Deloitte.

PBE Standards in your pocket

New Zealand Public Benefit Entity Tier 1 and 2 Accounting Standards (PBE Standards)

June 2015

Contents

	Page
Abbreviations	1
Introduction	2
Accounting standards framework for PBEs	3
Background to development of the PBE Standards	5
Key differences from NZ IFRS	6
Obtaining XRB standards and pronouncements	6
PBE Standards summary	7
PBE IPSAS 1 Presentation of Financial Statements	9
PBE IPSAS 2 Cash Flow Statements	11
PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	12
PBE IPSAS 4 The Effects of Changes in Foreign Exchange Rates	14
PBE IPSAS 5 Borrowing Costs	15
PBE IPSAS 6 Consolidated and Separate Financial Statements (PS) PBE IPSAS 6 Consolidated and Separate Financial Statements (NFP)	16
PBE IPSAS 7 Investments in Associates	17
PBE IPSAS 8 Interests in Joint Ventures	19
PBE IPSAS 9 Revenue from Exchange Transactions	21
PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies	22
PBE IPSAS 11 Construction Contracts	23
PBE IPSAS 12 Inventories	24
PBE IPSAS 13 Leases	25
PBE IPSAS 14 Events After the Reporting Date	27
PBE IPSAS 16 Investment Property	28
PBE IPSAS 17 Property, Plant and Equipment	30

PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	32
PBE IPSAS 20 Related Party Disclosures	34
PBE IPSAS 21 Impairment of Non-Cash-Generating Assets	36
PBE IPSAS 22 Disclosure of Information About the General Government Sector	38
PBE IPSAS 23 Revenue from Non-Exchange Transactions	39
PBE IPSAS 25 Employee Benefits	42
PBE IPSAS 26 Impairment of Cash-Generating Assets	45
PBE IPSAS 27 Agriculture	48
PBE IPSAS 28 Financial Instruments: Presentation	49
PBE IPSAS 29 Financial Instruments: Recognition and Measurement	51
PBE IPSAS 30 Financial Instruments: Disclosures	54
PBE IPSAS 31 Intangible Assets	55
PBE IPSAS 32 Service Concession Arrangements: Grantor	57
PBE IFRS 3 Business Combinations	59
PBE IFRS 4 Insurance Contracts	61
PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	63
PBE IAS 12 Income Taxes	65
PBE IAS 34 Interim Financial Reporting	67
PBE FRS 42 Prospective Financial Statements	68
PBE FRS 43 Summary Financial Statements	70
PBE FRS 45 Service Concession Arrangements: Operator	72
PBE FRS 46 First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs	73
PBE FRS 47 First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs	74

Abbreviations

AFS	Available for sale
GGS	General government sector
CGU	Cash generating unit
FRS	Financial Reporting Standard
FMCA	Financial Markets Conduct Act 2013
FVTSD	Fair value through surplus or deficit
GAAP	Generally accepted accounting practice
HTM	Held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
KMP	Key management personnel
NFP	Not-for-profit
NZ IFRS	New Zealand Equivalents to International Financial Reporting Standards
PBE	Public benefit entity
PBE Accounting Standards	Accounting standards applied by public benefit entities (for tiers 1,2,3 and 4)
PBE Standards **PBE Standards RDR**	New Zealand Tier 1 and 2 accounting standards for public benefit entities
PS	Public sector
RDR	Reduced Disclosure Regime
XRB	External Reporting Board

Introduction

PBE Standards are a new suite of standards issued by the External Reporting Board (XRB) which public benefit entities (including both public sector and not-for-profit entities) will need to consider in preparing their financial statements.

Background to New Zealand's PBE Standards

Legislative changes

An overhaul of New Zealand's financial reporting legislation was completed in 2013 with the issue of the Financial Reporting Act 2013 and amendments to a number of other pieces of legislation. The requirements for preparation, auditing and filing of financial statements are now found in the entity specific legislation (e.g. for a company the Companies Act 1993, for a registered charity the Charities Act 2005, for a building society the Building Societies Act 1965 etc.).

New accounting standards framework

In conjunction with the change in legislation, the External Reporting Board (XRB) completed a comprehensive review of the accounting standards framework for those entities required to report in accordance with generally accepted accounting practice (GAAP). The XRB concluded that the needs of financial statements users would be better met by introducing standards that were more specific to the size and nature of the entity.

Two key suites of standards were therefore introduced:

- New Zealand Equivalents to International Reporting Standards (NZ IFRS) for for-profit entities based on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and
- PBE Standards for public benefit entities (including both public sector entities and not-for-profit entities) based on the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB).

Both NZ IFRS and PBE Standards have two tiers of standards, the full set and a second set which has the same recognition and measurement requirements but reduced disclosure requirements (RDR).

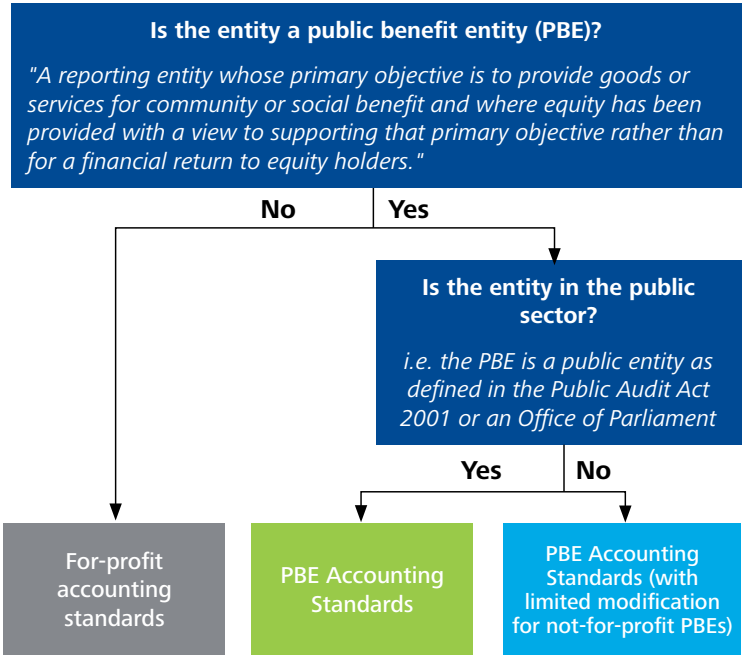
For smaller public benefit entities two simple format reporting regimes, one based on accrual accounting and one based on cash accounting, were also introduced.

This publication focuses on the Tier 1 and Tier 2 PBE Standards.

Accounting standards framework for PBEs

Standard XRB A1 *Accounting Standards Framework* (XRB A1) governs which set of standards an entity must use if it is required to comply with GAAP.

The following flow chart summarises which suite of standards applies:



Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

A **not-for-profit PBE** is a reporting entity that is a PBE but that is not a public sector PBE.

Public sector PBEs are required to adopt the PBE Accounting Standards for annual periods beginning on or after 1 July 2014. Earlier adoption is not permitted.

Not-for-profit PBEs are required to adopt the PBE Accounting Standards for annual periods beginning on or after 1 April 2015 but may adopt earlier.

The full framework for PBEs is outlined in the following table.

	Accounting Standards Framework for Public Benefit Entities	
	Public sector PBEs *Applicable for annual periods beginning on or after 1 July 2014*	**Not-for-profit PBEs** *Applicable for annual periods beginning on or after 1 April 2015*
Tier 1	**PBE Standards (PS)** – Public accountability[1], or – Large (expenses[2] > $30m)	**PBE Standards (NFP)** – Public accountability[1], or – Large (expenses[2] > $30m)
Tier 2	**PBE Standards RDR (PS)** – Non-publicly accountable and non-large – Elect to be in Tier 2	**PBE Standards RDR (NFP)** – Non-publicly accountable and non-large – Elect to be in Tier 2
Tier 3	**Simple Format (Accrual) (PS)** – Non-publicly accountable & expenses[2] ≤ $2 million – Elect to be in Tier 3	**Simple Format (Accrual) (NFP)** – Non-publicly accountable and expenses[2] ≤ $2 million – Elect to be in Tier 3
Tier 4	**Simple Format (Cash) (PS)** – Entities allowed by law to use cash accounting – Elect to be in Tier 4 Non-GAAP standard	**Simple Format (Cash) (NFP)** – Entities allowed by law to use cash accounting – Elect to be in Tier 4 Non-GAAP standard

[1] Definition of 'public accountability':

Entities that meet the International Accounting Standards Board's (IASB) definition of public accountability:

- Entities that have debt or equity instruments that are traded, or that will be traded, in a public market,
- Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Entities deemed to be publicly accountable. An entity would be deemed to be publicly accountable in the New Zealand context if:

- It is a FMC reporting entity or a class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013 (FMCA 2013), or
- It is an FMC reporting entity or class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the FMCA 2013, or
- It is an issuer under the transitional provisions of the Financial Reporting Act 2013.

For information on which entities the FMA has designated as having 'higher or lower public accountability' refer to the link: *https://www.fma.govt.nz/compliance/exemptions/exemption-categories/financial-reporting-exemption-information/*

[2] 'Expenses' are the total expenses (including losses and grant expenses) recognised and measured in accordance with the relevant tier's standards.

The Tier 1 and Tier 2 PBE Standards have the same recognition, measurement and classification requirements. The Tier 2 standards provide a reduced disclosure regime (RDR) whereby Tier 2 entities are exempted from a number of the Tier 1 disclosures.

Various not-for-profit (NFP) enhancements have been added to the PBE Standards in order to make them more relevant and understandable for Tier 1 and Tier 2 entities in the NFP sector. Therefore, Tier 1 and 2 NFPs use the same PBE Standards that the public sector PBEs use, with one exception – NFPs must apply PBE IPSAS 6 (NFP) Consolidated and Separate Financial Statements while public sector PBEs must apply a different version of this standard. It is also important to note that NFPs have a different set of requirements with regard to certain related party disclosures, but these requirements are contained in PBE IPSAS 20 (i.e. no separate standard for NFPs).

Background to development of the PBE Standards

The New Zealand PBE Standards are based on IPSAS. IPSAS are issued by the IPSASB, an independent standard setting board supported by the International Federation of Accountants. The IPSASB issues IPSAS, guidance and other resources for use by the public sector around the world.

As transactions are generally common across both the private and public sectors, there has been an attempt to have IPSAS converged with the equivalent IFRS. As a general rule, the IPSAS maintain the accounting treatment and original text of the IFRS, unless there is a significant public sector issue that warrants a departure. The IPSAS are also developed for financial reporting issues that are either not addressed by adopting an IFRS or for which no IFRS has been developed.

