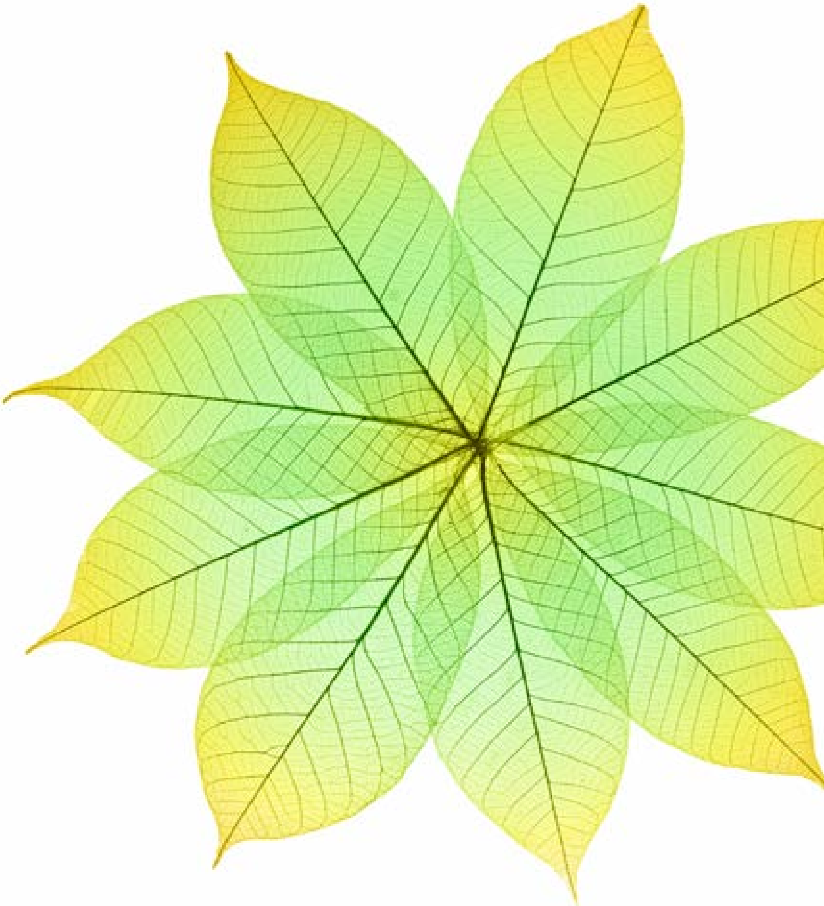
Financial reporting framework for "for-profit" entities in New Zealand
Frequently asked questions



May 2014 update

Introduction

Legislation has been enacted which for many entities will change the requirements for preparation, audit and filing of financial statements.

The Financial Reporting Act 2013 and Financial Reporting (Amendments to Other Enactments) Act 2013 are the product of several years of consultation and debate, with the most significant changes to financial reporting being:

- the removal of the requirement for most small and medium companies to prepare financial statements in accordance with generally accepted accounting practice (GAAP)
- the introduction of reporting requirements for registered charities, partnerships and limited partnerships
- the removal of the requirement for companies and issuers to prepare parent financial statements when group financial statements are already provided
- a reduction in filing deadlines for some entities, and
- the alignment of the penalties regime.

In addition to legislative changes, the External Reporting Board (XRB) has changed the accounting standards framework, which applies if entities are required to prepare financial statements in accordance with GAAP.

Timeline

The legislative changes apply to financial reporting periods beginning on or after 1 April 2014, with charities (those registered under the Charities Act 2005) being a year later (periods beginning on or after 1 April 2015). The Financial Reporting Act 1993 continues to apply to periods beginning before that date.

The accounting standards framework for for-profit entities is already effective, coming into place for periods beginning on or after 1 December 2012. The framework currently includes four tiers of reporting which will be dropped to two tiers for periods beginning on or after 1 April 2015, as discussed later in this publication.

