

# Accounting Alert

Analysis of the latest accounting developments

## In this issue:

Release of NZ IFRS

ED-96 Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards

Securities Commission Practice Note No 2/2004: Prospective Financial Information in Offer Documents Prepared in Periods Prior to Adoption of NZ IFRS in Historical Financial Statements

MED Discussion Document: Review of the Financial Reporting Act 1993 Part II

ED-97 Proposal to Amend the Scope of the New Zealand equivalent to International Accounting Standard 14 Segment Reporting (NZ IAS 14)

## For more information visit:

- [iasplus.com](http://iasplus.com) – a Deloitte website detailing IFRS “as it happens” as well as reporting on the current and proposed output of the IASB.
- [deloitte.co.nz](http://deloitte.co.nz) for New Zealand based publications including this Accounting Alert.

## A Christmas present from the ASRB! – Release of NZ IFRS

Just when you were wondering what to read on your summer holiday...

The Accounting Standards Review Board (ASRB) and the Financial Reporting Standards Board (FRSB) have given their New Zealand constituents a big Christmas present — 36 new accounting standards and 12 interpretations!

On 24 November 2004, the Accounting Standards Review Board formally approved the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Application of NZ IFRS is mandatory for periods beginning on or after 1 January 2007. Entities wishing to early adopt NZ IFRS may do so for periods beginning on or after 1 January 2005. A list of the approved standards and details of where to find them are included at the end of this issue.

And they haven't stopped there! The FRSB continues to issue exposure drafts, the Ministry of Economic Development is proposing to revise the financial reporting framework in its discussion paper *Review of the Financial Reporting Act Part II* and the Securities Commission is requiring NZ IFRS disclosures in prospectuses.

### ED-96 Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards

#### New Zealand Standards Affected

No current reporting standard.

#### Overview

NZ IFRS may have significant impacts on the reported financial position and financial performance of entities. In order to provide users with information to assess this, the exposure draft proposes to require issuers, and encourage other entities, to disclose in their annual or interim financial reports the impacts of adopting the New Zealand equivalents to IFRS. This will include:

- information regarding planning for the transition to NZ IFRS;
- key differences in accounting policies expected to arise on adoption of NZ IFRS, or if the key differences are not known, a statement to that effect; and
- known or reliably estimable information about the impacts on the financial reports under NZ IFRS, or if the impacts are not known, a statement to that effect.

**Entities planning to issue offer documents containing prospective information will need to include additional information on the likely impact of the transition from NZ GAAP to NZ IFRS.**

**Securities Commission Practice Note No 2/2004: *Prospective Financial Information in Offer Documents Prepared in Periods Prior to Adoption of NZ IFRS in Historical Financial Statements***

**Overview**

The Securities Commission has issued a practice note to set out its views on the preparation and disclosure of prospective financial information in registered prospectuses prior to the adoption of NZ IFRS in historical financial statements, and to clarify its views on the application of the Securities Act 1978 ("the Act") and Securities Regulations 1983 ("the Regulations").

When issuers' offer documents include prospective financial information that covers one or more future financial reporting periods, and is for the year of transition to NZ IFRS, and/or for the period the issuer intends to adopt NZ IFRS for the first time, the following should be presented:

- The information should be prominently labelled as being prepared under NZ GAAP or NZ IFRS respectively.
- When the prospective information is presented for the year of transition to NZ IFRS (i.e. the comparative period in the first NZ IFRS financial statements), the following additional disclosures identifying the natures and impact of the main differences that will occur as a result of moving from NZ GAAP to NZ IFRS are required:
  - The amounts of the differences between its prospective equity, the prospective profit or loss (surplus or deficit), and the prospective cash flow reported under NZ GAAP and NZ IFRS for the same period;
  - If the impact of adopting NZ IFRS is not expected to be material, this fact should be stated.
- When the prospective information has been presented for the period the issuer intends to adopt NZ IFRS for the first time and where the offer document includes historical financial statements under NZ GAAP and no prospective information has been presented for the year of transition, the following information is to be presented:
  - Reconciliations between its equity under NZ GAAP to its equity under NZ IFRS for the date of transition to NZ IFRS and the end of the latest period presented in the issuer's most recent historical financial statements under NZ GAAP;
  - A reconciliation between the profit or loss under NZ GAAP for the latest period of the issuer's most recent historical financial statements to its profit or loss under NZ IFRS for the same period; and
  - A reconciliation between the cash flows under NZ GAAP for the latest period of the issuer's most recent historical financial statements to its cash flows under NZ IFRS for the same period.

We note that entities will need to highlight that this information is prepared on the basis of NZ IFRS applicable at the date of preparation and that the information may change if the requirements of NZ IFRS change before the entity's first NZ IFRS reporting date. This is because under NZ IFRS-1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*, entities must apply the version of NZ IFRS effective at the reporting date in its first NZ IFRS compliant financial statements for both the current and comparable period, including the opening balance sheet.