In New Zealand, the philosophy of the XRB has been to be a 'standards taker' in relation to IFRS for the for-profit sector, effectively amending IFRS only for additional disclosures relevant in the New Zealand legislative and economic context. This has been to ensure that New Zealand for-profit entities can fully leverage the comparability and lower cost of capital benefits of adopting IFRS. For-profit entities using full IFRS are able to claim compliance with IFRS as issued by the IASB.

In relation to the public and not-for-profit sectors, the XRB has considered that the base for the PBE Standards should be IPSAS but with some additional flexibility to ensure that the New Zealand PBE Standards are again relevant in the New Zealand context and broadened to include considerations for not-for-profit entities. Comparability with other jurisdictions is not the key driver for these standards.

The XRB is also cognisant of the 'mixed group' issue where a PBE group may also include some for-profit entities (e.g. the Crown controls the mixed ownership model companies, local authorities control ports, airports and other commercial entities, not-for-profits control charity shops etc.). The general principle for incorporating controlled entities is to align the accounting policies for those entities to the policies of the parent and group. Where there are significant differences in those policies this adds complexity to the preparation of group financial statements. Currently there is a time lag between the IASB producing IFRS standards and the IPSASB considering and amending these for inclusion in the IPSAS suite. The XRB is therefore open to considering further amendments to the IPSAS standards in the interests of New Zealand PBE entities and users.

Interestingly, the IPSASB has recently adopted its own conceptual framework. At this stage, it is not known what impact this will have on IPSAS and PBE Standards in the future.

Key differences from NZ IFRS

Some of the key differences between the PBE Standards and NZ IFRS include:

- Recognition and measurement differences to address the absence of a profit driver for many public services where public policy or charitable objectives result in services being provided at no charge or an amount less than cost recovery. For example, non-exchange transactions are common in the public and not-for-profit sectors (e.g. taxes, grants and donations), which have no equivalent in the for-profit sector. Similarly, for the purposes of impairment testing, a broader notion of service potential is considered for the public and not-for-profit sectors than just expected future cash flows.
- Presentation and disclosures: the nature of government and charitable activities and the broader concept of accountability for outcomes demands a greater emphasis on information that is not typically found in for-profit financial statements prepared under NZ IFRS. For example, information about the general government sector, revenue from non-exchange transactions, and the presentation of budget information and non-financial service performance information.

Obtaining XRB standards and pronouncements

The XRB standards are available on the XRB's website **www.xrb.govt.nz**. There are separate sections for:

- Standards for public sector PBEs
- Standard for not-for-profit PBEs
- Standards for for-profit Entities

There are also sections for the XRB's Framework, its work programme, exposure drafts, submissions and FAQs.

PBE Standards summary

In this guide, we summarise the provisions of all PBE Standards effective at 9 May 2015. This summary is intended as general information and is not a substitute for reading the entire standard. In particular, the summary concentrates on recognition and measurement matters rather than disclosures.

PBE Standard	**Standard**	**Underlying IPSAS Based on**	**Corresponding NZ IFRS Standard** effective at 30/06/15
PBE IPSAS 1	Presentation of Financial Statements	IAS 1	NZ IAS 1
PBE IPSAS 2	Cash Flow Statements	IAS 7	NZ IAS 7
PBE IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	NZ IAS 8
PBE IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21	NZ IAS 21
PBE IPSAS 5	Borrowing Costs	IAS 23	NZ IAS 23
PBE IPSAS 6	Consolidated and Separate Financial Statements (PS) Consolidated and Separate Financial Statements (NFP)	IAS 27	NZ IFRS 10, NZ IAS 27 (Revised)
PBE IPSAS 7	Investments in Associates	IAS 28	NZ IAS 28 (Revised)
PBE IPSAS 8	Interests in Joint Ventures	IAS 31	NZ IFRS 11
PBE IPSAS 9	Revenue from Exchange Transactions	IAS 18	NZ IAS 18
PBE IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29	NZ IAS 29
PBE IPSAS 11	Construction Contracts	IAS 11	NZ IAS 11, NZ IFRIC 15
PBE IPSAS 12	Inventories	IAS 2	NZ IAS 2
PBE IPSAS 13	Leases	IAS 17	NZ IAS 17, NZ SIC 15, NZ SIC 27, NZ IFRIC 4
PBE IPSAS 14	Events After the Reporting Date	IAS 10	NZ IAS 10
PBE IPSAS 16	Investment Property	IAS 40	NZ IAS 40
PBE IPSAS 17	Property, Plant and Equipment	IAS 16	NZ IAS 16
PBE IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	NZ IAS 37, NZ IFRIC 1, NZ IFRIC 5, NZ IFRIC 6

PBE Standard	Standard	Underlying IPSAS Based on	Corresponding NZ IFRS Standard effective at 30/06/15
PBE IPSAS 20	Related Party Disclosures	IAS 24	NZ IAS 24 (Revised)
PBE IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36	NZ IAS 36
PBE IPSAS 22	Disclosure of Information About the General Government Sector	N/A	N/A
PBE IPSAS 23	Revenue from Non-Exchange Transactions	N/A	N/A
PBE IPSAS 25	Employee Benefits	IAS 19	NZ IAS 19 (Revised)
PBE IPSAS 26	Impairment of Cash-Generating Assets	IAS 36	NZ IAS 36
PBE IPSAS 27	Agriculture	IAS 41	NZ IAS 41
PBE IPSAS 28	Financial Instruments: Presentation	IAS 32	NZ IAS 32, NZ IFRIC 2
PBE IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39	NZ IAS 39, NZ IFRIC 9, NZ IFRIC 16
PBE IPSAS 30	Financial Instruments: Disclosures	IFRS 7	NZ IFRS 7
PBE IPSAS 31	Intangible Assets	IAS 38	NZ IAS 38, NZ SIC 32
PBE IPSAS 32	Service Concession Arrangements: Grantor	IFRIC 12	NZ IFRIC 12
PBE IFRS 3	Business Combinations	N/A	NZ IFRS 3
PBE IFRS 4	Insurance Contracts	N/A	NZ IFRS 4
PBE IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	N/A	NZ IFRS 5
PBE IAS 12	Income Taxes	N/A	NZ IAS 12, NZ SIC 25
PBE IAS 34	Interim Financial Reporting	N/A	NZ IAS 34, NZ IFRIC 10
PBE FRS 42	Prospective Financial Statements	N/A	FRS 42
PBE FRS 43	Summary Financial Statements	N/A	FRS 43
PBE FRS 45	Service Concession Arrangements: Operator	N/A	NZ IFRIC 12
PBE FRS 46	First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs	N/A	N/A
PBE FRS 47	First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRSs	N/A	NZ IFRS 1

PBE IPSAS 1 Presentation of Financial Statements

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the manner in which general-purpose financial statements are presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. The standard sets out overall considerations for the presentation of financial statements including guidance for their structure and the minimum requirements for content.

Summary

- Fundamental principles underlying the preparation of financial statements, including the going-concern assumption, consistency of presentation and classification, materiality, aggregation, offsetting and comparatives.
- A complete set of financial statements comprises:
  - Statement of financial position;
  - Statement of comprehensive revenue and expense;
  - Statement of changes in net assets/equity;
  - Cash flow statement;
  - When the entity makes its approved budget publicly available, a comparison of budget and actual amounts; and
  - Notes, comprising a summary of significant accounting policies and other explanatory notes.
- The statement of comprehensive revenue and expense may be presented:
  - In a single statement with surplus or deficit and other comprehensive revenue and expense in two sections; or
  - In two statements: a statement of financial performance (displaying revenues and expenses comprising surplus or deficit) and a statement of other comprehensive revenue and expense (starting with surplus or deficit and displaying components of other comprehensive revenue and expense).
- An entity whose financial statements comply with PBE Standards must make an explicit and unreserved statement of such compliance in the notes. Financial statements are not to be described as complying with PBE Standards unless they comply with all the requirements of PBE Standards.
- Assets and liabilities, and revenue and expenses, may not be offset unless required or permitted by another PBE Standard.
- Comparative prior-period information is presented for all amounts shown in the financial statements and notes. Comparative information is included when it is relevant to an understanding of the current period's financial statements. Where presentation or classification is amended, comparative amounts are reclassified, and the nature, amount of, and reason for any reclassification are disclosed.

- The statement of changes in net assets/equity shows all changes in net assets/equity.
- Financial statements are generally to be prepared annually. If the date of the year-end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general, subsequent events are not considered in classifying items as current or non-current. An entity discloses for each asset and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the reporting date, the amount to be recovered or settled after more than 12 months.
- PBE IPSAS 1 specifies minimum line items to be presented on the face of the statement of financial position, statement of comprehensive revenue and expense, and statement of changes in net assets/equity, and includes guidance for identifying additional line items, headings, and subtotals.
- Analysis of expenses in the statement of comprehensive revenue and expense may be given by nature or by function. If presented by function, classification of certain expenses by nature must also be disclosed.
- PBE IPSAS 1 specifies minimum disclosure requirements for the notes. These include information about:
  - Accounting policies followed;
  - The judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements;
  - The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year;
  - The domicile and legal form of the entity;
  - A description of the nature of the entity's operations and principal activities;
  - A reference to the relevant legislation; and
  - The name of the controlling entity and the ultimate controlling entity of the economic entity.
- Where a statement of service performance is presented (either because required by legislation or the entity presents voluntarily), PBE IPSAS 1 outlines the elements (inputs, outputs and outcomes) and the objectives and disclosures for service performance reporting.
- Appendix B to PBE IPSAS 1 provides illustrative statements of financial position, statements of comprehensive revenue and expense, and statements of changes in net assets/equity.
- Appendix C to PBE IPSAS 1 provides guidance on reporting service performance in a statement of service performance.

PBE IPSAS 2 Cash Flow Statements

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period according to operating, investing, and financing activities.

Summary

- A cash flow statement must analyse changes in cash and cash equivalents during a period, classified by operating, investing, and financing activities.
- Cash equivalents include highly liquid investments that are short term (normally three months or less from the date of acquisition), readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value. Generally, they exclude equity investments.
- Cash flows from operating activities are reported using either the direct (recommended) or the indirect method.
- Entities reporting cash flows from operating activities using the direct method are required to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities.
- Cash flows from interest and dividends received and paid are each disclosed separately and classified as either operating, investing, or financing activities.
- Cash flows arising from taxes on net comprehensive revenue and expense are classified as operating activities unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of cash flows arising from transactions denominated in a foreign currency is the rate in effect at the date of the cash flows.
- Aggregate cash flows related to acquisitions and disposals of controlled entities and other operating units are presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the cash flow statement, but they are separately disclosed.
- Illustrative cash flow statements are included in appendices to PBE IPSAS 2.

PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.

