PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (PBE IPSAS 3)

Issued September 2014 and incorporates amendments to 31 January 2021

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates in paragraphs 60.1 to 60.3.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* issued in May 2013.

PBE IPSAS 3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

ISBN 978-1-927292-25-9

PBE IPSAS 3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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Public Benefit Entity International Public Sector Accounting Standard 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, is set out in paragraphs 1–61. All the paragraphs have equal authority. PBE IPSAS 3 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 3, the IPSASB's Basis for Conclusions on IPSAS 3, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*.

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and faithful representativeness of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in PBE IPSAS 1 *Presentation of Financial Reports*.

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard, as they are not relevant for many public benefit entities. PBE IAS 12 *Income Taxes* contains guidance on the treatment of tax effects.

5. [Not used]

5.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

5.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

6. [Not used]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

<u>Accounting policies</u> are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

A <u>change in accounting estimate</u> is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

<u>Impracticable</u> Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) **The effects of the retrospective application or retrospective restatement are not determinable;**

(b) **The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

(c) **The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

    (i) **Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured, or disclosed; and**

    (ii) **Would have been available when the financial statements for that prior period were authorised for issue;**

from other information.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

(a) **Was available when financial statements for those periods were authorised for issue; and**

(b) **Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

(a) **Applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed; and**

(b) **Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.**

Public Benefit Entity Standards (PBE Standards) are standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:

(a) **Public Benefit Entity International Public Sector Accounting Standards;**

(b) **Public Benefit Entity International Financial Reporting Standards, including Public Benefit Entity International Accounting Standards; and**

(c) **Public Benefit Entity Financial Reporting Standards.**

Retrospective application is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public benefit sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. **When a PBE Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.**

10. PBE Standards set out accounting policies that the NZASB has concluded result in financial statements of public benefit entities containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from PBE Standards to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

11. PBE Standards are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of PBE Standards. Guidance that is an integral part of PBE Standards is mandatory. Guidance that is not an integral part of PBE Standards does not contain requirements for financial statements.

12. **In the absence of a PBE Standard that specifically applies to a transaction, other event, or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial performance, and cash flows of the entity, meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.**

13. [Deleted by IPSASB]

14. **In making the judgement, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order:**

    (a) **The requirements in PBE Standards dealing with similar and related issues; and**

    (b) **The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the *Public Benefit Entities' Conceptual Framework*.**

15. **In making the judgement described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted practices for public benefit entities or in the absence of such practices accepted practices for for-profit entities, but only to the extent that these do not conflict with the sources in paragraph 14. Examples of such pronouncements include pronouncements of the IASB, including IFRSs, and Interpretations issued by the IASB's IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless a PBE Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If a PBE Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

    (a) **Is required by a PBE Standard; or**

    (b) **Results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17.

19–20. [Not used]

21. **The following are not changes in accounting policies:**

    (a) **The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

    (b) **The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with PBE IPSAS 17 *Property, Plant and Equipment,* or PBE IPSAS 31 *Intangible Assets,* is a change in accounting policy to be dealt with as a revaluation in accordance with PBE IPSAS 17 or PBE IPSAS 31, rather than in accordance with this Standard.**

23. Paragraphs 24–36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. **Subject to paragraph 28:**

    (a) **An entity shall account for a change in accounting policy resulting from the initial application of a PBE Standard in accordance with the specific transitional provisions, if any, in that Standard; and**

    (b) **When an entity changes an accounting policy upon initial application of a PBE Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this Standard, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of a PBE Standard that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraph 15, apply an accounting policy from (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted practices for public benefit entities, or in the absence of such practices accepted practices for for-profit entities , but only to the extent that these are consistent with paragraph 15. Examples of such pronouncements include standards and interpretations issued by the International Accounting Standards Board. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective Application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on Retrospective Application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated comprehensive revenue and expense. However, the adjustment may be made to another component of net assets/equity (for example, to comply with a PBE Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the

policy prospectively for any prior period. Paragraphs 55–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. **When initial application of a PBE Standard (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

(a) **The title of the Standard;**

*(b) **When applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

(c) **The nature of the change in accounting policy;**

*(d) **When applicable, a description of the transitional provisions;**

*(e) **When applicable, the transitional provisions that might have an effect on future periods;**

(f) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(g) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

*(h) **If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

RDR 33.1 **A Tier 2 entity shall disclose an explanation if it is impracticable to determine the amounts required to be disclosed by paragraphs 33(f) or 33(g).**

34. **When a voluntary change in accounting policy (a) has an effect on the current period or any prior period, (b) would have an effect on that period, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

(a) **The nature of the change in accounting policy;**

(b) **The reasons why applying the new accounting policy provides faithfully representative and more relevant information;**

(c) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

*35. **When an entity has not applied a new PBE Standard that has been issued but is not yet effective, the entity shall disclose:**

(a) **This fact; and**

(b) **Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

*36. In complying with paragraph 35, an entity considers disclosing:

(a) The title of the new PBE Standard;

(b) The nature of the impending change or changes in accounting policy;

(c) The date by which application of the Standard is required;

(d) The date as at which it plans to apply the Standard initially; and

(e) Either:

 (i) A discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

 (ii) If that impact is not known or reasonably estimable, a statement to that effect.

