Introduction

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. This represents a significant change to the financial reporting landscape for many not-for-profit entities, and in particular registered charities which will have financial reporting obligations for the first time from periods beginning on or after 1 April 2015. Along with legislative changes as to ‘who’ has to provide financial statements, the External Reporting Board also changed ‘what’ the financial reporting requirements are, creating new challenges for preparers of financial statements. This publication seeks to bring some clarity to the changes.

Legislation

The requirements for preparation, audit 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.). The Financial Reporting Act 2013 includes some relevant definitions.

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.
Timeline

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

The new accounting standards framework for public benefit entities (PBEs) is effective for PBEs in the public sector for periods beginning on or after 1 July 2014. For not-for-profit entities (NFPs) it is applicable for periods beginning on or after 1 April 2015.

Focus of this publication – Not-for-profit PBEs (NFP PBEs)

This publication provides guidance on the changes to the financial reporting framework for NFP PBEs. A separate publication for ‘for-profit’ entities is available on our website at:


We hope you find this publication useful when confronting the challenges of the new financial reporting requirements.
Contents

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Are financial statements required?</td>
<td>5</td>
</tr>
<tr>
<td>2 Who has a statutory financial reporting obligation?</td>
<td>6</td>
</tr>
<tr>
<td>3 What is the reporting entity?</td>
<td>10</td>
</tr>
<tr>
<td>4 What are the standards that not-for-profit public benefit entities should be applying?</td>
<td>14</td>
</tr>
<tr>
<td>5 Can I change my assessment as to whether the entity is a for-profit entity or a public benefit entity?</td>
<td>16</td>
</tr>
<tr>
<td>6 If I am using Tier 1 or 2 standards, how will my financial statements change?</td>
<td>17</td>
</tr>
<tr>
<td>7 What are the transitional requirements for first-time adoption of the PBE Accounting Standards?</td>
<td>18</td>
</tr>
<tr>
<td>8 What is Simple Format Reporting?</td>
<td>20</td>
</tr>
<tr>
<td>9 Is a Statement of Service Performance required?</td>
<td>26</td>
</tr>
<tr>
<td>10 What needs to be considered when preparing a Statement of Service Performance?</td>
<td>27</td>
</tr>
<tr>
<td>11 What are the audit requirements for registered charities?</td>
<td>28</td>
</tr>
<tr>
<td>12 What is the meaning of 'audit' and 'review'?</td>
<td>29</td>
</tr>
<tr>
<td>13 Who is a 'qualified auditor'?</td>
<td>30</td>
</tr>
<tr>
<td>14 What needs to be considered where financial statements are not required in accordance with NZ GAAP?</td>
<td>31</td>
</tr>
</tbody>
</table>

**Appendix 1** What are the main differences between the PBE Standards and NZ IFRS PBE? 33

**Appendix 2** What are the main differences between the PBE Standards and NZ IFRS? 34
Are financial statements required?

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

There are three key sources of financial reporting requirements:

- **Statutory requirement to prepare financial statements**: Legislation will specify where there is a statutory obligation to prepare financial statements in accordance with generally accepted accounting practice (GAAP) or a non-GAAP standard issued by the External Reporting Board\(^1\). The key requirements will be set out in sector, industry or entity specific legislation – such as the Charities Act 2005, Companies Act 1993, Financial Markets Conduct Act 2013, Partnerships Act 1908 and others.

- **Tax legislation requirement to prepare financial information**: Certain entities will also be captured by the Inland Revenue Department’s (IRD) prescribed minimum requirements for financial reporting, which currently applies to non-exempt companies when GAAP financial statements are not prepared.

- **Other contractual requirements**: Some entities may have obligations to prepare financial statements in accordance with GAAP (or some other basis) specified in other documents such as the entity’s constitution, trust deed, bank agreements, lease agreements, funding agreements or other contractual arrangements.

In summary, entities should consider the following:

\(^1\)The Tier 4 Simple Format Reporting Standard – Cash is referred to as a non-GAAP standard. Entities required to prepare financial statements in accordance with legislative requirements can only use this standard when permitted by law to use cash accounting. Refer to Question 4.
Who has a statutory financial reporting obligation?

The following table outlines the financial reporting requirements by entity type, focusing on which entities have to prepare financial statements, whether an audit is required and whether the financial statements have to be filed. This is not an exhaustive list.

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Preparation</th>
<th>Audit</th>
<th>Filing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers and other market participants</td>
<td>✓</td>
<td>✓*</td>
<td>Within four months of balance date</td>
</tr>
<tr>
<td>Entity captured by the Financial Markets Conduct Act 2013 (FMCA) – referred to as an <strong>FMC reporting entity</strong></td>
<td></td>
<td></td>
<td>Within four months of balance date</td>
</tr>
<tr>
<td>In summary this includes issuers of regulated products, registered banks, building societies and credit unions and certain entities licensed by the Financial Markets Authority (FMA)</td>
<td></td>
<td></td>
<td>Within four months of balance date</td>
</tr>
<tr>
<td>Common PBE Entity Types</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public entities are those entities captured by the Public Audit Act 2001, section 5.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered charity (Charities Act 2005)</td>
<td>✓</td>
<td></td>
<td>Included with the annual return within six months of balance date</td>
</tr>
<tr>
<td>Within six months of balance date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maybe. Refer to <strong>Question 10</strong> for discussion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friendly Societies (registered society or branch) (Friendly Societies and Credit Unions Act 1982)</td>
<td>✓</td>
<td>✓*</td>
<td>Included with the annual return within three months of balance date</td>
</tr>
<tr>
<td>Expenditure ≥$30m in each of the two preceding financial years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within three months of balance date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friendly Societies (registered society or branch) (Friendly Societies and Credit Unions Act 1982)</td>
<td>✓</td>
<td>✓*</td>
<td>Included with the annual return within three months of balance date</td>
</tr>
<tr>
<td>Expenditure &lt;$30m in each of the two preceding financial years (can opt out)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within three months of balance date (can opt out)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(unless opt out of preparation, or operating payments are less than $125,000 and the entity’s rules don’t require an audit)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within three months of balance date (unless opt out of preparation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entity type</td>
<td>Preparation</td>
<td>Audit</td>
<td>Filing</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Industrial and Provident Societies</strong> (Industrial and Provident Societies Act 1908)</td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Within four months of balance date (some societies can opt out)</td>
<td>(some societies can opt out)</td>
<td>Within four months of balance date if large² Otherwise distributed to every member within four months of balance date (unless opt out of preparation)</td>
</tr>
<tr>
<td><strong>An operator of a retirement village</strong> (Retirement Villages Act 2003)</td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Within five months of balance date</td>
<td></td>
<td>Within five months of balance date</td>
</tr>
<tr>
<td></td>
<td>May also require financial statements in respect of each separate retirement village</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maori Incorporations under the Te Ture Whenua Maori Act 1993</strong></td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Submitted to a general shareholder meeting, for a period ending not earlier than six months before the meeting</td>
<td>(unless operating payments are less than $125,000 and shareholders don’t opt in by special resolution)</td>
<td>Filed with Registrar in whose court district the land is situated within 14 days after submission to shareholders</td>
</tr>
<tr>
<td><strong>Community Trusts</strong> (Community Trust Act 1999)</td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Within five months of balance date</td>
<td></td>
<td>Published on the trust’s website and sent to the Minister by 31 August in each year</td>
</tr>
<tr>
<td><strong>Corporate Society under the Gambling Act 2003</strong></td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Within three months of balance date</td>
<td></td>
<td>Within 3 months to the Secretary of Internal Affairs</td>
</tr>
</tbody>
</table>