Summary

Accounting Policies

- In the absence of a PBE Standard that specifically applies to a transaction, other event or condition, management uses judgment in developing and applying an accounting policy that results in information that is:
  - Relevant to the decision-making needs of users; and
  - Reliable, in that the financial statements:
    - Represent faithfully the financial position, financial performance, and cash flows of the entity;
    - Reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
    - Are neutral, i.e., free from bias;
    - Are prudent;
    - Are complete in all material aspects.
- PBE IPSAS 3 prescribes a hierarchy for choosing accounting policies:
  - The applicable PBE Standards, taking into account any relevant implementation guidance;
  - In the absence of a directly applicable PBE Standard, look at the requirements and guidance in PBE Standards dealing with similar and related issues;
  - The definitions, recognition, and measurement criteria for assets, liabilities, revenue, and expenses described in other PBE Standards;
  - The PBE Framework;
  - Management may also consider the most recent pronouncements of other standard-setting bodies and accepted public benefit entity practices and in the absence of these, accepted practices for-profit entities but only to the extent that these do not conflict with the PBE Standards and the XRB's Framework.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by a PBE Standard, or it results in reliable and more relevant information.
- If a change in accounting policy is required by a PBE Standard, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is

impracticable, include the cumulative effect of the change in net assets/equity from the earliest date practicable. If the cumulative effect cannot be determined, apply the new policy prospectively from the earliest date practicable.

Changes in Accounting Estimates

- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for prospectively in the current period, or the current and future periods (no restatement).
- In the situation where a distinction between a change in accounting policy and a change in accounting estimate is unclear, the change is treated as a change in an accounting estimate.

Errors

- All material prior-period errors are corrected retrospectively in the first set of financial statements authorised for issue after their discovery, by restating comparative prior-period amounts or, if the error occurred before the earliest period presented, by restating the opening balances of assets, liabilities and net assets/equity.
- The Implementation Guidance to PBE IPSAS 3 includes examples of the retrospective restatement of errors and changes in accounting policies.

PBE IPSAS 4 The Effects of Changes in Foreign Exchange Rates

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

Summary

- First, determine the reporting entity's functional currency — the currency of the primary economic environment in which the entity operates.
- Next, translate all foreign currency items into the functional currency:
  - At the date of transaction, record using the spot exchange rate for initial recognition and measurement.
  - At subsequent reporting dates:
    - Use the closing rate for monetary items;
    - Use the transaction-date exchange rates for non-monetary items carried at historical cost;
    - Use the valuation-date exchange rates for non-monetary items that are carried at fair value.
  - Exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different from when initially recognised are included in surplus or deficit, with one exception: exchange differences arising from monetary items that form part of the reporting entity's net investment in a foreign operation are recognised in the consolidated financial statements that include the foreign operation, in other comprehensive revenue and expense. These differences will be reclassified from net assets/equity to surplus or deficit on disposal of the net investment.
- The results and financial position of an entity's foreign operations whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - Assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of that statement of financial position.
  - Revenue and expenses of each statement of financial performance (including comparatives) are translated at exchange rates at the dates of the transactions.
  - All resulting exchange differences are recognised in other comprehensive revenue and expense.
- On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in other comprehensive revenue and expense and accumulated in a separate component of net assets/equity are recognised in surplus or deficit when the gain or loss on disposal is recognised.
- Special rules apply for translating into a presentation currency the financial performance and financial position of an entity whose functional currency is hyperinflationary.

PBE IPSAS 5 Borrowing Costs

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for borrowing costs.

Summary

- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, amortisation of ancillary costs incurred in the arrangement of borrowings, and finance charges in respect of finance leases and service concession arrangements.
- Two accounting treatments are allowed:
  - Expense model: Charge all borrowing costs to expenses in the period when they are incurred;
  - Capitalisation model: Capitalise borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalisation are to be expensed when incurred.
- Where an entity adopts the capitalisation model, that model is applied consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets of the entity. Investment income from temporary investment of specific borrowings is deducted from the actual borrowing costs.
- A qualifying asset is an asset which requires a substantial period of time to get ready for its intended use or sale. Examples include office buildings, hospitals, infrastructure assets such as roads, bridges, and power-generation facilities, and some inventories.
- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, a capitalisation rate is applied (weighted-average of borrowing costs applicable to the general outstanding borrowings during the period) to outlays incurred during the period, to determine the amount of borrowing costs eligible for capitalisation.

PBE IPSAS 6 Consolidated and Separate Financial Statements (PS) PBE IPSAS 6 Consolidated and Separate Financial Statements (NFP)

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe requirements for:

- preparing and presenting consolidated financial statements for an economic entity
- accounting for investments in controlled entities, jointly controlled entities, and associates in separate financial statements.

There are two versions of this standard, one for the public sector and one for not-for-profits. The guidance on when an entity has control of another entity is tailored for each sector.

Summary

- A controlled entity is an entity controlled by another entity, known as the controlling entity. Control is the power to govern the operating and financial policies. Consolidated financial statements are financial statements of an economic entity (controlling entity and controlled entities combined) presented as those of a single entity.
- Consolidated financial statements include all controlled entities. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of for-profit entities by public sector or not-for-profit entities. There may be an exemption where the entity is controlled by another entity and certain criteria are met.
- Balances, transactions, revenue, and expenses between entities within the economic entity are eliminated in full.
- Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- Reporting dates of controlled entities cannot be more than three months different from the reporting date of the controlling entity except in the rare circumstance where statute fixes the reporting date of a controlled entity and no reliable interim financial information is available to be obtained for the controlled entity.
- Minority interest is reported in net assets/equity in the consolidated statement of financial position, separately from the controlling entity's net assets/equity, and is not deducted in measuring the economic entity's revenue or expense. However, surplus or deficit of the economic entity is allocated between minority and majority interest on the face of the statement of financial performance.
- On disposal of a controlled entity (or when it ceases to be controlled) any remaining investment is measured at fair value at the date of disposal (or loss of control) and is then accounted for as a jointly controlled entity, associate or financial instrument as appropriate.
- In the controlling entity's separate financial statements: Account for all of its investments in controlled entities, jointly controlled entities and associates, either using the equity method, at cost or as financial instruments.

PBE IPSAS 7 Investments in Associates

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the investor's accounting for investments in associates where the investment in the associate leads to the holding of a shareholding or other ownership interest in the formal equity structure of an investee.

Summary

- Applies to all investments in which an investor has significant influence unless the investor is:
  - A venture capital organisation, or
  - A mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund, and the investment is measured at fair value, with changes in fair value recognised in surplus or deficit in the period of the change, in accordance with PBE IPSAS 29, the standard dealing with the recognition and measurement of financial instruments.
- An investment in an associate that meets the criteria to be classified as 'held for sale' is accounted for in accordance with PBE IFRS 5. There is also an exemption where the investor is controlled by another entity and meets certain criteria. Otherwise, the equity method is used for all investments in associates over which the entity has significant influence.
- Significant influence is the power to participate in the financial and operating policies of the investee but is not control or joint control.
- There is a rebuttable presumption of significant influence if the investment held, directly or indirectly, is 20% or more of the voting power of the investee.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's surplus or deficit and other comprehensive revenue and expense. The investor's statement of financial performance reflects its share of the investee's post-acquisition surplus or deficit and other comprehensive revenue and expense.
- The investor's share of surpluses and deficits resulting from upstream (e.g. sale of assets from the associate to the investor) or downstream (e.g. sale of assets from the investor to the associate) transactions are eliminated.
- The investor's financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.
- Reporting dates of associates cannot be more than three months different from the investor's reporting date except where statute fixes the reporting date and no reliable interim financial information for the associate is able to be obtained.

- If application of the requirements in PBE IPSAS 29 indicates that the investment may be impaired, an entity applies PBE IPSAS 21 or PBE IPSAS 26.
- On disposal or loss of significant influence, any remaining investment is accounted for at fair value and then in accordance with PBE IPSAS 29.
- Accounting for the associate in the separate financial statements of the investor is covered by PBE IPSAS 6.

PBE IPSAS 8 Interests in Joint Ventures

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment required for interests in joint ventures, regardless of the structures or legal forms of the joint venture activities.

Summary

- Applies to all investments in which the investor has joint control, unless the investor is:
  - A venture capital organisation, or
  - A mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund, and the investment is measured at fair value, with changes in fair value recognised in surplus or deficit in the period of the change, in accordance with PBE IPSAS 29, the standard dealing with the recognition and measurement of financial instruments.
- The key characteristic of a joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint ventures may be classified as jointly controlled operations, jointly controlled assets, and jointly controlled entities. Different accounting treatments apply for each type of joint venture.
- The venturer eliminates its share of any gain or loss on transactions with the joint venture. It recognises the full amount of the loss if it represents an impairment loss.
- Jointly controlled operations: The venturer recognises the assets it controls, expenses and liabilities it incurs, and its share of revenue earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: The venturer recognises in its financial statements its share of the jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other ventures, revenue earned from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.

- Jointly controlled entities: Two accounting policies are permitted:
  - Proportionate consolidation: Under this method, the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its statement of comprehensive revenue and expense includes its share of the revenue and expenses of the jointly controlled entity; or
  - The equity method, as described in PBE IPSAS 7.
- Accounting in the separate financial statements of the investor is covered by PBE IPSAS 6.
- A jointly controlled entity that meets the criteria to be classified as 'held for sale' is accounted for in accordance with PBE IFRS 5. There is also an exemption where the investor is controlled by another entity and meets certain criteria.
- The investor applies PBE IPSAS 21 or PBE IPSAS 26 to determine whether any impairment of the asset(s) needs to be recognised.

PBE IPSAS 9 Revenue from Exchange Transactions

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for revenue arising from exchange transactions and events.

Summary

- PBE IPSAS 9 applies to revenue arising from the following exchange transactions and events:
  - The rendering of services;
  - The sale of goods; and
  - The use by others of entity assets yielding interest, royalties, and dividends.
- Revenue is measured at the fair value of the consideration received or receivable.
- Recognition:
  - From sale of goods: When significant risks and rewards have been transferred to the purchaser, loss of effective control by the seller, the amount of revenue can be reliably measured, it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.
  - From rendering of services: By reference to the stage of completion of the transaction at the reporting date, provided the outcome of the transaction can be estimated reliably. If the outcome of the transaction cannot be estimated reliably, revenue must be recognised only to the extent of the expenses recognised that are recoverable.
  - From interest, royalties, and dividends: Recognised when it is probable that economic benefits or service potential will flow to the entity, and the amount of the revenue can be measured reliably.
    - Interest — on a time proportion basis that takes into account the effective yield on the asset;
    - Royalties — as they are earned in accordance with the substance of the relevant agreement;
    - Dividends or their equivalents — when the shareholder's or the entity's right to receive payment is established.
- The appendix to PBE IPSAS 9 includes examples of revenue recognition.

PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for entities reporting in the currency of a hyperinflationary economy, so that the financial information (including the consolidated financial information) provided is meaningful.