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

 (a) Tax revenue due to government;

 (b) Bad debts;

 (c) Inventory obsolescence;

 (d) The fair value of financial assets or financial liabilities;

 (e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction; and

 (f) Warranty obligations.

37.1. In addition to a number of the above, estimates in the not-for-profit sector may be required of:

 (a) The fair value of donated goods and services; and

 (b) The fair value of bequests.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.[1]

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognised prospectively by including it in surplus or deficit in:**

 (a) **The period of the change, if the change affects the period only; or**

 (b) **The period of the change and future periods, if the change affects both.**

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognised by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability.

affects only the current period's surplus or deficit, and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised in future periods.

Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

*45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with PBE Standards if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47–52).

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:**

    (a) **Restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

Limitations on Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities, and net assets/equity arising before that date. Paragraphs 55–58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. **In applying paragraph 47, an entity shall disclose the following:**

    (a) **The nature of the prior period error;**

    (b) **For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

    (c) **The amount of the correction at the beginning of the earliest prior period presented; and**

    (d) **If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

    Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56–58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to re-create the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

    (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and

    (b) Would have been available when the financial statements for that prior period were authorised for issue.

    from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a building as an investment property (the building was previously classified as property, plant and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from its operations in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, it disregards information about an unusually large oil leak from a ship during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective Date

59–60. [Not used]

60.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

60.2 ***Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*, issued in December 2015, amended paragraph 7. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application is permitted.**

60.3 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, amended the objective paragraph, paragraphs 7, 10, 12, 14, 15, 17 and 34, added a footnote to paragraph 38 and deleted paragraph 13. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2017.**

Withdrawal and Replacement of PBE IPSAS 3 (May 2013)

61. This Standard, when applied, supersedes PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* issued in May 2013.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 3.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 3 are generally appropriate for application by public benefit entities.

Interpretations and Integral Guidance

BC2. In developing the suite of PBE Standards the NZASB noted that there are a number of pronouncements within NZ IFRSs that have no IPSAS equivalent (for example, a number of interpretations have not been incorporated into IPSASs). The NZASB noted that the IPSASB, in developing an IPSAS, considers relevant interpretations at the time and, where appropriate, incorporates them in the IPSAS (for example, by way of guidance integral to the IPSAS).

BC3. The NZASB agreed that, in developing PBE Standards, it would incorporate, as integral application guidance, any interpretations which, if omitted, would lead to different recognition and/or measurement of the elements. The NZASB considered that it would be inappropriate to require entities to change their accounting policies on adoption of PBE Standards as a result of such omissions.

First-time Adoption of PBE Standards

BC4. The NZASB agreed to develop a separate standard to establish requirements and concessions for the first-time adoption of PBE Standards. In developing PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, the NZASB decided that a change from one basis of accounting to another basis of accounting (for example, from NZ IFRSs to PBE Standards) is not a change in accounting policy to which PBE IPSAS 3 applies.[2]

2016 Omnibus Amendments to PBE Standards

BC5. The NZASB issued the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework) in May 2016. The PBE Conceptual Framework is based on the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the IPSASB's Conceptual Framework). The NZASB noted that following the finalisation of its Conceptual Framework the IPSASB subsequently amended a number of IPSASs. *Improvement to IPSASs 2015* amended IPSASs to reflect the first four chapters of the IPSASB's Conceptual Framework. Chapters 1–4 address the role and authority of a conceptual framework, the objectives of general purpose financial reporting, users of general purpose financial reports, the qualitative characteristics and the constraints on information in general purpose financial reports, and the key characteristics of a reporting entity. The NZASB agreed to make equivalent amendments to PBE Standards and did so in the *2016 Omnibus Amendments to PBE Standards*.

[2] PBE FRS 46 was subsequently withdrawn – see *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) issued in February 2020.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 3.

Retrospective Restatement of Errors

IG1. During 20X2, entity A discovered that revenue X was incorrect. Revenue X of CU[3]6,500 that should have been recognised in 20X1 was incorrectly omitted from 20X1 and recognised as revenue in 20X2.

IG2. The entity's accounting records for 20X2 show revenue X of CU60,000 (including the CU6,500 revenue X that should have been recognised in opening balances), and expenses of CU86,500.

IG3. In 20X1, the entity reported:

	CU
Revenue X	34,000
Revenue Y	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Total comprehensive revenue and expense	7,000

IG4. 20X1 opening accumulated comprehensive revenue and expense was CU20,000, and closing accumulated comprehensive revenue and expense was CU27,000.

IG5. The entity had no other revenue or expenses.

