



## **External Reporting Board Standard A1**

### **Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update) (XRB A1 (FP Entities + PS PBEs + NFPs Update))**

**Issued November 2013**

Issued by the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.

This Standard is effective for reporting periods beginning on or after 1 April 2015 and supersedes Standard XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update) (XRB A1 (FP Entities + PS PBEs Update))* for reporting periods beginning on or after that date, except where for-profit or not-for-profit entities early adopt this Standard in accordance with Part E of the Standard in which case this Standard supersedes *XRB A1 (FP Entities Update)* and *XRB A1 (FP Entities and PS PBEs Update)* from the date of adoption.

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External Reporting Board Standard A1 *Accounting Standards Framework* (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities Update) (XRB A1 (FP Entities + PS PBEs + NFPs Update)) is set out in paragraphs 1–158 and Appendices A–G. All the paragraphs have equal authority.

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## A. INTRODUCTION

### Objective

- 1 The objectives of this Standard are to:
  - (a) establish the accounting standards framework for those entities that have a statutory obligation to prepare general purpose financial reports;
  - (b) in doing so, establish
    - (i) the tiers of financial reporting for all entities that are required to report;
    - (ii) the criteria for each tier of financial reporting;
    - (iii) the accounting standards and other pronouncements that have authoritative support that are applicable to each tier of financial reporting; and
    - (iv) the requirements for an entity to move from one tier of financial reporting to another tier of financial reporting; and
  - (c) define what comprises generally accepted accounting practice.

### Scope

- 2 An entity shall apply this Standard when preparing general purpose financial reports in accordance with statutory requirements.
- 3 An entity that has a statutory requirement to prepare general purpose financial reports shall:
  - (a) determine:
    - (i) whether it is a for-profit entity or a public benefit entity in accordance with the definitions in this Standard and the integral guidance in Appendix A; and
    - (ii) if it is a public benefit entity determine whether it is a public sector public benefit entity or a not-for-profit public benefit entity in accordance with the definitions in this Standard; and
  - (b) if it is a for-profit entity, report in accordance with Tier 1 For-profit Accounting Standards specified in this Standard unless:
    - (i) the entity meets the criteria to report in accordance with Tier 2 For-profit Accounting Standards or Tier 3 For-profit Accounting Standards or Tier 4 For-profit Accounting Standards; and
    - (ii) the entity elects to report in accordance with a Tier that it is eligible to apply; and
  - (c) if it is a public sector public benefit entity, report in accordance with Tier 1 PBE Accounting Standards specified in this Standard unless:
    - (i) the entity meets the criteria to report in accordance with Tier 2 PBE Accounting Standards or Tier 3 PBE Accounting Standards or Tier 4 PBE Accounting Standards; and
    - (ii) the entity elects to report in accordance with a Tier that it is eligible to apply; and
  - (d) if it is a not-for-profit public benefit entity, report in accordance with Tier 1 PBE Accounting Standards specified in this Standard unless:
    - (i) the entity meets the criteria to report in accordance with Tier 2 PBE Accounting Standards or Tier 3 PBE Accounting Standards or Tier 4 PBE Accounting Standards; and
    - (ii) the entity elects to report in accordance with a Tier that it is eligible to apply.

## Generally accepted accounting practice

- 4 The financial statements of various reporting entities are required by legislation to comply with ‘generally accepted accounting practice’ (GAAP). GAAP comprises:
- (a) accounting standards issued by the External Reporting Board (XRB), or its sub-Board the New Zealand Accounting Standards Board (NZASB), pursuant to section 24(1)(a) of the Financial Reporting Act 1993; and
  - (b) pronouncements that have authoritative support under section 24(1)(d) of the Act as determined by the XRB or the NZASB.

## Definitions

- 5 The following terms are used in this Standard with the meanings specified:

Accounting standard (for the purposes of this Standard) has the same meaning as “financial reporting standard” and includes “applicable financial reporting standard” as defined in the Financial Reporting Act 1993.

Employees means the number of full-time equivalent persons in the paid employment of the entity, calculated on an annual basis.

For-profit Accounting Standards is the set of accounting standards applied by for-profit entities.

For-profit entities are reporting entities that are not public benefit entities.

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001.

General purpose financial reports means financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Governing body means the body responsible for the financial, investing or operating policies of an entity; for example, the board of directors of a company, or its equivalent in other entities, in both the private and public sectors.

NZ IFRS means New Zealand equivalents to International Financial Reporting Standards (including standards and interpretations) issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board.

NZ IFRS Diff Rep means NZ IFRS with differential reporting recognition, measurement and disclosure concessions.

NZ IFRS PBE means NZ IFRS with PBE modifications.

NZ IFRS RDR means NZ IFRS with disclosure concessions.

Not-for-profit public benefit entities (NFP PBEs) are reporting entities that are public benefit entities but that are not public sector public benefit entities.

Old GAAP means New Zealand accounting standards and pronouncements that have authoritative support that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand, and comprises Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs).

Owner (for the purposes of this Standard) means a party which has:

- (a) an equitable or beneficial interest in the residual value of an entity’s assets; or
- (b) the right to participate in the election or appointment of an entity’s governing body.

PBE Accounting Standards is the set of accounting standards applied by public benefit entities.

PBE Standards means Public Benefit Entity Standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

PBE Standards RDR means PBE Standards with disclosure concessions.

PBE SFR–A (NFP) means public benefit entity simple format reporting standards for accrual accounting by not-for-profit public benefit entities issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

PBE SFR–A (PS) means public benefit entity simple format reporting standards for accrual accounting by public sector public benefit entities issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

PBE SFR–C (NFP) means public benefit entity simple format reporting standards for cash accounting by not-for-profit public benefit entities issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

PBE SFR–C (PS) means public benefit entity simple format reporting standards for cash accounting by public sector public benefit entities issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB

Public benefit entities (PBEs) are 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.

Public sector public benefit entities (Public Sector PBEs) are public benefit entities that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

Reporting period means a period covered by an entity’s general purpose financial report, which could be an annual or interim reporting period.

Tier 1 For-profit Accounting Standards means NZ IFRS, and other New Zealand accounting standards and pronouncements that have authoritative support and that are applicable to entities that apply NZ IFRS, as listed in Appendix B.

Tier 1 for-profit entity means a reporting entity that is required to apply Tier 1 For-profit Accounting Standards.

Tier 1 NFP PBE means a not-for-profit reporting entity that is required to apply Tier 1 PBE Accounting Standards.

Tier 1 PBE Accounting Standards means PBE Standards, and other pronouncements that have authoritative support and that are applicable to entities that apply PBE Standards, as listed in Appendix E.

Tier 1 Public Sector PBE means a public sector reporting entity that is required to apply Tier 1 PBE Accounting Standards.

Tier 2 For-profit Accounting Standards means NZ IFRS RDR, and other New Zealand accounting standards and pronouncements that have authoritative support and that are applicable to entities that apply NZ IFRS, as listed in Appendix B.

Tier 2 for-profit entity means a reporting entity that qualifies for and elects to apply Tier 2 For-profit Accounting Standards.

Tier 2 NFP PBE means a not-for-profit reporting entity that qualifies for and elects to apply Tier 2 PBE Accounting Standards.

Tier 2 PBE Accounting Standards means PBE Standards RDR, and other pronouncements that have authoritative support and that are applicable to entities that apply PBE Standards, as listed in Appendix E.

Tier 2 Public Sector PBE means a public sector reporting entity that qualifies for and elects to apply Tier 2 PBE Accounting Standards.

Tier 3 For-profit Accounting Standards means NZ IFRS Diff Rep, and other New Zealand accounting standards and pronouncements that have authoritative support and that are applicable to entities that apply NZ IFRS Diff Rep, as listed in Appendix C.

Tier 3 for-profit entity means a reporting entity that qualifies for and elects to apply Tier 3 For-profit Accounting Standards.

Tier 3 NFP PBE means a not-for-profit reporting entity that qualifies for and elects to apply Tier 3 PBE Accounting Standards.

Tier 3 PBE Accounting Standards means PBE SFR–A, and other pronouncements that have authoritative support and that are applicable to entities that apply PBE SFR–A, as listed in Appendix F.

Tier 3 Public Sector PBE means a public sector reporting entity that qualifies for and elects to apply Tier 3 PBE Accounting Standards.

Tier 4 For-profit Accounting Standards means Old GAAP, either in full or with differential reporting concessions, as listed in Appendix D.

Tier 4 for-profit entity means a reporting entity that qualifies for and elects to apply Tier 4 For-profit Accounting Standards.

Tier 4 NFP PBE means a not-for-profit reporting entity that qualifies for and elects to apply Tier 4 PBE Accounting Standards.

Tier 4 PBE Accounting Standards means PBE SFR-C, and pronouncements that have authoritative support and that are applicable to entities that apply PBE SFR-C, as listed in Appendix G.

Tier 4 Public Sector PBE means a public sector reporting entity that qualifies for and elects to apply Tier 4 PBE Accounting Standards.

Total assets (for the purposes of this Standard) means the value of assets (including intangible assets) reported in the entity's Statement of Financial Position at the end of the current annual reporting period.

Total income (for the purposes of this Standard) means the annualised gross income based on the amount reported in the entity's Statement of Comprehensive Income for the current annual reporting period. Income includes both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and includes, but is not limited to, sales, fee income, grants, output appropriations, cost recoveries, donations, dividends, interest, and subscriptions. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity.

Total revenue (for the purposes of this Standard) is the annualised gross operating revenue based on the amount reported in the entity's Statement of Financial Performance for the current annual reporting period. Total revenue includes, but is not limited to, sales, fee income, grants, output appropriations, cost recoveries, donations, dividends, interest and subscriptions.



## B. FOR-PROFIT ENTITIES

### TIER STRUCTURE

- 6 The tier structure for for-profit entities consists of four tiers. The tier criteria in paragraphs 7 to 30 are subject to paragraphs 45 to 60 on moving between the tiers.
- 7 A for-profit entity shall report in accordance with Tier 1 For-profit Accounting Standards if it meets the following criteria:
- (a) (i) it has public accountability as defined in paragraph 12 at any time during the reporting period; or
  - (ii) it is a large for-profit public sector entity as defined in paragraph 17; or
  - (b) the entity is eligible to report in accordance with another tier but does not elect to report in accordance with that other tier.
- 8 A for-profit entity that does not meet the criteria specified in paragraph 7(a) may elect to report in accordance with Tier 2 For-profit Accounting Standards.
- 9 A for-profit entity that meets the criteria specified in paragraphs 20 and 21 may elect to report in accordance with Tier 3 For-profit Accounting Standards.
- 10 A for-profit entity that meets the criteria specified in paragraphs 27 and 28 may elect to report in accordance with Tier 4 For-profit Accounting Standards.
- 11 If an entity is eligible to report in accordance with more than one tier, the entity may elect to report under any of those tiers.

### Tier 1 Criteria

#### Public accountability

- 12 Subject to paragraph 16, an entity has public accountability if:
- (a) it meets the IASB definition of public accountability as specified in paragraphs 13 and 14; or
  - (b) it is deemed to be publicly accountable in New Zealand in accordance with paragraph 15.
- 13 In accordance with the IASB definition, an entity has public accountability if:
- (a) 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
  - (b) 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.
- 14 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.
- 15 An entity is deemed to be publicly accountable in the New Zealand context if it is:
- (a) an issuer, as defined by the Securities Act 1978 or any other Act, irrespective of the size of the entity;
  - (b) a registered bank, as defined by the Reserve Bank Act 1989;
  - (c) a deposit taker, as defined by the Reserve Bank Act 1989; or
  - (d) a registered superannuation scheme, as defined by the Superannuation Schemes Act 1989

unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with GAAP.