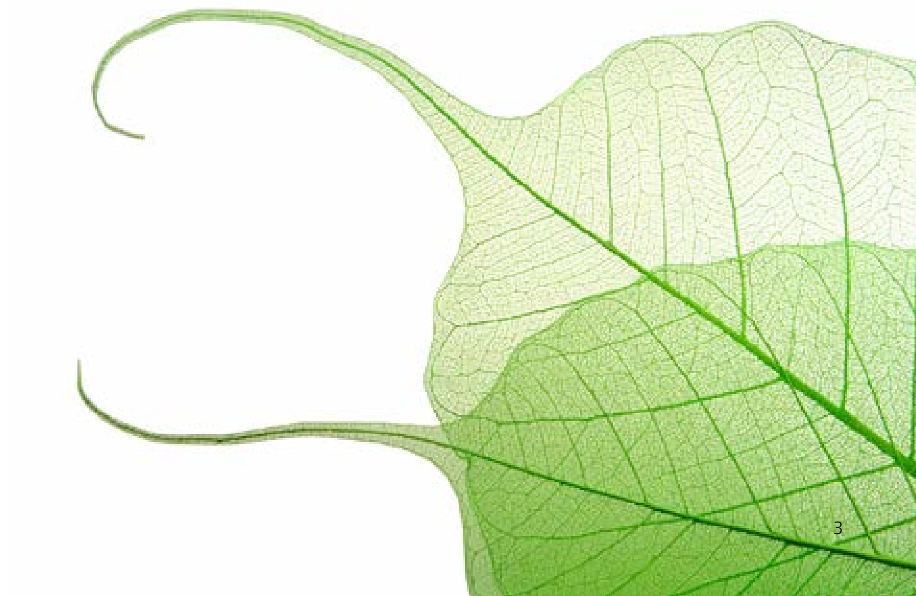
Focus of this publication – for-profit entities

This publication provides guidance on the changes to the financial reporting framework, for for-profit entities.

A **for-profit entity** is a reporting entity that is not a public benefit entity.

A **public benefit entity** is a reporting entity 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.

These definitions are incorporated in External Reporting Board Standard A1: *Accounting Standards Framework*. The definitions and guidance are consistent with the guidance previously included as an Appendix to NZ IAS 1: *Presentation of Financial Statements.*



1. Are financial statements required?

The first question entities need to ask is – are financial statements required?

There are three key sources of financial reporting requirements:

- **Statutory requirement to comply with GAAP**: Legislation will specify where there is a statutory obligation to prepare financial statements in accordance with GAAP. The key requirements are set out in the Financial Reporting (Amendments to Other Enactments) Act 2013 which sets out changes to the legislation applicable at the sector, industry or entity level – such as the Companies Act 1993, Financial Markets Conduct Act 2013, Partnerships Act 1908, Charities Act 2005 and others.
- **Legislative requirement to prepare financial information**: Certain entities will also be captured by the Inland Revenue Department's (IRD) prescribed minimum requirements for financial reporting, which currently applies to non-exempt companies when GAAP financial statements are not prepared.
- **Other contractual requirements**: Some entities may have obligations to prepare financial statements in accordance with GAAP (or some other basis) specified in other documents such as the company constitution, trust deed, bank agreements, lease agreements etc.

In summary, entities should consider the following:

Is the entity required to prepare financial statements in accordance with GAAP?

Consider applicable **legislation** [FAQ2]

Does the company otherwise choose to follow GAAP?

Check requirements in the company constitution, banking and other agreements

If following GAAP, refer to the **accounting standards framework** issued by the XRB [FAQ6]

If not following GAAP, is the entity captured by the **IRD's prescribed minimum standards**? If yes, financial statements following these minimum standards will be required. Alternatively **NZICA** has developed a **special purpose framework** that could be used instead. [FAQ10]

If not captured by the IRD minimum standards can report on basis of choice.

Further information on these requirements is included in the following sections.

2. Who has a statutory financial reporting obligation?

The following tables outline the financial reporting requirements by entity type, focusing on which entities have to prepare financial statements, whether an audit is required and whether the financial statements have to be filed. The Registrar of Companies has the ability to grant exemptions to overseas companies for some requirements if specified criteria are met. The Financial Markets Authority (FMA) can also grant exemptions for FMC reporting entities.

Entity type	Preparation	Audit	Filing
Issuers and other market participants			
Entity captured by the Financial Markets Conduct Act 2013 (FMCA) – referred to as an **FMC reporting entity** *In summary this includes issuers of financial products, registered banks, building societies and credit unions, licensed insurers and certain entities licensed by the FMA*	✓ Within four months of balance date	✓	✓ Within four months of balance date
Public entities that are companies and limited partnerships *Public entities are those entities captured by the Public Audit Act 2001, section 5.*			
Companies that are public entities (regardless of size)	✓ Within five months of balance date	✓	May be required under other legislation
Limited Partnerships that are public entities (regardless of size)	✓ Within five months of balance date	✓	Must be distributed to each partner within five months of balance date
Companies and partnerships *That are not FMC reporting entities or public entities*			
Large [1] company with less than 25% overseas ownership *Large is more than $60m assets or $30m revenue*	✓ Within five months of balance date	✓ (can opt out)	✗
Large [1] company with more than 25% overseas ownership, but not a subsidiary of an overseas company *Large is more than $60m assets or $30m revenue*	✓ Within five months of balance date	✓	✓ Within five months of balance date

