view. The terms “fair presentation” and “fairly reflect” have the same meaning as “a true and fair view”.

Types of Documents Issued by the XRB

- 27 As outlined in paragraph 10, under section 24(1) of the Financial Reporting Act 1993, the XRB is responsible for issuing accounting standards, or where no such standard exists, for determining the accounting policies that have authoritative support. In other words, the XRB is responsible for establishing what comprises GAAP in New Zealand.
- 28 As outlined in paragraph 15, compliance with GAAP is a legal requirement for certain entities and GAAP therefore has legal standing. Further, under section 32 of the Financial Reporting Act 1993, accounting standards issued under section 24(1)(a) are classified as regulations for the purposes of the Regulations (Disallowance) Act 1989. They are therefore legislative instruments.
- 29 However, not all the documents issued by the XRB have this legal status. Between them the XRB Board and the NZASB issue four types of documents:
- Accounting standards and related interpretations which are issued under section 24(1)(a) of the Financial Reporting Act 1993;
 - Documents or pronouncements, such as conceptual framework documents, that have authoritative support and which are issued under section 24(1)(d) of the Financial Reporting Act 1993;
 - Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
 - Explanatory documents (such as this Explanatory Guide) that have no legal status.
- Only the documents issued under section 24(1)(a) and 24(1)(d) have legal standing and form part of GAAP.
- 30 The XRB Board considers it important that the legal status of each document issued by the XRB Board or the NZASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document.
- 31 The Appendix to this Explanatory Guide provides some information about reading accounting standards and related pronouncements.

⁴ The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting 2010 (NZ Framework)*, the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting 2010 (Diff Rep)* and the New Zealand *Conceptual Framework for Financial Reporting (PBE)*.

4. Accounting Standards to be Applied

- 32 There are multiple sets of accounting standards that currently apply to New Zealand reporting entities preparing GPFR in accordance with GAAP. Establishing exactly which suite of those accounting standards is applicable to a particular reporting entity can be determined in three steps.

Step 1: Determine whether Applying Old or New Accounting Standards Framework

- 33 The set of standards applicable to a particular reporting entity depends, in the first instance, on whether the entity is reporting in accordance with the “old” or the “new” Accounting Standards Framework:
- The “old” Accounting Standards Framework applies to periods beginning on or before 30 November 2012.
 - The “new” Accounting Standards Framework applies to periods beginning on or after 1 December 2012.
- 34 Note, however, that a for-profit entity preparing GPFR for periods beginning on or before 30 November 2012 may early adopt (i.e. elect to apply) the new Accounting Standards Framework.
- 35 The accounting standards and other pronouncements to be applied under the “old” Accounting Standards Framework are specified in Standard XRB A1 *Application of Accounting Standards* and are explained in EG A1: *Overview of Accounting Standards*.⁵ Anyone interested in those requirements is encouraged to refer to those documents.
- 36 The accounting standards and other pronouncements that apply under the “new” Accounting Standards Framework are outlined in the remainder of this Explanatory Guide.

Step 2: Determine whether a For-Profit or a Public Benefit Entity

- 37 There are five different sets of accounting standards that apply under the FP Entities Update version of the new Accounting Standards Framework: NZ IFRS, NZ IFRS RDR, NZ IFRS Diff Rep, NZ IFRS PBE and Old GAAP. Exactly which of these five suites of accounting standards a particular reporting entity must, or may, apply is specified in Standard XRB A1 (FP Entities Update)⁶.
- 38 XRB A1 is an overarching standard issued by the XRB Board that gives effect to the Accounting Standards Framework. The current version of XRB A1 (XRB A1 (FP Entities Update)) applies to all reporting entities for all reporting periods beginning on or after 1 December 2012 (although it may be early adopted)⁷.
- 39 XRB A1 (FP Entities Update) establishes two broad groups of standards: those to be applied by for-profit entities; and those to be applied by public benefit entities (PBEs). Having determined that it is required (or chooses) to follow GAAP and which Framework is applicable to it, an entity’s next step is to determine whether it is a for-profit entity or a PBE.
- 40 The definitions of “for-profit entities” and “public benefit entities” are specified in XRB A1 (FP Entities Update). The Standard also contains integral guidance relating to the definitions in an Appendix. XRB A1 (FP Entities Update) defines:
- For-profit entities as “Reporting entities that are not public benefit entities”; and
 - Public benefit entities as “Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.
- 41 These definitions are unchanged from those used under the “old” Accounting Standards Framework that applied from 2005 to 2012. As such, there should be no necessity for an entity to change its classification merely as a result of moving from the “old” Accounting Standards Framework to the new Accounting Standards Framework specified in XRB A1 (FP Entities Update).