- 16 Where the entity is a group in New Zealand, and the parent of the group has public accountability, the group is deemed to have public accountability. A group shall not be considered to have public accountability solely by reason of a subsidiary having public accountability.

### **Size**

- 17 A for-profit public sector entity is large for the purposes of paragraph 7 if it has total expenses over \$30 million.
- 18 For the purpose of the application of the size criteria in paragraph 17, total expenses means the total expenses (including income tax expense) recognised by an entity in accordance with NZ IFRS in its profit or loss, where profit or loss is defined as the total of income less expenses, excluding the components of other comprehensive income. Where income and expenses are offset as required or permitted by a relevant standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the parent/controlling entity and all its subsidiaries/controlled entities.

### **Tier 2 Criteria**

- 19 A for-profit entity may elect to report in accordance with Tier 2 For-profit Accounting Standards when the entity:
- (a) does not have public accountability as defined in paragraph 12; and
  - (b) is not a large for-profit public sector entity as defined in paragraph 17.

### **Tier 3 Criteria**

- 20 A for-profit entity may elect to report in accordance with Tier 3 For-profit Accounting Standards when the entity does not have public accountability as defined in paragraph 12 and either:
- (a) at the end of the reporting period, all of its owners are members of the entity's governing body; or
  - (b) the entity is not large as defined in paragraph 25.
- 21 A for-profit public sector entity which does not have public accountability as defined in paragraph 12 but whose parent or ultimate controlling entity has the coercive power to tax, rate or levy to obtain public funds may qualify for Tier 3 only where that for-profit entity is not large as defined in paragraph 25.
- 22 If the parent or ultimate controlling entity has the coercive power to tax, rate or levy to obtain public funds, the entity is not permitted to use a lack of separation between the owners and the governing body as a basis for qualifying for Tier 3. Such entities may qualify for Tier 3 only on the basis of size. As the public has a beneficial interest in the entity it is not appropriate that entities such as State-owned enterprises or council-controlled organisations should be permitted to use a lack of separation between the owners and the governing body as a basis for qualifying for Tier 3.

### **Separation between owners and governing body of an entity**

- 23 Where an owner of a for-profit entity is not a natural person (e.g. the owner is a company or a trust) and the owner appoints a representative to the governing body, that representative is considered to be an owner for the purposes of paragraph 20.
- 24 An owner is a party which has a beneficial interest in the residual value of the entity's assets. Therefore, when the entity preparing the financial statements is a trust, all beneficiaries must be trustees in order to meet the requirement that there is no separation between the owners and the governing body.

**Size**

- 25 A for-profit entity is large for the purposes of paragraph 20 if it exceeds any two of the following:
- (a) total income of \$20 million;
  - (b) total assets of \$10 million; and
  - (c) 50 employees.
- 26 For the purpose 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 Diff Rep. Where the entity reporting is a group in New Zealand, the size criteria shall be applied to the group comprising the investor and all its subsidiaries. For a group the criteria of size shall be applied to the totals of an actual or notional consolidation.

**Tier 4 Criteria**

- 27 A for-profit company may elect to report in accordance with Tier 4 For-profit Accounting Standards when it:
- (a) was applying Old GAAP at 30 June 2011, or was established on or after 1 July 2011; and
  - (b) does not have public accountability as defined in paragraph 12; and
  - (c) is not required by section 19 of the Financial Reporting Act 1993 to file its financial statements with the Registrar of Companies<sup>1</sup>; and
  - (d) is not large as defined by section 19A<sup>2</sup> of the Financial Reporting Act 1993.
- 28 A for-profit entity other than a company may elect to report in accordance with Tier 4 For-profit Accounting Standards if it:
- (a) was applying Old GAAP at 30 June 2011, or was established on or after 1 July 2011; and
  - (b) does not have public accountability as defined in paragraph 12; and
  - (c) is not large, as defined in paragraph 29.
- 29 A for-profit entity is large for the purposes of paragraph 28 if it exceeds any two of the following:
- (a) total revenue of \$20 million;
  - (b) total assets of \$10 million; and
  - (c) 50 employees.
- 30 For the purpose of the application of the size criteria, total revenue and total assets are determined after the application of any allowable concessions permitted in Old GAAP. Where the entity reporting is a group in New Zealand, the size criteria shall be applied to the group comprising the investor and all its subsidiaries. For a group the criteria of size shall be applied to the totals of an actual or notional consolidation.

**ACCOUNTING STANDARDS****Tier 1**

- 31 A Tier 1 for-profit entity shall apply Tier 1 For-profit Accounting Standards and may not use any RDR concessions in the For-Profit Accounting Standards.

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<sup>1</sup> In general, section 19 of the Financial Reporting Act 1993 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 25% of its voting power is held by overseas shareholders (entities or individuals).

<sup>2</sup> A company is defined as large 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;
- (c) as at balance date, the company and its subsidiaries (if any) have 50 or more full-time equivalent employees.

**Tier 2**

- 32 A Tier 2 for-profit entity may elect to apply any or all of the concessions in Tier 2 For-profit Accounting Standards. The concessions are indicated by an asterisk (\*) next to the paragraph or an additional RDR paragraph in standards and pronouncements listed in Appendix B. Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.
- 33 If a Tier 2 for-profit entity makes any disclosure that is not required under Tier 2 For-profit Accounting Standards, the entity shall make that disclosure in accordance with the relevant standard.
- 34 A Tier 2 for-profit entity shall disclose:
- (a) that it has elected to report in accordance with Tier 2 For-profit Accounting Standards and has applied disclosure concessions; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 2 For-profit Accounting Standards.
- 35 Where a Tier 2 for-profit entity has taken advantage of RDR concessions and subsequently ceases to apply one or more of those concessions, the entity shall disclose comparative information in respect of those previously applied disclosure concessions in accordance with NZ IAS 1 *Presentation of Financial Statements* unless the NZ IFRS requirement does not require comparatives to be presented.

**Tier 3**

- 36 A Tier 3 for-profit entity may elect to apply any or all of the concessions in Tier 3 For-profit Accounting Standards. The concessions are indicated by an asterisk (\*) next to the paragraph or grey shaded paragraphs in standards and pronouncements listed in Appendix C.
- 37 If a Tier 3 for-profit entity makes any disclosure that is not required under disclosure concessions in Tier 3 For-profit Accounting Standards, the entity shall make that disclosure in accordance with those standards.
- 38 A Tier 3 for-profit entity shall disclose:
- (a) that it has elected to report in accordance with Tier 3 For-profit Accounting Standards;
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 3 For-profit Accounting Standards; and
  - (c) the extent to which the entity has applied available recognition and measurement differential reporting concessions.
- 39 Where a Tier 3 for-profit entity has taken advantage of recognition and measurement differential reporting concessions and subsequently ceases to apply one or more of those concessions, the entity shall account for the change in accounting policies in accordance with NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Tier 4**

- 40 If a Tier 4 for-profit entity has a transaction for which no Tier 4 for-profit accounting standard exists, the entity shall apply paragraph 41 to determine an appropriate accounting treatment.
- 41 Other sources of authoritative support in the preparation of financial statements in accordance with Old GAAP are:
- (a) NZ IFRS that are applicable to analogous items or matters;
  - (b) accounting standards published by the Australian Accounting Standards Board;
  - (c) accounting standards published by other well-recognised bodies with the authority to promulgate financial reporting standards in other jurisdictions; and
  - (d) practice widely accepted as appropriate and prevalent for the industry or sector concerned.

- 42 If a Tier 4 for-profit entity makes any disclosure that is not required under disclosure concessions in Tier 4 For-profit Accounting Standards, the entity shall make that disclosure in accordance with those standards, or where relevant, other sources of authoritative support.
- 43 A Tier 4 for-profit entity shall disclose:
- (a) that it has elected to report in accordance with Tier 4 For-profit Accounting Standards;
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 4 For-profit Accounting Standards; and
  - (c) the extent to which the entity has applied available recognition and measurement differential reporting concessions.
- 44 Where a Tier 4 for-profit entity has taken advantage of recognition and measurement differential reporting concessions and subsequently ceases to apply one or more of those concessions, the entity shall account for the change in accounting policies in accordance with FRS-1 *Disclosure of Accounting Policies*.

## MOVING BETWEEN TIERS

### Moving into Tier 1

#### Tier 2 to Tier 1

- 45 A Tier 2 for-profit entity that subsequently becomes publicly accountable as defined in paragraph 12 shall apply Tier 1 For-profit Accounting Standards in the reporting period in which it becomes publicly accountable.
- 46 A Tier 2 for-profit public sector entity that becomes large may continue reporting under Tier 2 For-profit Accounting Standards for the reporting period in which it becomes large unless that entity was reporting under Tier 1 For-profit Accounting Standards in the annual reporting period immediately preceding the reporting period in which it becomes large.
- 47 A Tier 2 for-profit entity that subsequently applies Tier 1 For-profit Accounting Standards, shall apply:
- (a) NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*<sup>3</sup>; and
  - (b) the requirements in paragraphs 14–27 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<sup>4</sup>.
- 48 Where a Tier 2 for-profit entity subsequently applies Tier 1 For-profit Accounting Standards, the entity's recognition and measurement accounting policies are not necessarily changed as a result of moving from Tier 2 For-profit Accounting Standards to Tier 1 For-profit Accounting Standards. The recognition and measurement requirements in Tier 1 For-profit Accounting Standards and Tier 2 For-profit Accounting Standards are identical<sup>5</sup>. It follows that a move between the accounting standards for these two for-profit tiers (whether voluntary or mandatory) does not trigger any changes in the entity's recognition and measurement accounting policies other than as may be required by NZ IFRS 1 or other NZ IFRSs. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements in paragraphs 14–27 of NZ IAS 8.

<sup>3</sup> Compliance with NZ IFRS 1 without applying disclosure concessions results in compliance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

<sup>4</sup> Paragraphs 14–27 of NZ IAS 8 apply to changes in accounting policies (to the extent that those requirements do not conflict with NZ IFRS 1), notwithstanding the statement in paragraph 27 of NZ IFRS 1 that NZ IAS 8 does not apply to the changes in accounting policies an entity makes when it first adopts NZ IFRS or to changes in those policies until after it presents its first New Zealand equivalents to IFRSs financial statements.

<sup>5</sup> The only difference is an exemption for Tier 2 entities in NZ IAS 27 in relation to intermediate parent reporting.

**Tier 3 or Tier 4 to Tier 1**

- 49 A Tier 3 for-profit entity or a Tier 4 for-profit entity that subsequently becomes publicly accountable as defined in paragraph 12 shall apply Tier 1 For-profit Accounting Standards in the reporting period in which it becomes publicly accountable.
- 50 A Tier 3 for-profit entity or a Tier 4 for-profit entity that no longer qualifies to apply those standards because it fails to meet the size criteria specified in paragraph 25 or paragraph 29 respectively, may continue to report in accordance with Tier 3 For-profit Accounting Standards or Tier 4 For-profit Accounting Standards (as applicable) for the annual reporting period in which it becomes large and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 51 A Tier 3 for-profit entity that subsequently applies Tier 1 For-profit Accounting Standards, shall account for the change in accounting policies in accordance with:
- (a) NZ IFRS 1; and
  - (b) the requirements in paragraphs 14–27 of NZ IAS 8 to the extent that those requirements do not conflict with NZ IFRS 1<sup>6</sup>.

The requirement to apply the requirements of paragraphs 14–27 of NZ IAS 8 to any changes in accounting policies may mean that such entities are unable to apply some of the concessions available in NZ IFRS 1.

- 52 A Tier 4 for-profit entity that subsequently applies Tier 1 For-profit Accounting Standards shall apply NZ IFRS 1.