² For an entity and its subsidiaries (if any), large is at least one of assets greater than $60m, or revenue greater than $30m, both in respect of the two preceding accounting periods.

* The audit must be performed by a qualified auditor. Refer to **Question 13** for further information.
The previous table only includes the entity types that are more likely to be NFP PBEs. Companies, limited partnerships and partnerships may also be NFP PBEs – the preparation, audit and filing requirements for these entities differ depending on size and ownership profile, and there are provisions to opt in or opt out of legislative financial reporting requirements if certain criteria are met. A summary of the legislative requirements for these entities are included in our publication for ‘for-profit’ entities (available at http://www2.deloitte.com/nz/en/pages/audit/articles/financial-reporting-framework.html).

Multiple requirements

Some entities may be captured by more than one legislative requirement for financial reporting, and therefore both requirements should be considered. In particular, we note that the Charities Act 2005 section 42A(3) clearly requires that “if a charitable entity is subject to another Act that imposes duties relating to the preparation, audit, registration or lodgement of financial statements, the entity must, in addition to complying with this Act, comply with the requirements of the other Act”.

For example:

- if an entity is an FMC reporting entity and a registered charity, then it will have to prepare financial statements in accordance with GAAP, have them audited and file them with the Department of Internal Affairs – Charities Services and the Companies Office as the Registrar of Financial Service Providers.

- If an entity is a registered charity and a large company (total assets greater than $60m or total revenue greater than $30m in each of the two preceding years for companies that have less than 25% foreign ownership) then financial statements will have to be prepared, audited and filed with the Department of Internal Affairs – Charities Services. Companies with less than 25% foreign ownership do not have a filing requirement under the Companies Act and while they can opt out of audit under that Act, the company cannot opt out of audit under the Charities Act 2005.

Incorporated societies

Financial reporting for incorporated societies has not yet been updated because on 21 August 2013 the Law Commission published a report which recommends the drafting of new legislation for incorporated societies. As of the date of this publication the NZ Government has agreed with the Law Commission’s report and will aim to issue a new Bill sometime in 2015. This will likely consider financial reporting requirements at that time.
Opt out provisions

Note that the opt out provisions differ depending on entity type. There are strict timeframes for passing the appropriate resolutions so entities will need to implement procedures to ensure the relevant opt out requirements are met.

What are the consequences of non compliance?
The consequences of not complying with these obligations include fines payable of up to $50,000 (or $500,000 in the case of an FMC reporting entity). In certain cases the individuals responsible for the governance of the entity (e.g. every officer of a registered charity or every member of the committee of an industrial and provident society) can also be held liable for these fines. As a result, early planning is recommended to ensure that financial reporting obligations are met.
What is the reporting entity?

“A reporting entity is an entity whose financial statements, group financial statements, reports, or other information is required by any enactment to comply, or be prepared in accordance, with GAAP or a non-GAAP standard” (Financial Reporting Act 2013, section 5).

For example, a registered charity is a reporting entity as it is required by the Charities Act 2005 to prepare financial statements in accordance with GAAP (or a non-GAAP standard if they are not a specified not-for-profit entity). Similarly, a community trust under the Community Trusts Act 1999 is also a reporting entity.

What should be included in the financial statements of the reporting entity?

The financial statements of a reporting entity should include all of the transactions, balances and activities of the reporting entity (and any branch that is a component of the reporting entity). This includes:

• all transactions and activities undertaken using the reporting entity’s identity,
• transactions undertaken and balances held in the name of the reporting entity, and
• funds and associated transactions solicited in the name of, and with the approval of, the reporting entity by a third party fundraiser acting as an agent of the reporting entity.