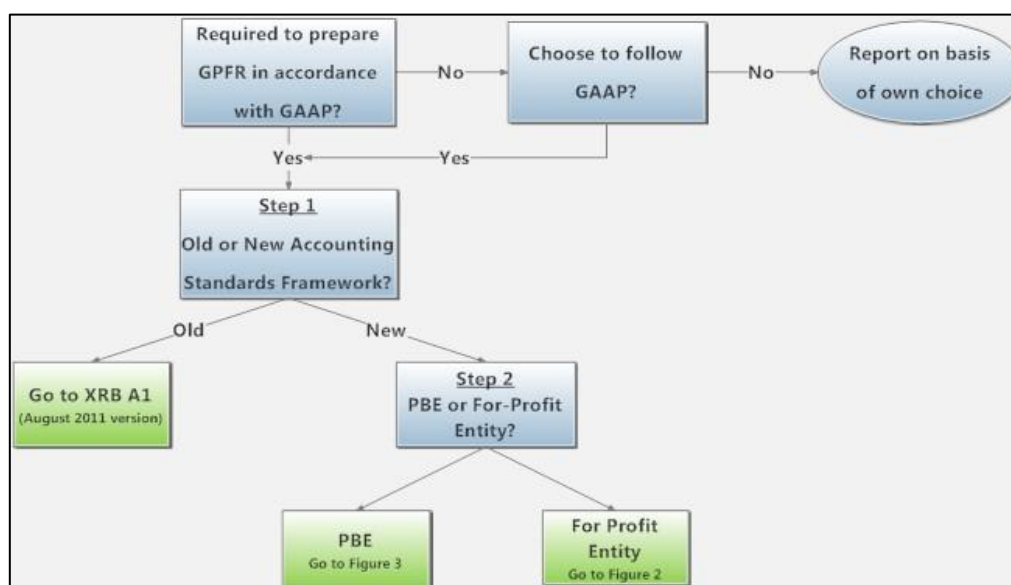
⁵ This Standard and Explanatory Guide are available on the XRB website:
http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/old_framework/default.aspx

⁶ This Standard is available for free download from the XRB website:
http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/New_Framework/Standards_for_For-Profit_Entities/Standards_for_FP_Tier_1_2_Entities.aspx#stds

⁷ It is intended that Standard XRB A1 will be revised at each stage of the roll-out of the new Accounting Standards Framework – see paragraph 8 of this Explanatory Guide.

42 Steps 1 and 2 are illustrated in Figure 1 below.

Figure 1: Identify the Applicable Standards - Steps 1 and 2



Step 3: Identify Applicable Standards Suite: For-Profit Entities

43 Having determined whether it is a for-profit entity or a PBE, the third step is to determine which suite of for-profit or PBE standards is applicable to the entity. In the case of for-profit entities this step operates as follows.

Tier Structure

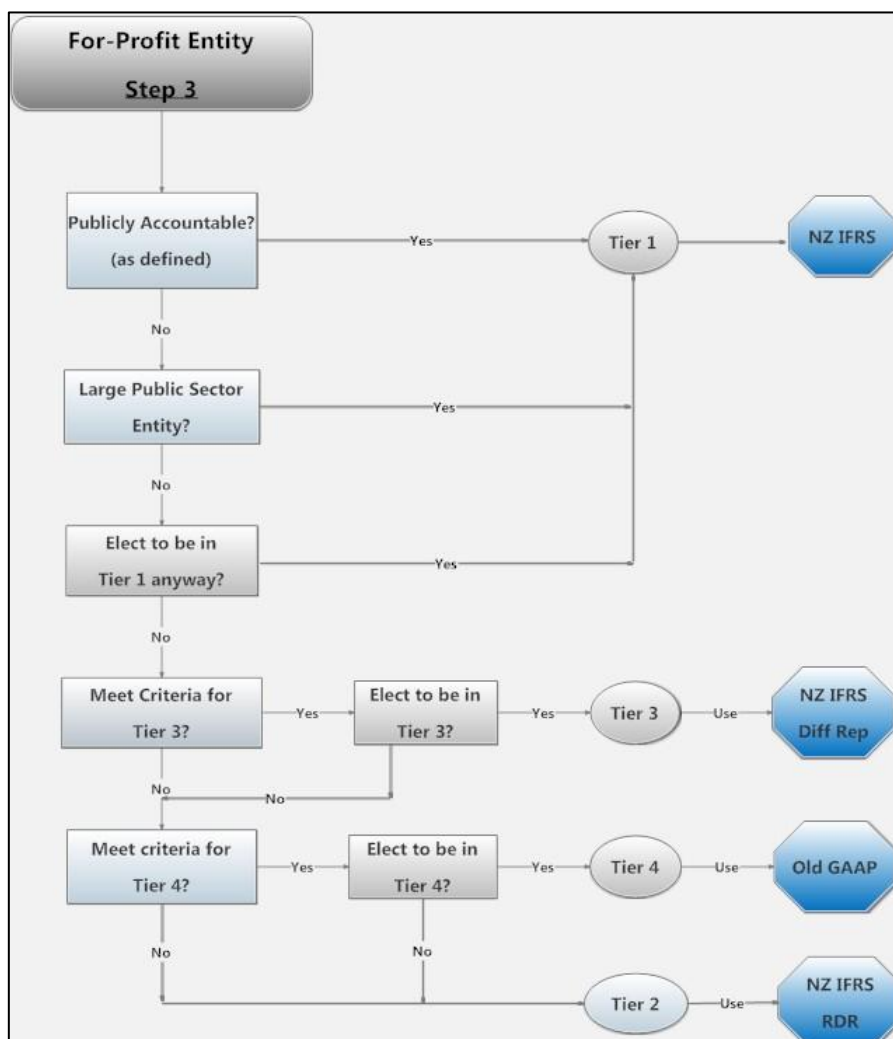
44 XRB A1 (FP Entities Update) establishes a four-tier structure for the for-profit sector. The suite of standards that an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the suite of standards applying to each tier are summarized in Table 1.