Continues overleaf …

Entity type	Preparation	Audit	Filing
Large [1] company that is a subsidiary of an overseas company *Large is more than $20m assets or $10m revenue*	✓ Within five months of balance date	✓	✓ Within five months of balance date
Large [1] overseas company that is carrying on business in New Zealand (NZ) *Large is more than $20m assets or $10m revenue*	✓ Within five months of balance date Need to include the separate financial statements of the NZ branch if it is also large, with the financial statements of the overseas company/group	✓	✓ Within five months of balance date
Every other company with 10 or more shareholders	✓ Within five months of balance date (can opt out)	✓ (can opt out)	✗
Every other company with fewer than 10 shareholders	✗ (can opt in)	✗ (can opt in)	✗
Large [1] Limited Partnerships	✓ Within five months of balance date	✓ (can opt out)	✗ Must be distributed to each partner within five months of balance date
Other Limited Partnerships (i.e. not large)	✗ (can opt in)	✗ (can opt in)	✗
Large [1] Partnerships under the Partnerships Act 1908	✓ Within five months of balance date	✓ (can opt out)	✗
Other Partnerships under the Partnerships Act 1908 (i.e. not large)	✗	✗	✗

[1] For an entity and its subsidiaries (if any), large is at least one of total assets greater than $60m, or total revenue greater than $30m, both in respect of the two preceding accounting periods, unless the entity (and group) is an overseas company carrying on business in New Zealand, or a subsidiary of an overseas company. In that case large is at least one of total assets greater than $20m, or total revenue greater than $10m both in respect of the two preceding accounting periods.

The above table only includes FMC reporting entities, companies, limited partnerships and partnerships as these are the most common 'for-profit' entity types. Legislation has also been changed impacting on, among others, registered charities (Charities Act 2005), friendly societies, industrial and provident societies, operators of retirement villages, Maori incorporations under the Te Ture Whenua Maori Act 1993, community trusts and corporate societies under the Gambling Act 2003.
Our **December 2013 Accounting Alert** summarises the requirements for these entity types.

3. When is an entity large?

A company, limited partnership or partnership is large in respect of an accounting period if at least one of the following paragraphs applies:

- As at the balance date of each of the two preceding periods, the total assets of the entity and its subsidiaries (if any) exceed $60 million, or
- In each of the two preceding periods, the total revenue of the entity and its subsidiaries (if any) exceeds $30 million.

However, an overseas company carrying on business in New Zealand (i.e. has a branch) and subsidiaries of overseas businesses are large if total revenue in each of the two preceding periods is more than $10 million or total assets at the balance date of each of the two preceding periods are more than $20 million.

Total assets and total revenue are determined based on the Tier 2 accounting standards (NZ IFRS RDR) as discussed in Question 6. If an entity is not preparing financial statements in accordance with NZ GAAP, then the accounting records should be able to determine total assets and total revenue based on the Tier 2 standards, as if the entity was reporting following those standards. For example, the IRD prescribed minimum standards allow entities not following GAAP to record assets at their tax values (historical cost less depreciation using tax rates), which may differ from the accounting value (historical cost depreciated over the useful life of the asset). This would require adjustments to be made to determine whether the "large" criteria was met.

Total revenue includes all income, revenue and gains that are recognised in profit or loss. This excludes items of other comprehensive income. Net amounts are included in determining total assets and total revenue only where standards require or permit items to be accounted for, and recognised as, net amounts in the financial statements.

Inactive companies

An entity is not large if it was an inactive entity in respect of the period. An entity is an inactive entity in respect of an accounting period if:

- during that period, the entity has not derived, or been deemed to derive any income, and has no expenses, and has not disposed of, or been deemed to have disposed of, any assets, and
- at the end of that period, the entity has no subsidiaries or all of its subsidiaries are inactive entities in respect of that period.

In making this determination, no account may be taken of:

a. any statutory company filing fees or associated accounting or other costs, or

b. bank charges or other minimal administration costs totalling not more than $50 in the period, or

c. interest earned on any bank account to the extent that the total interest does not exceed the total of any charges or costs incurred in (b).

4. What are the opt in/opt out requirements?

Opt out requirements

Non-large companies with ten or more shareholders are required to prepare financial statements and have them audited, unless they opt out. In addition, large New Zealand privately owned companies may opt out from appointing an auditor (although they must prepare financial statements). In order to opt out, a meeting of shareholders held within the opting period (as defined below) can opt out of compliance by way of a resolution approved by not less than 95% of the votes of those shareholders entitled to vote and voting on the matter.

The **opting period** for a company is defined as the period from the start of the accounting period until the close of the earliest of the following dates:

- the date that is 6 months after the start of the accounting period,
- the date of the annual meeting to be held in the accounting period, or
- in the case of an accounting period that is shorter than 6 months (as a result of the date of the registration of the company or a change of the balance date of the company), the balance date of the period.

