Accounting Update

Stephen Lewis, *Director, Technical*
Brett Story, *Technical Manager*

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Agenda

- Tiers 2 – an overview
- The transition process
- Tiers 1 & 2 – the main differences
  - Non-exchange revenue
  - Related party Disclosures
  - Other differences

PBE IPSAS – where are the Standards?

- www.xrb.govt.nz you want the *"Standards for Public Sector PBEs";* and then *"Standards after 1/7/14"*
- **T1 & T2**: there are two versions of each standard:

Effective date	Difference
1 April 2015	Includes guidance for not-for-profit entities**
1 July 2014*	**Pre-NFP enhancements**

* the more correct version to use for 15J audits

** *Incorporate enhancements for not-for-profit entities. If there are any provisions that are specific to N-F-Ps then that will be stated.*

- **T3 & T4**: have their own accounting standards (on the same page)
- **Not-for-profit entities:** for example, charities

Reporting Tiers

Tier	Criteria	Standards
1	**Expenditure > $30m,** or publicly accountable	Full PBE IPSAS
2	**Expenditure < $30m** and not publicly accountable	PBE IPSAS, with Reduced Disclosure Requirements
3	**Expenditure $2m or less** and not publicly accountable	Simple format - accrual
4	Operating payments $125k or less	Simple format - cash

PBE Tier 2 RDR

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Overview of PBE RDR

- Provides an opportunity for eligible entities to reduce their disclosures.
- More entities will be eligible compared to differential reporting.
- Disclosures identified in each Standard with an asterisk (*) are not required:
    - Entities can "cherry pick",
- Paragraphs that start with "RDR" can be applied:
    - Some disclosure still required, but simplified.
- If a concession is no longer applied, comparative information is required (unless comparative information not required anyway).
- We encourage entities to consider adopting RDR.

Opportunities to reduce disclosures

- Opportunities to reduce disclosures that will apply in most circumstances include:
  - Financial instruments.
  - Capital management.
  - Reconciliation of surplus/deficit to net operating cash flows.
  - Prior year opening to closing reconciliations (for example, PPE).
  - Standards issued and not yet effective

- Opportunities to reduce disclosures that will apply in certain circumstances include:
  - Impairment of assets (tangible & intangible) and goodwill.
  - Associate investments.
  - Agricultural activities.
  - When business combinations occur.

The transition process

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Which transition standard?

To	From	Standard
PBE Tier 1 or Tier 2	NZ IFRS (PBE)	PBE FRS-46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*
PBE Tier 3	NZ IFRS (PBE) or other basis	Included in Simple Format Reporting **Accrual** standard
PBE Tier 4	NZ IFRS (PBE) or other basis	Included in Simple Format Reporting **Cash** standard
PBE Tier 1 or Tier 2	Old NZ GAAP or other non-IFRS basis	PBE FRS-47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*

PBE FRS 46 – From NZ IFRS to Tier 1 or Tier 2

Overview

- This Standard applies to the first annual financial statements prepared using PBE Standards (i.e. 30 June 2015);
- In transitioning, use same policies as under NZ IFRS (PBE), unless:
  - PBE Standards **require** a change;
  - there is a voluntary change in accounting policy;
  - a prior period error is identified.
- Specific transitional provisions apply in some circumstances
  - E.g. if previously applied Diff Rep.

PBE FRS 46 - From NZ IFRS to Tier 1 or Tier 2

Prepare an opening statement of financial position at transition date [i.e. 1 July 2013]:

- Apply the PBE standards effective at the reporting date of first PBE financials (= 30 June 2015)
- Accounting policies used must be consistent throughout all periods presented in first financials under PBE Standards.
- Adjustments recognised in opening equity, that is, at transition date.
- For items recognised for first-time with no specific transitional provision, option to measure using either:
    - retrospective approach following PBE IPSAS 3; or
    - fair value measure as deemed cost at date of transition.

PBE FRS 46 - From NZ IFRS to Tier 1 or Tier 2

Comparatives

- Amounts restated for adjustments arising on transition.
- Comparative information is amended for classification or presentation changes arising on transition.
- **Don't** need to include the 'transition date' balance sheet in the 2015 fin stats

PBE FRS 46 - From NZ IFRS to Tier 1 or Tier 2

- Disclosure:
  - Para 40 – requires a statement that these are the first financial statements prepared under PBE Standards.
  - Para 42 - disclose the nature and amount of the adjustment for each financial statement line item materially affected at date of transition. Show separately:
    - correction of errors;
    - voluntary changes in accounting policies; and
    - changes arising from transition to PBE Standards.
  - Para 18 - for material changes in presentation or classification, disclose:
    - Nature, amount & reason for each reclassification.