Table 1: For-Profit Entity Tiers and Standards

Tier	Tier Criteria	Standards Suite
Tier 1	<ul style="list-style-type: none"> Has public accountability (as defined); or Is a for-profit public sector entity that has total expenses >\$30million 	NZ IFRS
Tier 2	<ul style="list-style-type: none"> Has no public accountability (as defined); or Is a for-profit public sector entity that has total expenses ≤\$30 million <i>and elects to be in Tier 2.</i> 	NZ IFRS RDR
Tier 3	<ul style="list-style-type: none"> Has no public accountability (as defined); and Either all of its owners are members of the entity's governing body or is not large (as defined) <i>and elects to be in Tier 3.</i> 	NZ IFRS Diff Rep
Tier 4	<ul style="list-style-type: none"> Was applying Old GAAP at 30 June 2011 or was established on or after 1 July 2011; Has no public accountability (as defined); Is not required to file financial statements; and Is not large (as defined) <i>and elects to be in Tier 4.</i> 	Old GAAP

- 45 The way the for-profit tier structure works under XRB A1 (FP Entities Update) is that all entities are initially in Tier 1 as a default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.
- 46 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have “public accountability”; and public sector for-profit entities that have total expenses greater than \$30 million. For the purpose of the tier criteria public accountability has a particular technical meaning which is defined in XRB A1 (FP Entities Update). That definition has two legs:
- An entity has public accountability if it meets the International Accounting Standards Board (IASB) definition of public accountability i.e.:
 - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks;
 - An entity has public accountability if it is deemed to be so under the Standard, with the following being so deemed: issuers, registered banks, non-bank deposit takers, and registered superannuation schemes.
- 47 Any entity that does not meet these Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) – although it need not do so; it can report in accordance with Tier 1 requirements (full NZ IFRS) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier it is electing. Figure 2 provides a decision tree to assist in this tier selection process.

Figure 2: Identify the Applicable Standards – Step 3 (For-Profit Entities)



- 48 The criteria for Tiers 2, 3 and 4 are specified in XRB A1 (FP Entities Update):
- There are no additional criteria for Tier 2. This means any entity that is not required to be in Tier 1 may be in Tier 2, including large non-public sector for-profit entities that do not have public accountability (as defined);
 - To be eligible for Tier 3, an entity must not be required to be in Tier 1 and either:
 - at the end of the reporting period, all of its owners are members of the entity's governing body; or
 - not be large (as defined by XRB A1 (FP Entities Update)⁸).
 - To be eligible for Tier 4, an entity must not be required to be in Tier 1 and:
 - have been applying Old GAAP at 30 June 2011 or was established on or after 1 July 2011; and
 - not be required to file its financial statements with the Registrar of Companies in accordance with section 19 of the Financial Reporting Act 1993⁹; and
 - not be large (as defined by section 19A of the Financial Reporting Act 1993 if it is a company¹⁰, or as defined by XRB A1 (FP Entities Update) if it is an entity other than a company¹¹).
- 49 In accordance with the Financial Reporting Act 1993, exempt companies (as defined in section 6A of that Act), must prepare financial statements either in accordance with the requirements of the Financial Reporting Order, or in accordance with GAAP. If an exempt company elects to report in accordance with GAAP then the tier structure and criteria must be applied in the normal manner.