In addition, the reporting entity should identify and assess any relationships it has with other entities and account for those relationships appropriately in its financial statements in accordance with the applicable GAAP or non-GAAP standard. A relationship with another entity is likely to fall into one of the following categories: ‘control’, ‘joint control’, ‘significant influence’ or ‘other relationship’. The table below outlines these relationships and the way these relationships should be accounted for by the reporting entity.
<table>
<thead>
<tr>
<th>Nature of Relationship</th>
<th>Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control</strong></td>
<td><strong>PBE IPSAS 6 (NFP) Consolidated and Separate Financial Statements</strong>&lt;br&gt;Parent (controlling entity) has the power to control the financial and operating policies of the subsidiary in order to benefit from its activities&lt;br&gt;Typically described as a 'controlled entity'.</td>
</tr>
<tr>
<td><strong>Joint control</strong></td>
<td><strong>PBE IPSAS 8 Interests in Joint Ventures</strong>&lt;br&gt;&lt;br&gt;<strong>Jointly controlled operations</strong>&lt;br&gt;The venturer recognises in its financial statements on a line by line basis the assets it controls, the liabilities and expenses it incurs in respect of the JV and its share of the revenue of the JV.&lt;br&gt;&lt;br&gt;<strong>Jointly controlled assets</strong>&lt;br&gt;The venturer recognises in its financial statements on a line by line basis:&lt;br&gt;• its share of the jointly controlled assets, liabilities, revenue and expenses of the JV, and&lt;br&gt;• its share of any liabilities and expense it incurs in respect of the JV.&lt;br&gt;&lt;br&gt;<strong>Jointly controlled entities</strong>&lt;br&gt;• proportionate consolidation by combining the venturer’s financial statements on a line by line basis with the venturer’s share of the assets, liabilities, revenue and expenses of the JV, or&lt;br&gt;• equity account (see below).</td>
</tr>
<tr>
<td><strong>Significant influence</strong></td>
<td><strong>PBE IPSAS 7 Investments in Associates</strong>&lt;br&gt;Equity account by performing a ‘one line’ consolidation. The investor’s interest is initially recorded at cost in its financial statements and subsequently adjusted by the investor’s share in the surplus or deficit of the associate.&lt;br&gt;Note: the investor must have an ownership interest (e.g. own shares) in the associate.</td>
</tr>
<tr>
<td><strong>Other relationship</strong></td>
<td>Accounted for in accordance with the appropriate accounting standard e.g. <strong>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</strong>.</td>
</tr>
</tbody>
</table>

Registered Charities

The Charities Act 2005 permits entities that are affiliated or closely related to register as a ‘single entity’. The entity that requests the single entity registration is described as the ‘parent’ entity and has the responsibility to file the financial statements.

The Department of Internal Affairs – Charities Services (Charities Services) determines whether the financial statements of the single entity are prepared on a consolidated basis or separately in respect of each entity that forms part of the ‘single entity’.

The term ‘parent’ entity in the Charities Act 2005 does not necessarily align with the term ‘parent’ or ‘controlling entity’ in PBE IPSAS 6 (NFP) for financial reporting purposes. For this reason if Charities Services determines that the financial statements of the ‘single entity’ must be prepared on a consolidated basis, the ‘parent’ (controlling entity) for financial reporting purposes will not necessarily be the ‘parent’ in terms of the Charities Act 2005.

Similarly if Charities Services determines that the financial statements must be prepared separately in respect of each entity that forms part of the ‘single entity’ and one of the entities is a ‘parent’ (controlling entity) for financial reporting purposes, the ‘parent’ will file consolidated financial statements prepared in accordance with PBE IPSAS 6 (NFP). The overriding principle is that while Charities Services determines the manner in which the financial statements of the ‘single entity’ are to be prepared, the financial statements must still comply with GAAP or a non-GAAP standard. XRB Explanatory Guide A8 Financial Reporting by Not-For-Profit Entities: The Reporting Entity (EG A8) contains illustrative examples on the subject.

In light of this, entities should think about how best to register under the Charities Act 2005 in order to minimise the compliance costs of meeting their financial reporting obligations.

Example

Entity A controls entity B and C for financial reporting purposes.

Entity A, B, C and D are registered charities and are registered as a ‘single entity’. Entity D is identified as the ‘parent’ for purposes of the Charities Act 2005.
Scenario 1 - Charities Services decides entity D must prepare financial statements of the ‘single entity’ on a consolidated basis (e.g. the ‘single entity’ is the reporting entity).

As the ‘parent’ for the purposes of the Charities Act 2005, entity D will be responsible for filing the financial statements of the ‘single entity’.

The combined financial statements of the ‘single entity’ will include entity A, B, C and D.

Scenario 2 - Charities Services decides entity D must prepare financial statements separately in respect of each entity that forms part of the ‘single entity’ (e.g. each entity is a separate reporting entity).

As the ‘parent’ for the purposes of the Charities Act 2005, entity D will be responsible for filing the separate financial statements of entity A, B, C and D. However, as entity A controls entity B and C for financial reporting purposes, the financial statements filed for entity A will be consolidated financial statements which include entity B and C, prepared in accordance with PBE IPSAS 6 (NFP). These consolidated financial statements will exclude entity D as entity A does not have a relationship with entity D for financial reporting purposes.
What are the standards that not-for-profit public benefit entities should be applying?

The XRB has issued XRB A1 which outlines the criteria an entity uses to determine which set of accounting standards to use and how to move among tiers. The table below summarises the tiers applicable to NFP PBEs. Entities may elect to report under a higher tier.

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>PBE Standards (NFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Public accountability(^1), or</td>
<td></td>
</tr>
<tr>
<td>• Large (total expenses(^2) &gt; $30million)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 2</th>
<th>PBE Standards RDR (NFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-publicly accountable and non-large (total expenses(^2) $2million - $30million)</td>
<td></td>
</tr>
<tr>
<td>• Elect to be in Tier 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 3</th>
<th>Simple Format (Accrual) (NFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-publicly accountable and total expenses(^2) ≤ $2 million</td>
<td></td>
</tr>
<tr>
<td>• Elect to be in Tier 3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 4</th>
<th>Simple Format (Cash) (NFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Entities allowed by law to use cash accounting(^3)</td>
<td></td>
</tr>
<tr>
<td>• Elect to be in Tier 4 (Non-GAAP standard)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Definition of ‘public accountability’ (summarised from XRB A1.83 - 88):
- 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 to 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 to have a higher level of public accountability than other FMC reporting entities under section 461K of the FMCA 2013, or
  - It is an entity or class of entities that is considered by the FMA to have a higher level of public accountability by a notice issued by the 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/

\(^2\) ‘Total expenses’ is the total expenses (including losses and grant expenses) recognised by the entity in accordance with the relevant tier of accounting standards (e.g. for Tier 1, the PBE Standards; for Tier 3, the Simple Format (Accrual) (NFP) Standard). Offsetting of revenue and expenses is only permitted where the relevant standards require or permit it. Where the entity is a group, total expenses are for the group, comprising the parent and all its controlled entities.