Companies cannot opt out if the constitution expressly provides that this section of the Act (allowing opt-out) does not apply.

Large partnerships and limited partnerships can also annually opt out of appointing an auditor if within 6 months from the start of an accounting period a resolution is passed or signed by partners:

- who together have contributed at least 95% of the capital contributions of all partners in respect of Limited Partnerships, or
- who are entitled to share in at least 95% of the capital of the firm in respect of Partnerships.

They cannot opt out if the partnership agreement expressly provides that this section of the Act (allowing opt-out) does not apply.

Entities will need to implement procedures to ensure the relevant opt-out requirements are met if they intend to invoke them within the timeframes specified.

When is a resolution not required?

A large company is not required to have an audit if:

- It is a wholly owned subsidiary of another company or of a large overseas company, and
- Group financial statements incorporating the entity (and any other subsidiaries) which comply with GAAP are completed and signed within the time specified, and
- A copy of the group financial statements and a copy of the auditor's report on those statements are delivered for registration.

In this situation, a resolution is not required as a formal 'opt-out' is not required.

Opt in requirements

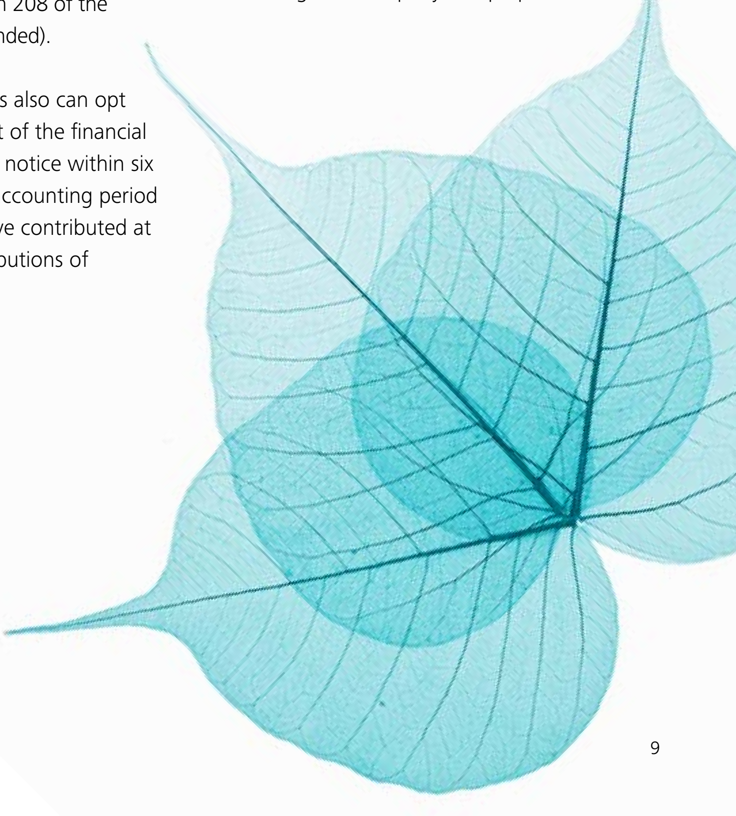
Non-large companies that have fewer than 10 shareholders have no GAAP financial reporting obligation unless shareholders with at least 5% of the voting shares require the company to prepare financial statements (and may also require an audit). These shareholders must give a written notice to the company within the opting period, but not later than five working days before the end of the period. This can also include a requirement to opt in to preparing an annual report under section 208 of the Companies Act 1993 (as amended).

Non-large limited partnerships also can opt in to preparation and/or audit of the financial statements by way of written notice within six months after the start of an accounting period by partners who together have contributed at least 5% of the capital contributions of all partners.

5. Are group or parent financial statements required?

If a company or overseas company has one or more subsidiaries at balance date, parent financial statements are not required. Instead group financial statements are prepared.