Summary

- The financial statements of an entity that reports in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the reporting date.
- Comparative figures for prior period(s) and any information in respect of earlier periods are stated into the same measuring unit current at the reporting date.
- The surplus or deficit on the net monetary position is separately disclosed in the statement of financial performance.
- When entities include in their financial statements the related budgetary information, the budgetary information is also restated into the same current measuring unit.
- Generally, an economy is hyperinflationary when there is a 100% cumulative rate of inflation over three years.

PBE IPSAS 11 Construction Contracts

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

Summary

- Contract revenue comprises the initial amount agreed in the contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.
- Contract revenue is measured at the fair value of the consideration received or receivable.
- Contract costs comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be allocated to the contract on a systematic and rational basis, together with such other costs as are specifically chargeable to the customer under the terms of the contract.
- Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date (the percentage of completion method of accounting).
- If the outcome cannot be estimated reliably, no surplus is recognised. Instead, contract revenue is recognised only to the extent that contract costs incurred are expected to be recovered, and contract costs are expensed as incurred.
- In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract: if it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised immediately.

PBE IPSAS 12 Inventories

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for inventories, including cost determination and expense recognition, including any write-down to net realisable value. The standard also provides guidance on the cost formulas that are used to assign costs to inventories.

Summary

- Inventories are required to be measured at the lower of cost and net realisable value. Where inventories are acquired through a non-exchange transaction, their cost is measured as their fair value as at the date of acquisition. However, inventories are required to be measured at cost adjusted when applicable for any loss in service potential where they are held for:
  - Distribution at no charge or for a nominal charge;
  - Consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- Costs include all purchase cost, conversion cost (materials, labour, and overhead), and other costs to bring inventory to its present location and condition, but not storage costs, administrative overheads and selling costs. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.
- For inventory items that are not interchangeable, and goods or services for specific projects, specific costs are attributed to the specific individual items of inventory.
- An entity applies the same cost formula for all inventories having a similar nature and use to the entity; a difference in geographical location of inventories by itself is not sufficient to justify the use of different cost formulas.
- For interchangeable items, cost is determined on either a first-in, first-out (FIFO) or weighted-average basis. Last-in, first-out is not permitted.
- When inventories are sold, exchanged, or distributed, the carrying amount is recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered.
- Write-downs to net realisable value are recognised as an expense in the period the loss or the write-down occurs. Reversals arising from an increase in net realisable value are recognised as a reduction of the inventory expense in the period in which they occur.

PBE IPSAS 13 Leases

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Summary

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership of an asset. The title may or may not be eventually transferred. Examples:
  - The lease transfers ownership of the asset to the lessee by the end of the lease term;
  - The lessee has a 'bargain' purchase option;
  - The lease covers substantially all of the asset's life;
  - The present value of lease payments amounts to substantially all of the asset's fair value;
  - The lease is of such a specialised nature only the lessee can use without major modification;
  - The leased assets cannot easily be replaced.
- All other leases are classified as operating leases. The land and building elements of a lease are considered separately for the purposes of lease classification.
- Finance leases — lessee's accounting:
  - Recognise the asset and liability at the lower of the present value of the minimum lease payments and the fair value of the asset, determined at the inception of the lease. The discount rate applicable for calculating the present value is the interest rate implicit in the lease or the lessee's incremental borrowing rate;
  - Depreciation policy — as for owned assets;
  - Finance lease payment — apportioned between interest and reduction in the outstanding liability.
- Finance leases — lessor's accounting:
  - Recognise as a receivable in the statement of financial position at an amount equal to the net investment in the lease;
  - Recognise finance revenue based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases — lessee's accounting:
  - Recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit.

- Operating leases — lessor's accounting:
  - Assets held for operating leases are presented in the lessor's statement of financial position according to the nature of the asset;
  - Lease revenue is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the benefits.
- Lessors of operating leases add initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognise them as an expense over the lease term on the same basis as the lease revenue.
- Operating lease incentives are recognised over the lease term to reduce lease expense or revenue on a straight line basis unless another systematic basis is more representative of the time pattern of benefits from the leased asset.
- The accounting treatment of sale and leaseback transactions depends on whether these are essentially finance or operating leases.
- PBE IPSAS 13 contains application guidance determining whether an arrangement contains a lease.

PBE IPSAS 14 Events After the Reporting Date

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe:

- When an entity should adjust its financial statements for events after the reporting date.
- Disclosures that an entity should give about the date when the financial statements were authorised for issue, and about events after the reporting date.

Summary

- Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.
- Adjusting events after the reporting date (those that provide evidence of conditions that existed at the reporting date) — adjust the financial statements to reflect those events that provide evidence of conditions that existed at the reporting date (e.g., settlement of a court case after the reporting date that confirms that the entity had an obligation at the reporting date).
- Non-adjusting events after the reporting date (those that are indicative of conditions that arose after the reporting date) — do not adjust the financial statements to reflect events that arose after the reporting date (e.g., a decline in the fair value of property after year end, which does not change the valuation of the property at the reporting date).
- Dividends proposed or declared after the reporting date are not recognised as a liability at the reporting date. Disclosure is required.
- An entity does not prepare its financial statements on a going-concern basis if events after the reporting date indicate that the going-concern assumption is not appropriate (e.g., if there is an intention to liquidate the entity or cease operations after the reporting date, or that there is no realistic alternative but to do so).
- An entity discloses the date its financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity discloses that fact.
- If an entity obtains information after the reporting date, but before the financial statements are authorised for issue, about conditions that existed at the reporting date, the entity updates disclosures that relate to these conditions in light of the new information.
- An entity discloses the following for each material category of non-adjusting event after the reporting date:
  - The nature of the event.
  - An estimate of its financial effect, or a statement that such an estimate cannot be made.

PBE IPSAS 16 Investment Property

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for investment property and related disclosures.

Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes; or
  - Sale in the ordinary course of operations.
- Investment property is recognised as an asset when, and only when:
  - It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
  - The cost or fair value of the investment property can be measured reliably.
- PBE IPSAS 16 does not apply to owner-occupied property or property that is being constructed or developed for future use as owner occupied property, property held to provide a social service and which also generates cash inflows (e.g. housing stock for low income families at below market rental), property held for sale in the ordinary course of business, or property held for strategic services.
- Transfers to or from investment property are made only when there is a change in use.
- Investment property is measured initially at its cost. Transaction costs are included in this initial measurement. Where an investment is acquired through a non-exchange transaction at no cost, or for a nominal charge, its cost is measured at its fair value as at the date of acquisition.
- After recognition, an entity chooses as its accounting policy either the fair value model or cost model:
  - Fair value model: Investment property is measured at fair value, and changes in fair value are recognised in surplus or deficit for the period in which it arises.
  - Cost model: Investment property is measured at depreciated cost, less any accumulated impairment losses. Fair value of the investment property is disclosed (unless an entity is eligible to use Tier 2 PBE Standards).
- The chosen measurement model is applied to all of the entity's investment property.

- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property — and the cost model continues to be used until disposal of the property. In that case, the residual value of the investment property is assumed to be zero.
- Change from one model to the other is made only if the change will result in a more appropriate presentation (highly unlikely for a change from the fair value model to the cost model).
- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model. In this case, the lessee accounts for the lease as if it were a finance lease.

PBE IPSAS 17 Property, Plant and Equipment

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the principles for the initial recognition and subsequent accounting (determination of the carrying amount and the depreciation charges and impairment losses) for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such an investment.

Summary

- Items of property, plant and equipment are recognised as assets if, and only if, it is probable that the future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably.
- PBE IPSAS 17 requires that heritage assets are recognised as property, plant and equipment. For heritage assets that do not meet the recognition criteria above, disclosure is required of a description of those assets, including their nature and significance and where current information is available, an estimate of the value of those unrecognised assets, such as a recent insurance value.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. If payment is deferred, interest is recognised.
- Subsequent to acquisition, PBE IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment:
  - Cost model: The asset is carried at cost, less accumulated depreciation and impairment losses.
  - Revaluation model: The asset is carried at revalued amount, which is fair value at revaluation date, less subsequent accumulated depreciation and impairment losses.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class are revalued. Revaluation increases are recognised in other comprehensive revenue and expense and accumulated in net assets/equity under the heading ‘revaluation surplus’. However, the increase is recognised as revenue in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised as an expense in surplus or deficit. Revaluation decreases are debited first against the revaluation surplus related to the same class of assets and any excess against surplus or deficit. When the revalued asset is disposed of, the revaluation surplus is transferred directly to accumulated surpluses or deficits and is not recycled through surplus or deficit.

- Revaluation increases and decreases related to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.
- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. If operation of an item of property, plant and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.
- Land and buildings are separable assets and are accounted for separately, even when they are acquired together. Land normally has an unlimited useful life, and therefore is not depreciated.
- Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity. The residual value and useful life must be reviewed at least annually. The residual value is the estimated amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. If expectations of the residual value or useful life differ from previous estimates, the change must be accounted for as a change in an accounting estimate in accordance with PBE IPSAS 3.
- To determine whether an item of property, plant and equipment is impaired, an entity applies PBE IPSAS 21 or PBE IPSAS 26, as appropriate.
- All exchanges of property, plant and equipment are measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.
- The carrying amount of an item of property, plant and equipment must be derecognised:
  - On disposal;
  - When no future economic benefits or service potential is expected from its use or disposal.
- PBE IPSAS 17 includes guidance on the estimation of fair value using the depreciated replacement cost method.
- The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment must be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing, and amount. PBE IPSAS 19 thus aims to ensure that only genuine obligations are dealt within the financial statements. Planned future expenditure, even where authorised by management, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

Summary

- Recognise a provision only when:
  - A past event has created a present legal or constructive obligation;
  - An outflow of resources embodying economic benefits or service potential required to settle the obligation is probable; and
  - The amount of the obligation can be estimated reliably.
- Amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the reporting date.
- A review of provisions at each reporting date is required to adjust for changes to reflect the current best estimate.
- If it is no longer probable that an outflow of resources embodying economic benefits or service potential is required to settle the obligation, the provision is reversed.
- Provisions must be utilised only for the purposes for which they were originally recognised.
- Examples of provisions may include onerous contracts (when the unavoidable costs exceed the expected economic benefits or service potential to be received), restructuring provisions, warranties, refunds, and site restoration.
- A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
  - Necessarily entailed by the restructuring;
  - Not associated with the ongoing activities of the entity.
- A contingent liability arises when:
  - There is a possible obligation to be confirmed by a future event that is outside the control of the entity; or

  - A present obligation may, but probably will not, require an outflow of resources embodying economic benefits or service potential; or
  - A sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).

- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent assets arise when the inflow of economic benefits or service potential is possible, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only (no recognition) where the inflow of economic benefits or service potential is probable. If the realisation of revenue is virtually certain, the related asset is not a contingent asset and recognition of the asset and related revenue is appropriate.
- If an entity has an onerous contract, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.
- PBE IPSAS 19's implementation guidance includes a number of examples of provisions and timing of recognition.