**Moving into Tier 2****Tier 1 to Tier 2**

- 53 A Tier 1 for-profit entity that is eligible to apply Tier 2 For-profit Accounting Standards may elect to apply Tier 2 For-profit Accounting Standards for any reporting period commencing on, before or after the date this Standard is first applied; provided that the entity must report in accordance with Tier 1 For-profit Accounting Standards for any reporting period in which the entity meets the Tier 1 criteria during that period.
- 54 Where a Tier 1 for-profit entity has been applying Tier 1 For-profit Accounting Standards and the entity subsequently applies Tier 2 For-profit Accounting Standards, the entity's recognition and measurement accounting policies are not changed as a result of moving from Tier 1 For-profit Accounting Standards to Tier 2 For-profit Accounting Standards, except as permitted by Tier 2 For-profit Accounting Standards.

**Tier 3 or Tier 4 to Tier 2**

- 55 A Tier 3 for-profit entity or a Tier 4 for-profit entity that no longer qualifies to apply those standards because it fails to meet the size criteria specified in paragraph 25 or paragraph 29 respectively, may continue to report in accordance with Tier 3 For-profit Accounting Standards or Tier 4 For-profit Accounting Standards (as applicable) for the annual reporting period in which it becomes large and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 56 A Tier 3 for-profit entity that subsequently applies Tier 2 For-profit Accounting Standards, shall account for the change in accounting policies in accordance with:
- (a) NZ IFRS 1; and
  - (b) the requirements in paragraphs 14–27 of NZ IAS 8 to the extent that those requirements do not conflict with NZ IFRS 1<sup>7</sup>.

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<sup>6</sup> See footnote 4.

<sup>7</sup> See footnote 4.

The requirement to apply the requirements of paragraphs 14–27 of NZ IAS 8 to any changes in accounting policies may mean that such entities are unable to apply some of the concessions available in NZ IFRS 1<sup>8</sup>.

- 57 A Tier 4 for-profit entity that subsequently applies Tier 2 For-profit Accounting Standards shall apply NZ IFRS 1.

### **Moving into Tier 3**

#### **Tier 1 or Tier 2 to Tier 3**

- 58 A Tier 1 for-profit entity or a Tier 2 for-profit entity that becomes eligible to apply Tier 3 For-profit Accounting Standards because the Tier 1 or Tier 2 size criteria no longer apply, shall not apply Tier 3 For-profit Accounting Standards until the entity ceases to be large for two consecutive annual reporting periods.

#### **Tier 4 to Tier 3**

- 59 A Tier 4 for-profit entity that no longer qualifies to apply Tier 4 For-profit Accounting Standards but is eligible for and elects to apply Tier 3 For-profit Accounting Standards, shall comply with NZ IFRS 1 (Diff Rep) *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

### **Exempt companies**

- 60 An exempt company that was reporting in accordance with the Financial Reporting Order 1994 and no longer qualifies as an exempt company shall report in accordance with an applicable tier of financial reporting identified in this Standard.

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<sup>8</sup> See footnote 4.

## C. PUBLIC SECTOR PUBLIC BENEFIT ENTITIES

### TIER STRUCTURE

- 61 The tier structure for public sector public benefit entities (Public Sector PBEs) consists of four tiers. The tier criteria in paragraphs 62 to 77 are subject to paragraphs 85 to 106 on moving between the tiers.
- 62 A Public Sector PBE shall report in accordance with Tier 1 PBE Accounting Standards if it meets the following criteria:
- (a) (i) it has public accountability<sup>9</sup> as defined in paragraph 67 at any time during the reporting period; or
  - (ii) it is large as defined in paragraph 72; or
  - (b) the entity is eligible to report in accordance with another tier but does not elect to report in accordance with that other tier.
- 63 A Public Sector PBE that meets the criteria specified in paragraph 74 may elect to report in accordance with Tier 2 PBE Accounting Standards.
- 64 A Public Sector PBE that meets the criteria specified in paragraph 75 may elect to report in accordance with Tier 3 PBE Accounting Standards.
- 65 A Public Sector PBE that meets the criteria specified in paragraph 77 may elect to report in accordance with Tier 4 PBE Accounting Standards.
- 66 If an entity is eligible to report in accordance with more than one tier, the entity may elect to report under any of those tiers.

#### Tier 1 Criteria

##### Public accountability

- 67 Subject to paragraph 71, a Public Sector PBE has public accountability if:
- (a) it meets the IASB definition of public accountability as specified in paragraphs 68 and 69; or
  - (b) it is deemed to be publicly accountable in New Zealand in accordance with paragraph 70.
- 68 In accordance with the IASB definition, an entity has public accountability if:
- (a) 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
  - (b) 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.
- 69 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business that does not make them publicly accountable. For example, a government department whose primary business is the provision of state housing to tenants is not publicly accountable if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business.
- 70 An entity is deemed to be publicly accountable in the New Zealand context if it is:
- (a) an issuer, as defined by the Securities Act 1978 or any other Act, irrespective of the size of the entity;

<sup>9</sup> The term “public accountability” is used here in a particular technical way. This technical meaning is quite different from the way in which “publicly accountable” is normally used in the public sector context and in which it was used prior to 2011 in the Accounting Standards Framework.



- (b) a registered bank, as defined by the Reserve Bank Act 1989;
- (c) a deposit-taker, as defined by the Reserve Bank Act 1989; or
- (d) a registered superannuation scheme, as defined by the Superannuation Schemes Act 1989;

unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with GAAP.

- 71 Where the entity is a group in New Zealand, and the parent of the group has public accountability, the group is deemed to have public accountability. A group shall not be considered to have public accountability solely by reason of a controlled entity or associate having public accountability.

### **Size**

- 72 A Public Sector PBE is large if it has total expenses over \$30 million.
- 73 For the purpose of the application of the size criteria in paragraph 72, total expenses means the total expenses (including losses and grant expenses), recognised by an entity in accordance with Tier 1 PBE Accounting Standards in its surplus or deficit, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the controlling entity and all its controlled entities.

### **Tier 2 Criteria**

- 74 A Public Sector PBE may elect to report in accordance with Tier 2 PBE Accounting Standards when the entity:
- (a) does not have public accountability as defined in paragraph 67; and
  - (b) is not large as defined in paragraph 72.

### **Tier 3 Criteria**

- 75 A Public Sector PBE may elect to report in accordance with Tier 3 PBE Accounting Standards when the entity:
- (a) does not have public accountability as defined in paragraph 67; and
  - (b) has total expenses less than or equal to \$2 million.
- 76 For the purpose of the application of the size criteria in paragraph 75, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Standards in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses are applied to the group comprising the controlling entity and all its controlled entities.

### **Tier 4 Criteria**

- 77 The following Public Sector PBEs may elect to report in accordance with Tier 4 PBE Accounting Standards, including using the cash basis of accounting:
- (a) Rural Education Activity Programmes (REAPs);
  - (b) Reserves Boards and Administrating Bodies;
  - (c) Trustees of Cemeteries;
  - (d) Provincial Patriotic Councils; and
  - (e) any other entity that is permitted by legislation or any other legal instrument or agreement to report on a basis other than in accordance with GAAP.

## ACCOUNTING STANDARDS

### Tier 1

- 78 A Tier 1 Public Sector PBE shall apply Tier 1 PBE Accounting Standards and may not apply any RDR concessions in the PBE Standards.

### Tier 2

- 79 A Tier 2 Public Sector PBE may elect to apply any or all of the concessions in Tier 2 PBE Accounting Standards. The concessions are indicated by an asterisk (\*) next to the paragraph or an additional RDR paragraph in standards listed in Appendix E. Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.
- 80 If a Tier 2 Public Sector PBE makes any disclosure that is not required under Tier 2 PBE Accounting Standards, the entity shall make that disclosure in accordance with the relevant Tier 1 PBE Accounting Standard.
- 81 A Tier 2 Public Sector PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 2 PBE Accounting Standards and has applied disclosure concessions; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 2 PBE Accounting Standards.
- 82 Where a Tier 2 Public Sector PBE has taken advantage of RDR concessions and subsequently ceases to apply one or more of those concessions, the entity shall disclose comparative information in respect of those previously applied disclosure concessions in accordance with PBE IPSAS 1 *Presentation of Financial Statements* unless the PBE Standard requirement does not require comparatives to be presented.

### Tier 3

- 83 A Tier 3 Public Sector PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 3 PBE Accounting Standards; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 3 PBE Accounting Standards.

### Tier 4

- 84 A Tier 4 Public Sector PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 4 PBE Accounting Standards; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 4 PBE Accounting Standards.

## MOVING BETWEEN TIERS

### Moving into Tier 1

#### NZ IFRS to Tier 1

- 85 A Public Sector PBE that has been applying NZ IFRS or NZ IFRS Diff Rep and other New Zealand accounting standards and pronouncements that have authoritative support and that are applicable to entities that apply NZ IFRS, and subsequently applies Tier 1 PBE Accounting Standards, shall account for the change in accounting policies in accordance with PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*.

**Tier 2 to Tier 1**

- 86 A Tier 2 Public Sector PBE that subsequently becomes publicly accountable as defined in paragraph 67 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 87 A Tier 2 Public Sector PBE entity that becomes large may continue to report in accordance with Tier 2 PBE Accounting Standards for the reporting period in which it becomes large unless that entity was reporting under Tier 1 PBE Accounting Standards in the annual reporting period immediately preceding the reporting period in which it becomes large.
- 88 Where a Tier 2 Public Sector PBE subsequently applies Tier 1 PBE Accounting Standards, the entity's recognition and measurement accounting policies are not changed as a result of moving from Tier 2 PBE Accounting Standards to Tier 1 PBE Accounting Standards. The recognition and measurement requirements in Tier 1 PBE Accounting Standards and Tier 2 PBE Accounting Standards are identical. It follows that a move between the accounting standards for these two PBE tiers (whether voluntary or mandatory) does not trigger any changes in the entity's recognition and measurement accounting policies. Voluntary changes in accounting policies are addressed in PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Tier 3 to Tier 1**

- 89 A Tier 3 Public Sector PBE that subsequently becomes publicly accountable as defined in paragraph 67 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 90 A Tier 3 Public Sector PBE that no longer qualifies to apply Tier 3 PBE Accounting Standards because it fails to meet the size criterion specified in paragraph 75 but that meets the size criterion to report in accordance with Tier 1 PBE Accounting Standards, may continue to report in accordance with Tier 3 PBE Accounting Standards for the annual reporting period in which it fails to meet the criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 91 A Tier 3 Public Sector PBE that subsequently applies Tier 1 PBE Accounting Standards shall account for the change in accounting policies in accordance with:
- (a) PBE FRS 47 *First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRSs*; and
  - (b) PBE IPSAS 3 to the extent that PBE IPSAS 3 does not conflict with PBE FRS 47.

**Tier 4 to Tier 1**

- 92 A Tier 4 Public Sector PBE that subsequently becomes publicly accountable as defined in paragraph 67 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 93 A Tier 4 Public Sector PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 77 but that meets the size criterion to report in accordance with Tier 1 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 94 A Tier 4 Public Sector PBE that subsequently applies Tier 1 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

**Moving into Tier 2****NZ IFRS to Tier 2**

- 95 A Public Sector PBE that has been applying NZ IFRS or NZ IFRS Diff Rep and other New Zealand accounting standards that have authoritative support and that are applicable to entities that apply NZ IFRS, and subsequently applies Tier 2 PBE Accounting Standards, shall account for the change in accounting policies in accordance with PBE FRS 46.

**Tier 1 to Tier 2**

- 96 Where a Tier 1 Public Sector PBE has been applying Tier 1 PBE Accounting Standards and the entity subsequently applies Tier 2 PBE Accounting Standards, the entity's recognition and measurement accounting policies are not changed as a result of moving from Tier 1 PBE Accounting Standards to Tier 2 PBE Accounting Standards as discussed in paragraph 88.

