



NZ ACCOUNTING
STANDARDS
BOARD

Onerous Contracts—Cost of Fulfilling a Contract

Issued June 2020

This Standard was issued on 25 June 2020 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 23 July 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part D.

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 For-profit Accounting Standard is based on amendments issued by the International Accounting Standards Board. This Standard amends NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity includes in determining the cost of fulfilling a contract, for the purpose of assessing whether the contract is onerous.

ONEROUS CONTRACTS—COST OF FULFILLING A CONTRACT

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ISBN 978-0-947505-82-0

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *ONEROUS CONTRACTS—COST OF FULFILLING A CONTRACT* ISSUED IN MAY 2020

ADDITION OF A BASIS FOR CONCLUSIONS ON IAS 37 *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

Part A – Introduction

This Standard sets out amendments to clarify which costs an entity includes in determining the cost of fulfilling a contract, for the purpose of assessing whether the contract is onerous. Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 68A, 94A and 105 are added and paragraph 69 is amended. Paragraph 68 is not amended, but is included for ease of reading. New text is underlined and deleted text is struck through.

Application of the recognition and measurement rules

...

Onerous contracts

...

68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

- (a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and
- (b) an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets ~~dedicated to that~~ used in fulfilling the contract (see NZ IAS 36).

...

Transitional provisions

...

94A *Onerous Contracts—Cost of Fulfilling a Contract*, issued in June 2020, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise

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the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Effective date

...

105 *Onerous Contracts—Cost of Fulfilling a Contract*, issued in June 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Part D – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2022. Earlier application is permitted.