PBE IPSAS 20 Related Party Disclosures

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To ensure that financial statements disclose the existence of related-party relationships and transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

Summary

- Related parties are parties that control or have significant influence over the reporting entity (including controlling entities, owners and their families, major investors, and key management personnel (KMP)) and parties that are controlled or significantly influenced by the reporting entity (including controlled entities, joint ventures, associates, and post-employment benefit plans). If the reporting entity and another entity are subject to common control, these entities are also considered related parties.
- Requires disclosure of:
  - Relationships involving control, even when there have been no transactions between the related parties;
  - The nature and amount of related-party transactions and balances (and their terms);
  - Certain loans to KMP and close family members, for each individual;
  - Aggregate KMP compensation and number of individuals on a full time equivalent basis, by major class of KMP.
- Public sector entities have some exemptions from disclosing related party transactions that occur within a normal supplier or client/recipient relationship on terms that are no more favourable than those it would be reasonable to expect in an arms-length transaction. There are also similar exemptions in relation to KMP and close family member remuneration and loans.
- Not-for-profit entities must disclose all related party transactions and balances.
- For related-party transactions required to be disclosed, disclosure is required of the nature of the relationship, the types of transactions that have occurred, and the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

- Examples of related-party transactions that may lead to disclosures by a reporting entity:
  - Purchases or transfers/sales of goods (finished or unfinished);
  - Purchases or transfers/sales of property and other assets;
  - Rendering or receiving of services;
  - Agency arrangements;
  - Leases;
  - Transfers of research and development;
  - License agreements;
  - Finance arrangements (including loans and equity contributions);
  - Provision of guarantees or collateral.
- The implementation guidance to the standard includes some example disclosures for public sector entities and a not-for-profit entity.

PBE IPSAS 21 Impairment of Non-Cash-Generating Assets

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated.

Summary

- PBE IPSAS 21 applies to all non-cash-generating assets, except assets arising from construction contracts (see PBE IPSAS 11), inventories (see PBE IPSAS 12), financial assets that are included in the scope of PBE IPSAS 29, investment property measured at fair value (see PBE IPSAS 16), non-cash-generating property, plant and equipment and intangible assets that are measured at revalued amounts (see PBE IPSAS 17 and PBE IPSAS 31), non-current assets classified as held for sale (see PBE IFRS 5), and other assets in respect of which accounting requirements for impairment are included in another PBE Standard.
- Cash-generating assets are assets held with the primary objective of generating a commercial return.
- Public benefit entities that hold cash-generating assets apply PBE IPSAS 26 to such assets.
- An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
- An impairment loss is recognised immediately in surplus or deficit.
- After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following three approaches, and depends on the availability of data and the nature of the impairment:
  - Depreciated replacement cost approach: The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the

asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. Depreciated replacement cost is determined on an optimised basis.

– Restoration cost approach: The estimated restoration cost of the asset is subtracted from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

– Service units approach: The current cost of the remaining service potential of the asset before impairment is reduced to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

- An entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. Reversal of prior years' impairment losses is allowed in certain instances.

PBE IPSAS 22 Disclosure of Information About the General Government Sector

Effective Date

New Zealand Government only: Annual periods beginning on or after 1 July 2014.

Objective

To prescribe disclosure requirements for governments which elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can provide a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting.

Summary

- Financial information about the GGS is disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government, with two exceptions:
  - The GGS does not apply the requirements of PBE IPSAS 6 in respect of entities in the public financial corporations and public non-financial corporations sectors.
  - The GGS recognises its investment in the public financial corporations and public non-financial corporations sectors as an asset and accounts for that asset at the carrying amount of the net assets of its investees.
- Disclosures made in respect of the GGS includes at least the following:
  - Assets by major class, showing separately the investment in other sectors;
  - Liabilities by major class;
  - Net assets/equity;
  - Revenue by major class;
  - Expenses by major class;
  - Surplus or deficit;
  - Other comprehensive revenue and expense;
  - Total comprehensive revenue and expense;
  - Cash flows from operating activities by major class;
  - Cash flows from investing activities;
  - Cash flows from financing activities.
- The manner of presentation of the GGS disclosures is no more prominent than the government's financial statements prepared in accordance with PBE Standards.
- Disclosures of the significant controlled entities that are included in the GGS and any changes in those entities from the prior period must be made, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included.
- The GGS disclosures are reconciled to the consolidated financial statements of the government showing separately the amount of the adjustment to each equivalent item in those financial statements.

PBE IPSAS 23 Revenue from Non-Exchange Transactions

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination.

Summary

- Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.
- Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.
- Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
- Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.
- An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset is recognised as an asset when, and only when both the following recognition criteria are met:
  - It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
  - The fair value of the asset can be measured reliably.
- An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.
- An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent

that a liability is also recognised in respect of the same inflow.

- As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.
- Revenue from non-exchange transactions are measured at the amount of the increase in net assets recognised by the entity.
- A present obligation arising from a non-exchange transaction that meets the definition of a liability is recognised as a liability when, and only when both the following recognition criteria are met:
  - It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
  - A reliable estimate can be made of the amount of the obligation.
- Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised when the recognition criteria of a liability are met.
- The amount recognised as a liability is the best estimate of the amount required to settle the present obligation at the reporting date.
- An entity recognises an asset in respect of taxes when the taxable event occurs and the asset's recognition criteria are met.
- Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system (e.g. amounts that are available to beneficiaries regardless of whether or not they pay taxes).
- Taxation revenue is not grossed up for the amount of tax expenditures (e.g. preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others).
- An entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. However, an entity may, but is not required to, recognise services in-kind as revenue and as an asset.
- An entity discloses either on the face of, or in the notes to, the general-purpose financial statements:
  - The amount of revenue from non-exchange transactions recognised during the period by major classes showing separately taxes and transfers;
  - The amount of receivables recognised in respect of non-exchange revenue;
  - The amount of liabilities recognised in respect of transferred assets subject to conditions;

- The amount of liabilities recognised in respect of concessionary loans that are subject to conditions on transferred assets;
- The amount of assets recognised that are subject to restrictions and the nature of those restrictions;
- The existence and amounts of any advance receipts in respect of non-exchange transactions;
- The amount of any liabilities forgiven.

• An entity discloses in the notes to the general-purpose financial statements:
  - The accounting policies adopted for the recognition of revenue from non-exchange transactions;
  - For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
  - For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax;
  - The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.

• PBE IPSAS 23 has guidance outlining a number of examples of non-exchange transactions.

PBE IPSAS 25 Employee Benefits

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, bonuses, profit-sharing and non-monetary benefits); post-employment benefits (pensions, post-employment life insurance and medical benefits); termination benefits, and other long-term employee benefits (long-service leave, disability, deferred compensation, and bonuses and long-term profit-sharing) except for share-based transactions. The standard does not address accounting by employee retirement benefit plans.

Summary

- The standard requires an entity to recognise:
  - A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
  - An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.
- Underlying principle: The cost of providing employee benefits is recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
- Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Short-term employee benefits

- Short-term employee benefits (due to be settled within 12 months) are recognised as an expense in the period in which the employee renders the service.
- An entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

- Bonus payments and profit-sharing payments are recognised only when the entity has a legal or constructive obligation to pay them and the obligation can be reliably estimated.

Post-employment benefits

- Post-employment benefit plans are categorised as either defined contribution plans or defined benefit plans.
- An entity may pay insurance premiums to fund a post-employment benefit plan. The entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:
  - Pay the employee benefits directly when they fall due; or
  - Pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.
- If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.
- Under defined contribution plans, expenses are recognised in the period that the employee renders service for the amount of the contributions payable for that service.
- Under defined benefit plans, a liability is recognised in the statement of financial position equal to the net total of:
  - The present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - Plus any deferred actuarial gains minus any deferred actuarial losses minus any deferred past service costs;
  - Minus the fair value of any plan assets at the reporting date.
- Actuarial gains and losses may be (a) recognised immediately in surplus or deficit, (b) deferred up to a maximum, with any excess amortised in surplus or deficit (the 'corridor approach'), or (c) recognised immediately in other comprehensive revenue and expense.
- An entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. Before determining the effect of a curtailment or settlement, an entity remeasures the obligation using current actuarial assumptions.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- For group plans, the net cost is recognised in the separate financial statements of the entity that is legally the sponsoring employer unless a contractual agreement or stated policy for allocating the cost exists.

Other Long-Term Employee Benefits

- Long-term employee benefits are recognised and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, actuarial gains or losses and past service costs must always be recognised immediately in earnings.

Termination Benefits

- Termination benefits are recognised as a liability and an expense when the entity is demonstrably committed to terminate the employment of one or more employees before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

PBE IPSAS 26 Impairment of Cash-Generating Assets

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. This standard also specifies when an entity reverses an impairment loss and prescribes disclosures.

Summary

- PBE IPSAS 26 applies to the accounting for the impairment of all cash-generating assets except inventories (see PBE IPSAS 12), assets arising from construction contracts (see PBE IPSAS 11), financial assets that are within the scope of PBE IPSAS 29, cash generating assets measured at fair value, and other cash-generating assets in respect of which accounting requirements for impairment are included in another PBE Standard.
- Cash generating assets are assets held with the primary objective of generating a commercial return.
- PBEs that hold non-cash-generating assets apply PBE IPSAS 21 to such assets.
- An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
- The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.
- An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- An entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.
- An entity tests an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year.
- If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
- An impairment loss is recognised immediately in surplus or deficit. When the amount estimated for an impairment loss exceeds the carrying amount of the asset to which it relates, an entity recognises a liability if, and only if, that is required by another standard.

- After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- Value in use of a cash-generating asset is the present value of estimated future cash flows expected to be derived from the continuing use of an asset, and from its disposal at the end of its useful life. There is specific guidance in the standard on the estimation of future cash flows.
- The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate does not reflect risks for which future cash flows have been adjusted and equals the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.
- If it is not possible to determine the recoverable amount for the individual cash-generating asset, then an entity determines recoverable amount for the asset's cash-generating unit. A cash-generating unit (CGU) is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
- For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's CGUs, or groups of CGUs that are expected to benefit from the synergies of the combination. These CGUs must be tested for impairment annually and whenever there is an indication of impairment.
- If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a CGU, even if some or all of the output is used internally. If the cash inflows generated by an asset or CGU are affected by internal transfer pricing, an entity uses management's best estimate of future prices that could be achieved in arm's length transactions in estimating:
  - The future cash inflows used to determine the asset's or CGU's value in use; and
  - The future cash outflows used to determine the value in use of any other assets or CGUs that are affected by the internal transfer pricing.
- CGUs are identified consistently from period to period for the same asset or types of asset unless a change is justified.
- An impairment loss is recognised for a CGU (the smallest group of CGUs to which goodwill has been allocated) if, and only if, the recoverable amount of the CGU (group of CGUs) is less than the carrying amount of the CGU (group of CGUs).

