

Institute of Chartered Accountants of New Zealand  
FINANCIAL REPORTING STANDARD NO. 19  
1994



## **ACCOUNTING FOR GOODS AND SERVICES TAX**

*Issued by the Financial Reporting Standards Board  
Institute of Chartered Accountants of New Zealand*

*Approved July 1994 by the Accounting Standards Review Board  
under the Financial Reporting Act 1993*

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*This Standard replaces SSAP-19: Accounting for Goods and Services Tax (1986) although that Statement will continue to apply until the completion of accounting periods which end prior to 31 December 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-19: Accounting for Goods and Services Tax, 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) other than as expressly exempted by the terms of the Standard.*

*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 This Standard deals with the accounting treatment of Goods and Services Tax (GST) in general purpose financial reports.

1.2 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 except where exempted by paragraph 2.2.**

**2.2 Entities which qualify for differential reporting in accordance with the *Framework for Differential Reporting* 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 paragraph 5.8;**
- (b) **where GST input tax is irrecoverable, paragraph 5.6 shall apply.**

**2.3 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.**

#### COMMENTARY

2.4 Where GST is recoverable or payable and revenue or expense items are stated with GST included, to the extent of such GST inclusion, a departure exists from the definition of revenues and expenses contained in the *Statement of Concepts for General Purpose Financial Reporting*. This Standard permits, however, entities which qualify for differential reporting to state revenues or expenses inclusive of such GST amounts, where the costs of reporting on a GST exclusive basis are deemed to exceed the benefits derived from such reporting.

#### STANDARD

**2.5 This Standard applies to general purpose financial reports covering periods ending on or after 31 December 1994.**

### 3 STATEMENT OF PURPOSE

*COMMENTARY*

3.1 The purpose of this Standard is to ensure that:

- (a) entities state revenue and expense items net of GST, except where paragraphs 2.2 or 5.6 apply;
- (b) where the method of dealing with GST does not conform to paragraph 5.1, this is to be disclosed in the statement of accounting policies;
- (c) entities state assets and liabilities net of GST except as provided in paragraph 5.2 or 5.6; and
- (d) entities state cash flows affected by GST on a basis consistent with the method used in the statement of financial performance.

### 4 DEFINITIONS

*STANDARD*

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

**4.1 In this Standard, the terms “exempt”, “input tax”, “supply”, “goods”, “person”, “registered person”, “services”, and “taxable activity” have the same meaning as defined in the Goods and Services Tax Act 1985.**

### 5 FINANCIAL REPORTING

#### Revenue and Expense Items To Be Shown Net of GST

*STANDARD*

**5.1 Entities shall account for GST by stating both revenue and expense items net of GST except where paragraphs 2.2 or 5.6 apply.**

#### Assets and Liabilities

*STANDARD*

**5.2 If the GST is recoverable or payable, all items in the statement of financial position shall be stated net of GST with the exception of receivables and payables which are to be stated with GST included.**

*COMMENTARY*

5.3 GST is a comprehensive indirect tax on goods and services which is collected in instalments at various stages of production and distribution.

5.4 Registered persons act as collectors of GST in respect of their taxable activities. Therefore, in the financial reports of these entities all items, whether of

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a capital or revenue nature, are to be stated net of GST except where paragraphs 2.2 or 5.6 apply. This may be achieved either by isolating the GST content of each transaction, or by an end of year tax fraction adjustment.

5.5 The net amount of GST recoverable or payable is to be included as part of accounts receivable or payable in the statement of financial position.

### **Irrecoverable GST Input Tax**

#### *STANDARD*

**5.6 Irrecoverable GST input tax shall be recognised as part of the related asset or, where the expenditure relates to an expense item, expensed.**

#### *COMMENTARY*

5.7 Registered persons providing exempt supplies or services, and all persons other than registered persons, incur irrecoverable GST on their related inputs. For these persons this irrecoverable GST increases the costs of the goods and services they supply. GST is therefore to be included in such costs or, where it relates to expense items, as an expense. In particular, in these circumstances, GST on non-current assets is to be included in the purchase cost of the fixed assets concerned.

### **Disclosure of Accounting Policy**

#### *STANDARD*

**5.8 Where an entity, which qualifies for differential reporting in accordance with the *Framework for Differential Reporting*, recognises revenue and expense with GST included, the method of accounting for GST shall be disclosed in the statement of accounting policies.**

### **Statement of Cash Flows**

#### *STANDARD*

**5.9 The statement of cash flows shall be prepared either exclusive or inclusive of GST on a basis consistent with the method used in the statement of financial performance.**

**APPENDIX**

**Comparison of FRS-19 with International and Australian Accounting Standards**

This comparison appendix which was prepared as at 8 July 1994 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-19.

The International Accounting Standards Committee (IASC), the Australian Accounting Standards Board and the Australian Accounting Research Foundation have not issued a financial reporting standard equivalent to FRS-19.

However, the IASC standard IAS-18 (1993): *Revenue*, in the commentary to the definition of revenue, explains that revenue items are to be recognised exclusive of GST.

**HISTORY**

*Previously issued accounting standards superseded by this Financial Reporting Standard:*

*SSAP-19: Accounting for Goods and Services Tax (issued June 1986 and effective for periods ending after the issue of that Statement).*

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