For-Profit Standards

NZ IFRS (Tier 1)

- 50 The standards to be applied by Tier 1 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS is the suite of standards and interpretations issued by the NZASB (or approved by the XRB's predecessor body, the ASRB). It comprises New Zealand equivalents to:
- International Financial Reporting Standards;
 - International Accounting Standards;
 - IFRIC Interpretations; and
 - SIC Interpretations.
- The NZ IFRS suite also includes a small number of (domestic) New Zealand Financial Reporting Standards standards (FRSs) and the *New Zealand Framework*.
- 51 The NZ IFRS suite is substantively identical to the IFRS on which it is based and is harmonised with the Australian requirements for Tier 1 entities. NZ IFRS follows the format of the pronouncements issued by the IASB but has an application date determined by the NZASB.

⁸ A for-profit entity is large for the purposes of Tier 3 if it exceeds any two of the following three size thresholds (after application of any allowable concessions permitted by NZ IFRS Diff Rep):

- (a) total income of the company and its subsidiaries (if any) of \$20 million;
- (b) total assets of the company and its subsidiaries (if any) of \$10 million;
- (c) 50 employees.

⁹ In general, section 19 of the Act requires a company to file its financial statements if it is:

- (a) an overseas company or a subsidiary of an overseas company; and
- (b) large and over 25% of its voting power is held by overseas shareholders (entities or individuals).

¹⁰ A company is defined as large by the Act if it meets any two of the following three size thresholds:

- (a) as at balance date, the total assets (including intangible assets) of the company and its subsidiaries (if any) exceeds \$10 million;
- (b) the total turnover of the company and its subsidiaries (if any) exceeds \$20 million; and
- (c) as at balance date, the company and its subsidiaries (if any) have 50 or more full-time equivalent employees.

¹¹ An entity is large for if it exceeds any two of the following:

- (a) total revenue of \$20 million;
- (b) total assets of \$10 million; and
- (c) 50 employees.

- 52 In adapting an IFRS for issue as a New Zealand pronouncement for Tier 1 for-profit entities the NZASB has adopted the following protocols:
- Recognition and measurement requirements in an IFRS cannot be amended.
 - Disclosure requirements cannot be reduced.
 - Additional disclosure requirements can be added (these are included in a separate standard: FRS-44 *New Zealand Additional Disclosures*).
- 53 The New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010* (NZ *Framework*) addresses:
- The objective of GPFR;
 - The qualitative characteristics of useful information;
 - The underlying assumptions on which the financial statements are normally prepared;
 - The elements of financial statements and their recognition and measurement; and
 - The concepts of capital and capital maintenance.
- 54 In the absence of an accounting standard, the NZ *Framework* assists the NZASB in developing a New Zealand FRS or in working with the IASB to develop an IFRS. The NZ *Framework* also provides a basis for the use of judgement by preparers in resolving accounting issues.
- 55 Where a for-profit entity prepares its financial report in compliance with the NZ IFRS suite, the entity will be able to assert compliance with IFRS.

NZ IFRS RDR (Tier 2)

- 56 The standards to be applied by Tier 2 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). NZ IFRS RDR has the same recognition and measurement requirements as the (full) NZ IFRS standards but with significantly reduced disclosure requirements. Those reduced disclosures are based on those contained in the IASB's IFRS for SMEs and are harmonised with the requirements in Australia for Tier 2 entities.
- 57 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.
- 58 The NZ IFRS RDR disclosure concessions are incorporated in the (full) NZ IFRS standards by way of asterisk (*) or additional RDR paragraphs. Accordingly, NZ IFRS and NZ IFRS RDR form one physical suite of standards.
- 59 For-profit entities applying NZ IFRS RDR are not able to assert compliance with IFRS.

NZ IFRS Diff Rep (Tier 3)

- 60 The standards to be applied by Tier 3 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards (Differential Reporting) (NZ IFRS Diff Rep). NZ IFRS Diff Rep has the same substantive content as the aspects of the NZ IFRS standards that applied to “qualifying entities” under the old Accounting Standard Framework. The NZ IFRS Diff Rep suite is a repackaging of those requirements into a separate set of standards for ease of use.
- 61 Compared to NZ IFRS, the NZ IFRS Diff Rep suite of standards contains a number of disclosure as well as some recognition and measurement concessions. In addition, the content of NZ IFRS Diff Rep was “frozen” in April 2011. This means that changes to NZ IFRS that have been issued after April 2011 are not included in the NZ IFRS Diff Rep requirements, although entities may adopt those changes if they wish.
- 62 The rationale for “freezing” the content of NZ IFRS Diff Rep is because the XRB expects to withdraw this tier/suite of standards once legislation currently before Parliament is enacted. That legislation will remove the requirement for most entities eligible to be in Tier 3 to have to apply GAAP. The XRB wishes to minimise the compliance costs resulting from changes to the NZ IFRS Diff Rep suite in the meantime.
- 63 In order to distinguish the NZ IFRS Diff Rep suite of standards from the NZ IFRS/NZ IFRS RDR suite, all NZ IFRS Diff Rep standards are labelled accordingly e.g. NZ IFRS 1 (Diff Rep). The NZ IFRS Diff Rep suite of standards comprises differential reporting versions of:
- International Financial Reporting Standards (NZ IFRS Diff Rep);
 - International Accounting Standards (NZ IAS Diff Rep);
 - IFRIC Interpretations (NZ IFRIC Diff Rep);
 - SIC Interpretations (NZ SIC Diff Rep); and
 - Domestic Financial Reporting Standards (FRS Diff Rep).