The impairment loss is allocated in the following order:

- First to reduce the carrying amount of any goodwill; and
- Then to the other assets, pro rata on the basis of the carrying amount of each asset.

- In allocating an impairment loss, an entity does not reduce the carrying amount of an asset below the highest of:
  - Its fair value less costs to sell (if determinable);
  - Its fair value in use (if determinable); and
  - Zero.
- Where a non-cash-generating asset contributes to a CGU, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the CGU prior to estimation of the recoverable amount of the CGU. The carrying amount of the non-cash-generating asset reflects any impairment losses at the reporting date which have been determined firstly under the requirements of PBE IPSAS 21.
- An impairment loss recognised in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount, however the increased carrying amount must not exceed the carrying amount that would have been determined had no loss been recognised. That increase is a reversal of an impairment loss and is recognised immediately as surplus or deficit. Any impairment losses in relation to goodwill are not reversed.
- The redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.
- An entity discloses the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets. Other disclosure requirements are applicable.

PBE IPSAS 27 Agriculture

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment and disclosures for agricultural activity.

Summary

- Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, or for distribution at no charge, or for a nominal charge, or for conversion into agricultural produce, or into additional biological assets.
- All biological assets (including those biological assets acquired through a non-exchange transaction) are measured at fair value less costs to sell, unless fair value cannot be measured reliably.
- Agricultural produce is measured at fair value at the point of harvest less costs to sell. Because harvested produce is a marketable commodity, there is no 'measurement reliability' exception for produce.
- Any change in the fair value of biological assets during a period is reported in surplus or deficit.
- Exception to fair value model for biological assets: If there is no active market at the time of recognition in the financial statements, and no other reliable measurement method, then the cost model is used for the specific biological asset only. The biological asset is measured at cost less any accumulated depreciation and impairment losses.
- Quoted market price in an active market generally represents the best measure of the fair value of a biological asset or agricultural produce. If an active market does not exist, PBE IPSAS 27 provides guidance for choosing another measurement basis.
- Fair value measurement stops at harvest. PBE IPSAS 12 applies after harvest to the agricultural produce.

PBE IPSAS 28 Financial Instruments: Presentation

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To establish principles for classifying and presenting financial instruments as liabilities or net assets/equity, and for offsetting financial assets and liabilities.

Summary

- Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. An entity uses the application guidance in PBE IPSAS 28 to determine whether a financial guarantee is a contract or not.
- An entity applies PBE IPSAS 28 to financial guarantee contracts (both exchange and non-exchange), if the issuer applies PBE IPSAS 29 in recognising and measuring the contracts, but applies PBE IFRS 4, dealing with insurance contracts if the issuer elects to apply that standard in recognising and measuring them. An entity may apply PBE IPSAS 29 to insurance contracts which involve the transfer of financial risk.
- Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements are not financial instruments.
- Contractual and non-contractual arrangements may be non-exchange in nature. Assets and liabilities arising from non-exchange transactions are accounted for in accordance with PBE IPSAS 23. If non-exchange transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial instruments by using PBE IPSAS 28. An entity uses the guidance in PBE IPSAS 28 and PBE IPSAS 23 in assessing whether a non-exchange transaction gives rise to a liability or an equity instrument (contribution from owners).
- An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- An issuer's classification of an instrument either as a liability or an equity instrument:
  - Is based on substance, not form, of the instrument; and
  - Is made at the time of issue and is not subsequently altered.
- An instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or another financial

asset. An instrument that does not give rise to such a contractual obligation is an equity instrument.

- Interest, dividends or similar distributions, losses and gains relating to a financial instrument or a component that is a financial liability are reported as revenue or expense.
- Puttable instruments and instruments that impose on the entity an obligation to deliver a pro rata share of net assets only on liquidation that (a) are subordinate to all other classes of instruments and (b) meet additional criteria, are classified as equity instruments even though they would otherwise meet the definition of a liability.
- At issue, an issuer classifies separately the debt and net assets/equity components of a single compound instrument such as convertible debt.
- A financial asset and a financial liability are offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously.
- The cost of treasury shares is deducted from net assets/equity, and resales of treasury shares are net assets/equity transactions.
- The costs of issuing or reacquiring equity instruments are accounted for as a deduction from net assets/equity, net of any related income tax benefit.
- Members' shares in co-operative entities are liabilities unless the co-operative has the legal right not to redeem on demand by the holder.

PBE IPSAS 29 Financial Instruments: Recognition and Measurement

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To establish principles for recognising, derecognising, and measuring financial assets and financial liabilities.

Summary

- All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, are recognised in the statement of financial position.
- When a financial asset or financial liability is recognised initially, an entity measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
- An entity has an option of recognising normal purchases and sales of securities in the market place consistently either at trade date or settlement date. If settlement-date accounting is used, PBE IPSAS 29 requires recognition of certain value changes between trade and settlement dates.
- Concessionary loans are loans granted to or received by an entity on below-market terms. Any difference between the fair value of the concessionary loan and the loan proceeds is treated as follows:
  - The entity receiving the loan considers whether the difference should be accounted for in accordance with PBE IPSAS 23.
  - The entity granting the loan treats the difference as an expense in surplus or deficit at initial recognition except where the loan is a transaction with owners in their capacity as owners (e.g. investment in a subsidiary).
- After initial recognition, concessionary loans are measured using the categories set out below.
- Financial guarantee contracts provided for no consideration or for a consideration that is not a fair value are initially recognised at fair value, determined by observation of a price in an active market, a valuation technique that does not directly relate to an active market or in accordance with PBE IPSAS 19. Subsequently they are measured at an amount determined in accordance with PBE IPSAS 19 or the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with PBE IPSAS 9.
- For the purpose of measuring a financial asset subsequent to initial recognition, PBE IPSAS 29 classifies financial assets into four categories:
  - Financial assets measured at fair value through surplus or deficit (FVTSD)
  - Held-to-maturity (HTM) investments
  - Loans and receivables
  - Available-for-sale financial assets (AFS)

- Financial assets may be classified as FVTSD if it is held for trading (including derivatives) or the entity may choose to designate them as FVTSD because either this eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets and liabilities on different bases, or because it manages them on a fair value basis (the 'fair value option').
- After initial recognition, an entity measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:
  - Loans and receivables, which are measured at amortised cost using the effective interest method;
  - Held-to-maturity investments, which are measured at amortised cost using the effective interest method; and
  - Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which are measured at cost.
- Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements.
- All financial assets except those measured at fair value through profit or loss are subject to review for impairment.
- After acquisition, most financial liabilities are measured at the original recorded amount less principal repayments and amortisation. Three categories of liabilities are measured at fair value with value changes recognised in surplus or deficit:
  - Derivative liabilities (unless designated as a hedging instrument in an effective cash flow hedge);
  - Liabilities held for trading (short sales); and
  - Any liabilities that the entity designates, at issuance, to be measured at FVTSD (the 'fair value option' — see above).
- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value hierarchy in PBE IPSAS 29 as follows:
  - Best evidence is a quoted market price in an active market;
  - Otherwise use a valuation technique that makes maximum use of market inputs. Valuation techniques include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.

- PBE IPSAS 29 establishes conditions for determining when control over a financial asset or liability has been transferred to another party and, therefore, when it is removed from the statement of financial position (derecognised). Derecognition of a financial asset is not permitted to the extent to which the transferor has retained (1) substantially all risks and rewards of the transferred asset or part of the asset, or (2) control of an asset or part of an asset for which it has neither retained nor transferred substantially all risks and rewards.
- Hedge accounting (recognising the offsetting effects of both the hedging instrument and the hedged item in the same period's surplus or deficit) is permitted in certain circumstances, provided that the hedging relationship is clearly designated and documented, measurable, and actually effective.
- PBE IPSAS 29 provides for three types of hedges:
  - Fair value hedge: If an entity hedges a change in fair value of a recognised asset or liability or firm commitment, the change in fair values of both the hedging instrument and the hedged item are recognised in surplus or deficit when they occur;
  - Cash flow hedge: If an entity hedges changes in the future cash flows relating to a recognised asset or liability or a highly probable forecast transaction, then the change in fair value of the hedging instrument is recognised in other comprehensive revenue and expense and accumulated in net assets/equity until such time as the hedged future cash flows occur; and
  - Hedge of a net investment in a foreign entity: This is treated like a cash flow hedge.
- A hedge of foreign currency risk in a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.
- The foreign currency risk of a highly probable intragroup transaction is permitted to qualify as the hedged item in a cash flow hedge in the consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated surplus or deficit.
- If the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss is recognised in other comprehensive revenue and expense and accumulated in net FVTSD and AFS categories in limited circumstances. The standard specifies criteria for reclassification, and requirements for measurement at the reclassification date and subsequently.
- A portfolio hedge of interest rate risk (hedging an amount rather than a specific asset or liability) can qualify as a fair value hedge.

PBE IPSAS 30 Financial Instruments: Disclosures

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.

Summary

- Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.
- PBE IPSAS 30 requires disclosure of information about the significance of financial instruments for an entity's financial position and financial performance. These include:
  - Disclosures relating to the entity's financial position — including information about financial assets and financial liabilities by category, special disclosures when the fair value option is used, reclassifications, derecognitions, pledges of assets and collateral, allowance accounts, embedded derivatives, and breaches of terms of agreements;
  - Disclosures relating to the entity's performance in the period — including information about recognised revenue, expenses, gains and losses; interest revenue and expense; fee revenue; and impairment losses;
  - Special disclosures for concessionary loans; and
  - Other disclosures — including information about accounting policies, hedge accounting, and the fair values of each class of financial asset and financial liability.
- PBE IPSAS 30 requires disclosure of information about the nature and extent of risks arising from financial instruments including:
  - Qualitative disclosures about exposures to each class of risk and how those risks are managed; and
  - Quantitative disclosures about exposures to each class of risk, separately for credit risk, liquidity risk, and market risk. Disclosures about liquidity risk include maturity analyses for both non-derivative and derivative liabilities such as issued financial guarantee contracts. Disclosures about market risk include sensitivity analyses.

PBE IPSAS 31 Intangible Assets

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for intangible assets that are not dealt with specifically in another PBE Standard.