\(^3\) E.g. in the Charities Act 2005 an entity that is not a specified not-for-profit entity under section 46 of the Financial Reporting Act 2013 may use a non-GAAP standard (i.e. entities with total operating payments of less than $125,000 in each of the two preceding accounting periods).
**PBE Standards**

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

Various NFP enhancements have been added to the PBE Standards first introduced for the public sector 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 NFP PBEs use the same PBE Standards that the public sector PBEs use, with one exception – NFP PBEs must apply PBE IPSAS 6 (NFP) while public sector PBEs must apply a different version of this standard. It is also important to note that NFP PBEs have a different set of requirements with regard to certain related party disclosures. These requirements are contained in PBE IPSAS 20 *Related Party Disclosures* (i.e. no separate standard for NFP PBEs).

The Deloitte publication *PBE Standards in Your Pocket* has a short summary of each standard. It is available on our website at:  

**Simple Format Reporting**

Tiers 3 and 4 are simplified accounting standards. Tier 3 is based on accrual accounting and Tier 4 is based on cash accounting. Refer to Question 8 for further information on simple format reporting.

Copies of the accounting standards for each tier can be found on the XRB’s website at [www.xrb.govt.nz](http://www.xrb.govt.nz).
Can I change my assessment as to whether the entity is a for-profit entity or a public benefit entity?

The suite of standards used depends on whether an entity is for-profit or a public benefit.

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

A **public benefit entity** is a reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

These definitions are incorporated in XRB A1 and are consistent with the guidance previously included as an Appendix to NZ IAS 1: *Presentation of Financial Statements*. The classification of an entity as ‘for-profit’ or ‘public benefit’ is important because “*Inappropriate classification may result in adoption of inappropriate accounting policies and failure to provide users with information appropriate to assessing the financial performance and position of an entity*” (Appendix A to XRB A1).

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

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

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

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

Accounting for a change in classification depends on the applicable tier of the new classification. For example, if an entity’s classification changes from ‘public benefit’ to ‘for-profit’ and they are required to prepare financial statements in terms of GAAP, the entity would need to apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. 
If I am using Tier 1 or 2 standards, how will my financial statements change?

The PBE Standards (for Tier 1 and Tier 2 NFP PBEs) are not substantially different from NZ IFRS PBE, however some new standards have been added to the PBE Standards (e.g. standards on accounting for non-exchange transactions and impairment of non-cash generating assets).

Refer to Appendix 1 for an outline of some of the main recognition and measurement differences between the PBE Standards and NZ IFRS PBE.

PBE IPSAS 6 (NFP) requires that consolidated financial statements are prepared using uniform accounting policies. This means that if a group applying the PBE Standards is a ‘mixed group’ (i.e. has a member that is a for-profit entity applying NZ IFRS) adjustments will be required on consolidation of the financial statements of the for-profit member. There are a number of differences between the PBE Standards and NZ IFRS that will need to be considered.

Refer to Appendix 2 for an outline of some of the main recognition and measurement differences between the PBE Standards and NZ IFRS.
What are the transitional requirements for first-time adoption of the PBE Accounting Standards?

The new framework will apply to NFP PBEs for the first time in 31 March 2016 financial statements. As the standards may require comparative information, the new requirements will effectively be applied to relevant transactions and balances from the opening balance sheet date – 1 April 2014.

Transition to Tier 1/Tier 2 Standards

<table>
<thead>
<tr>
<th>Date</th>
<th>Tier 1 and 2 entities except as noted below</th>
<th>Tier 2 NFP entities which did not previously apply NZ IFRSs*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2014</td>
<td>Opening balance sheet position</td>
<td>Opening balance sheet position</td>
</tr>
<tr>
<td>1 April 2015</td>
<td>Date of initial application Comparatives required</td>
<td>Date of initial application Comparatives required</td>
</tr>
<tr>
<td>31 March 2016</td>
<td>First Annual Report issued using the PBE Standards</td>
<td>First Annual Report issued using the new PBE standards</td>
</tr>
</tbody>
</table>

*NZ IFRSs would include NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entity in the current financial year</td>
<td>Apply PBE Standards from the beginning of the period. Comparative figures are not required. New entities disclose their date of commencement.</td>
</tr>
<tr>
<td>Previously applying NZ IFRS, NZ IFRS PBE, NZ IFRS RDR or NZ IFRS Diff Rep</td>
<td>The requirements and guidance in PBE FRS 46 First-Time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs must be followed.</td>
</tr>
<tr>
<td>Previously applying other standards</td>
<td>The requirements and guidance in PBE FRS 47 First-Time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs must be followed.</td>
</tr>
<tr>
<td>Residual: Entities that have not followed any accounting standard issued in the previous financial year, but have been operating prior to the current financial year</td>
<td>The requirements and guidance in PBE FRS 47 First-Time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs must be followed.</td>
</tr>
</tbody>
</table>
## Transition to Tier 3 Standards

<table>
<thead>
<tr>
<th>Situation</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entity in the current financial year</td>
<td>Apply standard from the beginning of the period. Comparative figures are not required. New entities disclose their date of commencement.</td>
</tr>
<tr>
<td>Residual: Entities that have not followed any accounting standard issued in the previous financial year, but have been operating prior to the current financial year</td>
<td>Two options: &lt;ul&gt; &lt;li&gt;Follow this standard from the beginning of the current period, comparative information is not required. The previous financial statements and list of previous accounting policies should be attached.&lt;/li&gt; &lt;li&gt;Apply standard from the beginning of the earliest comparative period presented. Assets and liabilities are recorded at the beginning of the earliest comparative period presented. &lt;ul&gt; &lt;li&gt;For payables and receivables, amounts are recorded at the amount owing or owed at the beginning of the earliest comparative period.&lt;/li&gt; &lt;li&gt;For property, plant and equipment (PP&amp;E) significant items are recorded at their readily obtainable current values (such as insurance value, rateable value or government valuation). Where PP&amp;E current values are not readily available the entity does not need to record the assets but discloses this fact in the notes. Insignificant items of PP&amp;E are not required to be recorded.&lt;/li&gt; &lt;li&gt;For other assets and liabilities a best estimate of the value at the beginning of the earliest comparative period presented is made and the assets and liabilities are recorded at that amount. In this case accumulated funds is the number required to make the statement of financial position balance on transition.&lt;/li&gt; &lt;/ul&gt; &lt;/li&gt; &lt;/ul&gt;</td>
</tr>
</tbody>
</table>

