



*Te Kāwai Ārahi Pūrongo Mōwaho*

## **External Reporting Board Standard A1**

### **Application of Accounting Standards (XRB A1)**

**Issued August 2011**

Issued by the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

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APPLICATION OF ACCOUNTING STANDARDS (XRB A1)**

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**BASIS FOR CONCLUSIONS**

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External Reporting Board Standard A1 *Application of Accounting Standards* (XRB A1) is set out in paragraphs 1–53 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary. XRB A1 should be read in the context of its objective and its Basis for Conclusions, and the New Zealand *Conceptual Framework for Financial Reporting* (NZ Framework). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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## HISTORY OF AMENDMENTS

### Table of Pronouncements – XRB Standard A1 *Application of Accounting Standards*

This table lists the pronouncements establishing and substantially amending XRB A1.

<b>Pronouncements</b>	<b>Date approved</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
Amended External Reporting Board Standard A1 <i>Application of Accounting Standards</i>	Aug 2011	1 July 2011	1 Sept 2011

<b>Table of Amended Paragraphs in XRB A1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 16A	Inserted	Amended XRB A1 [Aug 2011]
Paragraph 16B	Inserted	Amended XRB A1 [Aug 2011]

## **Introduction**

### **Reasons for issuing the Standard**

- IN1 This Standard establishes generally accepted accounting practice for entities that have a statutory obligation to prepare general purpose financial reports or that elect to prepare general purpose financial reports.
- IN2 This Standard codifies the criteria that an entity is required to meet to enable it to qualify to apply differential reporting concessions, irrespective of whether the entity applies New Zealand equivalents to International Financial Reporting Standards or New Zealand Financial Reporting Standards and Statements of Standard Accounting Practice that were applicable in New Zealand prior to the adoption of New Zealand equivalents to International Financial Reporting Standards.
- IN3 This Standard also codifies the differential reporting concessions in respect of New Zealand Financial Reporting Standards and Statements of Standard Accounting Practice that were applicable in New Zealand prior to the adoption of New Zealand equivalents to International Financial Reporting Standards.

# External Reporting Board Standard A1 Application of Accounting Standards (XRB A1)

## Objective

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- 1 The objective of this Standard is to:
  - (a) codify some of the pronouncements relevant for financial reporting; and
  - (b) explain which *accounting standards*, or parts of standards, are to be applied by those entities that have a statutory obligation to, or elect to, prepare *general purpose financial reports* in accordance with generally accepted accounting practice.

## Scope

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- 2 **An entity shall apply this Standard when preparing general purpose financial reports in accordance with statutory requirements.**
- 3 The requirements in this Standard shall also be applied by an entity that voluntarily elects to prepare general purpose financial reports.

## Generally accepted accounting practice

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- 4 The financial statements of reporting entities and groups, local authorities and various state sector bodies are required by legislation to comply with ‘generally accepted accounting practice’.
- 5 Financial statements comply with generally accepted accounting practice (GAAP) if they comply with applicable accounting standards or, in the absence of such standards or applicable rules of law, if they comply with accounting policies that are appropriate in the circumstances of the reporting entity and “have authoritative support within the accounting profession in New Zealand.”
- 6 Accounting standards are 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. Pronouncements that have authoritative support are issued by the XRB or the NZASB pursuant to section 24(1)(d) of the Act.



- 7 Accounting standards comprise:
- (a) *New Zealand equivalents to International Financial Reporting Standards* (NZ IFRSs) and New Zealand Financial Reporting Standards (FRSs) relevant to entities applying NZ IFRSs, including *public benefit entity* (PBE) modifications and differential reporting concessions where relevant; and
  - (b) New Zealand Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs) that were applicable in New Zealand prior to the adoption of NZ IFRSs, including differential reporting concessions where relevant.

## For-profit entities

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- 8 **Subject to paragraphs 10, 12 and 14, *for-profit entities* shall apply NZ IFRSs (excluding modifications made for PBEs) and other New Zealand FRSs applicable to entities that apply NZ IFRSs. Where no NZ IFRS exists, for-profit entities shall apply NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as the basis for determining an accounting treatment.**
- 9 NZ IFRSs and other New Zealand FRSs applicable to for-profit entities that apply NZ IFRSs are listed in Appendix B.