Transition process - key steps

- Plan the transition work – ownership, resource, and timing
- Determine the reporting tier
- Assess & document the impacts of standards

Tiers 1 and 2 Main differences compared to PBE NZ IFRS-based standards

New PBE Accounting Standards, March 2015

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Standards with no differences or no relevant differences

PBE IFRS 3 *Business Combinations*	PBE IAS 12 *Income Taxes*
PBE IFRS 4 *Insurance Contracts*	PBE IPSAS 14 *Events After the Reporting Period*
PBE IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*	PBE IPSAS 22 *Disclosure of Information About the General Government Sector*
PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*	PBE FRS-42 *Prospective Financial Statements*
	PBE FRS-43 *Summary Financial Statements*

Standards with differences – but not covering all differences today

But the hand-out includes slides that outline the differences

PBE IPSAS 1 Presentation of Fin Stats	PBE IPSAS 7 Investments in Associates
PBE IPSAS 2: Cash flow statements	PBE IPSAS 8 Interests in Joint Ventures
PBE IPSAS 4: Effects of Changes in Foreign Exchange Rates	PBE IPSAS 9 Revenue from Exchange Transactions
PBE IPSAS 5: Borrowing Costs	PBE IPSAS 11 Construction Contracts
PBE IPSAS 6 Consolidated & Separate Financial Statements	PBE IPSAS 12 Inventories

Standards with differences – but not covering all differences today

PBE IPSAS 13 Leases	PBE IPSAS 27 Agriculture
PBE IPSAS 16 Investment Property	PBE IPSAS 28 Financial Instruments: Presentation
PBE IPSAS 17 PP&E	PBE IPSAS 29 Financial Instruments: Recognition and Measurement
PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	PBE IPSAS 30 Financial Instruments: Disclosures
PBE IPSAS 25 Employee Benefits	PBE IPSAS 31 Intangible Assets
PBE IPSAS 26 Impairment of Cash-Generating Assets	

Non-exchange revenue

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History of general revenue standards

- "Old" NZ GAAP (prior to 30 June 2008)
  - Statement of concepts - definitions
  - No general revenue standard
- NZ IFRS (30 June 2008 to 30 June 2014)
  - NZ Framework - definitions
  - NZ IAS 18 *Revenue* –non-exchange transactions scoped out
  - No non-exchange standard (NZ IAS 20 *Government Grants* scoped out PBEs)
- IPSAS 23 *Revenue from Non-Exchange Transactions (issued end of 2006)*
- New PBE Standards (from 30 June 2015)
  - NZ Framework
  - PBE IPSAS 9 *Revenue from Exchange Transactions*
  - **PBE IPSAS 23 *Revenue from Non-Exchange Transactions***

Apply PBE IPSAS 9 or PBE IPSAS 23?

- First step : Is the transaction exchange or non-exchange?
- **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. (PBE IPSAS 9)
- **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. (PBE IPSAS 9)

Apply PBE IPSAS 9 or PBE IPSAS 23?

PBE IPSAS 9 – Exchange examples	<?>	PBE IPSAS 23 - Non-exchange examples
Sale of goods on a commercial basis Provision of services on a commercial basis Interest Dividends Royalties	Certain levies Certain fees and charges Certain other funding	Most taxes Fines and penalties Grants received Donated or vested assets Goods and services in kind Concessionary loans received Subsidised sales and services

Apply PBE IPSAS 9 or PBE IPSAS 23?

- Expectation that an exchange transaction has all 3 of the following components*:
  - There are two parties that have agreed to enter into the transaction.
  - There is a direct exchange of economic benefits or service potential between the parties.
  - The exchange is of approximately equal value.
- If the transaction does not have all 3 components = non-exchange
- If accounting is the same under PBE IPSAS 23 and PBE IPSAS 9, the distinction is less important

**Extracted from OAG Guidance "How should public entities distinguish between exchange and non-exchange revenue?" You can ask your Auditor for a copy.*

When is revenue recognised under PBE IPSAS 23?

- When an asset is recognised, need to consider the nature of stipulations, if any, attached to the asset to determine timing of revenue recognition.
- Stipulations – terms imposed on use of transferred asset. Either:
  - **Conditions** – have a “return” obligation if performance obligations not met.
    - Recognise liability when asset/funding received.
    - Recognise revenue as performance obligations are met.
  - **Restrictions** – no “return” obligation.
    - Recognise revenue when get control (often when received).
- Whether a stipulation is a “condition” or a “restriction” depends on the substance of the terms.
  - For example, transferor must able (and willing) to enforce “return” to be a condition.