**Tier 3 to Tier 2**

- 97 A Tier 3 Public Sector PBE that no longer qualifies to apply Tier 3 PBE Accounting Standards because it fails to meet the size criterion specified in paragraph 75 but that meets the size criterion to report in accordance with Tier 2 PBE Accounting Standards, may continue to report in accordance with Tier 3 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 98 A Tier 3 Public Sector PBE that subsequently applies Tier 2 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

**Tier 4 to Tier 2**

- 99 A Tier 4 Public Sector PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 77 but that meets the criteria to report in accordance with Tier 2 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 100 A Tier 4 Public Sector PBE that subsequently applies Tier 2 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

**Moving into Tier 3****NZ IFRS or Other Accounting Policies to Tier 3**

- 101 A Public Sector PBE that has been applying NZ IFRS, NZ IFRS Diff Rep or other accounting policies applicable to that entity type, and subsequently applies Tier 3 PBE Accounting Standards, shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

**Tier 1 or Tier 2 to Tier 3**

- 102 A Tier 1 Public Sector PBE or a Tier 2 Public Sector PBE that subsequently applies Tier 3 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

**Tier 4 to Tier 3**

- 103 A Tier 4 Public Sector PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 77 but that meets the criteria to report in accordance with Tier 3 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 104 A Tier 4 Public Sector PBE that subsequently applies Tier 3 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

**Moving into Tier 4****NZ IFRS or Other Accounting Policies to Tier 4**

- 105 A Public Sector PBE that has been applying NZ IFRS, NZ IFRS Diff Rep or other accounting policies applicable to that entity type, and subsequently applies Tier 4 PBE Accounting Standards,

shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Standards.

**Tier 1, Tier 2 or Tier 3 to Tier 4**

- 106 A Tier 1 Public Sector PBE, Tier 2 Public Sector PBE, or Tier 3 Public Sector PBE that subsequently applies Tier 4 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Standards.

## D. NOT-FOR-PROFIT PUBLIC BENEFIT ENTITIES

### TIER STRUCTURE

- 107 The tier structure for not-for-profit public benefit entities (NFP PBEs) consists of four tiers. The tier criteria in paragraphs 108 to 123 are subject to paragraphs 131 to 154 on moving between the tiers.
- 108 A NFP PBE shall report in accordance with Tier 1 PBE Accounting Standards if it meets the following criteria:
- (a) (i) it has public accountability<sup>10</sup> as defined in paragraph 113 at any time during the annual reporting period; or
  - (ii) it is large as defined in paragraph 118; or
  - (b) the entity is eligible to report in accordance with another tier but does not elect to report in accordance with that other tier.
- 109 A NFP PBE that meets the criteria specified in paragraph 120 may elect to report in accordance with Tier 2 PBE Accounting Standards.
- 110 A NFP PBE that meets the criteria specified in paragraph 121 may elect to report in accordance with Tier 3 PBE Accounting Standards.
- 111 A NFP PBE that meets the criteria specified in paragraph 123 may elect to report in accordance with Tier 4 PBE Accounting Standards.
- 112 If an entity is eligible to report in accordance with more than one tier, the entity may elect to report under any of those tiers.

#### Tier 1 Criteria

##### Public accountability

- 113 Subject to paragraph 117, a NFP PBE has public accountability if:
- (a) it meets the IASB definition of public accountability as specified in paragraphs 114 and 115; or
  - (b) it is deemed to be publicly accountable in New Zealand in accordance with paragraph 116.
- 114 In accordance with the IASB definition, an entity has public accountability if:
- (a) 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
  - (b) 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.
- 115 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business, that does not make them publicly accountable. For example, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a “fiduciary capacity for a broad group of outsiders” it is not holding them “as one of its primary

<sup>10</sup> The term “public accountability” is used here in a particular technical way. This technical meaning is quite different from the way in which “publicly accountable” is normally used in the not-for-profit context and in which it was used prior to 2011 in the Accounting Standards Framework.

businesses". This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.

- 116 An entity is deemed to be publicly accountable in the New Zealand context if it is:
- (a) an issuer, as defined by the Securities Act 1978 or any other Act, irrespective of the size of the entity;
  - (b) a registered bank, as defined by the Reserve Bank Act 1989;
  - (c) a deposit-taker, as defined by the Reserve Bank Act 1989; or
  - (d) a registered superannuation scheme, as defined by the Superannuation Schemes Act 1989;

unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with GAAP.

- 117 Where the entity is a group in New Zealand, and the controlling entity of the group has public accountability, the group is deemed to have public accountability. A group shall not be considered to have public accountability solely by reason of a controlled entity having public accountability.

### **Size**

- 118 A NFP PBE is large if it has total expenses over \$30 million.
- 119 For the purpose of the application of the size criteria in paragraph 118, total expenses means the total expenses (including losses and grant expenses), recognised by an entity in accordance with Tier 1 PBE Accounting Standards in its surplus or deficit, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expenses are offset as required or permitted by a relevant standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the controlling entity and all its controlled entities.

### **Tier 2 Criteria**

- 120 A NFP PBE may elect to report in accordance with Tier 2 PBE Accounting Standards when the entity:
- (a) does not have public accountability as defined in paragraph 113; and
  - (b) is not large as defined in paragraph 118.

### **Tier 3 Criteria**

- 121 A NFP PBE may elect to report in accordance with Tier 3 PBE Accounting Standards when the entity:
- (a) does not have public accountability as defined in paragraph 113; and
  - (b) has total expenses less than or equal to \$2 million.
- 122 For the purpose of the application of the size criteria in paragraph 121, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Standards in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses are applied to the group comprising the controlling entity and all its controlled entities.

**Tier 4 Criteria**

- 123 A NFP PBE may elect to report in accordance with Tier 4 PBE Accounting Standards when the entity is permitted by legislation<sup>11</sup> to report on a basis other than in accordance with GAAP, including using the cash basis of accounting.

**ACCOUNTING STANDARDS****Tier 1**

- 124 A Tier 1 NFP PBE shall apply Tier 1 PBE Accounting Standards and may not apply any RDR concessions in the PBE Standards.

**Tier 2**

- 125 A Tier 2 NFP PBE may elect to apply any or all of the concessions in Tier 2 PBE Accounting Standards. The concessions are indicated by an asterisk (\*) next to the paragraph or an additional RDR paragraph in standards listed in Appendix E. Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs requirements associated with that concession.
- 126 If a Tier 2 NFP PBE makes any disclosure that is not required under Tier 2 PBE Accounting Standards, the entity shall make that disclosure in accordance with the relevant Tier 1 PBE Accounting Standard.
- 127 A Tier 2 NFP PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 2 PBE Accounting Standards and has applied disclosure concessions; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 2 PBE Accounting Standards.
- 128 Where a Tier 2 NFP PBE has taken advantage of RDR concessions and subsequently ceases to apply one or more of those concessions, the entity shall disclose comparative information in respect of those previously applied disclosure concessions in accordance with PBE IPSAS 1 *Presentation of Financial Statements* unless the PBE Standard requirement does not require comparatives to be presented.

**Tier 3**

- 129 A Tier 3 NFP PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 3 PBE Accounting Standards; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 3 PBE Accounting Standards.

**Tier 4**

- 130 A Tier 4 NFP PBE shall disclose:
- (a) that it has elected to report in accordance with Tier 4 PBE Accounting Standards; and
  - (b) the criteria that establish the entity as eligible to report in accordance with Tier 4 PBE Accounting Standards.

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<sup>11</sup> The Financial Reporting Bill 2012 and its consequential amendments (to a number of other enactments), when enacted, will permit certain entities to comply with non-GAAP standards issued by the XRB. These legislative requirements will be included in a future version of Standard XRB A1.



## MOVING BETWEEN TIERS

### Moving into Tier 1

#### Other Standards to Tier 1

- 131 A NFP PBE that has been applying NZ IFRS or NZ IFRS Diff Rep and other New Zealand accounting standards and pronouncements that have authoritative support and that are applicable to entities that apply NZ IFRS, and subsequently applies Tier 1 PBE Accounting Standards, shall account for the change in accounting policies in accordance with PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*.
- 132 A NFP PBE that has been applying standards other than NZ IFRS or NZ IFRS Diff Rep, and subsequently applies Tier 1 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*.

#### Tier 2 to Tier 1

- 133 A Tier 2 NFP PBE that subsequently becomes publicly accountable as defined in paragraph 113 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 134 A Tier 2 NFP PBE entity that becomes large may continue to report in accordance with Tier 2 PBE Accounting Standards for the annual reporting period in which it becomes large unless that entity was reporting under Tier 1 PBE Accounting Standards in the reporting period immediately preceding the reporting period in which it becomes large.
- 135 Where a Tier 2 NFP PBE subsequently applies Tier 1 PBE Accounting Standards, the entity's recognition and measurement accounting policies are not changed as a result of moving from Tier 2 PBE Accounting Standards to Tier 1 PBE Accounting Standards. The recognition and measurement requirements in Tier 1 PBE Accounting Standards and Tier 2 PBE Accounting Standards are identical. It follows that a move between the accounting standards for these two PBE tiers (whether voluntary or mandatory) does not trigger any changes in the entity's recognition and measurement accounting policies. Voluntary changes in accounting policies are addressed in PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### Tier 3 to Tier 1

- 136 A Tier 3 NFP PBE that subsequently becomes publicly accountable as defined in paragraph 113 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 137 A Tier 3 NFP PBE that no longer qualifies to apply Tier 3 PBE Accounting Standards because it fails to meet the size criterion specified in paragraph 121 but that meets the size criterion to report in accordance with Tier 1 PBE Accounting Standards, may continue to report in accordance with Tier 3 PBE Accounting Standards for the annual reporting period in which it fails to meet the criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 138 A Tier 3 NFP PBE that subsequently applies Tier 1 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

#### Tier 4 to Tier 1

- 139 A Tier 4 NFP PBE that subsequently becomes publicly accountable as defined in paragraph 113 shall apply Tier 1 PBE Accounting Standards in the reporting period in which it becomes publicly accountable.
- 140 A Tier 4 NFP PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 123 but that meets the size criterion to report in accordance with Tier 1 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.

- 141 A Tier 4 NFP PBE that subsequently applies Tier 1 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

## **Moving into Tier 2**

### **Other Standards to Tier 2**

- 142 A NFP PBE that has been applying NZ IFRS or NZ IFRS Diff Rep and other New Zealand accounting standards that have authoritative support and that are applicable to entities that apply NZ IFRS, and subsequently applies Tier 2 PBE Accounting Standards, shall account for the change in accounting policies in accordance with PBE FRS 46.
- 143 A NFP PBE that has been applying standards other than NZ IFRS or NZ IFRS Diff Rep, and subsequently applies Tier 2 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

### **Tier 1 to Tier 2**

- 144 Where a Tier 1 NFP PBE has been applying Tier 1 PBE Accounting Standards and the entity subsequently applies Tier 2 PBE Accounting Standards, the entity's recognition and measurement accounting policies are not changed as a result of moving from Tier 1 PBE Accounting Standards to Tier 2 PBE Accounting Standards as discussed in paragraph 135.

### **Tier 3 to Tier 2**

- 145 A Tier 3 NFP PBE that no longer qualifies to apply Tier 3 PBE Accounting Standards because it fails to meet the size criterion specified in paragraph 121 but that meets the size criterion to report in accordance with Tier 2 PBE Accounting Standards, may continue to report in accordance with Tier 3 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 146 A Tier 3 NFP PBE that subsequently applies Tier 2 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

### **Tier 4 to Tier 2**

- 147 A Tier 4 NFP PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 123 but that meets the criteria to report in accordance with Tier 2 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which it fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 148 A Tier 4 NFP PBE that subsequently applies Tier 2 PBE Accounting Standards shall account for the change in accounting policies in accordance with PBE FRS 47.