## Exempt companies

- 10 **Exempt companies, as defined in section 6A of the Financial Reporting Act 1993, shall prepare financial statements in accordance with section 12 of that Act.**
- 11 Exempt companies may elect to prepare their financial statements either (i) in the form and content as prescribed by the Governor-General by Order in Council or (ii) in accordance with generally accepted accounting practice as if that company were a reporting entity.

## Small and medium-sized companies

- 12 **Companies which meet all of the following criteria and were applying New Zealand FRSs and SSAPs at 30 June 2011 are permitted to continue applying the New Zealand FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs:**
- (a) **The company is not an issuer as defined by the Financial Reporting Act 1993, either in the current or preceding accounting period;**

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- (b) **The company 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**
  - (c) **The company is not large as defined by section 19A<sup>2</sup> of the Financial Reporting Act 1993.**
- 13 The New Zealand FRSs and SSAPs that comprise generally accepted accounting practice for for-profit entities that do not apply NZ IFRSs are listed in Appendix C.

### **Small and medium-sized entities other than companies**

- 14 **For-profit entities other than companies that meet all of the following criteria and were applying New Zealand FRSs and SSAPs before 30 June 2011 are permitted to continue applying the New Zealand FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs:**
- (a) **The entity has a statutory obligation to prepare financial statements; and**
  - (b) **The entity does not have public accountability and is not large, as defined in paragraph 23.**
- 15 The New Zealand FRSs and SSAPs that comprise GAAP for for-profit entities that do not apply NZ IFRSs are listed in Appendix C.

### **Differential reporting**

- 16 **A for-profit entity qualifies for differential reporting concessions (is a *qualifying entity*) when the entity does not have public accountability and either:**
- (a) **at the end of the reporting period, all of its *owners* are members of the entity's governing body; or**

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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.

(b) **the entity is not large as defined in paragraph 22 (for entities applying NZ IFRSs) or paragraph 23 (for entities applying New Zealand FRSs and SSAPs).**

**16A A for-profit entity which does not have public accountability but whose parent or ultimate controlling entity has the coercive power to tax, rate or levy to obtain public funds may only qualify for differential reporting where that for-profit entity is not large.**

16B 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 differential reporting concessions. Such entities may qualify for differential reporting only on the basis of size. This is because it is not appropriate that entities such as State-owned enterprises or Council Controlled Trading Organisations should be permitted to use a lack of separation between the owners and the governing body as a basis for qualifying for concessions because the public has a beneficial interest in the entity.

17 The differential reporting concessions for for-profit entities applying NZ IFRSs are indicated in the relevant NZ IFRSs. The differential reporting concessions for for-profit entities applying New Zealand FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs are listed in Appendix D.

18 This means that a for-profit entity does not qualify for differential reporting concessions (is not a qualifying entity) when:

- (a) it has public accountability; or
- (b) both:
  - (i) at balance date the entity has owners who are not members of the governing body; and
  - (ii) the entity is large in terms of paragraph 22 (for entities applying NZ IFRSs) or paragraph 23 (for entities applying New Zealand FRSs and SSAPs).

### **Public accountability**

19 A for-profit entity has public accountability for the purposes of this Standard if, at any time during the current or the preceding reporting period, the entity was an issuer as defined in the Financial Reporting Act 1993.

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

20 Where an owner of a for-profit entity is not a natural person (eg 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 differential reporting.

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- 21 The definition of an owner in Appendix A identifies an owner as 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

- 22 A for-profit entity that applies NZ IFRSs is large for the purposes of differential reporting if it exceeds any two of the following:
- (a) *total income* of \$20.0 million;
  - (b) *total assets* of \$10.0 million;
  - (c) *50 employees*.
- 23 A for-profit entity that applies New Zealand FRSs and SSAPs that were applicable prior to the adoption of NZ IFRSs is large for the purposes of differential reporting if it exceeds any two of the following:
- (a) *total revenue* of \$20.0 million;
  - (b) *total assets* of \$10.0 million;
  - (c) *50 employees*.
- 24 For the purpose of the application of the size criteria the total income/revenue and total assets are determined after the application of any allowable concessions permitted in NZ IFRSs/New Zealand FRSs and SSAPs.
- 25 Where the for-profit entity reporting is a group in New Zealand, the criteria to qualify for differential reporting shall be applied to the group comprising the parent and all its subsidiaries. For a group the criteria of size shall be applied to the totals of an actual or notional consolidation. When the parent of the group is an issuer, the group is an issuer and is deemed to have public accountability. A group shall however not be considered to have public accountability solely by reason of a subsidiary or associate having public accountability.