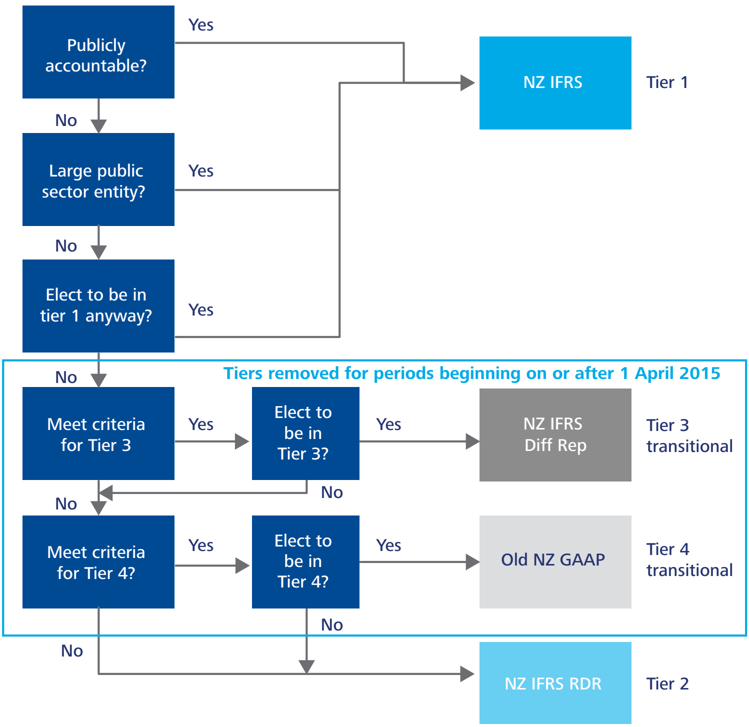
Group financial statements are not required if the company is a subsidiary of a body corporate incorporated in New Zealand and group financial statements in relation to the group incorporating the company's parent and all of its subsidiaries (including that company) are prepared.



6. What are the standards that for-profit entities should be applying?

If a for-profit entity is required to prepare financial statements in accordance with GAAP, or elects to do so, the flow chart below sets out the considerations to determine which standards apply for periods beginning on or after 1 December 2012. Guidance notes explaining the criteria are included in the table. The XRB has specified four tiers of reporting:

- Tier 1 uses New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
- Tier 2, referred to as NZ IFRS RDR, is NZ IFRS but with reduced disclosure requirements. Exemptions from disclosure are denoted in the NZ IFRS standard by way of an asterisk (*) and occasionally an 'RDR' denoted paragraph.
- Tier 3 is existing NZ IFRS with differential reporting concessions. Unlike NZ IFRS RDR, the NZ IFRS Diff Rep standards include concessions from measurement and recognition as well as from disclosures.
- Tier 4 is old New Zealand GAAP, as it existed prior to the adoption of NZ IFRS based standards.



As many small and medium sized entities will no longer have financial reporting obligations under the legislation for periods beginning on or after 1 April 2014, tiers 3 and 4 are temporary tiers. The XRB has advised that it will remove these suites of standards for periods beginning on or after 1 April 2015 thereby providing an additional year for entities to transition to the tier 1 or 2 standards if they are required to comply with GAAP.

Guidance Notes

Public accountability

An entity has public accountability if:

- its debt or equity instruments are traded (or about to be traded) in a public market, or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks), or
- it is deemed to be publicly accountable in New Zealand. Includes entities captured by the Financial Markets Conduct Act (referred to as FMC reporting entities). The Financial Markets Authority (FMA) is currently considering whether some FMC reporting entities have a lower level of public accountability – such that they can drop down to the Tier 2 standards.

Large public sector entity

- For-profit entities that are public entities as defined in the Public Audit Act 2001.
- Considered large if total expenses are over $30m, as recognised in accordance with NZ IFRS in profit or loss. As outlined in XRB A1: *Accounting Standards Framework*, this excludes items of other comprehensive income but includes income tax. Where items are allowed to be offset the net expense is included. Where the reporting entity is a group, total expenses is applied to the group including the parent and all of its subsidiaries/controlled entities.

Elects to be in Tier 1

Any entity can elect to be in Tier 1.

[Transitional Tier] Criteria for Tier 3

- Not publicly accountable, AND
- At the end of the reporting period, all owners are members of the governing body, OR
- The entity is not large (any two in excess of $20m income, $10m assets, 50 employees).
- Note: if an entity's parent or ultimate controlling entity has the coercive power to tax, rate or levy, the entity may qualify only if they are not publicly accountable and not large.

[Transitional Tier] Criteria for Tier 4

- Was applying Old GAAP at 30 June 2011, or established on or after 1 July 2011
- Not publicly accountable
- Not required by section 19 of the Financial Reporting Act 1993 to file financial statements
- Not large (any two in excess of $20m revenue, $10m assets, 50 employees)

7. Can I change my assessment as to whether the entity is a for-profit entity or a public benefit entity?

As noted on page 2, a for-profit entity is a reporting entity that is not a public benefit entity (PBE).

A public benefit entity is a reporting entity 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.

This definition is incorporated in External Reporting Board Standard A1: *Accounting Standards Framework* (XRB A1) and is consistent with the guidance previously included as an Appendix to NZ IAS 1: *Presentation of Financial Statements*. The classification of an entity as 'for-profit' or 'public benefit' is important because *"Inappropriate classification may result in adoption of inappropriate accounting policies and failure to provide users with information appropriate to assessing the financial performance and position of an entity"* (Appendix A to XRB A1).