## **Moving into Tier 3**

### **Other Accounting Standards to Tier 3**

- 149 A NFP PBE that has been applying NZ IFRS, NZ IFRS Diff Rep or other accounting policies applicable to that entity type, and subsequently applies Tier 3 PBE Accounting Standards, shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

### **Tier 1 or Tier 2 to Tier 3**

- 150 A Tier 1 NFP PBE or a Tier 2 NFP PBE that subsequently applies Tier 3 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

**Tier 4 to Tier 3**

- 151 A Tier 4 NFP PBE that no longer qualifies to apply Tier 4 PBE Accounting Standards because it fails to meet the criterion specified in paragraph 123 but that meets the criteria to report in accordance with Tier 3 PBE Accounting Standards, may continue to report in accordance with Tier 4 PBE Accounting Standards for the annual reporting period in which fails to meet that criterion and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 152 A Tier 4 NFP PBE that subsequently applies Tier 3 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Standards.

**Moving into Tier 4**

**Other Accounting Standards to Tier 4**

- 153 A NFP PBE that has been applying NZ IFRS, NZ IFRS Diff Rep or other accounting policies applicable to that entity type, and subsequently applies Tier 4 PBE Accounting Standards, shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Standards.

**Tier 1, Tier 2 or Tier 3 to Tier 4**

- 154 A Tier 1 NFP PBE, Tier 2 NFP PBE, or Tier 3 NFP PBE that subsequently applies Tier 4 PBE Accounting Standards shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Standards.

## **E. EFFECTIVE DATE**

- 155 A for-profit entity shall apply this Standard for annual periods beginning on or after 1 April 2015. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.
- 156 A Public Sector PBE shall apply this Standard for periods beginning on or after 1 April 2015. Earlier application is permitted for periods beginning on or after 1 July 2014. If an entity applies this Standard earlier, it shall disclose that fact.
- 157 A NFP PBE shall apply this Standard for annual periods beginning on or after 1 April 2015. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.
- 158 The requirements in this Update as they apply to for-profit entities and PS PBEs are unchanged from the requirements in the XRB A1 (FP Entities + PS PBEs Update). As XRB A1 (FP Entities + PS PBEs + NFPs Update) will replace XRB A1 (FP Entities + PS PBEs Update) the early application provisions are designed to ensure a seamless transition from one Update to the next.

## APPENDIX A

### WHEN IS AN ENTITY A PUBLIC BENEFIT ENTITY?

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

#### Introduction

- 1 Reporting entities designate themselves as either for-profit entities or public benefit entities (PBEs).
- 2 PBEs are 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.
- 3 For-profit entities are not defined. Rather, the term for-profit entities encompasses all entities other than PBEs. An entity must assess whether it is a PBE or a for-profit entity, by considering whether or not it meets the definition of a PBE. Assessing whether an entity meets the definition of a PBE requires an entity to determine its primary objective.
- 4 The form of an entity is unlikely to be a conclusive factor in determining whether or not an entity is a PBE. PBEs are constituted in many different forms such as incorporated societies, trusts, statutory bodies and even companies. PBEs include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large. In determining the designation of an entity which is a group, it is necessary to consider the characteristics of the group.
- 5 [Reserved]

#### Purpose

- 6 The purpose of this Appendix is to assist an entity preparing general purpose financial statements to determine whether or not it is a PBE.
- 7 The classification of an entity as a for-profit entity or a PBE is important because it determines which accounting standards are applied by an entity and may result in different accounting policies. Inappropriate classification may result in adoption of inappropriate accounting policies and failure to provide users with information appropriate to assessing the financial performance and position of an entity.

#### Determining the primary objective of an entity

- 8 Whether an entity is a PBE is determined by the primary objective of an entity. In identifying the primary objective of an entity it is necessary to consider the substance of the entity's purpose and whether the goods or services are provided for community or social benefit.
- 9 Although in general terms PBEs exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many PBEs exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a football club exists to promote and encourage football for the direct benefit of its members. However, society as a whole may benefit through a healthier population and through the provision of organised activities for its youth.
- 10 In many cases it will be obvious whether an entity is a PBE or not. However, objectively determining the primary objective of an entity can be difficult where an entity has multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated.

- 11 Paragraphs 12 to 26 discuss indicators that aim to focus on the substance of an entity's purpose and which should be considered in determining whether an entity is a PBE. These indicators are:
- the entity's founding documents;
  - the nature of the benefits;
  - the quantum of expected financial surplus;
  - the nature of the equity interest; and
  - the nature of an entity's funding.

### **Founding documents**

- 12 For many entities the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, the State-Owned Enterprises Act 1986 states that the principal objective of every State enterprise is to "operate as a successful business and to this end, to be:
- (a) As profitable and efficient as comparable businesses that are not owned by the Crown; and
  - (b) A good employer; and
  - (c) An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so."
- 13 The founding documents of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides. For example, one of the objectives of District Health Boards is to improve, promote and protect the health of people and communities.
- 14 Many entities are established with multiple objectives. For example, Crown Research Institutes (CRIs) are required by the Crown Research Institutes Act 1992 (CRI Act) to:
- undertake research for the benefit of New Zealand;
  - comply with any applicable ethical standards;
  - promote and facilitate application of the results of research and technological developments;
  - be a good employer and exhibit a sense of social responsibility; and
  - operate in a financially responsible manner so that they maintain their financial viability.

- 15 Where an entity's founding documents indicate that an entity has multiple objectives, determining which of these objectives is the primary objective will depend on an assessment of the substance of the purpose of the entity.

- 16 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. However, being financially viable is not in itself conclusive in distinguishing a for-profit entity from a PBE. There exists a clear community expectation that PBEs be financially viable and operate to ensure that the limited resources at their disposal are used effectively.

### **Nature of the benefits**

- 17 The nature of the benefits provided by an entity will usually indicate whether an entity is a PBE. For example, if the entity produces goods or services that are not provided at market prices, but are provided to consumers at no cost or for nominal consideration, the entity is likely to be a PBE.
- 18 PBEs do not exist to generate benefit in the form of a financial return to equity-holders. That is not to imply that PBEs never generate, or aim to generate, a financial surplus on the net assets

employed. However, where a PBE does generate a financial surplus, it may be required or expected to be used to support the entity's primary objective of providing goods or services for the community or for social benefit.

- 19 PBEs may establish controlled entities or discrete business units which operate to generate a return that can be used to support the primary activities of the controlling entity. Such entities or business units may be for-profit. This fact does not affect the classification of the controlling entity or economic entity<sup>1</sup>.

#### **Quantum of expected financial surplus**

- 20 Many entities aim to generate revenues in excess of the expenses incurred. In order to continue operating all entities need to at least break even over the long term. The quantum of the expected surplus will provide a strong indication whether an entity is a PBE.
- 21 The objective of for-profit entities is to generate a commercial or market return—that is, to maximise the financial return commensurate with the relative risks of operating.
- 22 PBEs do not operate to maximise financial return in this way. PBEs may plan to generate a financial surplus. However, the quantum of the expected financial surplus is not expressed in relation to a market return or other measure of commercial success.
- 23 PBEs may not quantify the expected financial surplus, or may do so in qualitative or general terms only. For example, an entity may specify that it aims to generate an adequate rate of return, or a financial surplus sufficient to remain solvent, or generate a financial surplus sufficient to repay any debts within a certain time period.

#### **Nature of equity interest**

- 24 Where an entity is established to generate a financial return for the benefit of the equity holders the ownership instrument is usually clearly defined. This is important for for-profit entities because it determines the level of benefits such as dividends and rights to the residual net assets. If an entity does not have any clear equity holders or the nature of the equity instrument is unclear, the entity is likely to be a PBE.
- 25 The absence of clear equity holders may manifest itself in a number of ways, including:
- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or
  - a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to another PBE. That is, the use of the assets is effectively restricted to providing goods or services for the benefit of the community or part thereof.

#### **Nature of funding**

- 26 If an entity is funded wholly or primarily through the sale of goods and services it may not be a PBE. If an entity relies wholly or primarily on donations or other contributions that do not establish a financial interest in the entity, or which do not reflect a sale and purchase transaction, the entity is likely to be a PBE.

#### **Conflicting indicators**

- 27 In some cases the above indicators may conflict with each other in respect of a single entity and the primary purpose or objective of the entity may not be obvious. Some indicators may indicate that an entity should be classified as for-profit and others may indicate the entity should be classified as a public benefit entity. In this situation professional judgement is required.

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<sup>1</sup> If a controlled entity or business unit is required to prepare general purpose financial reports its designation is determined by its own primary objective and not that of the controlling entity of the group reporting entity.

## Changing classification

- 28 Changing circumstances may lead to a change in an entity’s classification. For example, a change in government policy may require that entities previously classified as public benefit entities are now to operate on a commercial basis, or vice versa.
- 29 Accounting for a change in classification depends on the applicable tier of the new classification. For example, if an entity’s classification changes from “public benefit entity” to “for-profit entity”, the entity would need to apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

## ILLUSTRATIVE EXAMPLES: Determining the nature of an entity’s purpose

- 30 The following examples aim to illustrate application of this Appendix. The examples are illustrative only and do not establish requirements.
- 31 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is or is not a public benefit entity. Rather, the examples illustrate characteristics to be considered by preparers in reaching a conclusion regarding the nature of an entity’s purpose. In assessing the nature of an entity appropriate weighting needs to be given to each individual indicator. Depending on the circumstances some indicators will provide a stronger indication than others about the underlying nature of the entity. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether or not the entity is a public benefit entity.

### Scenario 1: Crown Research Institute (CRI)

Entity A is a company established under section 11 of the CRI Act.

#### Founding documents – *The Crown Research Institutes Act 1992*

The CRI Act states that the purpose of every CRI is to undertake research (section 4) and sets out the principles of operation CRIs are expected to follow in fulfilling this purpose. These principles are set out in section 5 of the Act and include, for example, that a CRI should undertake research for the benefit of New Zealand, operate in a financially responsible manner and be a good employer.

The CRI Act establishes a broad framework for the operation of CRIs. The primary objective (purpose) of CRIs is clearly stated in the CRI Act. The principles set out in section 5 are detailed, but they are not ranked and their implementation can be achieved in a number of ways. CRIs, therefore, appear to have discretion as to how they can achieve their purpose.

#### Nature of the benefits

The key benefit of establishing CRIs is the production of research that will benefit New Zealand. In one sense the CRIs undertake research for community or social benefit. The New Zealand economy and entities operating in New Zealand can benefit from the research undertaken.

However, there may be discretion as to how research findings are distributed and in determining the nature of the research to be undertaken. Whether or not Entity A is a public benefit entity may depend on whether Entity A distributes or undertakes research on a commercial fee-for-service basis, or whether it makes its research findings available free of charge or for a nominal charge.

#### Quantum of the expected financial surplus

The CRI Act requires CRIs to operate in a financially responsible manner so that they maintain their financial viability. On its own maintaining “financial viability” is a general requirement and allows discretion as to what the financial targets should be.

Entity A has in place an operating agreement with the Shareholding Minister. If the operating agreement specified that Entity A should aim to generate an expected financial surplus equivalent to a market return, this would indicate that Entity A is a for-profit entity. If the operating agreement



specified a target rate of return, it would be necessary to consider how that rate of return was determined. If, for example, it was determined after benchmarking against commercial entities, this would indicate that Entity A was profit-oriented. If the rate of return was determined based on ensuring that Entity A covered its variable costs only, this may indicate that it is a public benefit entity.

### **Nature of equity interest**

Entity A is a company. The equity interest is in the form of shares owned by the Shareholding Minister. In the case of Entity A, the nature of the equity interest is clear. In addition, there is no restriction on the use of assets in the event a CRI is sold, wound up or ceases to operate. However, in this case, neither of these factors would appear to affect the nature of the purpose of the entity.