### Ceasing to apply differential reporting

- 26 When a for-profit entity has been large and subsequently ceases to be large, the entity will not qualify for differential reporting concessions until the entity ceases to be large for two consecutive reporting periods.
- 27 Where a for-profit entity has previously qualified for differential reporting concessions, but no longer qualifies, the entity shall cease immediately to apply differential reporting concessions. A for-profit entity shall provide comparative figures for the previous period without applying differential reporting concessions to the comparative figures in accordance with the relevant standard (i.e. NZ IAS 8 for entities applying NZ IFRSs and FRS-1 *Disclosure of Accounting Policies* for entities applying New Zealand FRSs and SSAPs that were applicable prior to the adoption of NZ IFRSs). NZ IAS 8 requires such changes in accounting policies

to be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

- 28 If a for-profit qualifying entity chooses to give any disclosure for which it is exempt, the entity shall make the disclosure in accordance with the relevant standard.

### **Applying differential reporting concessions**

- 29 **Where a for-profit qualifying entity takes advantage of differential reporting concessions the entity shall, in accordance with NZ IAS 8 or FRS-1, disclose the criteria which establish the entity as a qualifying entity for differential reporting and the extent to which the entity has applied some but not all available differential reporting concessions.**
- 30 **Where a for-profit qualifying entity ceases to be eligible to apply the New Zealand FRSs and SSAPs that were applicable prior to the adoption of NZ IFRSs, the entity is required to apply NZ IFRSs.**

### **Changes in accounting policies**

- 31 **Where a for-profit qualifying entity that applies NZ IFRSs has taken advantage of differential reporting concessions and subsequently ceases to apply one or more of these concessions, the entity shall account for the change in accounting policies in accordance with NZ IAS 8.**
- 32 **Where a for-profit qualifying entity that applies NZ IFRSs has taken advantage of differential reporting concessions and subsequently ceases to apply all of these concessions, and is thereby required to assert compliance with IFRSs, the entity shall account for the change in accounting policies in accordance with NZ IAS 8 and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The requirement to apply both these standards may limit the ability of such entities to apply some of the concessions available in IFRS 1.**

### **Public benefit entities**

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- 33 **Subject to paragraph 35, public benefit entities (PBEs) shall apply NZ IFRSs (including modifications made for PBEs) and other New Zealand FRSs applicable to entities that apply NZ IFRSs. Where no NZ IFRS exists, public benefit entities shall apply NZ IAS 8 as the basis for determining an accounting treatment.**
- 34 NZ IFRSs and other New Zealand FRSs applicable to PBEs that report in accordance with NZ IFRSs are listed in Appendix E.

## Small and medium-sized public benefit entities

- 35 **PBEs which meet all of the following criteria and were applying New Zealand FRSs and SSAPs at 30 June 2011 are permitted to continue applying the New Zealand FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs:**
- (a) **The entity has a statutory obligation to prepare financial statements; and**
  - (b) **The entity does not have public accountability and is not large as defined in paragraph 36.**
- 36 A PBE that applies New Zealand FRSs and SSAPs that were applicable prior to the adoption of NZ IFRSs is large for the purposes of differential reporting if it exceeds any two of the following:
- (a) total revenue of \$20.0 million;
  - (b) total assets of \$10.0 million;
  - (c) 50 employees.
- For the purposes of the application of the size criteria the total revenue and total assets are determined after the application of any allowable concessions permitted in New Zealand FRSs and SSAPs.
- 37 The New Zealand FRSs and SSAPs that comprise GAAP for PBEs that do not apply NZ IFRSs are listed in Appendix C.

## Differential reporting

- 38 **A PBE qualifies for differential reporting concessions (is a qualifying entity) when the entity does not have public accountability and:**
- (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 43.**
- 39 **A PBE which does not have public accountability but whose parent or ultimate controlling entity has the coercive power to tax, rate or levy to obtain public funds may only qualify for differential reporting where that PBE is not large.**
- 40 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 differential reporting concessions. Such entities may qualify for differential reporting only on the basis of size. This is because it is not appropriate that entities such as Council Controlled Organisations, Crown entities, State-owned enterprises or government departments should be permitted to use a lack of

separation between the owners and the governing body as a basis for qualifying for concessions because the public has a beneficial interest in the entity and in many cases the public indirectly provides funds to such entities through taxes, rates or levies.