Summary

- PBE IPSAS 31 does not apply to goodwill acquired in a business combination and to powers and rights conferred by legislation, a constitution, or by equivalent means, such as the power to tax.
- An intangible asset, whether purchased or self-created, is recognised if:
  - It is probable that the future economic benefits or service potential that are attributable to the asset will flow to the entity; and
  - The cost or fair value of the asset can be measured reliably.
- There are additional recognition criteria for internally generated intangible assets. Internally generated goodwill is not to be recognised as an asset.
- All research costs are charged to surplus or deficit when incurred.
- Development costs are capitalised only after technical and commercial feasibility of the resulting product or service have been established.
- Internally generated brands, mastheads, publishing titles, lists of customers or users of services and items similar in substance are not to be recognised as intangible assets.
- If an intangible item does not meet both the definition and the recognition criteria for an intangible asset, expenditure on the item is recognised as an expense when it is incurred, except if the cost is incurred as part of a business combination, in which case it forms part of the amount recognised as purchase premium/goodwill at the acquisition date.
- For the purpose of accounting subsequent to initial acquisition, intangible assets are classified as:
  - Indefinite life: No foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity (Note — 'indefinite' does not mean 'infinite'); or
  - Finite life: A limited period of benefit to the entity.
- Intangible assets may be accounted for using a cost model or a revaluation model (permitted only in limited circumstances — see below). Under the cost model, assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

- If an intangible asset has a quoted market price in an active market (which is uncommon), an accounting policy choice of a revaluation model is permitted. Under the revaluation model, the asset is carried at a revalued amount, which is fair value at revaluation date less any subsequent depreciation and any subsequent impairment losses.
- To determine whether an intangible asset is impaired, an entity applies PBE IPSAS 21 or PBE IPSAS 26, as appropriate.
- Intangible assets with indefinite useful lives are not amortised but are tested for impairment on an annual basis. If recoverable amount of a cash-generating asset or recoverable service amount of a non-cash-generating asset is lower than the carrying amount, an impairment loss is recognised. The entity also considers whether the intangible continues to have an indefinite life.
- Under the revaluation model, revaluations are carried out regularly. All items of a given class are revalued (unless there is no active market for a particular asset). Revaluation increases are recognised in other comprehensive revenue and expense and accumulated in net assets/equity. Revaluation decreases are charged first against the revaluation surplus related to the specific asset, and any excess against surplus or deficit. When the revalued asset is disposed of, the revaluation surplus is transferred directly to accumulated surpluses or deficit and is not reclassified to surplus or deficit.
- Normally, subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense. Only rarely are the asset recognition criteria met.

PBE IPSAS 32 Service Concession Arrangements: Grantor

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting for service concession arrangements (also known as public private partnerships) by the grantor, a public sector entity.

Summary

- PBE IPSAS 32 does not address the accounting for the operator side of such arrangements. The standard provides a mirror image of NZ IFRIC 12 (included in the PBE Standards as PBE FRS 45), which addresses the accounting for the operator side.
- The grantor recognises a service concession asset if:
  - The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
  - The grantor controls — through ownership, beneficial entitlement, or otherwise — any significant residual interest in the asset at the end of the term of the arrangement.
- For a 'whole-of-life' asset, only the first condition needs to be met.
- The grantor recognises assets provided by the operator at fair value; existing assets of the grantor are reclassified as service concession assets.
- Where an asset is recognised, the grantor recognises a liability, depending on the way the grantor compensates the operator:
  - Financial liability model: The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset by making a predetermined series of payments. The PBE Standards relating to financial instruments (PBE IPSAS 28, 29 and 30) apply to this financial liability.
  - Grant of a right to the operator model: The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset and related services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset. The grantor accounts for this liability as the unearned portion of the revenue arising from the exchange of assets between the grantor (a service concession asset) and the operator (an intangible asset).

- The grantor's treatment of revenues and expenses depends on these models:
  - Financial liability model: The grantor allocates payments to the operator according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator.
  - Grant of a right to the operator model: The grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. The grantor recognises revenue and reduces the liability according to the economic substance of the service concession arrangement.

PBE IFRS 3 Business Combinations

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Core Principle

An acquirer of a business recognises the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Summary

- A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants, and includes those conducted or managed for the primary objective of providing goods or services for community or social benefit.
- PBE IFRS 3 does not apply to (i) the formation of a joint arrangement in the financial statements of the joint arrangement itself, (ii) combinations of entities or businesses under common control, (iii) a business combination arising from a local authority reorganisation, or (iv) the acquisition of an asset or a group of assets that do not constitute a business.
- The acquisition method is used for all business combinations.
- Steps in applying the acquisition method are as follows:
  - Identification of the 'acquirer' — the combining entity that obtains control of the acquiree
  - Determination of the 'acquisition date' — the date on which the acquirer obtains control of the acquiree
  - Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest ('NCI') or 'minority interest' in the acquiree
  - Recognition and measurement of goodwill or a gain from a bargain purchase
- Assets and liabilities are measured at their acquisition-date fair values (with a limited number of specified exceptions). An entity may elect to measure components of NCI in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in liquidation either at (a) fair value or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets (option available on a transaction-by-transaction basis). All other components of NCI shall be measured at their acquisition-date fair value, unless another measurement basis is required by PBE Standards.
- Goodwill is measured as the difference between:

- The aggregate of (a) the acquisition-date fair value of the consideration transferred, (b) the amount of any NCI, and (c) in a business combination achieved in stages (see below), the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and
- The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured in accordance with PBE IFRS 3).

- If the difference above is negative, the resulting gain is recognised as a bargain purchase in surplus or deficit.
- For business combinations achieved in stages, if the acquirer increases an existing equity interest so as to achieve control of the acquiree, the previously-held equity interest is remeasured at acquisition-date fair value and any resulting gain or loss is recognised in surplus or deficit.
- If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, the combination is accounted for using provisional values. Adjustments to provisional values relating to facts and circumstances that existed at the acquisition date are permitted within one year. No adjustments are permitted after one year except to correct an error in accordance with PBE IPSAS 3.
- Consideration for the acquisition includes the acquisition-date fair value of contingent consideration. Contingent consideration classified as a financial asset or financial liability should be measured at fair value at each reporting date. If it is classified as an asset or liability not within the scope of PBE IPSAS 29 it is accounted for in accordance with PBE IPSAS 19 or other PBE Standards as appropriate. Changes to contingent consideration resulting from events after the acquisition date are recognised in surplus or deficit or in other comprehensive revenue and expense in accordance with the relevant Standard. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within net assets/equity.
- All acquisition-related costs (e.g. finder's fees, professional or consulting fees, costs of an internal acquisition department) are recognised in surplus or deficit except for costs to issue debt or equity securities, which are recognised in accordance with PBE IPSAS 29 and PBE IPSAS 28 respectively.
- Expanded guidance on some specific aspects of business combinations include:
  - Business combinations achieved without the transfer of consideration;
  - Reverse acquisitions;
  - Identifying intangible assets acquired;
  - Pre-existing relationships between the acquirer and the acquiree (e.g. reacquired rights); and
  - The reassessment of the acquiree's contractual arrangements at the acquisition date.

PBE IFRS 4 Insurance Contracts

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To specify the financial reporting for insurance contracts by any entity that issues such contracts.

Summary

Life insurance

- Life insurers recognise the net present value of life insurance liabilities using the margin on services method on the basis of assumptions that are best estimates and using risk free discount rates based on current observable objective rates that relate to the nature, structure and term of the future obligations.
- If the benefits under a life insurance contract are contractually linked to the performance of assets held, the life insurance liability is discounted using a discount rate based on the market returns on assets backing insurance liabilities.
- Assets backing life insurance liabilities are measured at fair value where permitted by another PBE Standard.
- A life insurer discloses information that enables users of its financial report to evaluate the nature and extent of risk arising from life insurance contracts, solvency information and actuarial information.

General insurance

- For general insurance contracts, premium revenue is recognised in surplus or deficit from the attachment date over the period of the contract for direct business and over the period of indemnity for reinsurance business.
- The outstanding claims liability is measured as the central estimate of the present value of the expected future payments for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured using risk free discount rates based on current observable objective rates that relate to the nature, structure and term of the future obligations.
- The expected future payments include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), and costs including claims handling costs, which the insurer expects to incur in settling these incurred claims.
- Acquisition costs incurred in obtaining and recording the general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is

probable that they will give rise to premium revenue. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.

- A liability adequacy test must be performed.
- Assets backing general insurance liabilities are measured at fair value where permitted by another PBE Standard.
- An insurer discloses information that enables users of its financial report to evaluate the nature and extent of risk arising from general insurance contracts, information about the liability adequacy test and actuarial information.

PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting for non-current assets held for sale and the presentation and disclosure of discontinued operations.

Summary

- Introduces the classification 'held for sale' (available for immediate sale, and disposal within 12 months is highly probable) and the concept of a disposal group (a group of assets to be disposed of in a single transaction, including any related liabilities also to be transferred).
- Non-current assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Such non-current assets held for sale (whether individually or as part of a disposal group) are not depreciated.
- Non-current assets classified as held for sale, and the assets and liabilities in a disposal group classified as held for sale, are presented separately in the statement of financial position.
- Assets and liabilities of a controlled entity should be classified as held for sale if the parent is committed to a plan involving loss of control of the controlled entity, regardless of whether the entity will retain a non-controlling interest after the sale. The classification, presentation and measurement requirements applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners.
- A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (a) represents a separate major activity or major geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major activity or geographical area of operations, or (c) is a controlled entity acquired exclusively with a view to resale.
- An entity presents as a single amount, in the statement of comprehensive revenue and expense, the sum of the post-tax gain or loss from discontinued operations for the period and the post-tax gain or loss arising on the disposal of discontinued operations (or on the reclassification of the assets and liabilities of discontinued operations as held for sale). Therefore, the statement of comprehensive revenue and expense is effectively divided into two sections — continuing operations and discontinued operations.

- PBE IFRS 5 requires disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Consequently, disclosures in other PBE Standards do not apply to such assets (or disposal groups) unless those Standards specifically require disclosures or the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of the measurement requirements of PBE IFRS 5.

PBE IAS 12 Income Taxes

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting treatment for income taxes.

To establish the principles and provide guidance in accounting for the current and future tax consequences of:

- the future recovery (settlement) of carrying amounts of assets (liabilities) recognised in an entity's statement of financial position; and
- transactions and other events of the current period that are recognised in an entity's financial statements.

Summary

- Current tax liabilities and assets are recognised for current and prior period taxes, measured at the rates that have been enacted or substantively enacted by the end of the reporting period.
- A temporary difference is a difference between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities are recognised for the future tax consequences of all taxable temporary differences with three exceptions:
  - where the deferred tax liability arises from the initial recognition of goodwill;
  - the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and
  - differences arising from investments in controlled entities, branches and associates and interests in joint ventures (e.g. due to undistributed profits) where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.
- A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, with the following exceptions:
  - a deferred tax asset arising from the initial recognition of an asset/liability, other than in a business combination, which, at the time of the transaction, does not affect the accounting or the taxable profit; and
  - deferred tax assets arising from deductible temporary differences associated with investments in controlled entities, branches and associates, and interests in joint ventures are recognised only to the extent

that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available to utilise the difference.