IG6. The entity had CU5,000 of reserves throughout, and no other components of net assets/equity except for accumulated comprehensive revenue and expense.

Entity A Statement of Comprehensive Revenue and Expense

	20X2	(restated) 20X1
	CU	CU
Revenue X	53,500	40,500
Revenue Y	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Total comprehensive revenue and expense	11,000	13,500

Entity A Statement of Changes in Net Assets/Equity

	Reserves[4]	Accumulated comprehensive revenue and expense	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Comprehensive revenue and expense for the year ended December 31, 20X1 as restated	–	13,500	13,500
Balance at 31 December 20X1	5,000	33,500	38,500
Comprehensive revenue and expense for the year ended 31 December 20X2	–	11,000	11,000
Balance at 31 December 20X2	5,000	44,500	49,500

[3] In these examples, monetary amounts are denominated in "currency units" (CU).

[4] Disclosed by major class.

Extracts from Notes to the Financial Statements

1. Revenue X of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 20X2.

	Effect on 20X1
	CU
Increase revenue	6,500
Increase in comprehensive revenue and expense	6,500
Increase in debtors	6,500
Increase in reserves	6,500

Change in Accounting Policy with Retrospective Application

IG7. During 20X2, entity B changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station that is under construction. In previous periods, the entity had capitalised such costs. The entity has now decided to expense, rather than capitalise them. Management judges that the new policy is preferable, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

IG8. The entity capitalised borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalised.

IG9. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

IG10. The entity has not recognised any depreciation on the power station because it is not yet in use.

IG11. In 20X1, the entity reported:

	CU
Surplus before interest	18,000
Interest expense	–
Total comprehensive revenue and expense	18,000

IG12. 20X1 opening accumulated comprehensive revenue and expense was CU20,000 and closing accumulated comprehensive revenue and expense was CU38,000.

IG13. The entity had CU10,000 of reserves throughout, and no other components of net assets/equity except for accumulated comprehensive revenue and expense.

Entity B Statement of Comprehensive Revenue and Expense

	20X2	(restated) 20X1
	CU	CU
Surplus before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
Total comprehensive revenue and expense	27,000	15,400

Entity B Statement of Changes in Net Assets/Equity

	Reserves[5]	(restated) Accumulated comprehensive revenue and expense	Total
	CU	CU	CU
Balance at 31 December 20X0 as previously reported	10,000	20,000	30,000
Change in accounting policy with respect to the capitalisation of interest (Note 1)	–	(5,200)	(5,200)
Balance at 31 December 20X0 as restated	10,000	14,800	24,800
Total comprehensive revenue and expense for the year ended 31 December 20X1 (restated)	–	15,400	15,400
Balance at 31 December 20X1	10,000	30,200	40,200
Total comprehensive revenue and expense for the year ended 31 December 20X2	–	27,000	27,000
Closing at 31 December 20X2	10,000	57,200	67,200

Extracts from Notes to the Financial Statements

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalised such costs. They are now written off as expenses as incurred. Management judges that this policy provides faithfully representative and more relevant information, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated comprehensive revenue and expense for 20X1 has been reduced by CU5,200, which is the amount of the adjustment relating to periods prior to 20X1.

Effect on 20-1	CU
(Increase) in interest expense	(2,600)
(Decrease) in comprehensive revenue and expense	(2,600)
Effect on periods prior to 20-1	
(Decrease) in comprehensive revenue and expense	(5,200)
(Decrease) in assets in the course of construction and in accumulated comprehensive revenue and expense	(7,800)

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

IG14. During 20X2, entity C changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model.

IG15. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

[5] Disclosed by major class.

IG17. Additional information:

	CU
Property, plant and equipment	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey	
Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

Extracts from Notes to the Financial Statements

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plan, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.

Comparison with IPSAS 3

PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* is drawn from IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors.* PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 3 and IPSAS 3.

History of Amendments

PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 3. The table is based on amendments issued as at 31 January 2021.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments	Dec 2015	Early application is permitted	1 Jan 2016
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017
PBE FRS 48 *Service Performance Reporting*	Nov 2017	Early application is permitted	1 Jan 2022[6]
2018 Omnibus Amendments to PBE Standards	Nov 2018	–	–[7]

Table of Amended Paragraphs in PBE IPSAS 3		
Paragraph affected	**How affected**	**By … [date]**
Objective	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 2	Amended	PBE FRS 48 [Nov 2017]
Paragraph 7	Amended	*Amendments to PBE Standards* [Dec 2015]
Paragraph 7	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 10	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 12	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 13	Deleted	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 14	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 15	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 17	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 26	Amended	*2018 Omnibus Amendments to PBE Standards*
Paragraph 34	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 38	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 38	Amended	PBE FRS 48 [Nov 2017]
Paragraph 60.2	Added	*Amendments to PBE Standards* [Dec 2015]
Paragraph 60.3	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]

[6] *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

[7] These amendments are solely editorial. They did not have an effective date.