### **Nature of funding**

Entity A competes for funding from government and private sources. Revenue is derived through selling research services in a competitive environment. This may indicate that Entity A is a for-profit entity.

If Entity A relied on donations and grants from government and other organisations and such funds were provided on a non-exchange basis, this may indicate that Entity A is a public benefit entity.

## **Scenario 2: Charity Shop**

A charitable trust is established with the objective of providing health services to the homeless. The trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the trust establishes a charity shop (Company 1).

Company 1 sells second hand bicycles and runs a successful bicycle hire service. All profits from Company 1 are returned to the trust to support the primary objective of providing health services to the homeless.

### **Founding documents – Constitution**

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust.

### **Nature of the benefits**

The benefits derived from Company 1 are the funds generated through the sale and hire of bicycles. This may indicate that the shop is a for-profit entity.

If on the other hand the shop is used primarily as a vehicle to promote and publicise the objective of the trust or to provide employment to homeless people, then Company 1 may, subject to consideration of other factors, be a public benefit entity.

### **Quantum of the expected financial surplus**

The directors carefully manage Company 1 to ensure it meets its financial targets. The directors are experienced business people who donate their time to manage and guide the operation of Company 1. The directors aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return. If Company 1 does not generate an adequate return the directors may recommend that the trust invest its funds in another activity. This may indicate that Company 1 is by nature an investment and therefore profit oriented.

If Company 1 was operated with the objective of generating a positive financial return and the level of the return was not determined with reference to market returns, the shop may be a public benefit entity.

### **Nature of equity interest**

In the situation described Company 1 is a company 100% owned and controlled by the trust. As such the ownership instrument is clear. In the event Company 1 ceases trading the trust is able to determine how to use any residual assets. This may indicate that Company 1 is a for-profit entity.

### **Nature of funding**

Company 1 raises revenue through the sale and hire of bicycles. Company 1 also serves as a collection point for donations to the trust. Such donations are not the property of the shop and are banked into a separate trust account controlled by the trust.

Given the objective of Company 1 is to maximise return, the sale and hire of bicycles must be at market rates. This would indicate that the entity is a for-profit entity.

### **Scenario 3: Private Education Organisation**

Entity Q is a private organisation dedicated to providing low-cost high quality education to children who immigrated to New Zealand from poverty stricken countries. Entity Q was established as a trust with an initial endowment of \$5M from the estate of a wealthy businessperson.

In order to supplement its income Entity Q accepts a limited number of fee paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity Q to its objective of providing high quality education to children who immigrated to New Zealand from poverty stricken countries. The revenue from fee paying students has enabled Entity Q to expand the range of services it offers and to expand its roll of immigrant children.

### **Founding documents**

The trust deed establishing Entity Q states that the purpose of Entity Q is to provide high quality education to children who immigrated to New Zealand from poverty stricken countries. The trust deed also provides Trustees with broad powers as to how best to achieve this objective.

The trust deed also requires that, in the event the trust is wound up, any residual assets are to be applied to an organisation with similar objectives.

### **Nature of the benefits**

The nature of the benefits provided by Entity Q are the educational services delivered to the recipient children. The equity provided to Entity Q was for the benefit of immigrant children and not for the generation of a financial return. This would indicate that the entity is a public benefit entity.

The fact that Entity Q also sells education services to fee paying students at market rates does not necessarily change the objective of the entity.

If Entity Q established a subsidiary entity through which it ran its commercial education operations, that subsidiary may be a for-profit entity. In this case it would also be necessary to consider whether the group reporting entity is a public benefit entity in its own right.

### **Quantum of the expected financial surplus**

The trustees carefully manage the resources of Entity Q in order to maximise the number of immigrant children it can accept and to maintain a high quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve its objectives.

The financial targets are not expressed in terms of return on equity, but rather in terms of meeting the development targets set out in the operational plan. This may indicate that the entity is a public benefit entity.

### **Nature of equity interest**

The trust deed requires that in the event Entity Q ceases operating any residual assets are to be applied to another entity with a similar purpose. The use of the assets is restricted and no individual can benefit privately from the assets.

This may indicate that the entity is a public benefit entity.

### **Nature of funding**

Entity Q receives funding from a number of sources:

- (i) investment income from the initial endowment;
- (ii) fee income from fee paying students; and
- (iii) donations from other fund raising activities.

The relative levels of funding from each of these sources may indicate whether Entity Q is a for-profit entity or a public benefit entity. If the majority of funding is raised from investment income or donations and applied to the provision of the education services, then the entity may be a public benefit entity. If the majority of the funding is raised through the sale of education services, it may indicate that the entity is a for-profit entity.

### **Scenario 4: Sports Club**

Club AFC is a football club established in a suburb of a large city. Club AFC is part of a regional group of clubs that co-operate together to organise competitions, coaching and training for a wide range of age-groups, from 5 year-olds through to senior grade football and representative grades.

#### **Founding documents – Constitution**

Club AFC is established as a charitable trust. Its constitution states that it is a non-profit entity established to foster participation and to promote football in its suburb.

This indicates that Club AFC is likely to be a public benefit entity.

#### **Nature of the benefits**

The benefits provided by Club AFC arise from the coordination of football competitions and the provision of football coaching, training and other facilities to the community. Hence, Club AFC provides benefits directly to a particular section of the public, and society as a whole may benefit indirectly. No individual person has a right to the equity or to any net surplus generated by the Club. This may indicate that Club AFC is a public benefit entity.

On the other hand, if Club AFC were to sell its coaching and training services (eg to schools, other football clubs, or individuals) at normal market rates, this may indicate that Club AFC is a for-profit entity.

#### **Quantum of the expected financial surplus**

The Club manages its finances carefully. Its financial targets are driven by its plans to develop its facilities and the services it offers. This may indicate that Club AFC is a public benefit entity.

If the Club sets financial targets with the objective of generating a commercial rate of return, this may indicate that Club AFC is a for-profit entity.

#### **Nature of equity interest**

There is no clear equity instrument. The Constitution states that in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC. This may indicate that the Club is a public benefit entity.

#### **Nature of funding**

Club AFC receives funding from various sources:

- (i) membership fees;
- (ii) sponsorship;
- (iii) bar and food sales; and
- (iv) community grants.

Membership fees are set at a level to cover the Club's costs, after taking into account the funding expected to be received from other sources. This may indicate that Club AFC is a public benefit entity.

If Club AFC received the majority of its funding from the sale of football coaching or training services, or from ticket sales at football matches, this may indicate that Club AFC is a for-profit entity.

**APPENDIX B****ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 1 AND TIER 2 FOR-PROFIT ENTITIES**

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the NZ IFRS and other New Zealand standards and pronouncement that have authoritative support within New Zealand for Tier 1 and Tier 2 for-profit entities.

**Standards**

NZ IFRS 1	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>
NZ IFRS 2	<i>Share-based Payment</i>
NZ IFRS 3	<i>Business Combinations</i>
NZ IFRS 4	<i>Insurance Contracts</i>
NZ IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
NZ IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
NZ IFRS 7	<i>Financial Instruments: Disclosures</i>
NZ IFRS 8	<i>Operating Segments</i>
NZ IFRS 9 (2009)	<i>Financial Instruments</i>
NZ IFRS 9 (2010)	<i>Financial Instruments</i>
NZ IFRS 10	<i>Consolidated Financial Statements</i>
NZ IFRS 11	<i>Joint Arrangements</i>
NZ IFRS 12	<i>Disclosure of Interests in Other Entities</i>
NZ IFRS 13	<i>Fair Value Measurement</i>
NZ IAS 1	<i>Presentation of Financial Statements (revised 2007)</i>
NZ IAS 2	<i>Inventories</i>
NZ IAS 7	<i>Statement of Cash Flows</i>
NZ IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
NZ IAS 10	<i>Events after the Reporting Period</i>
NZ IAS 11	<i>Construction Contracts</i>
NZ IAS 12	<i>Income Taxes</i>
NZ IAS 16	<i>Property, Plant and Equipment</i>
NZ IAS 17	<i>Leases</i>
NZ IAS 18	<i>Revenue</i>
NZ IAS 19	<i>Employee Benefits</i>
NZ IAS 19 (2011)	<i>Employee Benefits</i>
NZ IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24	<i>Related Party Disclosures</i>
NZ IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
NZ IAS 27	<i>Consolidated and Separate Financial Statements</i>
NZ IAS 27 (2011)	<i>Separate Financial Statements</i>
NZ IAS 28	<i>Investments in Associates</i>
NZ IAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>

NZ IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
NZ IAS 31	<i>Interests in Joint Ventures</i>
NZ IAS 32	<i>Financial Instruments: Presentation</i>
NZ IAS 33	<i>Earnings per Share</i>
NZ IAS 34	<i>Interim Financial Reporting</i>
NZ IAS 36	<i>Impairment of Assets</i>
NZ IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
NZ IAS 38	<i>Intangible Assets</i>
NZ IAS 39	<i>Financial Instruments: Recognition and Measurement</i>
NZ IAS 40	<i>Investment Property</i>
NZ IAS 41	<i>Agriculture</i>
FRS-42	<i>Prospective Financial Statements</i>
FRS-43	<i>Summary Financial Statements</i>
FRS-44	<i>New Zealand Additional Disclosures</i>
NZ IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
NZ IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
NZ IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
NZ IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
NZ IFRIC 6	<i>Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment</i>
NZ IFRIC 7	<i>Applying the Restatement Approach under NZ IAS 29 Financial Reporting in Hyperinflationary Economies</i>
NZ IFRIC 9	<i>Reassessment of Embedded Derivatives</i> (superseded on adoption of NZ IFRS 9)
NZ IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
NZ IFRIC 12	<i>Service Concession Arrangements</i>
NZ IFRIC 13	<i>Customer Loyalty Programmes</i>
NZ IFRIC 14	<i>NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
NZ IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
NZ IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
NZ IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
NZ IFRIC 18	<i>Transfers of Assets from Customers</i>
NZ IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
NZ IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
NZ IFRIC 21	<i>Levies</i>
NZ SIC-7	<i>Introduction of the Euro</i>
NZ SIC-10	<i>Government Assistance—No Specific Relation to Operating Activities</i>
NZ SIC-12	<i>Consolidation—Special Purpose Entities</i> (superseded on adoption of NZ IFRS 10, Jan 2013)
NZ SIC-13	<i>Jointly Controlled Entities—Non-Monetary Contributions by Venturers</i> (superseded on adoption of NZ IFRS 11, Jan 2013)
NZ SIC-15	<i>Operating Leases—Incentives</i>
NZ SIC-25	<i>Income Taxes—Changes in the Tax Status of an Entity or its Shareholders</i>
NZ SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
NZ SIC-29	<i>Disclosure—Service Concession Arrangements</i>

NZ SIC-31            *Revenue—Barter Transactions Involving Advertising Services*

NZ SIC-32            *Intangible Assets—Web Site Costs*

**Pronouncements that have authoritative support within New Zealand**

New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*

## APPENDIX C

### ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 3 FOR-PROFIT ENTITIES

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the NZ IFRS Diff Rep and other New Zealand standards and pronouncements that have authoritative support within New Zealand to be applied by Tier 3 for-profit entities.