The NZ IFRS Diff Rep suite also includes the differential reporting version of the NZ *Framework: New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (Diff Rep)*

64 For-profit entities applying NZ IFRS Diff Rep are not able to assert compliance with IFRS.

Old GAAP (Tier 4)

65 The standards to be applied by Tier 4 for-profit entities are Old GAAP. The Old GAAP suite of standards comprises the FRSs and Statements of Standard Accounting Practice (SSAPs) that were applicable in New Zealand prior to the adoption of NZ IFRSs.

66 FRSs and SSAPs were developed by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants prior to the adoption of IFRSs in New Zealand. The ASRB (the XRB's predecessor) determined that the FRSs (other than FRS-31 *Disclosure of Information about Financial Instruments*) would remain in force as standards and the SSAPs and FRS-31 would remain in force as authoritative support in New Zealand until withdrawn or replaced, and would therefore continue to be part of GAAP. This position is continued in XRB A1 (FP Entities Update) but their application is confined to Tier 4 entities.

67 The FRSs and SSAPs are only a partial set of standards in that they provide financial reporting requirements for only certain transactions, events and circumstances. In the absence of guidance in a standard, the following should be used to determine the appropriate treatment for a transaction, event or circumstance:

- NZ IFRS that are applicable to analogous items or matters;
- Accounting standards published by the Australian Accounting Standards Board;
- Accounting standards published by other well-recognised bodies with the authority to promulgate financial reporting standards in other jurisdictions; and
- Practice widely accepted as appropriate and prevalent for the industry or sector concerned.

68 An option to apply differential reporting also exists within Old GAAP i.e. for Tier 4 entities.

Impact on For-Profit Entities

69 Compared to the old Accounting Standards Framework, the for-profit tier structure and associated accounting standards represent a significant re-organisation of requirements. However, the impact of the new tier structure on most for-profit entities is expected to be small:

- For-profit entities previously applying full NZ IFRS, and which are in Tier 1 under the new Framework, will continue to apply full NZ IFRS;
- For-profit entities that were previously qualifying entities and applying NZ IFRS differential reporting will be eligible for, and able to elect to be in, Tier 3 and therefore to continue to apply this same set of standards;
- For-profit entities previously applying Old GAAP will be eligible for, and able to elect to be in, Tier 4 and therefore to continue to apply Old GAAP.

70 The most significant change is the introduction of Tier 2/NZ IFRS RDR. A number of entities required to report in accordance with full NZ IFRS under the old Framework will be eligible to be in Tier 2 and apply NZ IFRS RDR under the new tier structure. This includes non-public sector entities that (i) do not have public accountability but which have income over \$20 million or (ii) which do not have all of their owners as members of the governing body.

Moving between Tiers

71 It is expected that for-profit entities will move between tiers over time either as a matter of choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 (FP Entities Update) therefore sets out the timing and other requirements for moving between tiers.

72 Entities moving from a higher to a lower tier may do so in the reporting period in which they become eligible, and elect, to do so.

73 In the case of entities moving to a higher tier, the Standard includes some concessions so that in most cases entities have one (or in some instances two) reporting periods before they must apply the higher tier's accounting standards. However, if the change in tier is a result of the entity becoming publicly accountable, then the entity must move to Tier 1 and apply NZ IFRS in the reporting period that this occurs.

74 Entities moving to Tier 1 must apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and the relevant requirements of NZ IAS 8 *Accounting Policies*,

Changes in Accounting Estimates and Errors to the extent that those requirements do not conflict with NZ IFRS 1.

- 75 A move from Tier 2 to Tier 1 is unlikely to result in changes to an entity's recognition or measurement accounting policies as the recognition and measurement requirements in NZ IFRS and NZ IFRS RDR are essentially identical. However, an entity moving from Tier 3 to Tier 1 may be unable to apply some of the concessions available in NZ IFRS 1 as a result of applying certain requirements in NZ IAS 8 to any changes in accounting policies.

Step 3: Identify Applicable Standards Suite: Public Benefit Entities

- 76 The approach to identifying the applicable standards in the PBE sector is somewhat different in XRB A1 (FP Entities Update) – although it will become more similar as the second and third stages of the Accounting Standards roll-out occurs.