- 41 The differential reporting concessions for PBEs are indicated in the relevant NZ IFRSs.

### **Public accountability**

- 42 A PBE has public accountability for the purposes of this Standard if:
- (a) at any time during the current or the preceding reporting period, the entity was an issuer as defined in the Act; or
  - (b) the entity has the coercive power to tax, rate or levy to obtain public funds.
- 43 Public accountability is particularly important for public sector entities because:
- (a) office holders are accountable to the general public and to electors for their management of public sector entities;
  - (b) elected officers are like trustees in their stewardship on behalf of the public; and
  - (c) the statutory right to tax, to levy or otherwise to acquire funds compulsorily creates an obligation to report to the public on the use of the funds acquired compulsorily.
- 44 A PBE does not have public accountability, for the purposes of this Standard, solely by reason of receiving public funds from another entity which has the coercive power to tax, rate or levy to obtain public funds.

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

- 45 Where an owner of a PBE is not a natural person (eg 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 differential reporting.
- 46 The definition of an owner in Appendix A identifies an owner as 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

47 A PBE that applies NZ IFRSs is large for the purposes of differential reporting if it exceeds any two of the following:

- (a) total income of \$20.0 million;
- (b) total assets of \$10.0 million;
- (c) 50 employees.

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

48 Where the entity reporting is a group in New Zealand, the criteria to qualify for differential reporting 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. When the parent of the group is an issuer, the group is an issuer and is deemed to have public accountability. A group shall however not be considered to have public accountability solely by reason of a subsidiary or associate having public accountability.

## Ceasing to apply differential reporting

49 When a PBE has been large and subsequently ceases to be large, the entity will not qualify for differential reporting concessions until the entity ceases to be large for two consecutive reporting periods.

50 Where a PBE has previously qualified for differential reporting concessions, but no longer qualifies, the entity shall cease immediately to apply differential reporting concessions. A PBE shall provide comparative figures for the previous period without applying differential reporting concessions to the comparative figures in accordance with NZ IAS 8. NZ IAS 8 requires such changes in accounting policies to be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

## Applying differential reporting concessions

51 **Where a PBE qualifying entity takes advantage of differential reporting concessions the entity shall, in accordance with NZ IAS 8, disclose the criteria which establish the entity as a qualifying entity for differential reporting and the extent to which the entity has applied some but not all available differential reporting concessions.**

## Changes in accounting policies

52 **Where a PBE qualifying entity has taken advantage of differential reporting concessions in this Standard and subsequently ceases to apply one or more of**



**these concessions, the entity shall account for the change in accounting policies in accordance with NZ IAS 8.**

## **Effective date**

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- 53 An entity shall apply this Standard for annual periods beginning on or after 1 September 2011. Early application is permitted for annual periods beginning on or after 1 July 2011.

## Appendix A Defined terms

*This appendix is an integral part of the Standard.*

<b>accounting standard</b>	For the purposes of this Standard, “accounting standard” has the same meaning as “financial reporting standard” and includes “applicable financial reporting standard” as defined in the Financial Reporting Act 1993.
<b>employees</b>	The number of full-time equivalent persons in the paid employment of the entity, calculated on an annual basis.
<b>for-profit entities</b>	Entities which are not public benefit entities.
<b>general purpose financial reports</b>	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.
<b>governing body</b>	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.
<b>New Zealand equivalents to International Financial Reporting Standards</b>	Standards and Interpretations comprising New Zealand equivalents to: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
<b>owner</b>	For the purposes of this Standard, 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.
<b>public benefit entities</b>	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.
<b>qualifying entities</b>	Entities which meet the requirements of this Standard to qualify for differential reporting concessions in accounting standards.
<b>total assets</b>	The value of all assets (including intangible assets) reported in the entity’s statement of financial position at the end of the current period.

<b>total income</b>	The annualised gross income based on the amount reported in the entity's statement of comprehensive income for the current 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.
<b>total revenue</b>	For the purposes of this Standard, total revenue is the annualised gross operating revenue based on the amount reported in the entity's statement of financial performance for the current reporting period. Total revenue includes, but is not limited to, sales, fee income, grants, output appropriations, cost recoveries, donations, dividends, interest and subscriptions.