## Transition to Tier 4 Standards

<table>
<thead>
<tr>
<th>Situation</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entity in the current financial year</td>
<td>Apply standard from the beginning of the period. Comparative figures are not required. New entities disclose their date of commencement.</td>
</tr>
<tr>
<td>Continuing entity – has not followed this standard in the previous reporting period but has been operating prior to the current financial year</td>
<td>Two options: &lt;ul&gt; &lt;li&gt;Follow this standard from the beginning of the current period, comparative information is not required. The previous financial statements and list of previous accounting policies should be attached.&lt;/li&gt; &lt;li&gt;Follow this standard from the start of the previous period by restating the entity’s previous financial statements (if any) in accordance with the requirements of this Standard.&lt;/li&gt; &lt;/ul&gt;</td>
</tr>
</tbody>
</table>

Refer to XRB A1 for guidance if transitioning between tiers subsequent to initial adoption of the applicable PBE accounting standards.
What is Simple Format Reporting?

Overview of the Simple Format Reporting Standards

As their title suggests, these standards are designed to be simple-to-use standards with the requirements for each tier incorporated in a single standard supported by (optional) ‘fill-in-the-box’ templates in Excel and guidance notes on how to complete the templates. We have summarised the Tier 3 Standard and Tier 4 Standard relevant to NFP entities below.

Tier 3: PBE Simple Format Reporting Standard – Accrual (NFP)

The PBE Simple Format Reporting Standard – Accrual (NFP) sets out the objectives of reporting which attempt to answer several key questions. The standard proposes a performance report that responds to these objectives based on accrual accounting. The standard notes that the purpose of this performance report is to provide information for accountability and decision-making by users who are expected to be providers of resources to the entity (e.g. donors) and recipients of services from the entity. The performance report is required to include the components as shown in the table below.

Note that each of the key questions (as shown overleaf) is answered by a specific component of the performance report. As a whole, the performance report should be able to answer the question “What do we need to continue operating?".
<table>
<thead>
<tr>
<th>Component</th>
<th>Question to be answered</th>
<th>Summary of Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity information</td>
<td>“Who are we?” “Why do we exist?”</td>
<td>General descriptive information about the entity (e.g. entity’s name, type of entity, main sources of cash and resources, reliance on volunteers and donated goods or services) is required.</td>
</tr>
</tbody>
</table>
| Statement of Service Performance | “What did we do?” “When did we do it?”                                                  | Service performance reporting is based around:  
  - what the entity is seeking to achieve in terms of its impact on society (i.e. its outcomes), and  
  - the goods or services that the entity delivered during the year.  
  A description of the entity’s outcomes is required, as well as a description (and quantities, if possible) of the significant goods and services that the entity has delivered for the current year.  
  There are also a number of optional disclosures (e.g. appropriate quality measures of goods or services delivered, timeliness of delivery, allocation of receipts and payments related to each category of goods and services, and comments on the factors which affect the achievement of the outcomes).  
  This statement is mandatory for NFP PBEs. |
| Statement of Financial Performance | “How was it funded?” “What did it cost?”                                                 | This statement reports all revenue and expenses for the entity during the financial year. Guidance is provided on a number of issues, such as when to record revenue for a range of revenue sources and how revenue and expenses should be aggregated and presented. |
| Statement of Financial Position | “What do we own?” “What do we owe?”                                                     | The purpose of this statement is to provide a ‘snapshot’ of the entity’s assets, liabilities and accumulated funds at the balance date.  
  Note that there are some requirements specific to this Standard as compared to other standards – for example, unused donations and grants with conditions are treated as liabilities and must be presented as a separate line item on the face of the statement.  
  Guidance is provided on how to account for certain assets (e.g. debtors, inventories) and liabilities (e.g. creditors, unused donations and grants with conditions). |
### Component Question to be answered

<table>
<thead>
<tr>
<th>Component</th>
<th>Summary of Requirements</th>
</tr>
</thead>
</table>
| Statement of Cash Flows                | “How have we received and used cash?”  
This statement reports the major classes of cash receipts and payments during the period that are classified as operating, investing or financing activities. Investing and financing activities may be presented together. The reconciliation of profit to operating cash flows (also referred to as the indirect method) is not required. |
| Statement of Accounting Policies       | “How did we do our accounting?”  
This statement discloses the specific policies and practices applied by the entity in preparing the performance report. Two components, comprising accounting policies applied and changes in accounting must be disclosed. Changes in accounting policies are applied from the beginning of the current year – therefore the previous year’s amounts are not restated. |
| Notes to the financial statements      | The standard specifies which matters are to be included in the notes. Examples include a description of significant goods and services in kind provided to the entity during the financial year, legal commitments (e.g. to provide loans or grants, or to purchase property, plant and equipment), contingent liabilities and transactions with related parties. |

The standard is a fair presentation framework. Fair presentation is achieved by compliance with this standard, the selection of appropriate accounting policies, presenting information that is relevant, reliable, comparable and understandable and by providing additional information if this is necessary to give users a full picture of what has happened.

Comparative amounts and disclosures for the previous year are required. Refer to Question 7 for the transition requirements in the first year of adoption.

Offsetting of revenues and expenses or assets and liabilities is not permitted by this Standard.

Where an entity has control of another entity, a consolidated performance report must be prepared in accordance with the requirements of PBE IPSAS 6 (NFP). Where the entity has an interest in an associate or joint venture it accounts for that interest in accordance with the requirements of PBE IPSAS 7 or PBE IPSAS 8 (a summary of these standards is included in Question 3). RDR concessions contained in these three PBE Standards are available to the entity.
The entity is permitted to ‘step up’ to Tier 2 PBE Standards for specific types of transactions. However, the entity may only return to this Simple Format Reporting Standard if the requirements in this Standard for accounting for a change in accounting policy are satisfied.