Three Alternatives

- 77 There is no formal tier structure for PBEs under XRB A1 (FP Entities Update) - that will be established in future updates.
- 78 Instead there are three alternative sets of reporting requirements (which can be thought of as sort of implicit tiers): NZ IFRS PBE, NZ IFRS PBE Diff Rep, and Old GAAP. This structure is summarized in Table 2.

Table 2: Public Benefit Entity Standards Structure

Eligibility Criteria	Standards Suite
<ul style="list-style-type: none"> Default 	NZ IFRS PBE
<ul style="list-style-type: none"> Has no public accountability (as defined); and Either all of its owners are members of the entity's governing body or is not large (as defined) <p>A PBE whose parent or ultimate controlling entity has the coercive power to tax, rate or levy to obtain public funds qualifies only when the PBE is not large (as defined)</p>	NZ IFRS PBE Diff Rep
<ul style="list-style-type: none"> Was applying Old GAAP at 30 June 2011 or was established on or after 1 July 2011 Has no public accountability (as defined); and Is not large (as defined) 	Old GAAP

- 79 The default requirement for all PBEs is to apply the NZ IFRS PBE suite of standards. Where no standard exists in the NZ IFRS PBE suite, PBEs are required to use NZ IAS 8 (PBE) *Accounting Policies, Changes in Accounting Estimates and Errors* as the basis for determining an accounting treatment.
- 80 A PBE required to apply NZ IFRS PBE may apply the differential reporting concessions contained in those standards (NZ IFRS PBE Diff Rep) if:
- The entity does not have public accountability; and
 - Either:
 - at the end of the reporting period, all of its owners are members of the entity's governing body; or
 - the entity is not large (as defined by XRB A1 (FP Entities Update)¹²).

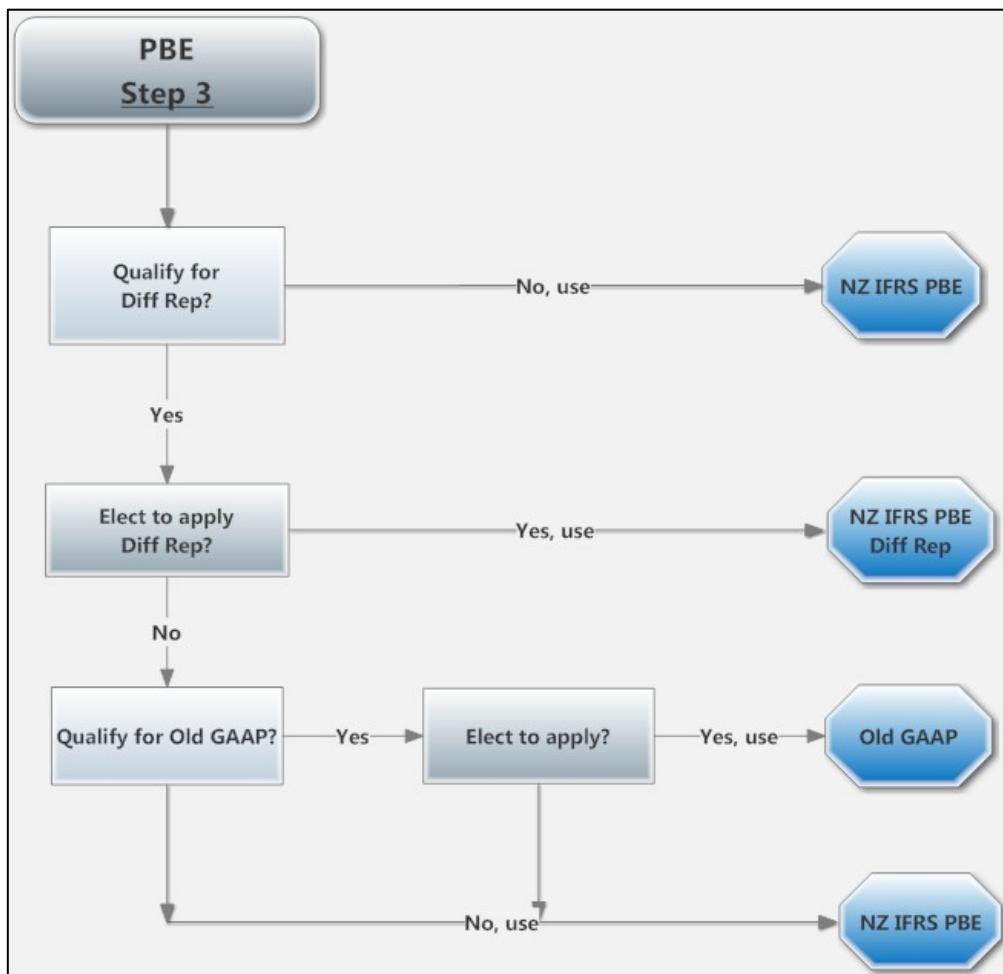
¹² A PBE is large for the purposes of the differential reporting criteria if it exceeds any two of the following:

- total income of \$20 million;
- total assets of \$10 million;
- 50 employees.