Therefore, while we would not expect there to be a change in assessment solely as a result of the change in framework, reassessment is recommended where historical decisions were based on conflicting indicators.

In addition, entities may wish to reconsider previous assessments if there has been a change in the entity's purpose. For example, where there has been a change in the following indicators:

- the entity's founding documents,
- the nature of the benefits,
- the quantum of expected financial surplus,
- the nature of the equity interest, and
- the nature of an entity's funding.

Guidance on how to assess when an entity is a PBE is included in Appendix A to XRB A1.

8. What are the differences between NZ IFRS RDR and the current differential reporting framework (referred to as NZ IFRS Diff Rep)?

NZ IFRS RDR is NZ IFRS with some disclosure concessions. There are no measurement and recognition exemptions as currently exist in NZ IFRS Diff Rep. In addition, NZ IFRS Diff Rep has been frozen since March 2011, so any changes in standards, interpretations or amendments since then have been optional in the NZ IFRS Diff Rep framework.

The following current key measurement and recognition exemptions in NZ IFRS Diff Rep are not available in NZ IFRS RDR:

Standard	NZ IFRS Diff Rep exemption no longer applicable	NZ IFRS RDR requirement
NZ IAS 11: *Construction Contracts*	Completed contract method can be used to determine the timing of profit recognition on construction contracts.	Profit on a contract has to be recognised using the stage of completion of the contract, if the outcome of the contract can be measured reliably.
NZ IAS 12: *Income Taxes*	Income taxes payable method.	Income tax has to be calculated following NZ IAS 12, including deferred tax.
NZ IAS 16: *Property, Plant and Equipment*	Tax depreciation rates can be used to depreciate items of PP&E.	Assets should be depreciated over their estimated useful life.
NZ IAS 21: *The Effect of Changes in Foreign Exchange Rates*	Settlement rate (i.e. the exchange rate ultimately paid in cash) is available for the translation of transactions in foreign currencies.	The spot rate at the date of transaction has to be used to translate transactions in foreign currencies.
NZ IAS 23: *Borrowing Costs*	Can expense or capitalise borrowing costs.	Borrowing costs that meet the applicable criteria in NZ IAS 23 must be capitalised.
NZ IAS 36: *Impairment of Assets*	Goodwill, indefinite life intangibles and intangibles not yet available for use only need to be tested for impairment when there is an indication that the asset is impaired.	Goodwill, indefinite life intangibles and intangibles not yet available for use must be tested for impairment on an annual basis.
NZ IAS 38: *Intangible Assets*	Can expense all research and development expenditure. Tax depreciation rates are able to be used to amortise software.	Development expenditure that meets the applicable criteria has to be capitalised. Assets should be amortised over their estimated useful life.
NZ IAS 41: *Agriculture*	Biological assets can be measured at either cost or fair value. IRD proxies for cost or fair value of livestock are allowed.	Biological assets are measured at fair value less costs to sell.

Differential reporting concessions included in interpretations to align with the standards have also been removed in the NZ IFRS RDR framework.

In addition, there are differences in the presentation and disclosure requirements between NZ IFRS RDR and NZ IFRS Diff Rep. For example under NZ IFRS RDR:

- a statement of cash flows will be required
- disclosure of significant estimates and judgements will be required as specified in NZ IAS 1
- a statement of changes in equity will be required with the removal of the concession to opt out if there are no relevant transactions or adjustments affecting retained earnings, and
- revenue must be presented net of GST (with the removal of the option to present revenue either net or gross of GST).

These are only a sample of the differences in disclosure requirements between NZ IFRS Diff Rep and NZ IFRS RDR. Entities will need to work through a process to check all the differences in the year the company transitions to NZ IFRS RDR.

We note that companies can choose to provide additional disclosures not required by NZ IFRS RDR.

The following key standards, interpretations and amendments have been optional in the NZ IFRS Diff Rep framework but have effective dates prior to periods beginning on or after 1 April 2015, so will become mandatory when transitioning to NZ IFRS RDR:

- NZ IFRS 10: *Consolidated Financial Statements*
- NZ IFRS 11: *Joint Arrangements*
- NZ IFRS 12: *Disclosure of Interests in Other Entities*
- NZ IFRS 13: *Fair Value Measurement*
- Annual Improvements 2009 - 2011 Cycle
- Amendments to NZ IFRS 1: *Government Loans*
- Amendments to NZ IFRS 7: *Disclosures - Offsetting Financial Assets and Financial Liabilities*
- Amendments to NZ IFRS 10, 12 and NZ IAS 27: *Investment Entities*
- Amendments to NZ IAS 1: *Presentation of Items of Other Comprehensive Income*
- NZ IAS 19: *Employee Benefits* (revised 2011)
- Amendments to NZ IAS 27 and NZ IAS 28
- Amendments to NZ IAS 32: *Offsetting Financial Assets and Financial Liabilities*
- Amendments to NZ IAS 36: *Recoverable Amount Disclosure for Non-Financial Assets*
- Amendments to NZ IAS 39: *Novation of Derivatives and Continuation of Hedge Accounting*
- NZ IFRIC 20: *Stripping Costs in the Production Phase of a Surface Mine*
- NZ IFRIC 21: *Levies*