PBE IPSAS 23 Practical Issues

Government departments – Revenue Crown

- For most of you, accounting is unlikely to change on transition.
- Accounting practices under NZ IFRS (PBE) has varied in some cases.
- We would like to see consistency in the way Revenue Crown is accounted for and see the transition as an opportunity to achieve this.
- We consider funding more likely to be non-exchange in nature as there are generally no economic consequences for under/over delivery of agreed outputs.
- The Office of Auditor-General is looking to provide guidance to auditors on accounting for revenue Crown.

PBE IPSAS 23 Practical Issues

- **Crown entity funding from the Crown**
  - Our view, non-exchange
- **Accounting for revenue from levies**
  - Exchange or non-exchange (some may be taxes)?
  - Are there on-going services provided to the levy payer?
- **Assets and revenue recognised at fair value at initial recognition**
  - Taxes, fines, penalties etc.
  - How to treat/disclose “day one impairment”.
- **Grants**
  - Are there substantive conditions?
  - Determining the amount of revenue to recognise when conditions are met.

PBE IPSAS 23 Practical Issues

- **Assets with on-going restrictions (our view):**
  - For example, land donated with restriction of use for education/health or else returned.
  - Recognise asset and revenue at fair value.
  - Liability not recognised unless/until it is expected that the stipulation will be breached.
- **Suspensory loans received that are in substance grants with conditions**:
  - Is revenue recognised at the end of loan period if conditions met? or
  - Could revenue be progressively recognised over the condition period?
- **Donated goods recognised**; recognition of donated services not mandatory.
- **Trusts and bequests received**
  - Are there substantive use or return conditions attached?

PBE IPSAS 23 Disclosures

- Extensive disclosures required by PBE IPSAS 23, for example:
  - Accounting policies for non-exchange revenue.
  - How the fair value of revenue has been determined.
  - Revenue from non-exchange transactions by major classes.
  - Amount of liabilities recognised in respect of transferred assets subject to conditions.
  - Amount of assets recognised subject to restrictions and nature of restrictions.
- Consider materiality in compiling the disclosures

PBE IPSAS 1 Disclosures

PBE IPSAS 1 compared to NZ IAS 1 – exchange/non-exchange

- **Different – standard requires separate disclosures *on the face***
  - Receivables from exchange transactions.
  - Recoverables from non-exchange transactions. *
  - Payables under exchange transactions.
  - Taxes & transfers payable. *
  - In most cases, in the notes will be acceptable in practice

** Could include current and deferred tax liabilities and assets.*

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Key messages

- You need to understand your main revenue sources and ensure accounting is compliant with new PBE standards.
    - You may have little or no change, but this needs to be confirmed.
    - Discuss with your auditor any significant judgements in revenue accounting.
    - When classification as exchange or non-exchange is difficult, consider whether the accounting is affected by the classification.
- Funding contracts will need to be reviewed.