For the purposes of the application of the size criteria total income and total assets are determined after the application of any allowable concessions permitted in NZ IFRS PBE Diff Rep.

- 81 Further, under XRB A1 (FP Entities Update) some PBEs are eligible to apply Old GAAP rather than NZ IFRS PBE or NZ IFRS PBE Diff Rep. The eligibility criteria are as follows:
- Do not have public accountability (as defined by XRB A1 (FP Entities Update));
 - Are not large (as defined by XRB A1 (FP Entities Update)¹³); and
 - Were applying Old GAAP before 30 June 2011 or were established after 1 July 2011.
- 82 For the purpose of the PBE part of XRB A1 (FP Entities Update) (i.e. the differential reporting and Old GAAP criteria outlined above) public accountability exists when:
- An entity is an issuer (as defined by the Financial Reporting Act 1993); or
 - An entity has the coercive power to tax, rate or levy to obtain public funds.
- 83 Figure 3 has a decision tree that illustrates this selection process.

Figure 3: Identify the Applicable Standards – Step 3 (Public Benefit Entities)



¹³ A PBE is large for the purposes of the Old GAAP criteria if it exceeds any two of the following:

- total revenue of \$20.0 million;
- total assets of \$10.0 million;
- 50 employees.

For the purposes of the application of the size criteria the total revenue and total assets are determined after the application of any allowable concessions permitted in Old GAAP.

Standards for Public Benefit Entities

NZ IFRS PBE

- 84 The default standards to be applied by most PBEs are the New Zealand Equivalents to International Financial Reporting Standards (Public Benefit Entity) (NZ IFRS PBE). NZ IFRS PBE has the same substantive content as NZ IFRS with PBE paragraphs under the old Framework - it has just been unbundled from (for-profit) NZ IFRS and repackaged as a standalone set of standards for ease of use by PBEs.
- 85 Compared to NZ IFRS, the NZ IFRS PBE suite of standards contains a number of modifications to measurement and recognition requirements to make them applicable to PBEs. The intended overall effect of any modifications is to reflect differences between the sectors, including (in particular) differences in user information needs that warrant a different accounting treatment or additional guidance for PBEs.
- 86 In adapting an IFRS for issue as a NZ IFRS PBE the following protocols have been adopted:
- Recognition and measurement requirements can be amended for PBEs, with a rebuttable presumption that amendments are based on existing International Public Sector Accounting Standards (IPSAS)¹⁴ or existing FRSS, as applicable; and
 - Guidance materials may be added in relation to (a) above.
- 87 Any modifications made as part of this process are clearly identifiable within the text and distinguishable from the (pure) IFRS on which the NZ IFRS PBE has been based.
- 88 In addition to the modifications, the content of NZ IFRS PBE is “frozen” as at April 2011. This means that any changes to NZ IFRS that are issued after April 2011 are not included in the NZ IFRS PBE suite of standards.
- 89 The rationale for “freezing” the content of NZ IFRS PBE is because the NZASB is in the process of developing a set of “PBE Standards” based on IPSAS. The PBE Standards are expected to replace NZ IFRS PBE for reporting period beginning 1 July 2014 (for public sector PBEs) or 1 April 2015 (for not-for-profit entities). The XRB wishes to minimise the compliance costs resulting from changes to the NZ IFRS PBE suite during the transition period.
- 90 In order to distinguish the NZ IFRS PBE suite of standards from the for-profit suites of NZ IFRS standards, all NZ IFRS PBE standards are labelled accordingly e.g. NZ IFRS 1 (PBE). The NZ IFRS PBE suite of standards comprises PBE versions of:
- International Financial Reporting Standards (NZ IFRS PBE);
 - International Accounting Standards (NZ IAS PBE);
 - IFRIC Interpretations (NZ IFRIC PBE);
 - SIC Interpretations (NZ SIC PBE); and
 - Domestic Financial Reporting Standards (FRS PBE).

The NZ IFRS PBE suite also includes the *New Zealand Conceptual Framework for Financial Reporting (PBE)*.

- 91 Entities applying NZ IFRS PBE are not normally able to assert compliance with IFRS. This is because the PBE may have transactions for which recognition and measurement requirements in a NZ IFRS PBE differ from those in the IFRS on which it is based. Second, the entity may elect to take advantage of disclosure concessions provided to PBEs by NZ IFRS PBE. In both these circumstances the entity will be unable to assert compliance with IFRS.
- 92 However, where an entity has applied NZ IFRS PBE but does not have any (material) transactions to which the recognition and measurement modifications apply, and has not taken advantage of any disclosure concessions, then it may be possible for the entity to assert compliance with IFRS.
- 93 Entities unable to assert compliance with IFRS may, if they wish, identify in their financial report (normally in the Notes to the financial statements) the extent of compliance with IFRS, and the differences between the financial statements and those that would comply fully with IFRS.