9. What are the transitional requirements for moving to NZ IFRS or NZ IFRS RDR?

Requirements for transitioning between tiers of reporting are outlined in XRB A1, and were amended for periods beginning on or after 1 April 2014.

(a) Moving into Tier 1 – NZ IFRS

All Tiers: If an entity becomes publicly accountable (i.e. becomes a FMC reporting entity), NZ IFRS becomes immediately applicable in that reporting period.

Tier 2: If a for-profit public sector entity becomes large (total expenses in excess of $30m) the entity can continue to prepare financial statements in accordance with NZ IFRS RDR in the period it becomes large and report in accordance with NZ IFRS in the following period. However, if the entity had reported in accordance with NZ IFRS in the immediately preceding period (for example if it was an FMC reporting entity in that period), then it must continue to report using full NZ IFRS in the year it becomes large.

Tier 3 and 4: If a company fails the criteria for tier 3 or 4, but is not publicly accountable, it can continue to report in accordance with NZ IFRS Diff Rep or Old GAAP for the period in which it no longer qualifies and the following period. This transitional period will allow some entities to continue with the status quo until the period beginning 1 April 2015, when Tiers 3 and 4 will be removed.

Implications of transition:
For all entities, moving to Tier 1 results in the company making an unreserved statement of compliance with NZ IFRS. Therefore NZ IFRS 1: *First-time adoption of New Zealand Equivalents to International Financial Reporting Standards* applies.

For a Tier 2 entity that subsequently applies Tier 1 standards, the recognition and measurement policies are not necessarily changed as these requirements are identical between the Tier 1 and 2 standards. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements in NZ IAS 8.

For Tier 3 and 4 entities subsequently applying Tier 1 standards, NZ IFRS 1 includes some optional exemptions that they may wish to consider on transition. For example:

- Assets carried at cost (e.g. property, plant and equipment) may be measured at their fair value at the date of transition to NZ IFRS. Fair value becomes the 'deemed cost' going forward under the cost model. This would allow an entity to recognise a one-off uplift in its asset values.
- There is a similar deemed cost exemption for investments in subsidiaries, associates and jointly controlled entities, in the separate financial statements of the parent/investor.
- An entity may elect to reset the foreign currency translation reserve (FCTR) included in equity under previous GAAP to zero. If the entity elects this exemption, the gain or loss on subsequent disposal of the foreign entity will be adjusted only by those accumulated translation adjustments arising after the opening NZ IFRS balance sheet date.

Deloitte's **Guide to IFRS 1** provides an overview of the requirements of this standard, the exceptions and exemptions to retrospective adoption and comments on implementation issues that have arisen in practice.

For periods beginning prior to 1 April 2014, the transitional requirements for Tier 3 moving to Tier 1 or 2 specified that these entities had to comply with NZ IFRS 1 and NZ IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. This requirement limits the ability of entities to apply some of the concessions available in NZ IFRS 1. For example, entities could not voluntarily change their accounting policies (such as moving from revaluing property, plant and equipment to holding it at cost), unless they met the criteria in NZ IAS 8 which requires that the new policy provides reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

(b) Moving into Tier 2 – NZ IFRS RDR

Tier 1: If an entity is eligible to apply Tier 2 standards then it can transition to Tier 2 provided that it must continue to report using Tier 1 standards for any periods in which it meets the Tier 1 criteria during that period. As a result, if an entity ceases to be publicly accountable, it must continue to report using

Tier 1 in that period (as it met the public accountability criteria in that period), however if the entity ceases to be large it can drop to Tier 2 immediately as it did not meet the size criteria in the period.

Tier 3 and 4: The same transitional exemptions apply as for Tier 3 and 4 entities moving into Tier 1 set out above.

Implications of transition:
Tier 1 entities moving to Tier 2 do not need to change recognition, measurement or presentation. The only changes needed are to no longer state compliance with NZ IFRS/IFRS and to reduce the disclosures provided where allowed by NZ IFRS RDR.

Tier 3 and 4 entities moving into Tier 2 will be adopting NZ IFRS RDR for the first time so will follow NZ IFRS 1 as noted earlier.