Errors relating to previous years must be corrected in the current year’s performance report.

The standard, templates and guidance notes can be found on the XRB’s website at www.xrb.govt.nz.
### Tier 4: PBE Simple Format Reporting Standard – Cash (NFP)

The PBE Simple Format Reporting Standard – Cash (NFP) sets out the objectives of reporting which attempt to answer several key questions. The standard proposes a performance report that responds to these objectives based on cash accounting. The standard notes that the purpose of this performance report is to provide information for accountability and decision-making by users who are expected to be providers of resources to the entity (e.g., donors) and recipients of services from the entity. The performance report is required to include the components as shown in the table below.

Note that each of the key questions (as shown below) is answered by a specific component of the performance report. As a whole, the performance report should be able to answer the question “What do we need to do to continue?”.

<table>
<thead>
<tr>
<th>Component</th>
<th>Question to be answered</th>
<th>Summary of Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity information</strong></td>
<td><strong>“Who are we?”</strong> “Why do we exist?”</td>
<td>General descriptive information about the entity (e.g., entity’s name, type of entity, main sources of cash and resources, reliance on volunteers and donated goods or services) is required.</td>
</tr>
</tbody>
</table>
| **Statement of Service Performance** | **“What did we do?”** “When did we do it?”                                               | Service performance reporting is based around:  
• what the entity is seeking to achieve in terms of its impact on society (i.e., its outcomes), and  
• the goods and services that the entity delivered during the year.  
The significant goods and services the entity has delivered (and quantities, if possible) for the current year must be described and reported.  
There are also a number of optional disclosures (e.g., a description of the outcomes, appropriate quality measures of goods and services delivered, timeliness of delivery, allocations of receipts and payments to each category of goods and services, quantification of contributions from volunteers, comments on those factors which affect the achievement of the outcomes).  
This statement is mandatory for NFP PBEs.                                                                                                                                                                                                                                                                                                                                                     |
| **Statement of Receipts and Payments** | **“How was it funded?”** “What did it cost?”                                            | This statement shows all cash received and cash paid out for the entity and all its activities during the year. Receipts and payments can be operational or capital in nature.  
**Receipts**  
• Receipts will be aggregated and presented across defined categories in order to make information understandable to users. Additional breakdowns may be disclosed in the notes.  
• Receipts are recorded on the receipt of cash, either in a bank account or physical money received by the entity.  
**Payments**  
• Payments will be aggregated and presented across defined categories in order to make information understandable to users. Additional breakdowns may be disclosed in the notes.  
• Payments are recorded on the date payment is made (i.e., when a cheque is passed to the recipient, such as by posting, and not when the amount is withdrawn from the bank account).                                                                                                                                                                                                                                                                                                                                                     |
## Component Question to be answered

**Component:** Statement of Resources and Commitments

**Question:**
- *What do we own?*
- *What do we owe?*

**Summary of Requirements:**

The Statement of Resources and Commitments consists of:

- **Schedule of Resources**
  Resources are listed under four main categories – bank accounts and cash, money held on behalf of others, money owed to the entity and other resources (which consist of non-cash resources). Examples of other resources include land and buildings, motor vehicles, investments, inventory on hand and others. For each purchased resource the report should include, where available, the cost or a current value. For donated resources, disclosure of the current value would be provided where available.

- **Schedule of Commitments**
  Commitments comprise amounts owed by the entity (liabilities) and legal obligations to make payments at a future date. Commitments are listed under three main categories – money payable by the entity (e.g. unpaid invoices, wages and salaries due and payable, interest payable, loans payable and others), other commitments and guarantees. The nature and amounts of significant operating and capital commitments should be disclosed (e.g. total payments due under a lease or rental agreement). Commitments also include amounts received for activities which are repayable should those activities not occur. Guarantee disclosure includes the nature of the guarantee, reason why it was provided, and maximum amount that could be paid under the guarantee.

- **Schedule of Other Information**
  Disclosures required include information about grants and donations with conditions attached and not fully met and resources used as security for any borrowings.

## Notes to the financial statements

**Question:** *How did we do our accounting?*

**Summary of Requirements:**

The Standard specifies which matters must be included in the notes (e.g. basis of preparation, correction of significant prior period errors, related party transactions, etc).

## Additional information

Additional information to that required by this standard should be provided where considered to be relevant to users’ understanding of the performance and activities of the financial year.

---

Offsetting of cash received and cash paid is not permitted.

Errors relating to previous years must be corrected in the current year’s performance report.

The standard, templates and guidance notes can be found on the XRB’s website at [www.xrb.govt.nz](http://www.xrb.govt.nz).
Is a Statement of Service Performance required?

The presentation of a statement of service performance may be mandatory depending on the tier under which an NFP PBE reports.

**Simple Format Reporting (Tier 3 and Tier 4)?**

Yes – service performance information in the form of a statement of service performance is mandatory for not-for-profit entities, as discussed in Question 8.

**Tier 1 and Tier 2 PBE Standards?**

No, the presentation of service performance information in the financial statements is not currently mandatory – however, the New Zealand Accounting Standards Board (NZASB) is in the process of drafting an Exposure Draft (ED) of a new PBE Standard for service performance reporting. At this stage the draft ED may propose that all Tier 1 and Tier 2 PBES, apart from the Government, would be required to present service performance information.

As at the date of this publication, the draft ED is still being finalised. The ED is expected to be issued for public comment in 2015, with a final PBE Standard for service performance reporting issued in 2016.
What needs to be considered when preparing a Statement of Service Performance?

To be most effective, service performance reporting needs to be planned upfront, so that information on the goods and services the entity delivers to achieve its objectives can be generated and retained.

If the entity is preparing a statement of service performance for the first time, these are some steps to consider:

**Step 1: Define your outcomes**

- What is the entity seeking to achieve in terms of its impact on society?