PBE IPSAS 20
Related Party Disclosures

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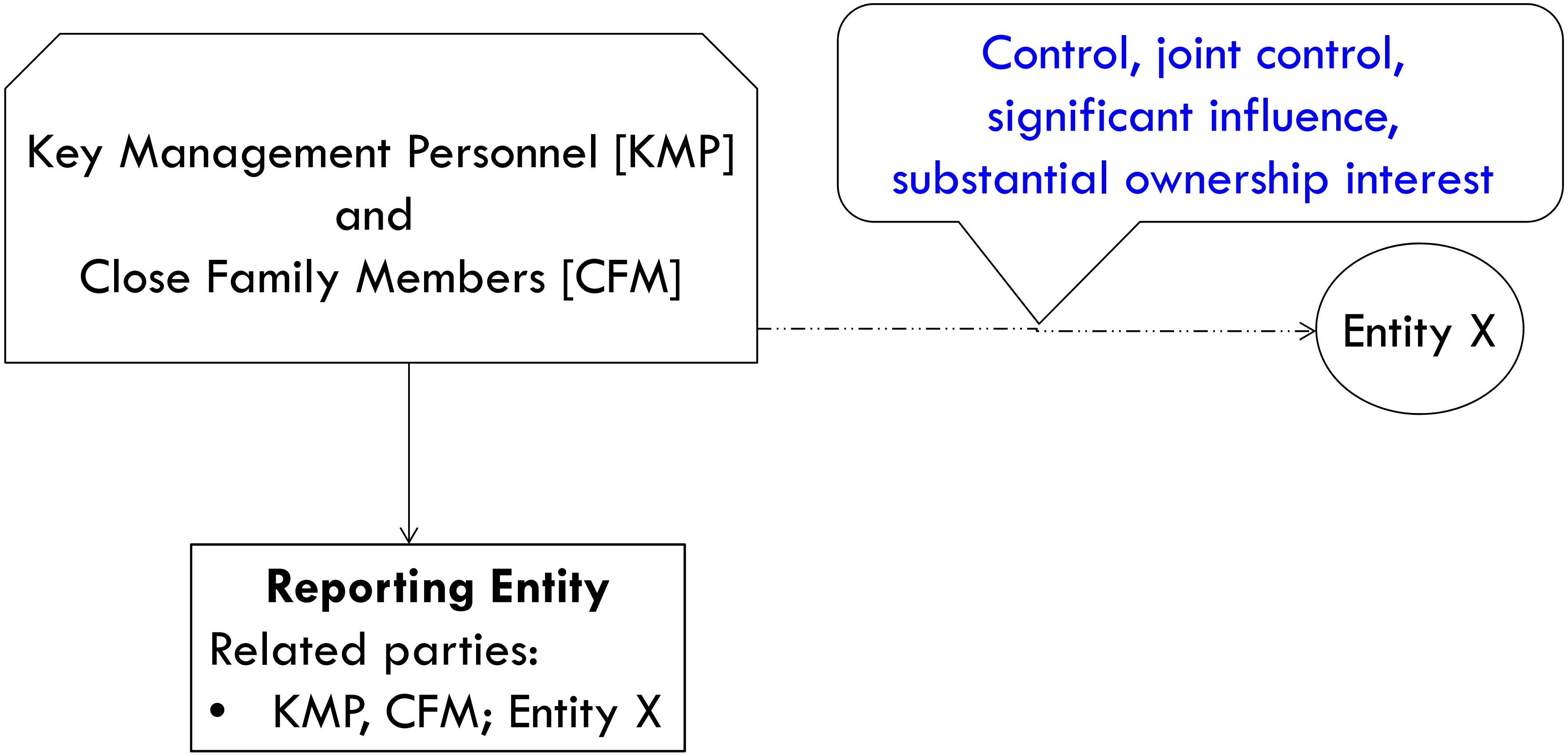
Related Parties: individuals



RP: Key Management Personnel

- Members of the governing body
- All others with responsibility for planning, directing & controlling the entity's activities
  - Minister with portfolio responsibility for the department
    - Key advisors – if meet criteria
  - CEO
  - Members of the senior management team

Close family members: same definition as NZ IAS 24

Disclosures: general

<table>
<tr><th>NZ IAS 24 - was</th><th>PBE IPSAS 20 - now</th></tr>
<tr><td>General:
show all transactions with related parties
Can state if on arm’s length basis</td><td rowspan="2">For all RP transactions:
No disclosure if the transaction
would occur within a normal client/ supplier relationship and
on terms and conditions no more or less favourable than in an arm’s length transaction <u>in the same circumstances</u>
Disclose all (material) transactions that don’t meet that test</td></tr>
<tr><td>Government concession (Crown entities, departments): whether or not arm’s length basis
Nature & amount of individually significant transactions
Transactions collectively but not individually significant: indication of extent</td></tr>
</table>

Disclosures: what information?

Disclosure of Control: where control exists must disclose RP relationships even if no transactions

- List: controlled entities, immediate controlling entity, ultimate controlling entity [*similar to NZ IAS 24*]

Disclosure of transactions: where disclosure <u>is</u> required:

- Nature of the RP relationship with the entities involved (e.g. parent, sub, common control, KMP)
- Types of transactions
- Elements of transactions

Disclosures: what information?

Types & Elements of transactions

- Description of RP transactions within each broad class of transaction
- Indication of volume: Specific $ amount or as % of class
- Balances outstanding
- Summary of broad terms & conditions **and how those differ from those normally associated with arm's length transactions**
- Items of a similar nature can be aggregated – unless separate disclosure necessary for decision-making & accountability purposes

KMP disclosures

Remuneration (in role as member of governing body or employee)

- Show total amount paid, by group of KMP
  - e.g. governing body, senior management
  - *Don't* need to categorise by type of remuneration
    - e.g. short term, termination etc.
- Have to show FTE for each group

KMP disclosures

Other rem/compensation (e.g. consultancy fees to KMP; rem to CFM)

- Only show if not arm's length/normal terms & conditions <u>in the same circumstances</u>
- Show KMP & rem/compensation to CFM separately

Loans: any loans to KMP & CFM where:

- the loans are not widely available to non-KMP,
- Or, availability not widely known by the public (even if available to non-KMP).
- Show amounts for the year: advanced (+ terms & conditions), repaid, balance

Fewer disclosures doesn't mean less work

- Still need to identify & document the relationships – and why/why not a related party
- While fewer disclosures, need to support that is the correct result:
    - Need to be able to demonstrate that RP transactions not disclosed were "on normal terms and conditions".