#### Standards

Various	<i>Annual Improvements 2009-2011 Cycle</i>
NZ IFRS 1 (Diff Rep)	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i> <i>Government Loans (Amendments to NZ IFRS 1 (Diff Rep)) (Optional application)</i>
NZ IFRS 2 (Diff Rep)	<i>Share-based Payment</i>
NZ IFRS 3 (Diff Rep)	<i>Business Combinations</i>
NZ IFRS 4 (Diff Rep)	<i>Insurance Contracts</i>
NZ IFRS 5 (Diff Rep)	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
NZ IFRS 6 (Diff Rep)	<i>Exploration for and Evaluation of Mineral Resources</i>
NZ IFRS 7 (Diff Rep)	<i>Financial Instruments: Disclosures</i> <i>Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to NZ IFRS 7 (Diff Rep)) (Optional application)</i>
NZ IFRS 8 (Diff Rep)	<i>Operating Segments</i>
NZ IFRS 9 (2009) (Diff Rep)	<i>Financial Instruments (Optional application)</i>
NZ IFRS 9 (2010) (Diff Rep)	<i>Financial Instruments (Optional application)</i>
NZ IFRS 10 (Diff Rep)	<i>Consolidated Financial Statements (Optional application)</i> <i>Investment Entities (Amendments to NZ IFRS 10 (Diff Rep), NZ IFRS 12 (Diff Rep and NZ IAS 27 (Diff Rep)) (Optional application)</i>
NZ IFRS 11 (Diff Rep)	<i>Joint Arrangements (Optional application)</i>
NZ IFRS 12 (Diff Rep)	<i>Disclosure of Interests in Other Entities (Optional application)</i>
NZ IFRS 13 (Diff Rep)	<i>Fair Value Measurement (Optional application)</i>
NZ IAS 1 (Diff Rep)	<i>Presentation of Financial Statements (revised 2007)</i> <i>Presentation of Items of Other Comprehensive Income (Amendments to NZ IAS 1 (Diff Rep)) (Optional application)</i>
NZ IAS 2 (Diff Rep)	<i>Inventories</i>
NZ IAS 7 (Diff Rep)	<i>Statement of Cash Flows</i>
NZ IAS 8 (Diff Rep)	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
NZ IAS 10 (Diff Rep)	<i>Events after the Reporting Period</i>
NZ IAS 11 (Diff Rep)	<i>Construction Contracts</i>
NZ IAS 12 (Diff Rep)	<i>Income Taxes</i>
NZ IAS 16 (Diff Rep)	<i>Property, Plant and Equipment</i>
NZ IAS 17 (Diff Rep)	<i>Leases</i>
NZ IAS 18 (Diff Rep)	<i>Revenue</i>
NZ IAS 19 (Diff Rep)	<i>Employee Benefits</i>
NZ IAS 19 (2011) (Diff Rep)	<i>Employee Benefits (Optional application)</i>
NZ IAS 20 (Diff Rep)	<i>Accounting for Government Grants and Disclosure of Government</i>



	<i>Assistance</i>
NZ IAS 21 (Diff Rep)	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23 (Diff Rep)	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24 (Diff Rep)	<i>Related Party Disclosures</i>
NZ IAS 26 (Diff Rep)	<i>Accounting and Reporting by Retirement Benefit Plans</i>
NZ IAS 27 (Diff Rep)	<i>Consolidated and Separate Financial Statements</i>
NZ IAS 27 (2011) (Diff Rep)	<i>Separate Financial Statements (Optional application)</i>
NZ IAS 28 (Diff Rep)	<i>Investments in Associates</i>
NZ IAS 28 (2011) (Diff Rep)	<i>Investments in Associates and Joint Ventures (Optional application)</i>
NZ IAS 29 (Diff Rep)	<i>Financial Reporting in Hyperinflationary Economies</i>
NZ IAS 31 (Diff Rep)	<i>Interests in Joint Ventures</i>
NZ IAS 32 (Diff Rep)	<i>Financial Instruments: Presentation</i>
	<i>Offsetting Financial Assets and Financial Liabilities (Amendments to NZ IAS 32 (Diff Rep)) (Optional application)</i>
NZ IAS 33 (Diff Rep)	<i>Earnings per Share</i>
NZ IAS 34 (Diff Rep)	<i>Interim Financial Reporting</i>
NZ IAS 36 (Diff Rep)	<i>Impairment of Assets</i>
	<i>Recoverable Amount Disclosures for Non-financial Assets (Amendments to NZ IAS 36 (Diff Rep)) (Optional application)</i>
NZ IAS 37 (Diff Rep)	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
NZ IAS 38 (Diff Rep)	<i>Intangible Assets</i>
NZ IAS 39 (Diff Rep)	<i>Financial Instruments: Recognition and Measurement</i>
	<i>Novation of Derivatives and Continuation of Hedge Accounting (Amendments to NZ IAS 39 (Diff Rep)) (Optional Application)</i>
NZ IAS 40 (Diff Rep)	<i>Investment Property</i>
NZ IAS 41 (Diff Rep)	<i>Agriculture</i>
FRS-42 (Diff Rep)	<i>Prospective Financial Statements</i>
FRS-43 (Diff Rep)	<i>Summary Financial Statements</i>
FRS-44 (Diff Rep)	<i>New Zealand Additional Disclosures</i>
NZ IFRIC 1 (Diff Rep)	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
NZ IFRIC 2 (Diff Rep)	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
NZ IFRIC 4 (Diff Rep)	<i>Determining whether an Arrangement contains a Lease</i>
NZ IFRIC 5 (Diff Rep)	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
NZ IFRIC 6 (Diff Rep)	<i>Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment</i>
NZ IFRIC 7 (Diff Rep)	<i>Applying the Restatement Approach under NZ IAS 29 Financial Reporting in Hyperinflationary Economies</i>
NZ IFRIC 9 (Diff Rep)	<i>Reassessment of Embedded Derivatives (superseded on adoption of NZ IFRS 9 (Diff Rep))</i>
NZ IFRIC 10 (Diff Rep)	<i>Interim Financial Reporting and Impairment</i>
NZ IFRIC 12 (Diff Rep)	<i>Service Concession Arrangements</i>
NZ IFRIC 13 (Diff Rep)	<i>Customer Loyalty Programmes</i>
NZ IFRIC 14 (Diff Rep)	<i>NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
NZ IFRIC 15 (Diff Rep)	<i>Agreements for the Construction of Real Estate</i>
NZ IFRIC 16 (Diff Rep)	<i>Hedges of a Net Investment in a Foreign Operation</i>

NZ IFRIC 17 (Diff Rep)	<i>Distributions of Non-cash Assets to Owners</i>
NZ IFRIC 18 (Diff Rep)	<i>Transfers of Assets from Customers</i>
NZ IFRIC 19 (Diff Rep)	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
NZ IFRIC 20 (Diff Rep)	<i>Stripping Costs in the Production Phase of a Surface Mine (Optional application)</i>
NZ IFRIC 21 (Diff Rep)	<i>Levies (Optional application)</i>
NZ SIC-7 (Diff Rep)	<i>Introduction of the Euro</i>
NZ SIC-10 (Diff Rep)	<i>Government Assistance—No Specific Relation to Operating Activities</i>
NZ SIC-12 (Diff Rep)	<i>Consolidation—Special Purpose Entities (superseded on adoption of NZ IFRS 10 (Diff Rep), January 2013)</i>
NZ SIC-13 (Diff Rep)	<i>Jointly Controlled Entities—Non-Monetary Contributions by Venturers (superseded on adoption of NZ IFRS 11 (Diff Rep), January 2013)</i>
NZ SIC-15 (Diff Rep)	<i>Operating Leases—Incentives</i>
NZ SIC-25 (Diff Rep)	<i>Income Taxes—Changes in the Tax Status of an Entity or its Shareholders</i>
NZ SIC-27 (Diff Rep)	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
NZ SIC-29 (Diff Rep)	<i>Disclosure—Service Concession Arrangements</i>
NZ SIC-31 (Diff Rep)	<i>Revenue—Barter Transactions Involving Advertising Services</i>
NZ SIC-32 (Diff Rep)	<i>Intangible Assets—Web Site Costs</i>

**Pronouncements that have authoritative support within New Zealand**

New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010 (Diff Rep)*

## APPENDIX D

### ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 4 FOR-PROFIT ENTITIES ELIGIBLE TO APPLY OLD GAAP

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the Financial Reporting Standards and other pronouncements that have authoritative support within New Zealand to be applied by for-profit entities eligible to apply Old GAAP.

#### Standards

FRS-1	<i>Disclosure of Accounting Policies</i>
FRS-2	<i>Presentation of Financial Reports</i>
FRS-3	<i>Accounting for Property, Plant and Equipment</i>
FRS-4	<i>Accounting for Inventories</i>
FRS-5	<i>Events After Balance Date</i>
FRS-7	<i>Extraordinary Items and Fundamental Errors</i>
FRS-9	<i>Information to be Disclosed in Financial Statements</i>
FRS-10	<i>Statement of Cash Flows</i>
FRS-13	<i>Accounting for Research and Development Activities</i>
FRS-14	<i>Accounting for Construction Contracts</i>
FRS-15	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
FRS-19	<i>Accounting for Goods and Services Tax</i>
FRS-20	<i>Accounting for Shares Issued under a Dividend Election Plan</i>
FRS-21	<i>Accounting for the Effects of Changes in Foreign Currency Exchange Rates</i>
FRS-24	<i>Interim Financial Statements</i>
FRS-26	<i>Accounting for Defeasance of Debt</i>
FRS-27	<i>Right of Set-off</i>
FRS-30	<i>Reporting Share Ownership Arrangements Including Employee Share Ownership Plans</i>
FRS-32	<i>Financial Reporting by Superannuation Schemes</i>
FRS-33	<i>Disclosure of Information by Financial Institutions</i>
FRS-34	<i>Life Insurance Business</i>
FRS-35	<i>Financial Reporting of Insurance Activities</i>
FRS-36	<i>Accounting for Acquisitions Resulting in Combinations of Entities or Operations</i>
FRS-37	<i>Consolidating Investments in Subsidiaries</i>
FRS-38	<i>Accounting for Investments in Associates</i>
FRS-40	<i>Transitional Arrangements for the Early Adoption of the New Zealand Equivalent to IAS 19 Employee Benefits</i>
FRS-41	<i>Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards</i>
FRS-42	<i>Prospective Financial Statements</i>
FRS-43	<i>Summary Financial Statements</i>

**Statements of Standard Accounting Practice that have authoritative support in New Zealand as at 1 July 2011 for those entities permitted to apply Old GAAP.**

SSAP-3	<i>Accounting for Depreciation</i>
SSAP-6	<i>Materiality in Financial Statements</i>
SSAP-12	<i>Accounting for Income Tax</i>
SSAP-17	<i>Accounting for Investment Properties and Properties Intended for Sale</i>
SSAP-18	<i>Accounting for Leases and Hire Purchase Contracts</i>
SSAP-21	<i>Accounting for the Effects of Changes in Foreign Currency Exchange Rates</i>
SSAP-22	<i>Related Party Disclosures</i>
SSAP-23	<i>Financial Reporting for Segments</i>
SSAP-25	<i>Accounting for Interests in Joint Ventures and Partnerships</i>
FRS-31	<i>Disclosure of Information about Financial Instruments</i>

**Other pronouncements that have authoritative support within New Zealand**

*Framework for Differential Reporting*

**Differential reporting concessions for entities electing to apply Old GAAP with differential reporting**

**Financial Reporting Standards**

**Full Exemption**

Any qualifying entity is granted full exemption from:

FRS-10	<i>Statement of Cash Flows</i>
FRS-31	<i>Disclosure of Information About Financial Instruments</i>

**Partial Exemption**

Qualifying entities are given partial exemption from the following standards.

**FRS-3: Accounting for Property, Plant and Equipment:** Qualifying entities may choose to adopt any of the following exemptions from the requirements of FRS-3:

- In respect of those items of property, plant and equipment accounted for under the historical cost system of accounting, the entity may adopt the rates of depreciation applicable for income tax purposes. If this exemption is taken, the entity is not required to comply with the requirements of paragraphs 8.16 and 8.19 of FRS-3.
- The entity is not required to comply with paragraph 5.24 of FRS-3. If this exemption is taken, the entity shall expense all borrowing costs as incurred.
- The entity is not required to disclose the information denoted with an asterisk in FRS-3.