**It is proposed that charitable entities will be required to produce financial reports in accordance with a three-tier reporting framework differentiated on level of income from public sources.**

### **MED Discussion Document: *Review of the Financial Reporting Act 1993 Part II***

The Ministry of Economic Development has issued Part II of its review of the Financial Reporting Act 1993 (FRA). The discussion document proposes that in contrast to the original discussion paper (Part I), the FRA will determine only the content of financial reporting standards (i.e. what must be reported and how). In terms of "who must report", the proposal is that this would be left to other specific pieces of legislation rather than being included in the FRA. This discussion document only considers the reporting obligations of non-issuer companies, overseas companies, registered charitable entities and issuers of securities to the public.

- Non-issuer companies: there are two alternative proposed approaches. All companies will be required to produce financial reports, have them audited, and file them with the Registrar of Companies. However, small companies under the preferred approach, or all non-issuer companies under the alternative approach should be able to waive any or all of these requirements by shareholder agreement. The size/economic impact would be assessed on the basis of a two-out-of-three objective size test with the proposed size criteria being:
  - Consolidated assets of \$10 million;
  - Consolidated operating revenue of \$20 million;
  - 50 full time equivalent employees.
- Conduit issuers: issuers that raise funds from the public but subsequently pass the funds on to a related entity for operational purposes would be required to comply with the financial reporting obligations of issuers.
- Overseas-owned companies: there will be no distinction between overseas-owned, and locally-incorporated companies. For example, non-issuer overseas companies would not be required to produce, have audited, or file financial statements if they are below the size criteria outlined above under the preferred approach.
- Overseas entities: the paper proposes that overseas-incorporated companies will be able to apply for exemptions from financial reporting requirements where appropriate.
- Charitable entities: It is proposed that charitable entities will be required to produce financial reports in accordance with a three-tier reporting framework differentiated on level of income from public sources. There would be no mandatory requirements for consolidation. All registered charitable entities would be required to file financial reports with the Charities Commission together with their annual return. Small charitable entities would only be required to comply with very simple reporting requirements. Any financial reporting requirements are likely to apply from 2009.
- The discussion paper also proposes:
  - enhanced enforcement of the Financial Reporting Act 1993;
  - a number of provisions relating to the mechanics and practicalities of financial reporting such as rules for consolidation, a possible exemption for non-active entities, and technical neutrality (i.e XBRL) for the electronic publication of financial reports;
  - appropriate procedures for setting auditing standards and seeks preliminary views on the regulation of auditors;
  - a reconstituted version of the Accounting Standard Review Board(ASRB), including the power to issue exemptions, interpretations and determinations.

The submission period for comments on the proposals to the ministry closes on **25 February 2005**.



## ED-97 Proposal to Amend the Scope of the New Zealand Equivalent to International Accounting Standard 14 Segment Reporting (NZ IAS 14)

### New Zealand Standards Affected

NZ IAS 14 Segment Reporting

#### Overview

The exposure draft proposes to extend the scope to all issuers, including all other entities in the process of becoming issuers, as defined in the Financial Reporting Act 1993, section 4. This scope extension is likely to have an impact on insurers to whom part 10 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 applies and retirement villages. Consequently, the additional transitional provisions have been proposed to accommodate the effect of the proposed scope extension. Issuers, and other entities in the process of becoming issuers, that are outside of the scope of the current NZ IAS 14, that choose to adopt NZ IFRS will be required to comply with the revised standard on or after 1 January 2006. Any entity within this scope extension that adopts NZ IFRS prior to 1 January 2006 is encouraged to apply NZ IAS 14.

**“The New Zealand Equivalents to IFRS can be viewed on [www.icanz.co.nz](http://www.icanz.co.nz)”**

### New Zealand Equivalents to IFRS

The Accounting Standards Review Board approved the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) on the 24th of November. The standards can be viewed on the ICANZ web site.

The following accounting standards are available for viewing on the website:

#### New Zealand Equivalents to IFRS

- NZ IFRS-1: *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*
- NZ IFRS-2: *Share-based Payment*
- NZ IFRS-3: *Business Combinations*
- NZ IFRS-4: *Insurance Contracts*
- NZ IFRS-5: *Non-current Assets Held for Sale and Discontinued Operations*