Tiers 1 and 2 other differences compared to PBE NZ IFRS-based standards

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PBE IPSAS 1 *Presentation of Fin Stats*

PBE IPSAS 1 compared to NZ IAS 1

- Now: ***Statement of Comprehensive Revenue and Expense***
  - Lines using the descriptor “income” will be “revenue and expense” [for example, OCR&E instead of OCI].
  - But can keep old titles.
- **Governing legislation:** state the legislation governing the entity’s operations.
  - Not always the same as the legislation governing fin stats [for example, Crown entities] – which is required as well.
- State whether **Tier 1 or 2** (and why eligible for T2)

PBE IPSAS 3: *Accounting policies, Changes in Accounting Estimates and Errors*

PBE IPSAS 3 compared to NZ IAS 8

- No differences.
- The hierarchy for developing an accounting policy where IPSAS doesn't deal with the issue allows "*recourse to private sector practices if necessary, but only to the extent that these do not conflict with the sources in paragraph 14*". [NZ IAS 3.15]
  - For example, the PBE Standards dealing with subsidiaries, associates and JVs don't have the detailed guidance that is in IFRS when control or significant influence is lost.
  - But could refer to IFRS using the authority in paragraph 15.

PBE IPSAS 17 *PP&E*

PBE IPSAS 17 compared to NZ IAS 16

- **Disclosures:** the following are to be disclosed **by class**:
  - Restrictions on title.
  - PP&E pledged as security.
  - WIP.
  - Contractual commitments.
  - Compensation for items impaired.

  NZ IAS 16 requires this information – but not by class
  - That is, disaggregate the existing disclosure

PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

PBE IPSAS 21 compared to NZ IAS 36

- Guidance on distinguishing *non-cash-generating* and *cash-generating** assets
  - **primary objective: generating a commercial return*
- Only applies to assets measured at cost:
  - Assets at revalued amounts: impairment should be factored into valuation.
  - If a revalued item is impaired by a material amount, may trigger revaluation of the class.
- More relevant impairment indicators and illustrative examples.

PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

PBE IPSAS 21 compared to NZ IAS 36

- Recoverable <u>service</u> amount: reflects PBE-type assets.
- Value in use [*=remaining service potential*] measured using either:
  - depreciated replacement cost approach;
  - restoration cost approach; or
  - service units approach.
- Disclosures (*may increase*):
  - criteria developed to distinguish cash-generating assets from non-cash-generating assets.
  - the approach used to determine value in use for a material impairment loss, if based on value in use .

PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

PBE IPSAS 29 compared to NZ IAS 39

- Provides guidance on accounting for concessionary loans:
  - Measuring fair value.
  - Accounting for the difference between fair value and face value:
    - **For the borrower**: refer to PBE IPSAS 23.
    - **For the lender**: an expense, unless acting in capacity as owner in which case may be a capital contribution.

PBE IPSAS 30 *Financial Instruments: Disclosures*

PBE IPSAS 30 compared to NZ IFRS 7

- Additional disclosures about concessionary loans **granted:**
    - Opening to closing balance reconciliation.
    - Nominal value of loans at end of year.
    - The purpose and terms of the various loans.
    - Valuation assumptions.

Standards that we’re not covering today

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PBE IPSAS 1 *Presentation of Fin Stats*

PBE IPSAS 1 compared to NZ IAS 1

- **Revenue:**
  - All gains included in Revenue; PBE IPSAS 1 doesn't have the revenue/income differentiation that is in IFRS.
  - Sub-classify revenue "in a manner appropriate to the entity's operations";
    - on the face or in the notes.

PBE IPSAS 1 *Presentation of Fin Stats*

PBE IPSAS 1 compared to NZ IAS 1

- **Contributions from and distributions to owners:**
  - Explicitly includes transfers between entities within the same Group.
    - For example, departments → Crown entity; CE → CE
  - Contributions by owners only shown directly in equity if they give rise to residual interests in net assets.

PBE IPSAS 2: *Cash flow statements*

PBE IPSAS 2 compared to NZ IAS 7

- Partial disposal of subsidiaries:
  - Under NZ IAS 7: show as financing.
  - Treatment not specified under PBE IPSAS 2.

PBE IPSAS 4: *Effects of Changes in Foreign Exchange Rates*

PBE IPSAS 4 compared to NZ IAS 21

- Doesn’t have detailed guidance in NZ IAS 21 about treatment of accumulated exchange differences where there is partial or full disposal of a foreign operation.
    - But see comments re PBE IPSAS 3

PBE IPSAS 5: *Borrowing Costs*

PBE IPSAS 5 compared to NZ IAS 23

- **Optiona**l whether to expense or capitalise, but order now reversed:
  - *Benchmark treatment*: expense.
  - *Alternative treatment*: capitalise.
- But **all** qualifying assets are within-scope if an entity elects to capitalise borrowing costs.
  - Under NZ IAS 23, an entity could elect not to capitalise borrowing costs for assets measured at fair value.

