Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

(Amendments to
NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12)

CONTENTS

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Introduction

This document sets out amendments to NZ IFRS 10 *Consolidated Financial Statements*. These amendments result from proposals in the exposure draft IASB ED/2011/7 *Transition Guidance* (Proposed amendments to IFRS 10) that was published in December 2011.

The amendments explain that the 'date of initial application' in NZ IFRS 10 means 'the beginning of the annual reporting period in which NZ IFRS 10 is applied for the first time'. Consequently, an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ SIC-12 *Consolidation—Special Purpose Entities* and when applying NZ IFRS 10. As a result, relief from retrospective application of NZ IFRS 10 would also apply to an investor's interests in investees that were disposed of during a comparative period in such a way that consolidation would not occur in accordance with either NZ IAS 27/NZ SIC-12 or NZ IFRS 10 at the date of initial application.

The amendments also clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying NZ IFRS 10 when compared with applying NZ IAS 27/NZ SIC-12. Additional transition relief is provided by limiting the requirement to present adjusted comparative information to the period immediately preceding the date of initial application (the 'immediately preceding period'). Presentation of adjusted comparatives for earlier periods is permitted but not required.

NZ IFRS 11 *Joint Arrangements* and NZ IFRS 12 *Disclosure of Interests in Other Entities* are also amended to provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. NZ IFRS 12 is further amended to provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which NZ IFRS 12 is applied.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Amendments to NZ IFRS 10 *Consolidated Financial Statements*

In Appendix C, paragraph C1A is added.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12), issued in July 2012, amended paragraphs C2–C6 and added paragraphs C2A–C2B, C4A–C4C, C5A and C6A–C6B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies NZ IFRS 10 for an earlier period, it shall apply those amendments for that earlier period.

In Appendix C, paragraph C2 is amended. New text is underlined and deleted text is struck through.

C2 An entity shall apply this NZ IFRS retrospectively, in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs ~~C3~~ C2A–C6.

In Appendix C, paragraphs C2A–C2B are added.

C2A Notwithstanding the requirements of paragraph 28 of NZ IAS 8, when this NZ IFRS is first applied, an entity need only present the quantitative information required by paragraph 28(f) of NZ IAS 8 for the annual period immediately preceding the date of initial application of this NZ IFRS (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

C2B For the purposes of this NZ IFRS, the date of initial application is the beginning of the annual reporting period for which this NZ IFRS is applied for the first time.

In Appendix C, paragraphs C3–C4 are amended. Paragraph C4 has been divided into paragraphs C4 and C4A. New text is underlined and deleted text is struck through.

C3 ~~When applying this NZ IFRS for the first time~~ At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

(a) entities that ~~were previously~~ would be consolidated at that date in accordance with NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ SIC-12 *Consolidation—Special Purpose Entities* and~~,~~ are still consolidated in accordance with this NZ IFRS~~, continue to be consolidated~~; or

(b) entities that ~~were previously unconsolidated~~ would not be consolidated at that date in accordance with NZ IAS 27 and NZ SIC-12 and~~,~~ are not consolidated in accordance with this NZ IFRS~~, continue not to be consolidated~~.

C4 ~~When application of this NZ IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall consolidate ~~consolidating~~ an investee that was not consolidated in accordance with NZ IAS 27 and NZ SIC-12, the investor shall:

(a) if the investee is a business (as defined in NZ IFRS 3 *Business Combinations*), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee ~~on the date of initial application~~ as if that investee had been consolidated (and thus had applied acquisition accounting in accordance with NZ IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this NZ IFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee.

(b) if the investee is not a business (as defined in NZ IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee ~~on the date of initial application~~ as if that investee had been consolidated (applying the acquisition method as described in NZ IFRS 3 but without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this NZ IFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, a~~A~~ny difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee.

~~shall be recognised as a corresponding adjustment to the opening balance of equity.~~

~~(c)~~C4A ~~i~~If measuring an investee's assets, liabilities and non-controlling interests in accordance with paragraph C4(a) or (b) is impracticable (as defined in NZ IAS 8), ~~the~~ an investor shall:

~~(i)~~(a) if the investee is a business, apply the requirements of NZ IFRS 3 as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which application of ~~NZ IFRS 3~~ paragraph C4(a) is practicable, which may be the current period.

~~(ii)~~(b) if the investee is not a business, apply the acquisition method as described in NZ IFRS 3 but without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of ~~this~~ paragraph C4(b) is practicable, which may be the current period.

~~The investor shall recognise any difference between~~ The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(c) the amount of assets, liabilities and non-controlling interests recognised ~~at the deemed acquisition date~~; and

(d) ~~any previously recognised~~ the previous carrying amount~~s from its~~ of the investor's involvement with the investee. ~~as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with NZ IAS 8.~~

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

In Appendix C, paragraphs C4B–C4C are added.

C4B When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this NZ IFRS is later than the effective date of NZ IFRS 3 as revised in 2008 (NZ IFRS 3 (2008)), the reference to NZ IFRS 3 in paragraphs C4 and C4A shall be to NZ IFRS 3 (2008). If control was obtained before the effective date of NZ IFRS 3 (2008), an investor shall apply either NZ IFRS 3 (2008) or NZ IFRS 3 (issued in 2004).

C4C When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this NZ IFRS is later than the effective date of NZ IAS 27 as revised in 2008 (NZ IAS 27 (2008)), an investor shall apply the requirements of this NZ IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A. If control was obtained before the effective date of NZ IAS 27 (2008), an investor shall apply either:

(a) the requirements of this NZ IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A; or

(b) the requirements of the version of NZ IAS 27 issued in 2003 (NZ IAS 27 (2003)) for those periods prior to the effective date of NZ IAS 27 (2008) and thereafter the requirements of this NZ IFRS for subsequent periods.