**Step 2: Define your outputs**

- What goods or services did the entity deliver during the period?
- Determine whether the outputs can be quantified

**Step 3: Put in place systems to record actual outputs delivered**

- Who is responsible for data collection?
- What controls need to be in place to ensure that data collection is accurate and complete?

**Step 4: Where subject to audit or review, get your auditor involved early**

- The auditor will need to understand whether the information is able to be audited or reviewed
What are the audit requirements for registered charities?

In November 2014 the Charities Amendment Act 2014 was passed and will come into force from 1 April 2015. The amendments require the financial statements of large charities to be audited, while medium size charities will require an audit or review. Charitable entities that are neither large nor medium sized do not have any requirements for an audit or review under the Charities Act 2005.

**Large vs medium size**

Section 42D(1) of the Charities Amendment Act 2014 states that a charitable entity is:

- **large** if the total operating expenditure of the entity and all entities it controls (if any) is $1 million or more in each of the two preceding accounting periods of the entity.

- **medium sized** if it is:
  - not large, and
  - the total operating expenditure of the entity and all entities it controls (if any) is $500,000 or more in each of the two preceding accounting periods of the entity.

If financial statements are prepared on a consolidated basis in respect of a ‘single entity’ (refer to Question 3) then section 42D(1) applies to the ‘single entity’.

**Total operating expenditure**

In April 2015 the XRB published an exposure draft which proposes amendments to Standard XRB A2 Meaning of Specified Statutory Size Thresholds (XRB A2) which includes a definition of ‘total operating expenditure’. The amendments propose that:

- where financial statements are prepared in accordance with standards issued by the XRB, total operating expenditure is the amount recognised in accordance with the requirements of Tier 1, Tier 2 or Tier 3 accounting standards in effect and applied by the entity as at each of the relevant balance dates,

- where financial statements are not prepared, or not prepared in accordance with standards issued by the XRB, total operating expenditure is the amount determined in accordance with Tier 3 accounting standards, as though the entity were reporting in accordance with those standards.

The amendments to XRB A2 have been proposed in order to take into account the Charities Amendment Act 2014. Therefore, the size thresholds for audit vs review will be incorporated into XRB A2.
What is the meaning of ‘audit’ and ‘review’?

The purpose of both an audit and a review is to enhance the degree of confidence of intended users in the financial statements. Neither an audit nor a review provides absolute assurance as this would be too time consuming and costly to provide, and may not be feasible in any event.

For an audit, this is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. As a basis of this opinion, the auditor obtains reasonable assurance (not absolute assurance) about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The opinion is expressed in a positive form.

By contrast, for a review, the reviewer expresses a conclusion as to whether anything has come to the reviewer’s attention to indicate that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework. As a basis for this conclusion, the reviewer obtains limited assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conclusion is expressed in a negative form.

The procedures performed for audits and reviews also differ. An audit requires a risk assessment and the design and performance of procedures responsive to the identified risks. The procedures performed for a review are substantially less than those performed for an audit and mainly consist of performing enquiry and analytical procedures after obtaining an understanding of where material misstatements are likely to arise in the financial statements.

An audit provides a higher level of assurance than a review. Therefore there is a greater risk that material misstatements will not be identified in a review as compared to an audit.
Who is a ‘qualified auditor’?

Question 2 refers to a ‘qualified auditor’. This term is defined in section 35 of the Financial Reporting Act 2013 (‘the FRA’) and states that “a person is a qualified auditor in respect of a specified entity if the person is qualified to be appointed or to act as the auditor of the entity under section 36”.

This means that only certain persons may be the auditor (or reviewer) of the more common types of NFP PBEs (e.g. registered charities, community trusts, etc). This represents a change from previous years, where there were no specific requirements for an auditor of an NFP PBE to have certain qualifications.

Section 36 describes the necessary qualifications that an auditor must have when legislation (e.g. the Charities Act 2005) requires an audit or a review to be performed by a qualified auditor. In brief, a qualified auditor should be:

a) a person or company who is a qualified auditor in accordance with the rules of the association of accountants that they belong to and which is recognised as an ‘accredited body’ under the FRA, or

b) a licenced auditor or registered audit firm (under the Auditor Regulation Act 2011), or

c) certain overseas persons or companies recognised by the FRA.

The qualified auditor cannot be a director or employee (or a partner or employee of a director or employee) of the NFP PBE. Certain other entities also cannot be qualified auditors (e.g. a body corporate that is not a registered audit firm or a company as referred to in a) above).

Also note that with regard to FMC reporting entities, the auditor must be a licenced auditor or a registered audit firm in order to be a qualified auditor.

The Financial Reporting Amendment Act 2014 has amended section 36. The requirements above will apply from 1 July 2015.

Not all members of an accredited body, such as Chartered Accountants Australia and New Zealand (CAANZ), will be eligible to act as a qualified auditor. NFP PBEs will need to check with their auditor (or reviewer) whether they meet the new eligibility requirements.
What needs to be considered where financial statements are not required in accordance with NZ GAAP?

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

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

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

If a NFP PBE is required to prepare financial statements in accordance with GAAP (either by legislation or the founding documents or contractual arrangements, etc) then it would report under Tier 1, 2 or 3 (depending on its eligibility or election). The Tier 4 accounting standard is not a GAAP standard therefore it cannot be used if the NFP PBE has to comply with GAAP. The Tier 4 accounting standard can only be used where the law permits a non-GAAP standard to be used (typically where the NFP PBE is very small).

We recommend that you check agreements in place and renegotiate with stakeholders as needed.
Appendices
### What are the main differences between the PBE Standards and NZ IFRS PBE?

There are not many substantive differences between the PBE Standards (Tier 1 and Tier 2) and the NZ IFRS PBE Standards. The following table outlines some of the main recognition and measurement differences. It is not an exhaustive list.