PBE IPSAS 6 *Consolidated & Separate Financial Statements*

PBE IPSAS 6 compared to NZ IAS 27

- This Standard incorporates the "A*utopilot"* and "C*omplementary Benefits"* concepts that were in FRS-37, which were referred to in NZ IAS 27.
  - Contained in Appendix A, *Application Guidance*; "*an integral part of PBE IPSAS 6.*"

PBE IPSAS 6 *Consolidated & Separate Financial Statements*

PBE IPSAS 6 compared to NZ IAS 27

- **In parent's separate fin stats** investments in controlled entities, jointly controlled entities, and associates can be accounted for using the equity method .
  - This is in addition to the options of cost or as a financial instrument [*the only 2 options under NZ IAS 27(PBE)*].
  - Can be applied even if preparing group fin stats.
- **Minority interests [MI]:**
  - if losses attributable to MI exceed the MI, then allocated against majority interest – unless the MI has underwritten the loss.

PBE IPSAS 6 *Consolidated & Separate Financial Statements*

PBE IPSAS 6 compared to NZ IAS 27

Exemptions from group fin stats:

- Similar to NZ IAS 27, **except** where the parent is a wholly-owned subsidiary:
    - Then: exempt if users unlikely to exist, or their needs are met by the controlling entity's group fin stats. *Judgement required.*
    - "Agreement of/no objection by" controlling entity no longer taken into account (this was the criterion under NZ IAS 27).
        - But it still is where parent is a **partially-owned** subsidiary.

PBE IPSAS 6 *Consolidated and Separate Financial Statements*

PBE IPSAS 6 compared to NZ IAS 27

Accounting when lose control of a subsidiary:

- this Standard **doesn't** have the detailed guidance in NZ IAS 27.32 - 35; it is silent.
  - May be accounted for differently.
  - Can use NZ IAS 27 as guidance *[allowed by PBE IPSAS 3*].
  - Specific requirement to disclose gain/loss no longer in this Standard [*Cf. NZ IAS 27.41(f)*].
    - But arguably required by PBE IFRS 5 *non-current assets held for sale and discontinued operations* in any case.

PBE IPSAS 6 *Consolidated and Separate Financial Statements*

PBE IPSAS 6 compared to NZ IAS 27

Disclosures:

- *Additional to NZ IAS 27*: List significant controlled entities.
- *Reduction from NZ IAS 27*: Less information about the effects of loss of control of a subsidiary.
    - *Not required*: schedule showing effects of changes in a parent's interest in a subsidiary that does not result in a loss of control.
    - *Not required*: separate disclosure of gain/loss from disposal of subsidiary.

PBE IPSAS 7 *Investments in Associates*

PBE IPSAS 7 compared to NZ IAS 28

Scope of standard:

- Investment in entities that do not have a formal equity structure are not within the scope of this Standard.
    - Unclear how to account for an "associate" where no formal equity structure, for example, can a Trust be equity-accounted – not common, but some are.
    - Accounting policy hierarchy in PBE IPSAS 3 may still support equity accounting, but will need to be able to measure the investment reliably.
    - Need to consider on a case-by-case basis.

PBE IPSAS 7 *Investments in Associates*

PBE IPSAS 7 compared to NZ IAS 28

- **Exemptions from equity accounting**: same differences as for PBE IPSAS 6:
  - That is, differs where investor is a wholly-owned subsidiary.
- **Loss of significant influence**: Guidance if moving to a financial instrument (same as NZ IAS 28).
  - But no guidance if moving to subsidiary, JV or treatment of items in OCI of associate (which NZ IAS 28 does have).
  - Accounting may differ and thus could affect gain/loss.
  - Can refer to NZ IAS 28 for guidance (from IPSAS 3.15).

PBE IPSAS 8 *Interests in Joint Ventures*

PBE IPSAS 8 compared to NZ IAS 31

- **Joint control:** definition slightly different to NZ IAS 31.
  - Still requires that no single venturer is in a position to control the activity unilaterally.
  - Doesn’t necessarily have to be by contract; for example, minutes of meetings may suffice.
  - May mean more arrangements are assessed as joint control.
  - Expect that JVs under NZ IAS 21 will continue to be JVs under PBE IPSAS 8.

- **Accounting for Jointly Controlled Entities**
  - Either proportionate consolidation or the equity method.