- Deferred tax liabilities (assets) are measured at the tax rates expected to apply when the liability is settled or the asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.
- There is a presumption that recovery of the carrying amount of an asset measured using the fair value model in PBE IPSAS 16 will normally be through sale.
- Deferred tax assets and liabilities are not discounted.
- Current and deferred tax are recognised as income or expense in surplus or deficit except to the extent that the tax arises from:
  - a transaction or event that is recognised outside surplus or deficit (whether in other comprehensive revenue and expense or directly in net assets/equity); or
  - a business combination.
- The current and deferred tax consequences of changes in tax status of the entity are included in surplus or deficit for the period unless those consequences relate to transactions or events that were recognised outside surplus or deficit.

PBE IAS 34 Interim Financial Reporting

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the minimum content of an interim financial report and the recognition and measurement principles for an interim financial report.

Summary

- PBE IAS 34 applies only when an entity is required or elects to publish an interim financial report in accordance with PBE Standards.
- Statute and regulation (not PBE IAS 34) mandate:
  - which entities should publish interim financial reports;
  - how frequently; and
  - how soon after the end of an interim period.
- An interim financial report is a complete or condensed set of financial statements for a period shorter than an entity's full financial year.
- Minimum components of a condensed interim financial report are:
  - condensed statement of financial position;
  - condensed statement of comprehensive revenue and expense presented either as a condensed single statement or a condensed separate statement of financial performance and a condensed statement of other comprehensive revenue and expense;
  - condensed statement of changes in net assets/equity;
  - condensed cash flow statement; and
  - selected explanatory notes.
- PBE IAS 34 prescribes the comparative periods for which interim financial statements are required to be presented as part of interim financial statements.
- Materiality is based on interim financial data, not forecast annual amounts.
- The notes in an interim financial report provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as annual.
- Revenue and expenses are recognised when they occur, and are not anticipated or deferred.
- A change in accounting policy requires restatement of previously reported interim periods.
- Where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment is not reversed in subsequent interim financial statements nor in annual financial statements.

PBE FRS 42 Prospective Financial Statements

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To establish principles and specify minimum disclosures for entities that are either required or choose to present general purpose prospective financial statements.

Summary

- Does not apply to prospective information expressed solely in general terms (e.g. qualitative statements about future prospects or narrative commentary within financial reports, statements of intent or local authority long-term plans).
- An entity that presents prospective financial statements presents and discloses information that enables users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.
- Assumptions must be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity must have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements.
- A complete set of prospective financial statements is required including:
  - A prospective statement of financial position;
  - A prospective statement of comprehensive revenue and expense;
  - A prospective statement of changes in net assets/equity;
  - A prospective cash flow statement; and
  - Notes, comprising a summary of significant accounting policies, significant assumptions and any other relevant information.
- Prospective financial statements are prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.
- The reporting periods covered by prospective financial statements must coincide with those for which interim or annual historical general purpose financial statements will subsequently be presented.
- The disclosures required include:
  - A description of the nature of the entity's current operations and its principal activities and any changes in the prospective period;
  - The purpose for which the prospective financial statements have been prepared together with a caution that they may not be appropriate for another purpose;

- The information necessary for a user to appreciate the degree of uncertainty attaching to the information in those statements and the impact of that uncertainty;
- All significant assumptions underlying the prospective financial statements, the sources from which they have been derived, and quantified where possible;
- The extent to which actual events and transactions have been reflected in the prospective financial statements;
- The factors that may lead to a material difference between information in the prospective financial statements and the actual financial results prepared in future reporting periods;
- The assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements; and
- A cautionary note to the effect that actual financial results achieved for the period covered are likely to vary from the information presented, and that the variations may be material.

PBE FRS 43 Summary Financial Statements

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To specify the accounting practice and minimum disclosure requirements for summary financial statements of entities which are currently reporting in accordance with PBE Standards.

Summary

- Applies when the summary financial statements are provided in addition to full financial statements which are available to users (either publicly or because they are otherwise entitled to receive them).
- Summary financial statements include a summary of each financial statement included in a full financial report. If the full financial report is required to include non-financial statements such as a statement of service performance, the summary financial statements are also accompanied by a summary of the non-financial statements required to be included in the full financial report.
- An entity discloses sufficient information in its summary financial statements to enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased.
- The information in the summary financial statements is drawn from and consistent with information presented in the full financial statements for the relevant periods. Where information in the full financial statements for periods included in the summary financial statements has subsequently been restated or reclassified, the information in the summary financial statements is drawn from, and consistent with, that restated or reclassified information. No further restatement or reclassification is permitted.
- The condensed statement of comprehensive revenue and expense (either in one or two statements, the same as the full financial statements) is similar to the full version however the condensed statement of financial position only has to present the current and non-current subtotals (unless the order of liquidity presentation is used) and net assets/equity including separate disclosure of the minority interests. The condensed cash flow statement only has to present the operating, investing and financing subtotals as a minimum.
- The entity presents a summary of the comparison of, and explanations for major variances between prospective and historical financial statements where these were included in its full financial statements.
- The entity discloses each non-adjusting event that occurs between the end of the reporting period and the date when the full financial statements are authorised for issue.

- Sufficient additional information is disclosed to ensure that all relevant matters are reported to the users of the summary financial statements. A summary description of each item, as included in the full financial statements, is given to enable its nature to be understood.
- Comparative information for the previous reporting period is shown for all items disclosed in the summary financial statements.
- The summary financial statements must refer to the full financial statements and how a user may obtain a copy of the full financial statements.
- For multi-period summaries, some of the disclosures are only required in relation to the most recent period.
- A number of disclosures are required to explain the relationship of the summary financial statements to the full financial statements, provide additional information about whether the full financial statements were audited and caution that the summary financial statements cannot be expected to provide as full an understanding as the full financial statements.

PBE FRS 45 Service Concession Arrangements: Operator

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the accounting for service concession arrangements by the operator and the disclosure of service concession arrangements not addressed by other PBE Standards.

Summary

- For all arrangements falling within the scope of the standard (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:
  - A financial asset - where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement;
  - An intangible asset - where the operator's future cash flows are not specified (e.g. where they will vary according to usage of the infrastructure asset); or
  - Both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

PBE FRS 46 First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To set out the transitional provisions for the first-time application of PBE Standards by a Tier 1 or Tier 2 PBE that previously complied with standards in the NZ IFRS suites of standards including NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR.

Summary

- Except where otherwise required by PBE Standards or PBE FRS 46, an entity that previously presented general purpose financial statements in accordance with any of the above versions of NZ IFRSs:
  - Applies the same accounting policies for those transactions and events in its first set of financial statements under PBE Standards
  - Does not revise an accounting estimate of a previously recognised item at the date of transition to PBE Standards
  - Does not apply PBE IPSAS 3 in preparing its first set of financial statements in accordance with PBE Standards, except in relation to:
    - material prior period errors; and
    - voluntary changes in an accounting policy.
  - Prepares an opening statement of financial position and applies the PBE Standards effective at the reporting date.
  - Uses the same accounting policies consistently throughout all the periods presented.
  - Recognises all assets and liabilities required to be recognised, derecognises all assets and liabilities that are not permitted to be recognised and recognises any adjustments in opening net assets/equity.
  - Presents comparatives for all disclosures (including the cash flow statement even though this may not have been previously required).
  - Discloses the nature and amount of the adjustments arising on transition.
- There are specific transitional provisions for assets and liabilities arising from non-exchange revenue prior to the date of transition (recognise and put adjustment to net assets/equity), existing service concession arrangements and for those entities previously applying differential reporting exemptions in relation to property, plant and equipment, foreign exchange rates, intangible assets and agriculture.

PBE FRS 47 First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs

Effective Date

Public sector entities: Annual periods beginning on or after 1 July 2014.

Not-for-profit entities: Annual periods beginning on or after 1 April 2015.

Objective

To prescribe the procedures when an entity adopts PBE Standards for the first time as the basis for preparing its general purpose financial statements and did not previously apply standards in the NZ IFRS suites of standards.

Summary

Overview for an entity that adopts PBE Standards for the first time (by an explicit statement of compliance with PBE Standards) in its annual financial statements.

An entity:

- Selects accounting policies based on PBE Standards effective at the reporting date (early adoption of PBE Standards not yet mandatory is permitted if the relevant PBE Standard permits early adoption) and uses the same accounting policies throughout all the periods presented
- Prepares an opening statement of financial position at the date of transition (the beginning of the earliest period for which the entity presents full comparative information or for a Tier 2 not-for-profit entity the beginning of the current period if it chooses not to present full comparatives) and:
  - Recognises all assets and liabilities required by PBE Standards;
  - Does not recognise items as assets or liabilities if not permitted by PBE Standards;
  - Reclassifies assets and liabilities if required;
  - Applies PBE Standards in measuring all recognised assets and liabilities;
  - Recognises any adjustments directly in accumulated comprehensive revenue and expense; and
  - Uses the same estimates as under previous GAAP unless there is objective evidence of error, or if new information comes to light (in which case it applies PBE IPSAS 14). New estimates only reflect conditions that existed at the date of transition.
- Presents three statements of financial position (a Tier 2 entity may choose not to present the opening statement of financial position), two statements of comprehensive revenue and expense (and statements of financial performance if presented), two cash flow statements and two statements of changes in net assets/equity and related notes, including comparative information. A Tier 2 not-for-profit entity may choose not to present comparative information in its first set of financial statements under PBE Standards but must present the opening statement of financial position.
- Provides information explaining how the transition affected its reported financial position, statement of comprehensive revenue and expense and cash flows including specified reconciliations.

An entity may also elect to use one or more of the exemptions from retrospective application of the PBE Standards allowed in PBE FRS 47.

Contacts

Auckland

Denise Hodgkins
+64 (0) 9 303 0918
dhodgkins@deloitte.co.nz

Peter Gulliver
+64 (0) 9 303 0891
pegulliver@deloitte.co.nz

Victoria Turner
+64 (0) 9 303 0794
viturner@deloitte.co.nz

Hamilton

Bruno Dente
+64 (0) 7 834 7842
bdente@deloitte.co.nz

Wellington

Jacqueline Robertson
+ 64 (0) 4 470 3561
jacrobertson@deloitte.co.nz

Christchurch

Michael Wilkes
+64 (0) 3 363 3845
mwilkes@deloitte.co.nz

Paul Bryden
+64 (0) 3 363 3862
pbryden@deloitte.co.nz

Dunedin

Mike Hawken
+64 (0) 3 474 8684
mhawken@deloitte.co.nz

Publications on the framework are available at:
http://www2.deloitte.com/nz/en/pages/audit/articles/financial-reporting-framework.html