

Institute of Chartered Accountants of New Zealand
FINANCIAL REPORTING STANDARD NO. 1
1994



DISCLOSURE OF ACCOUNTING POLICIES

*Issued by the Financial Reporting Standards Board
Institute of Chartered Accountants of New Zealand*
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This Standard replaces SSAP-1: Determination and Disclosure of Accounting Policies (1983), although that Statement will continue to apply until the completion of accounting periods which end prior to 1 July 1994.

This Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting published by the Council, Institute of Chartered Accountants of New Zealand.

The Accounting Standards Review Board (the Board) has approved FRS-1: Disclosure of Accounting Policies, for the purposes of the Financial Reporting Act 1993, to apply to reporting entities, the Crown and all departments, Offices of Parliament and Crown entities (each of which is defined in the Act).

The Board has also approved this Standard to apply to local authorities (as defined in the Act) from 1 July 1998.

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1 INTRODUCTION

COMMENTARY

1.1 It is fundamental to the understanding and interpretation of general purpose financial reports (hereafter called “financial reports”) that those who use them are aware of the accounting policies on which they are based.

1.2 This Standard deals with the selection and disclosure of appropriate accounting policies, and with changes in accounting policies. It does not establish financial reporting standards for individual items, as these are dealt with in other Standards.

1.3 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

2.1 This Standard applies to the general purpose financial reports of all entities.

2.2 The financial reporting standards set out in this Standard shall apply to all financial reports where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.

2.3 This Standard applies to general purpose financial reports covering periods ending on or after 1 July 1994.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 The purpose of this Standard is to require a statement of accounting policies disclosing:

- (a) the accounting policies adopted in the preparation of financial reports; and
- (b) changes in those policies,

where such policies or changes are material to those financial reports, so that users are provided with information necessary to an understanding of the significance of the information contained in those financial reports.

4 DEFINITIONS

STANDARD

The following terms are used in this Standard with these meanings:

4.1 “Accounting policies” are the bases, rules, and procedures adopted in preparing and presenting financial reports.

4.2 “Qualifying entity” means an entity which qualifies for differential reporting exemptions in terms of the *Framework for Differential Reporting*.

5 FINANCIAL REPORTING

Statement of Accounting Policies

STANDARD

5.1 General purpose financial reports shall include a clear and concise statement of all accounting policies adopted by an entity in the preparation of its financial reports, where such accounting policies are material to those financial reports.

COMMENTARY

5.2 The objective in disclosing accounting policies is to provide users of financial reports with sufficient information to:

- (a) ensure that financial reports are relevant, reliable and not misleading; and
- (b) determine whether or not they are comparable with the financial reports of:
 - (i) other periods.
 - (ii) other entities.

STANDARD

5.3 In the rare circumstances that application of a financial reporting standard results in inappropriate treatment of items in financial reports, additional information and explanation are to be provided in order to achieve a fair presentation.

COMMENTARY

5.4 Disclosure of accounting policies used does not, of itself, rectify inappropriate treatment.

STANDARD

5.5 The statement of accounting policies shall comprise:

- (a) a statement identifying the entity reporting and, where applicable, the statutory base under which the financial reports are prepared;

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- (b) a statement concerning the measurement system adopted;
- (c) a statement of the accounting policies adopted; and
- (d) a statement of changes in accounting policies since the date of the last financial report, or, if there have been no changes, a statement to that effect.

COMMENTARY

5.6 The accounting policies adopted by an entity can have a significant impact on the financial and service performance, financial position and cash flows that are reported in its financial reports. Therefore, for a proper appreciation of those reports, users need to be aware of:

- (a) the measurement system underlying the preparation of the financial reports; and
- (b) the accounting policies followed in respect of individual items in the financial reports, especially where there are acceptable alternatives for dealing with any such items; and
- (c) any changes in the measurement system, assumptions or particular accounting policies.

5.7 The *Statement of Concepts for General Purpose Financial Reporting* describes a number of alternative measurement bases. To ensure that a financial report is understandable, full disclosure of the measurement system adopted is essential.

5.8 An entity needs to make many accounting decisions involving:

- (a) choices between ways of implementing a financial reporting standard; or
- (b) choices between alternatives for which no financial reporting standard has been promulgated.

In selecting an accounting policy an entity is to consider:

- the objectives of general purpose financial reporting;
- the qualitative characteristics which are necessary to achieve those objectives; and
- the influences on the preparation of financial reports.

These are discussed in the *Statement of Concepts for General Purpose Financial Reporting*.

Assumptions

STANDARD

5.9 If the financial reports have not been prepared in accordance with the assumptions detailed in paragraph 5.10, and if this has a material effect, the statement of accounting policies shall disclose that fact, and shall include a statement of the reasons for not applying those assumptions in the preparation of the financial reports.

COMMENTARY

5.10 The *Statement of Concepts for General Purpose Financial Reporting* recognises:

- going concern
- period reporting
- accrual basis

as the assumptions which underlie the preparation of financial reports.

Changes in Accounting Policies

STANDARD

5.11 Where a change made in an accounting policy has a material effect on the financial position, financial or service performance, or cash flows, the following shall be disclosed:

- (a) the nature of the change;
- (b) the reason for the change;
- (c) the effect of the change on the financial position, financial or service performance or cash flows.

5.12 Where a change made in an accounting policy does not have a material effect in the current accounting period, but may have a material effect in subsequent periods, the following shall be disclosed:

- (a) the nature of the change;
- (b) the reason for the change;
- (c) a statement that this change does not have a material effect in the current period.