PBE IPSAS 8 *Interests in Joint Ventures*

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PBE IPSAS 8 *Interests in Joint Ventures*

PBE IPSAS 8 compared to NZ IAS 31

- **Exemptions from proportionate consol. or equity accounting**:
  - Same as that for group fin stats under PBE IPSAS 6; that is, differs where investor is a wholly-owned subsidiary.

- No guidance on how to account if joint control is lost.
  - Accounting may differ.
  - Can refer to NZ IAS 31 (thru PBE IPSAS 3.15).

- **Disclosures** [*additional to those in NZ IAS 31*]:
  - Include information about contingent assets of/arising from JV required if economic benefits probable.

PBE IPSAS 9 *Revenue from Exchange Transactions*

PBE IPSAS 9 compared to NZ IAS 18

Dividends: only recognised as revenue if:

- from post-acquisition surpluses, or
- difficult to allocate except on an arbitrary basis (unless clearly represent a recovery of part of the cost);
- **If from pre-acquisition profits**: deducted from the cost of the investment.

Transfer of assets from customers and Customer Loyalty programmes:

- No guidance, but can still refer to IFRIC 18 & IFRIC 13.

Disclosures [*additional to NZ IAS 18*]:

- Members' fees or subscriptions (exchange component).

PBE IPSAS 11 *Construction Contracts*

PBE IPSAS 11 compared to NZ IAS 11

Scope:

- Broader, as applies to binding arrangements even if not in the form of a documented contract.
  - NZ IAS 11 was restricted to legal contracts.
- If a contract is entered into for less than cost recovery at inception, then expected loss may not need to be recognised immediately as an expense in some circumstances.
  - E.g. if additional funding coming from government (central or local) or third party funding [*paragraph 46*].

PBE IPSAS 12 *Inventories*

PBE IPSAS 12 compared to NZ IAS 2

Exemption:

- WIP of services to be provided for no or nominal consideration directly from the recipients is scoped out of the Standard.

Inventory held for distribution:

- Less guidance in assessing loss of service potential.
- No requirement to disclose (for "held for distribution"):
  - Carrying amount where held at current replacement cost.
  - Separate disclosure of write-downs or reversals of write-downs.
  - Basis on which loss of service potential is assessed.

PBE IPSAS 13 *Leases*

PBE IPSAS 13 compared to NZ IAS 17

- **Incremental borrowing rate:**
  - Clarifies that rate must reflect any government guarantees and related fees.
    - This would normally lead to a lower incremental rate.

PBE IPSAS 16 *Investment Property*

PBE IPSAS 16 compared to NZ IAS 41

- **Disclosures:**
  - In the reconciliation schedule, all disposals can be shown as one amount:
    - Not required to separately disclose disposals of investment property classified *as held for sale* or included in a *disposal group* [which **is** required by NZ IAS 40].
    - Thus slightly less detail than NZ IFRS.

PBE IPSAS 17 *PP&E*

PBE IPSAS 17 compared to NZ IAS 16

- **Vested Assets:** no specific requirement in this Standard to recognise as revenue:
  - But that requirement does arise under PBE IPSAS 23 *Revenue from Non-exchange Transactions*.
  - Timing of recognition will be determined per that Standard.
- **Heritage Assets**: continue to be recognised:
  - Unless cannot be measured reliably.
  - If not recognised then additional disclosures required.

PBE IPSAS 17 *PP&E*

PBE IPSAS 17 compared to NZ IAS 16

- **Valuations:**
  - Must account for movements by class [NZ IAS 16 gave the option of class or individual asset basis].
- **Depreciated Replacement Cost:** similar guidance to NZ IAS 16, but now in Appendix:
  - Revised to reflect recent guidance from the profession.
  - The comments in NZ IAS 16 about borrowing costs have **not** been carried over. This may give some flexibility, but not expecting significant impact.

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

PBE IPSAS 19 compared to NZ IAS 37

- Clarifies that a provision for an onerous contract is recognised **net** of recoveries:
    - Consistent with current practice.

PBE IPSAS 25 *Employee Benefits*

PBE IPSAS 25 compared to NZ IAS 19

- Discount rate for long-term benefits:
  - To reflect time value of money.
  - Judgement whether to use government bonds, corporate bonds or other data.
  - NZ IAS 19 has a hierarchy of corporate bonds then, if no deep market, government bonds.
  - Expect government bonds to be used in NZ.
- Has same concession for multi-employer defined benefit plans.
- No sick leave liability calculation example – but not expecting liabilities to change because of that.