## **Appendix B**

### **NZ IFRSs and New Zealand FRSs to be applied by for-profit entities**

*This appendix is an integral part of the Standard.*

This appendix lists the NZ IFRSs and New Zealand FRSs for entities that apply NZ IFRSs applicable to for-profit entities.

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	<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 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>
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FRS-44	<i>New Zealand Additional Disclosures</i>
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NZ IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
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NZ SIC-10	<i>Government Assistance—No Specific Relation to Operating Activities</i>
NZ SIC-12	<i>Consolidation—Special Purpose Entities</i>
NZ SIC-13	<i>Jointly Controlled Entities—Non-Monetary Contributions by Venturers</i>
NZ SIC-15	<i>Operating Leases—Incentives</i>
NZ SIC-21	<i>Income Taxes—Recovery of Revalued Non-Depreciable Assets</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	<i>Revenue—Barter Transactions Involving Advertising Services</i>
NZ SIC-32	<i>Intangible Assets—Web Site Costs</i>

## **Appendix C**

### **New Zealand Financial Reporting Standards and Statements of Standard Accounting Practice that were applicable in New Zealand prior to adoption of NZ IFRSs**

*This appendix is an integral part of the Standard.*

This appendix lists the New Zealand Financial Reporting Standards and Statements of Standard Accounting Practice for for-profit entities that are permitted to continue applying New Zealand FRSs and SSAPs.

New Zealand Financial Reporting Standards approved as accounting 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-29	<i>Prospective Financial Information (superseded by FRS-42 Prospective Financial Statements)</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>

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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-39	<i>Summary Financial Reports (superseded by FRS-43 Summary Financial Statements)</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>

The following pronouncements are considered to have authoritative support within the accounting profession in New Zealand as at 1 July 2011 for those entities permitted to apply New Zealand FRSs and SSAPs.

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>



## Appendix D

### Differential reporting concessions for entities applying NZ FRSs and SSAPs that were applicable in New Zealand prior to the adoption of NZ IFRSs

*This appendix is an integral part of the Standard.*

This Appendix lists the differential reporting provisions available in all Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs).

#### Full Exemption

Any qualifying entity is granted full exemption from:

FRS-10 *Statement of Cash Flows*

SSAP-12 *Accounting for Income Tax*

SSAP-23 *Financial Reporting for Segments*

FRS-31 *Disclosure of Information About Financial Instruments*

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 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:

- (a) 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.
- (b) 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.
- (c) The entity is not required to disclose the information denoted with an asterisk in FRS-3.

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**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.

**SAAP-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.

**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.

**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.

**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:     *Disclosure of Accounting Policies*
- FRS-2:     *Presentation of Financial Reports:*  
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.
- SSAP-3:    *Accounting for Depreciation*
- FRS-5:     *Events After Balance Date*
- SSAP-6:    *Materiality in Financial Statements (to be withdrawn)*
- FRS-7:     *Extraordinary Items and Fundamental Errors*
- FRS-20:    *Accounting for Shares Issued Under a Dividend Election Plan:*  
All companies shall comply with FRS-20
- SSAP-21:   *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*
- SSAP-25:   *Accounting for Interests in Joint Ventures and Partnerships*
- FRS-26:    *Accounting for Defeasance of Debt*
- FRS-27:    *Right of Set-Off*
- FRS-29:    *Prospective Financial Information*

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- FRS-32: *Financial Reporting by Superannuation Schemes*
- FRS-33: *Disclosure of Information by Financial Institutions*
- FRS-34: *Life Insurance Business*
- FRS-35: *Financial Reporting of Insurance Activities*
- FRS-36: *Accounting for Acquisitions Resulting in Combinations of Entities or Operations*
- FRS-37: *Consolidating Investments in Subsidiaries*
- FRS-38: *Accounting for Investments in Associates*

## **Appendix E**

### **NZ IFRSs to be applied by public benefit entities**

*This appendix is an integral part of the Standard.*

This appendix lists the NZ IFRSs and New Zealand FRSs for entities that apply NZ IFRSs applicable to public benefit entities.