XRB A1 also includes guidance on transitioning into Tier 3 – this will be removed for periods commencing on or after 1 April 2015. A company that is reporting in accordance with Tiers 1, 2 or 3 is not permitted to move into Tier 4 if still required by legislation to report in accordance with GAAP.

10. What needs to be considered where financial statements are not required in accordance with NZ GAAP?

As noted in this publication, many small and medium sized companies will no longer have a legislative requirement to prepare financial statements in accordance with NZ GAAP.

Where shareholders choose not to opt-in to the legislative framework, we note that there will still be a reporting obligation. The Inland Revenue has established some minimum reporting requirements for non-exempt companies to ensure that they accurately determine their tax positions and complete IR 10s on the basis of appropriate financial statements. A summary of the proposed requirements is included in Deloitte's **April 2014 Tax Alert** available on our website at www.deloitte.co.nz. Companies will be required to supply a copy of these financial statements if requested by shareholders.

Companies and other entities may have other non-statutory obligations to prepare financial statements – such as under banking agreements, lease contracts and other arrangements. If these agreements currently specify that financial statements are required in accordance with GAAP then an appropriate GAAP suite will need to be selected.

Alternatively, we note that the New Zealand Institute of Chartered Accountants (NZICA) has issued a *Special Purpose Financial Reporting Framework for For-Profit Entities* (the '*SPFR Framework*'). The SPFR Framework has been developed to provide guidance on the preparation of **single entity financial statements**. Group financial statements consolidating investments in subsidiaries are not in the scope of the framework.

The SPFR Framework notes that general purpose financial statements (financial statements prepared in accordance with GAAP) are prepared to meet the common information needs of a wide range of users, such as shareholders, creditors, employees and the public at large. In contrast, special purpose frameworks are designed for users who have the ability to demand financial information which meets their specific needs. In developing the SPFR Framework, consideration was primarily on the needs of the following key users:

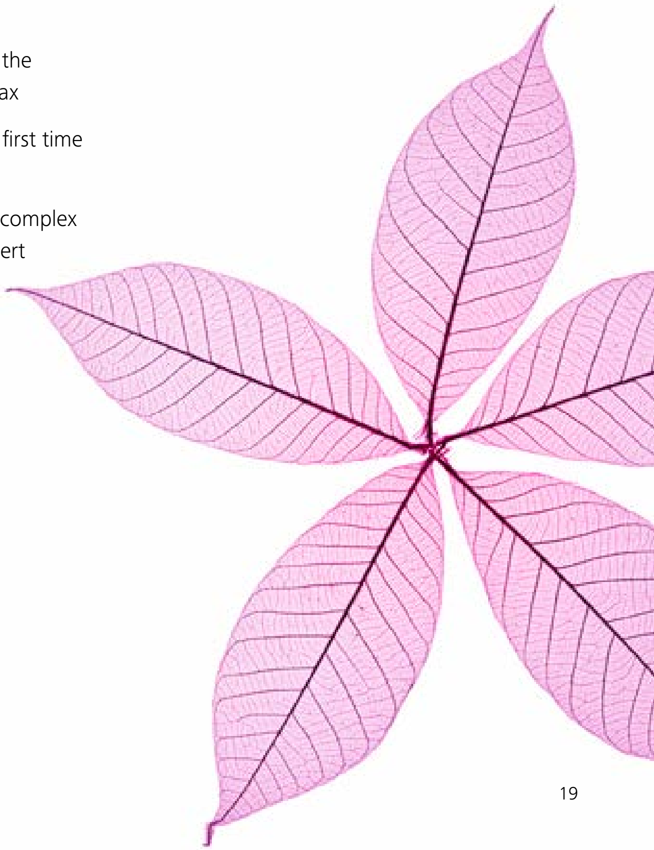
- banks and other credit providers who use financial statements to assess profitability, security and liquidity
- owners who use financial statements to assess financial performance, and make capital investment decisions, and
- tax authorities to assess income tax liabilities.

The key features of the SPFR Framework are as follows:

- statement of profit or loss and balance sheet required as “primary statements”
- movements in equity may be disclosed in the notes to the financial statements or as a statement of movements in equity
- no requirement for a statement of cashflows
- historical cost is the primary measurement basis, although some items may be measured using other bases (such as fair value or tax values)
- taxes payable method preferred for the purpose of accounting for income tax
- no restatement of comparatives for first time adoption
- permitted to step up to NZ IFRS for complex transactions while continuing to assert compliance with the Framework.

NZICA has also developed three sets of illustrative financial statements tailored to the products, services and agricultural industries.

We recommend that you check agreements in place and renegotiate with stakeholders as needed (i.e. will they accept financial statements prepared in accordance with an alternative special purpose framework?).



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