#### New Zealand Equivalents to IAS

- NZ IAS-1: *Presentation of Financial Statements*
- NZ IAS-2: *Inventories*
- NZ IAS-7: *Cash Flow Statements*
- NZ IAS-8: *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS-10: *Events after the Balance Sheet Date*
- NZ IAS-11: *Construction Contracts*
- NZ IAS-12: *Income Taxes*
- NZ IAS-14: *Segment Reporting*
- NZ IAS-16: *Property, Plant & Equipment*
- NZ IAS-17: *Leases*
- NZ IAS-18: *Revenue*
- NZ IAS-19: *Employee Benefits*
- NZ IAS-20: *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IAS-21: *The Effects of Changes in Foreign Exchange Rates*
- NZ IAS-23: *Borrowing Costs*
- NZ IAS-24: *Related Party Disclosures*
- NZ IAS-26: *Accounting and Reporting by Retirement Benefit Plans*
- NZ IAS-27: *Consolidated and Separate Financial Statements*
- NZ IAS-28: *Investments in Associates*
- NZ IAS-29: *Financial Reporting in Hyperinflationary Economies*
- NZ IAS-30: *Disclosure in the Financial Statements of Banks and Similar Financial Institutions*
- NZ IAS-31: *Interests in Joint Ventures*
- NZ IAS-32: *Financial Instruments: Disclosure and Presentation*
- NZ IAS-33: *Earnings per Share*
- NZ IAS-34: *Interim Financial Reporting*
- NZ IAS-36: *Impairment of Assets*
- NZ IAS-37: *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS-38: *Intangible Assets*
- NZ IAS-39: *Financial Instruments: Recognition and Measurement*
- NZ IAS-40: *Investment Property*
- NZ IAS-41: *Agriculture*

### New Zealand Equivalents to IFRIC

- NZ IFRIC-1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

### New Zealand Equivalents to SIC

- NZ SIC-7: *Introduction of the Euro*
- NZ SIC-10: *Government Assistance – No Specific Relation to Operating Activities*
- NZ SIC-12: *Consolidation – Special Purpose Entities*
- NZ SIC-13: *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- NZ SIC-15: *Operating Leases – Incentives*
- NZ SIC-21: *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- NZ SIC-25: *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
- NZ SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- NZ SIC-29: *Disclosure – Service Concession Arrangements*
- NZ SIC-31: *Revenue – Barter Transactions Involving Advertising Services*
- NZ SIC-32: *Intangible Assets – Web Site Costs*



Best wishes from the partners and the people of Deloitte for the festive season and a happy and prosperous New Year.

### Important Dates

The FRSB's timetable is aligned to that of the IASB. As the IASB issues exposure drafts or standards, the FRSB will issue them as New Zealand equivalents exposure drafts or standards having made additions, where necessary, to ensure they are sector neutral. As a result the NZ agenda is subject to change as deliberations of the IASB proceed. An up to date timetable is available at [www.iasplus.com/agenda/timetabl.htm](http://www.iasplus.com/agenda/timetabl.htm). Keep track of these important dates for responding on Exposure Drafts to the FRSB.

#### Comments Due in January 2005:

- ED-97 Proposal to Amend the Scope of the New Zealand Equivalent to International Accounting Standard 14 *Segment Reporting* (NZ IAS 14)

#### Comment Due in February 2005:

- MED Discussion Document: *Review of the Financial Reporting Act 1993 Part II*
- IFRIC Draft Interpretation D10: *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

All exposure drafts are available through the Institute's website: [www.icanz.co.nz](http://www.icanz.co.nz)

### Contact:

#### Denise Hodgkins

National Technical Partner  
Ph: +64 9 303 0918  
Email: [dhodgkins@deloitte.co.nz](mailto:dhodgkins@deloitte.co.nz)

### New Zealand Directory

**Auckland** PO Box 33, Ph +64 (9) 309 4944, Fax +64 (9) 309 4947  
**Hamilton** PO Box 17, Ph +64 (7) 838 4800, Fax +64 (7) 838 4810  
**Wellington** PO Box 1990, Ph +64 (4) 472 1677, Fax +64 (4) 472 8023  
**Christchurch** PO Box 248, Ph +64 (3) 379 7010, Fax +64 (3) 366 6539  
**Dunedin** PO Box 1245, Ph +64 (3) 477 7042, Fax +64 (3) 477 9433

**Internet address** <http://www.deloitte.co.nz>

Those wishing to receive this publication regularly are asked to communicate with: The Editor, PO Box 33, Auckland.  
Email: [nzinfo@deloitte.co.nz](mailto:nzinfo@deloitte.co.nz)  
Ph +64 (9) 309 4944. Fax +64 (9) 309 4947.  
© Deloitte 2004

Deloitte brings together over 700 specialists providing New Zealand's widest range of high quality professional services. We focus on audit, tax, technology and systems, risk management, corporate finance and business advice for growing organisations. Our people are based in Auckland, Hamilton, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies to smaller businesses with ambition to grow.

Deloitte's local experts draw on best practice and innovative methodologies from around the world as part of Deloitte Touche Tohmatsu, whose 120,000 people globally serve over half of the world's largest companies. A long track record and a wealth of international research into the needs of growing organisations has made Deloitte the world's leading advisor to emerging businesses. For more information about Deloitte in New Zealand, look to our website [www.deloitte.co.nz](http://www.deloitte.co.nz)

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas—audit, tax, consulting, and financial advisory services—and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

© Deloitte 2004. AAA1469-04