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	<i>Financial Instruments</i>
NZ IFRS 9 (2010)	<i>Financial Instruments</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 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>

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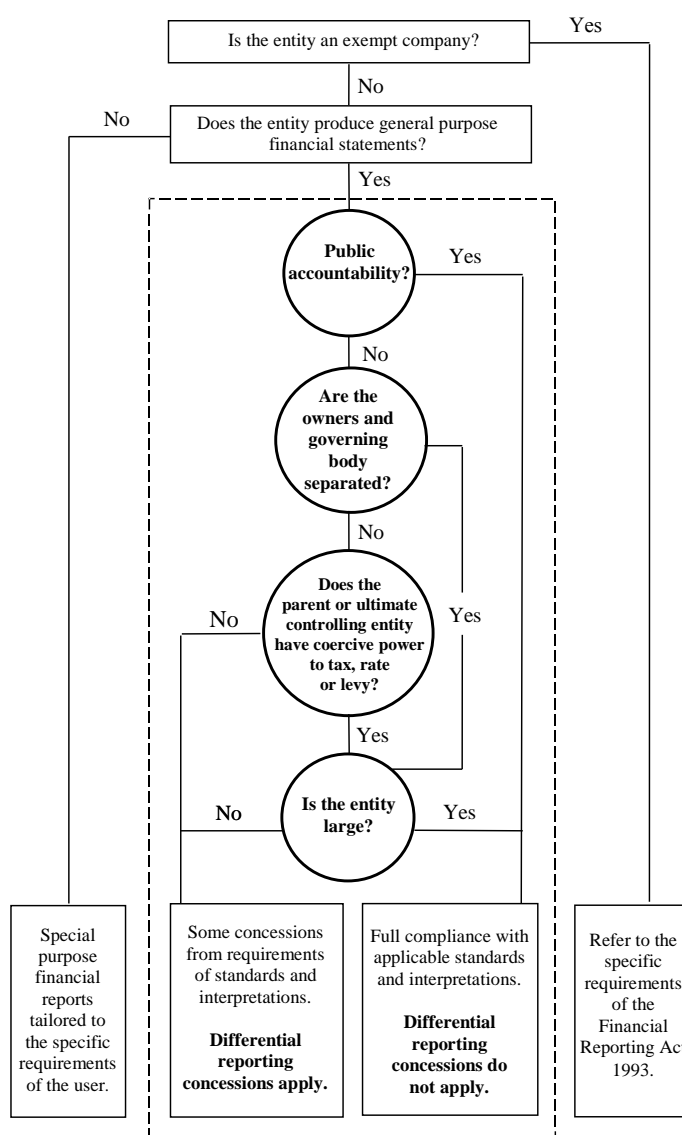
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24	<i>Related Party Disclosures</i>
NZ IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
NZ IAS 27	<i>Consolidated and Separate Financial Statements</i>
NZ IAS 28	<i>Investments in Associates</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>
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>
NZ IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
NZ IRFIC 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 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>
NZ SIC-13	<i>Jointly Controlled Entities—Non-Monetary Contributions by Venturers</i>
NZ SIC-15	<i>Operating Leases—Incentives</i>
NZ SIC-21	<i>Income Taxes—Recovery of Revalued Non-Depreciable Assets</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	<i>Revenue—Barter Transactions Involving Advertising Services</i>
NZ SIC-32	<i>Intangible Assets—Web Site Costs</i>

## Appendix F Demonstration of the criteria for entities to qualify for differential reporting concessions

*This appendix accompanies, but is not part of, the Standard.*

*Note: material in the dotted box indicates the Framework for Differential Reporting*





## Basis for Conclusions on Standard XRB A1

*This Basis for Conclusions accompanies, but is not part of, XRB A1.*

### Introduction

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- BC1 This Basis for Conclusions outlines the rationale for the requirements in this Standard.
- BC2 The primary rationale for the issuance of this Standard is to codify some of the requirements of ASRB Release 9 *Delay of the Mandatory Adoption of New Zealand Equivalents to International Financial Reporting Standards for Certain Small Entities*, ASRB Release 7 *Accounting Policies that have Authoritative Support Within the Accounting Profession in New Zealand*, the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* and the *Framework for Differential Reporting*.
- BC3 This Standard was issued to provide a comprehensive description of the financial reporting requirements for for-profit and public benefit entities following the establishment of the External Reporting Board (XRB). Its purpose is to assist these entities in identifying the relevant financial reporting requirements. This Standard replaces ASRB Releases 7 and 9 and the two Frameworks for Differential Reporting. XRB A1 is not intended to change any of the expectations of the documents that it replaces.
- BC4 In developing this Standard, the discussion in the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* and the *Framework for Differential Reporting* was not redeliberated.