<table>
<thead>
<tr>
<th>Main recognition and measurement difference</th>
<th>Relevant PBE Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBE Standards contain more guidance relevant to NFP PBES, as compared to NZ IFRS PBE.</td>
<td>Various</td>
</tr>
<tr>
<td>PBE Standards specifically deal with revenue from non-exchange transactions. There was no explicit distinction between exchange and non-exchange transactions in NZ IFRS PBE, although there were specific requirements for the treatment of certain non-exchange transactions. In order to recognise a liability in relation to non-exchange revenue there must be an explicit return condition.</td>
<td>PBE IPSAS 23 Revenue from Non-Exchange Transactions</td>
</tr>
<tr>
<td>PBE Standards differentiate between cash-generating and non-cash generating assets. Any one of three valuation methods – depreciated replacement cost, restoration cost approach or service units approach – are used to determine value in use of non-cash-generating assets.</td>
<td>PBE IPSAS 21 Impairment of Non-Cash Generating Assets</td>
</tr>
<tr>
<td>PBE Standards consider grantor accounting for service concession assets – essentially a mirror image of operator accounting. NZ IFRS PBE did not specify recognition, measurement or disclosure requirements for the grantor.</td>
<td>PBE IPSAS 32 Service Concession Assets: Grantor</td>
</tr>
</tbody>
</table>
What are the main differences between the PBE Standards and NZ IFRS?

The following table outlines some of the main recognition and measurement differences. It is not an exhaustive list.

<table>
<thead>
<tr>
<th>PBE Standard</th>
<th>NZ IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBE IPSAS 4 <em>The Effects of Changes in Foreign Exchange Rates</em></td>
<td>NZ IAS 21 <em>The Effects of Changes in Foreign Exchange Rates</em></td>
</tr>
<tr>
<td>Dividends from pre-acquisition surplus result in a partial disposal of an investment in a foreign operation.</td>
<td>No dividends result in any disposal of an investment in a foreign operation.</td>
</tr>
<tr>
<td>Loss of control, loss of significant influence or loss of joint control of an investment that includes a foreign operation is treated as a partial disposal.</td>
<td>Loss of control, loss of significant influence or loss of joint control of an investment that includes a foreign operation is treated as a disposal.</td>
</tr>
<tr>
<td>PBE IPSAS 5 <em>Borrowing Costs</em></td>
<td>NZ IAS 23 <em>Borrowing Costs</em></td>
</tr>
<tr>
<td>Choice to either expense or capitalise borrowing costs.</td>
<td>All eligible borrowing costs are capitalised.</td>
</tr>
<tr>
<td>PBE IPSAS 6 <em>Consolidated and Separate Financial Statements</em></td>
<td>NZ IAS 27 <em>Separate Financial Statements/NZ IFRS 10 Consolidated financial statements</em></td>
</tr>
<tr>
<td>Permits the equity method in the separate financial statements.</td>
<td>Amendment to permit the equity method in the separate financial statements is effective 1 January 2016.</td>
</tr>
<tr>
<td>No investment entity consolidation exemption.</td>
<td>Contains the investment entity consolidation exemption.</td>
</tr>
<tr>
<td>Gain or loss recognised on a partial disposal of a subsidiary.</td>
<td>No gain or loss recognised on a partial disposal of an interest in a subsidiary where there is no loss of control.</td>
</tr>
<tr>
<td>Losses attributable to a minority interest are allocated against the majority interest.</td>
<td>Losses attributable to a non-controlling interest are attributed to the non-controlling interest even if this results in a deficit balance.</td>
</tr>
<tr>
<td>PBE Standard</td>
<td>NZ IFRS</td>
</tr>
<tr>
<td>--------------</td>
<td>---------</td>
</tr>
<tr>
<td>PBE IPSAS 8 <em>Interests in Joint Ventures</em></td>
<td>NZ IFRS 11 <em>Joint Arrangements</em></td>
</tr>
<tr>
<td>Applies to these joint ventures types: jointly controlled assets, jointly controlled operations and jointly controlled entities.</td>
<td>Applies to these joint arrangements types: joint operations and joint ventures.</td>
</tr>
<tr>
<td>Choice to either proportionate consolidate or equity account jointly controlled entities.</td>
<td>Joint operations are proportionately consolidated. Joint ventures are equity accounted.</td>
</tr>
<tr>
<td>PBE IPSAS 9 <em>Revenue from exchange transactions</em></td>
<td>NZ IAS 18 <em>Revenue</em></td>
</tr>
<tr>
<td>Dividends from pre-acquisition net surplus reduce the cost of an investment.</td>
<td>All dividends are revenue.</td>
</tr>
<tr>
<td>PBE IPSAS 21 <em>Impairment of Non-Cash Generating Assets</em></td>
<td>NZ IAS 36 <em>Impairment of Assets</em></td>
</tr>
<tr>
<td>Applies to all non-cash generating assets, except for revalued assets.</td>
<td>Assumes all assets are either cash-generating or can be assigned to a cash-generating unit. Applies to revalued assets.</td>
</tr>
<tr>
<td>PBE IPSAS 17 <em>Property, Plant and Equipment</em></td>
<td>NZ IAS 16 <em>Property, Plant and Equipment</em></td>
</tr>
<tr>
<td>Requires revaluation adjustments to be offset on a class of assets basis.</td>
<td>Only allows offsetting of a revaluation deficit against accumulated revaluation surpluses where the revaluation relates to the same asset.</td>
</tr>
<tr>
<td>PBE IPSAS 23 <em>Revenue from non-exchange transactions</em></td>
<td></td>
</tr>
<tr>
<td>Non-exchange revenue recognised subject to certain requirements. There must be a return condition in order to recognise a liability.</td>
<td>No concept of revenue from non-exchange transactions.</td>
</tr>
<tr>
<td>PBE IPSAS 25 <em>Employee Benefits</em></td>
<td>NZ IAS 19 <em>Employee Benefits</em></td>
</tr>
<tr>
<td>Permits the corridor approach.</td>
<td>All actuarial gains and losses recognised in the period.</td>
</tr>
</tbody>
</table>
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

Wellington

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

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

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

Hamilton

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

Dunedin

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

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

Wellington

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

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

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

Hamilton

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

Dunedin

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

Publications on the framework are available at:  

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 200,000 professionals are committed to becoming the standard of excellence.

Deloitte New Zealand brings together more than 1000 specialist professionals providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand’s largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015. For information, contact Deloitte Touche Tohmatsu Limited.