NZ IFRS PBE Diff Rep

- 94 The NZ IFRS PBE suite of standards also includes the differential reporting concessions available to entities that qualify for differential reporting (qualifying entities). These concessions are identified by asterisks and additional paragraphs.

¹⁴ IPSASs are issued by the International Federation of Accountants’ (IFAC) International Public Sector Accounting Standards Board (IPSASB).

95 The concessions are the same as those previously available to PBEs under the old Framework.

Old GAAP

96 The Old GAAP suite of standards comprises the FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs. The suite of Old GAAP standards applicable to PBEs is the same suite of Old GAAP standards that applies to for-profit entities. They do not contain specific modifications for PBEs.

97 FRSs and SSAPs were developed by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants prior to the adoption of IFRSs in New Zealand. The ASRB (the XRB's predecessor) determined that the FRSs (other than FRS-31 *Disclosure of Information about Financial Instruments*) would remain in force as standards and the SSAPs and FRS-31 would remain in force as authoritative support in New Zealand until withdrawn or replaced, and would therefore continue to be part of GAAP. This position is continued in XRB A1 (FP Entities Update) by their recognition as part of the PBE requirements.

98 The FRSs and SSAPs are only a partial set of standards in that they provide financial reporting requirements for only certain transactions, events and circumstances. In the absence of guidance in a standard, the following should be used to determine the appropriate treatment for a transaction, event or circumstance:

- NZ IFRS that are applicable to analogous items or matters;
- Accounting standards published by the Australian Accounting Standards Board;
- Accounting standards published by other well-recognised bodies with the authority to promulgate financial reporting standards in other jurisdictions; and
- Practice widely accepted as appropriate and prevalent for the industry or sector concerned.

99 An option to apply differential reporting also exists within Old GAAP.

Impact on PBEs

100 All of the reporting requirements for PBEs (including the criteria for reporting and the content of the suites of standards) contained in XRB A1 (FP Entities Update) are the same as those applying under the old Framework. Consequently, there should be no impact on PBEs resulting from the issuing of XRB A1 (FP Entities Update).

Appendix: Reading Accounting Standards and Related Pronouncements

- 1 In standards issued prior to January 2004 (that is, FRSs and SSAPs), bold plain type is used to indicate a requirement(s) and the paragraphs in plain type provide commentary on the requirement(s).
- 2 Standards issued after January 2004 include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard.
- 3 In some standards issued since 2011 bold type is not used. All paragraphs have equal authority unless the standard specifies otherwise.
- 4 Accounting standards use the generic accounting term “entity” to mean any entity which is required to, or elects to, prepare GPFR. Therefore, accounting standards apply to an entity which prepares GPFR, including a group entity or a legal entity.¹⁵
- 5 Accounting standards specify the scope of a standard (which entities it applies to and when), and any limitation to that scope.
- 6 Accounting standards, and pronouncements that have authoritative support within the accounting profession in New Zealand, apply from a date, usually the beginning of a reporting period commencing on or after the date specified in the pronouncement. These may be accounting periods that have commenced before the date on which the standard, amendment or determination is to take effect, but not accounting periods that have ended before that date.
- 7 A statement that a standard has been issued by the XRB (either the XRB Board or the NZASB) pursuant to section 24(1)(a) of the Financial Reporting Act 1993 and that the standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989 is recorded on the face of the standard. Where a pronouncement is directed as having authoritative support within the accounting profession in New Zealand, a statement that the pronouncement has been issued pursuant to section 24(1)(d) of the Financial Reporting Act 1993 is recorded on the face of the pronouncement.
- 8 New or revised standards set out transitional provisions to be used when the standard is first applied. Where no transitional provisions are set out, NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (or NZ IAS 8 (Diff Rep) as applicable) should be applied.
- 9 Transactions occurring before the application date are not generally exempted from the requirements of the new standard. When financial statements are used to monitor compliance with contracts and agreements, a new pronouncement may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower’s financial statements. It is up to the parties concerned to determine whether the agreement should be insulated from the effects of a future accounting standard, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial condition.
- 10 Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of a standard, the requirements of any standard that would be affected by proposals in an exposure draft remain in force.

¹⁵ The Financial Reporting Act 1993 defines the term “reporting entity” more narrowly to mean only a company (including an exempt company) or an issuer. The term “entity” in accounting standards is therefore more encompassing than the term used in the Act.