PBE IPSAS 26 *Impairment of Cash-Generating Assets*

PBE IPSAS 26 compared to NZ IAS 36

- Only applies to assets measured at cost.
  - Assets at revalued amounts: impairment should be factored into valuation.
  - If a revalued item is impaired by a material amount, may trigger revaluation of the class.
- Disclose criteria developed to distinguish cash-generating assets from non-cash-generating assets.

PBE IPSAS 27 *Agriculture*

PBE IPSAS 27 compared to NZ IAS 41

- Government grants related to agricultural activity outside scope
    - Accounted for under PBE IPSAS 23.
- Biological assets acquired from a non-exchange transaction measured at fair value.
    - May result in more assets being recognised.
- Biological assets held for provision of goods or services are outside scope.
    - For example, police dogs.
        - This is consistent with current practice.

PBE IPSAS 28 *Financial Instruments: Presentation*

PBE IPSAS 28 compared to NZ IAS 32

- Provides guidance on whether assets and liabilities, including financial guarantee contracts, in the public sector arise out of contractual or non-contractual arrangements:
  - Only contractual arrangements are within scope of the financial instrument Standards.
  - Need to consider classification of existing arrangements on transition.

- Permits financial guarantee contracts to be accounted for as insurance contracts so long as the issuer elects to do so and uses accounting applicable to insurance contracts.

PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

PBE IPSAS 29 compared to NZ IAS 39

- Provides a fair value hierarchy in measuring financial guarantee contracts issued in a non-exchange transaction:
  - Active market.
  - Valuation technique.
  - PBE IPSAS 19 if cannot reliably measure fair value.

PBE IPSAS 30 *Financial Instruments: Disclosures*

PBE IPSAS 30 compared to NZ IFRS 7

- Disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

- For financial assets that are past due and not impaired, and those that are individually impaired:
  - disclose information about collateral held by the entity as security and other credit enhancements.

- Less disclosures for:
  - PBEs that are deposit takers.
  - Transferred financial assets.

PBE IPSAS 31 *Intangible Assets*

PBE IPSAS 31 compared to NZ IAS 38

- **Excluded:** powers and rights conferred by legislation, a constitution or equivalent means.
- Intangible *heritage* assets within scope:
  - For example, right to use a person's likeness on stamps or coins.
  - May result in additional assets being recognised.
- Intangible assets acquired in a non-exchange transaction must be recognised at fair value at initial recognition.
- Intangible assets received in exchange for a non-monetary asset: measure at fair value of asset received.

PBE IPSAS 31 *Intangible Assets*

PBE IPSAS 31 compared to NZ IAS 38

- Disclose the following for intangible assets acquired in a non-exchange transaction:
  - The fair value at initial recognition.
  - Their carrying amount.
  - Whether they are subsequently measured under the fair value or cost model.

Tier 3 Simple Format Reporting – Accrual

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Tier 3

Criteria

- Does not have public accountability.
- Total expenses of less than or equal to $2 million.

Who can apply Tier 3

- Some small Crown entities
- Local authority subsidiaries

Separate Standard

- Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) (PBE SFR-A (PS); 57 pages

Transactions not covered by SFR-A

- Entities to consider in the following order:
  1. Principles and requirements of SFR-A dealing with similar or related events.
  2. Definitions and concepts in the PBE framework to the extent they do not conflict with SFR-A.
- May also consider (but not required to apply) relevant requirements of Tier 2 standards.
- Can elect to 'opt-up' for transactions already covered by SFR-A.
- Refer to Tier 2 in accounting for interests in subsidiaries, associates, and joint ventures.

Key adjustments that could affect Tier 3

- Term deposits - Classified as an investment asset.
- Investments - Recorded at cost less impairment.
  - Entities will need to opt up to Tier 2 to apply fair value accounting. However, need to apply that accounting to “all transactions of that type” i.e. will need to apply PBE IPSAS 29 to all investments.
- Software - Included within property, plant, and equipment.
- Long Service Leave and retiring leave – Recognised when vested.
- Low interest loans recorded at face value (less impairment for loan assets).

Key adjustments that could affect Tier 3

- Grants - Recorded as revenue unless substantive 'use or return' conditions.
- Provisions - Not discounted.
- Note disclosures are significantly reduced. Although increased disclosures around donated assets and assets that are received subject to conditions and restrictions.
- Commitments – All significant operating commitments included
- If SSP required by legislation, then required to include:
  - Description of outcomes and outputs; and
  - Comparatives

Transition to Tier 3 PBE

Can apply the standard from either :

- Start of comparative year:
  - Record accounts payable and receivable at amounts owed.
  - Record significant PPE at their readily obtainable current amounts.
  - Other items recorded at best estimate of their value at transition date.

Or

- Start of current period:
  - Comparative information not required.
  - Attach prior year financials and accounting policies.

Disclosure of restatements is encouraged, but not required.