In Appendix C, paragraphs C5–C6 are amended. Paragraph C5 has been divided into paragraphs C5 and C5A. New text is underlined and deleted text is struck through.

C5 ~~When application of this NZ IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it will no longer ~~consolidating~~ consolidate an investee that was consolidated in accordance with NZ IAS 27 ~~(as amended in 2008)~~ and NZ SIC-12, the investor shall measure its ~~retained~~ interest in the investee ~~on the date of initial application~~ at the amount at which it would have been measured if the requirements of this NZ IFRS had been effective when the investor became involved with (but did not obtain control in accordance with this NZ IFRS), or lost control of, the investee. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the investor became involved with (but did not obtain control in accordance with this NZ IFRS), or lost control of, the investee is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(a) the previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) the recognised amount of the investor's interest in the investee.

C5A If measuring ~~measurement of~~ the ~~retained~~ interest in the investee in accordance with paragraph C5 is impracticable (as defined in NZ IAS 8), ~~the~~ an investor shall apply the requirements of this NZ IFRS ~~for accounting for a loss of control~~ at the beginning of the earliest period for which application of ~~this NZ IFRS~~ paragraph C5 is practicable, which may be the current period. ~~The investor shall recognise any difference between~~ The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the investor became involved with (but did not obtain control in accordance with this NZ IFRS), or lost control of, the investee is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(a) the ~~previously recognised~~ previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) the ~~carrying~~ recognised amount of the investor's ~~involvement with~~ interest in the investee. ~~as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with NZ IAS 8.~~

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

C6 Paragraphs 23, 25, B94 and B96–B99 were amendments to NZ IAS 27 made in 2008 that were carried forward into NZ IFRS 10. Except when an entity applies paragraph C3, or is required to apply paragraphs C4–C5A, the entity shall apply the requirements in those paragraphs as follows:

(a) ...

In Appendix C, a heading and paragraphs C6A–C6B are added.

References to the 'immediately preceding period'

C6A Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs C4–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C4–C5A shall be read as the 'earliest adjusted comparative period presented'.

C6B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

Amendments to NZ IFRS 11 *Joint Arrangements*

In Appendix C, paragraphs C1A–C1B are added.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12), issued in July 2012, amended paragraphs C2–C5, C7–C10 and C12 and added paragraphs C1B and C12A–C12B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies NZ IFRS 11 for an earlier period, it shall apply those amendments for that earlier period.

Transition

C1B Notwithstanding the requirements of paragraph 28 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when this NZ IFRS is first applied, an entity need only present the quantitative information required by paragraph 28(f) of NZ IAS 8 for the annual period immediately preceding the first annual period for which NZ IFRS 11 is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

In Appendix C, paragraphs C2–C5, C7–C10 and C12 are amended. New text is underlined and deleted text is struck through.

Joint ventures—transition from proportionate consolidation to the equity method

C2 When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

C3 The opening balance of the investment determined in accordance with paragraph C2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of NZ IAS 28 (as amended in 2011) to the opening balance of the investment to assess whether the investment is impaired and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. The initial recognition exception in paragraphs 15 and 24 of NZ IAS 12 *Income Taxes* does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.

C4 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. The entity shall disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~ and at the date at which this NZ IFRS is first applied.

C5 An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs C2–C6.

C6 …

Joint operations—transition from the equity method to accounting for assets and liabilities

C7 When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of NZ IAS 28 (as amended in 2011) and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

C8 An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~ on the basis of the information used by the entity in applying the equity method.

C9 Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of NZ IAS 28 (as amended in 2011), and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

(a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.

(b) adjusted against retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.

C10 An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~.

C11 ...

Transition provisions in an entity's separate financial statements

C12 An entity that, in accordance with paragraph 10 of NZ IAS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with NZ IFRS 9 shall:

(a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs C7–C9.

(b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the beginning of the ~~earliest~~ immediately preceding period presented.

In Appendix C, a heading and paragraphs C12A–C12B are added.

References to the 'immediately preceding period'

C12A Notwithstanding the references to the 'immediately preceding period' in paragraphs C2–C12, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C2–C12 shall be read as the 'earliest adjusted comparative period presented'.

C12B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

Amendments to NZ IFRS 11 *Joint Arrangements*
Consequential amendment to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

This appendix sets out an amendment to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* that is a consequence of the issuance of the amendments to NZ IFRS 11 *Joint Arrangements*. The amended paragraph is shown with new text underlined and deleted text struck through. An entity shall apply that amendment when it applies NZ IFRS 1.

NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

Paragraph 39S is added.

39S *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12), issued in July 2012, amended paragraph D31. An entity shall apply that amendment when it applies NZ IFRS 11 (as amended in July 2012).

In Appendix D, paragraph D31 is amended. New text is underlined and deleted text is struck through.

Joint arrangements

D31 A first-time adopter may apply the transition provisions in NZ IFRS 11 with the following exceptions:~~.~~

(a) When applying the transition provisions in NZ IFRS 11, a first-time adopter shall apply these provisions at the date of transition to NZ IFRS.

(b) When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with NZ IAS 36 as at the ~~beginning of the earliest period presented~~ date of transition to NZ IFRS, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the ~~beginning of the earliest period presented~~ date of transition to NZ IFRS.

Amendments to NZ IFRS 12 *Disclosure of Interests in Other Entities*

In Appendix C, paragraphs C1A and C2A–C2B are added.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12), issued in July 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies NZ IFRS 12 for an earlier period, it shall apply those amendments for that earlier period.

C2 ...

C2A The disclosure requirements of this NZ IFRS need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which NZ IFRS 12 is applied.

C2B The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs B21–B26 of this NZ IFRS need not be applied for any period presented that begins before the first annual period for which NZ IFRS 12 is applied.