**FRS-4: Accounting for Inventories:** Qualifying entities are not required to sub-classify inventory (into categories such as raw materials, work in progress and finished goods) as required by paragraph 5.29(b)(ii) of FRS-4.

**FRS-9: Information to be Disclosed in Financial Statements:** FRS-9 identifies the specific components that shall be disclosed separately. Qualifying entities are given several concessions. Each disclosure concession is identified by an asterisk in the standard.

**FRS-13: Accounting for Research and Development Activities:** Qualifying entities are required to comply with FRS-13 with the exception of section 5. Where this exemption is applied, all research and development costs shall be recognised as an expense in the period they are incurred.

**FRS-14: Accounting for Construction Contracts:** Qualifying entities may recognise profit on all construction contracts on a completed method as described in paragraph 4.1 of FRS-14 and need not comply with any other paragraphs of FRS-14.

**FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*:** Qualifying entities are not required to make disclosures in their financial statements of the requirements in FRS-15 denoted with an asterisk.

**FRS-19: *Accounting for Goods and Services Tax*:** Qualifying entities may recognise revenue and expense items either with Goods and Services Tax (GST) included (gross) or with GST excluded (net), provided that:

- (a) the method adopted by the reporting entity shall be:
  - (i) applied consistently to all revenue and expense items; and
  - (ii) disclosed in the statement of accounting policies in terms of 5.8 of FRS-19;
- (b) where GST input tax is irrecoverable, paragraph 5.6 of FRS-19 shall apply.

**FRS-21: *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*:** Qualifying entities are not required to:

- (a) translate transactions measured in a foreign currency using the exchange rate in effect at the transaction date, or at a rate approximating this rate, as required by paragraph 5.1 of FRS-21. If transactions are not translated at the rate in effect at the transaction date, or a rate approximating this rate, then transactions settled in the accounting period shall be translated at the settlement rate, and transactions unsettled at balance date shall be translated at the closing rate in accordance with paragraph 5.3 of FRS-21; or
- (b) separately disclose the net exchange difference included in the statement of financial performance for the period as required by paragraph 7.1(b) of FRS-21.

**FRS-24: *Interim Financial Statements*:** All entities that prepare general purpose interim financial statements shall comply with FRS-24 except that qualifying entities may apply differential reporting exemptions available under other specific accounting standards in addition to the specific disclosure exemptions identified in the Standard. Each specific exemption is identified by an asterisk in the Standard. FRS-24 does not apply to interim financial statements prepared for inclusion in a registered prospectus.

**FRS-30: *Reporting Share Ownership Arrangements Including Employee Share Ownership Plans*:** Qualifying entities are exempt from the requirements of paragraph 5.6 of FRS-30.

#### **Full Compliance (No Differential Reporting Concessions)**

Qualifying entities shall comply with all the provisions in the following standards:

FRS-1	<i>Disclosure of Accounting Policies</i>
FRS-2	<i>Presentation of Financial Reports:</i> FRS-2 shall be followed by all entities. While there are certain exemptions for qualifying entities within FRS-2 these all relate to exemptions provided by other standards. For example, FRS-2 notes that qualifying entities will not be required to prepare a statement of cash flows.
FRS-5	<i>Events After Balance Date</i>
FRS-7	<i>Extraordinary Items and Fundamental Errors</i>
FRS-20	<i>Accounting for Shares Issued Under a Dividend Election Plan:</i> All companies shall comply with FRS-20
FRS-26	<i>Accounting for Defeasance of Debt</i>
FRS-27	<i>Right of Set-Off</i>
FRS-32	<i>Financial Reporting by Superannuation Schemes</i>
FRS-33	<i>Disclosure of Information by Financial Institutions</i>
FRS-34	<i>Life Insurance Business</i>
FRS-35	<i>Financial Reporting of Insurance Activities</i>
FRS-36	<i>Accounting for Acquisitions Resulting in Combinations of Entities or Operations</i>
FRS-37	<i>Consolidating Investments in Subsidiaries</i>
FRS-38	<i>Accounting for Investments in Associates</i>

FRS-42 *Prospective Financial Statements***Statements of Standard Accounting Practice****Full Exemption**

Any qualifying entity is granted full exemption from:

SSAP-12	<i>Accounting for Income Tax</i>
SSAP-23	<i>Financial Reporting for Segments</i>

It should be noted that SSAP-12 contains recognition, measurement, and disclosure requirements. When the entity chooses to tax effect account, it shall do so in accordance with SSAP-12. Whether the entity accounts for income tax using the liability or the taxes payable method, it is not required to make any particular income tax note disclosures. However, when the entity voluntarily makes disclosures from which it is exempt, these disclosures shall be made in accordance with SSAP-12. In all instances, the entity shall disclose the accounting policy adopted for income tax, in accordance with FRS-1: *Disclosure of Accounting Policies*.

**Partial Exemption**

Qualifying entities are given partial exemption from the following:

**SSAP-17: *Accounting for Investment Properties and Properties Intended for Sale*:** Qualifying entities which recognise investment property revaluations or development margins shall comply with all provisions of SSAP-17. Other qualifying entities need not account for investment properties and properties intended for sale in terms of SSAP-17.

**SSAP-18: *Accounting for Leases and Hire Purchase Contracts*:** Qualifying entities are exempt from the requirements of paragraph 5.15(b) and may satisfy the requirements of paragraphs 5.15(c) and 5.17 by disclosing lease liabilities and commitments classified into current and non-current amounts only.

**SSAP-22: *Related Party Disclosures*:** Qualifying entities shall comply with SSAP-22, paragraphs 5.1(a) and (b). Qualifying entities are exempt from the requirements of other paragraphs of SSAP-22.

**Full Compliance (No Differential Reporting Concessions)**

**Qualifying entities shall comply with all the provisions in the following standards:**

SSAP-3	<i>Accounting for Depreciation</i>
SSAP-6	<i>Materiality in Financial Statements</i> (to be withdrawn)
SSAP-21	<i>Accounting for the Effects of Changes in Foreign Currency Exchange Rates</i>
SSAP-25	<i>Accounting for Interests in Joint Ventures and Partnerships</i>

## APPENDIX E

### ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 1 AND TIER 2 PUBLIC BENEFIT ENTITIES

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the PBE Standards and other pronouncements that have authoritative support within New Zealand to be applied by Tier 1 and 2 public sector public benefit entities and not-for-profit public benefit entities.

#### Standards

PBE IPSAS 1	<i>Presentation of Financial Statements</i>
PBE IPSAS 2	<i>Cash Flow Statements</i>
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
PBE IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>
PBE IPSAS 5	<i>Borrowing Costs</i>
PBE IPSAS 6	<i>Consolidated and Separate Financial Statements</i>
PBE IPSAS 7	<i>Investments in Associates</i>
PBE IPSAS 8	<i>Interests in Joint Ventures</i>
PBE IPSAS 9	<i>Revenue from Exchange Transactions</i>
PBE IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>
PBE IPSAS 11	<i>Construction Contracts</i>
PBE IPSAS 12	<i>Inventories</i>
PBE IPSAS 13	<i>Leases</i>
PBE IPSAS 14	<i>Events After the Reporting Date</i>
PBE IPSAS 16	<i>Investment Property</i>
PBE IPSAS 17	<i>Property, Plant and Equipment</i>
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
PBE IPSAS 20	<i>Related Party Disclosures</i>
PBE IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>
PBE IPSAS 22	<i>Disclosure of Information About the General Government Sector</i>
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>
PBE IPSAS 25	<i>Employee Benefits</i>
PBE IPSAS 26	<i>Impairment of Cash-Generating Assets</i>
PBE IPSAS 27	<i>Agriculture</i>
PBE IPSAS 28	<i>Financial Instruments: Presentation</i>
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>
PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>
PBE IPSAS 31	<i>Intangible Assets</i>
PBE IPSAS 32	<i>Service Concession Arrangements: Grantor</i>
PBE IFRS 3	<i>Business Combinations</i>
PBE IFRS 4	<i>Insurance Contracts</i>
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>

PBE IAS 12	<i>Income Taxes</i>
PBE IAS 34	<i>Interim Financial Reporting</i>
PBE FRS 42	<i>Prospective Financial Statements</i>
PBE FRS 43	<i>Summary Financial Statements</i>
PBE FRS 45	<i>Service Concession Arrangements: Operator</i>
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs</i>
PBE FRS 47	<i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs</i>

**Pronouncements that have authoritative support within New Zealand**

Public Benefit Entities *Framework*



## **APPENDIX F**

### **ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 3 PUBLIC BENEFIT ENTITIES**

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the Standards and other pronouncements that have authoritative support within New Zealand to be applied by Tier 3 public benefit entities.

#### **Accounting Standards and Other Pronouncements to be Applied by Tier 3 Public Sector Public Benefit Entities**

##### **Standards**

PBE SFR–A (PS) *Public Benefit Entity Simple Format Reporting Standard - Accrual (Public Sector)*

##### **Pronouncements that have authoritative support within New Zealand**

Public Benefit Entities *Framework*

#### **Accounting Standards and Other Pronouncements to be Applied by Tier 3 Not-For-Profit Public Benefit Entities**

##### **Standards**

PBE SFR–A (NFP) *Public Benefit Entity Simple Format Reporting Standard - Accrual (Not-For-Profit)*

##### **Pronouncements that have authoritative support within New Zealand**

Public Benefit Entities *Framework*

## **APPENDIX G**

### **ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 4 PUBLIC BENEFIT ENTITIES**

*This appendix forms an integral part of XRB A1 (FP Entities + PS PBEs + NFPs Update).*

This appendix lists the Standards and other pronouncements that have authoritative support within New Zealand to be applied by Tier 4 public benefit entities.

#### **Accounting Standards and Other Pronouncements to be Applied by Tier 4 Public Sector Public Benefit Entities**

##### **Standards**

PBE SFR–C (PS) *Public Benefit Entity Simple Format Reporting Standard - Cash (Public Sector)*

#### **Accounting Standards and Other Pronouncements to be Applied by Tier 4 Not-For-Profit Public Benefit Entities**

##### **Standards**

PBE SFR– C (NFP) *Public Benefit Entity Simple Format Reporting Standard - Cash (Not-For-Profit)*

## **BASIS FOR CONCLUSIONS ON STANDARD XRB A1 (FP ENTITIES + PS PBEs + NFPs UPDATE)**

*This Basis for Conclusions accompanies, but is not part of, XRB A1 (FP Entities + PS PBEs + NFPs Update).*

### **Introduction**

- BC1 This Standard was issued by the External Reporting Board (XRB) as a third step in implementing the new Accounting Standards Framework. The Accounting Standards Framework has been subject to consultation through various documents since September 2009.
- BC2 This revision specifies the new Accounting Standards Framework for NFP PBEs. It retains the Accounting Standards Framework for for-profit entities and public sector PBEs which is unchanged from that specified in XRB A1 (FP Entities + PS PBEs Update) issued in May 2013.
- BC3 The term “public accountability” has a specific meaning for the purposes of this Standard. It comprises entities that meet the International Accounting Standards Board (IASB) definition of public accountability or that are deemed to be publicly accountable in New Zealand. The same definition applies to both PBEs and for-profit entities. It should be noted that this specific meaning is narrower than the more generic term “publicly accountable” as it is commonly used in the public sector and/or the not-for-profit context.

## **HISTORY OF AMENDMENTS**

### **Table of Pronouncements – XRB Standard A1 *Application of Accounting Standards (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update)***

This table lists the pronouncements establishing and substantially amending XRB A1 (FP Entities + PS PBEs + NFPs Update).

<b>Pronouncements</b>	<b>Date approved</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
External Reporting Board Standard A1 <i>Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update)</i>	November 2013	For-profit entities: any period PS PBEs: periods beginning on or after 1 July 2014 NFP PBEs: any period	1 April 2015