5.13 Where a change in accounting policy made in the preceding accounting period did not have a material effect on the financial position, financial or service performance, or cash flows in that period, but does have a material effect in the current accounting period, the effect of the change shall be disclosed.

5.14 Where an entity changes from one accounting policy to another, the current accounting policy shall be reported under the appropriate heading within the statement of accounting policies, and the details regarding the policy change shall be reported as a change in accounting policy.

COMMENTARY

5.15 Accounting policies adopted by an entity are normally consistent from one period to another, and are to be applied to all items of a similar nature.

5.16 The statement of accounting policies is to state whether or not accounting policies used are consistent with those used in previous periods. If there have been changes in the measurement system, the assumptions, or the accounting policies

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used, there is to be full disclosure in accordance with paragraphs 5.11 to 5.14 of this Standard.

5.17 An accounting policy previously adopted may need to be changed as a result of:

- (a) factors which make it no longer appropriate in terms of the objectives of financial reporting and the qualitative characteristics discussed in the *Statement of Concepts for General Purpose Financial Reporting*;
- (b) a decision made in the interests of improved financial reporting;
- (c) the introduction of, or a variation in, statutory or regulatory requirements;
- (d) the introduction of, or a variation in, financial reporting standards issued by the New Zealand Society of Accountants.

5.18 Adjusting an established formula used in order to arrive at an estimate can have a significant effect on financial reports. While such an adjustment does not constitute a change in an accounting policy, disclosure of the adjustment may be essential to an understanding of the financial reports.

Differential Reporting

STANDARD

5.19 Where a qualifying entity takes advantage of differential reporting exemptions, the entity's statement of accounting policies shall disclose:

- (a) **the criteria which establish the entity as a qualifying entity for differential reporting; and**
- (b) **as appropriate, either:**
 - (i) **that the entity has taken advantage of all differential reporting exemptions; or**
 - (ii) **the extent to which the entity has applied some but not all available differential reporting exemptions. The entity shall disclose either:**
 - (a) **financial reporting standards where the entity has not taken advantage of differential reporting exemptions and has applied the reporting standards obligatory for non-qualifying entities;**
 - or**
 - (b) **financial reporting standards where differential reporting exemptions have been applied.**

Early Adoption of Changes in Financial Reporting Standards

STANDARD

5.20 Where an entity elects either:

- (a) **to apply a financial reporting standard before the application date contained in that financial reporting standard; or**

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- (b) to apply revocation of a financial reporting standard before the application date of that revocation;
the entity's decision is to be disclosed.**

COMMENTARY

5.21 Users of the financial report need to be informed when financial reporting standards are applied early or are treated as revoked before the official application dates.

5.22 An approved financial reporting standard is one which has been approved by the Accounting Standards Review Board in terms of the *Financial Reporting Act 1993*. In rare instances, the Financial Reporting Standards Board of the New Zealand Society of Accountants may issue a financial reporting standard that does not require Accounting Standards Review Board approval; such financial reporting standards are issued or withdrawn when the issue or withdrawal is confirmed by the Council of the New Zealand Society of Accountants.

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APPENDIX

Comparison of FRS-1 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 1 December 1993 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-1. The International Accounting Standard referred to in this Appendix was promulgated by the International Accounting Standards Committee.

The International and Australian accounting standards comparable with FRS-1 are:

- IAS-1 (1975): *Disclosure of Accounting Policies*;
- AASB 1001 (1985): *Accounting Policies – Disclosure*; and
- AAS-6 (1986): *Accounting Policies: Determination, Application and Disclosure*.

There is substantial agreement among these accounting standards and FRS-1. All statements require disclosure of the accounting policies adopted by an entity in the preparation of its financial reports. The following are the significant differences from FRS-1.

Determination of Accounting Policies

AAS-6 alone gives guidelines for determining and applying accounting policies. That statement also requires that public sector reporting entities identify the statutory requirements, ministerial directives or other government authority which have determined accounting policies.

General Assumptions

All statements require that, where financial reports are not prepared on an accrual basis and on the basis of a going concern, this fact must be disclosed together with reasons for not applying those assumptions.

In addition FRS-1, quoting from the *Statement of Concepts for General Purpose Financial Reporting* includes period reporting as a general assumption in the preparation of financial reports. IAS-1 includes consistency as a general assumption.

Changes in Accounting Policies

All statements require disclosure of the nature of a change in policy which has a material effect in the current period or may have a material effect in subsequent periods. The effect of the change should also be quantified.

FRS-1, AASB 1001 and AAS-6 require disclosure where a change in policy applied in preparing and presenting a financial report for the preceding period did not have a material effect in the preceding period but has a material effect in the current period. IAS-1 does not have a similar specific requirement.

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Inappropriate Treatment of Items

IAS-1 states that incorrect or inappropriate treatment of items in financial reports is not rectified either by disclosure of accounting policies used, or by notes or explanatory material. FRS-1 states that where application of a financial reporting standard results in inappropriate treatment additional explanation is to be provided.

AASB 1001 and AAS-6 do not contain similar statements.

HISTORY

Previously issued accounting standards superseded by this Financial Reporting Standard:

SSAP-1: Determination and Disclosure of Accounting Policies (issued December 1983 and effective for periods ending on or after 31 March 1984).

SSAP-1: Disclosure of Accounting Policies (issued November 1974 and effective for periods beginning on or after 1 January 1975).

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