



Financial reporting update

Client Updates, 2019

AUDIT NEW ZEALAND
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Agenda

Financial instruments – IFRS 9

Revenue – IFRS 15 and IPSASB work

Leases – IFRS 16 and IPSASB work

Accounting for Groups



Financial Reporting – “The Big 3”

	For Profits	PBEs
NZ IFRS 9 Financial instruments/ PBE IFRS 9	Periods beginning on or after 1 January 2018 (31 March/30 June 2019)	Periods beginning on or after 1 January 2021 (30 June 2022) Early adoption?
NZ IFRS 15 Revenue from Contracts with Customers	Periods beginning on or after 1 January 2018 (31 March/30 June 2019)	IPSAS project on revenue and non-exchange expenditure in progress
NZ IFRS 16 Leases	Periods beginning on or after 1 January 2019 (31 March/30 June 2020)	IPSAS project on leases in progress

- Timing issues between application of NZ IFRS and an equivalent IPSAS
- Risk for PBE mixed group consolidations having to reverse for-profit adjustments

Financial instruments – IFRS 9



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PBE IFRS 9

- PBE groups with significant for-profit subsidiaries should consider the merits of early adopting PBE IFRS 9
 - Auckland Council Group has early adopted for 19J
 - Financial Statements of Government has early adopted for 19J
- There is an exposure-draft under consideration that would see
 - PBE IFRS 9 replaced with PBE IPSAS 41
 - The mandatory adoption of an IFRS 9-based standard for PBEs deferred until 31 December 2022 year-ends

Classification of financial assets

NZ IAS 39/PBE IPSAS 29

Fair value through P&L

Held to maturity

Loans and receivables

Available-for-sale

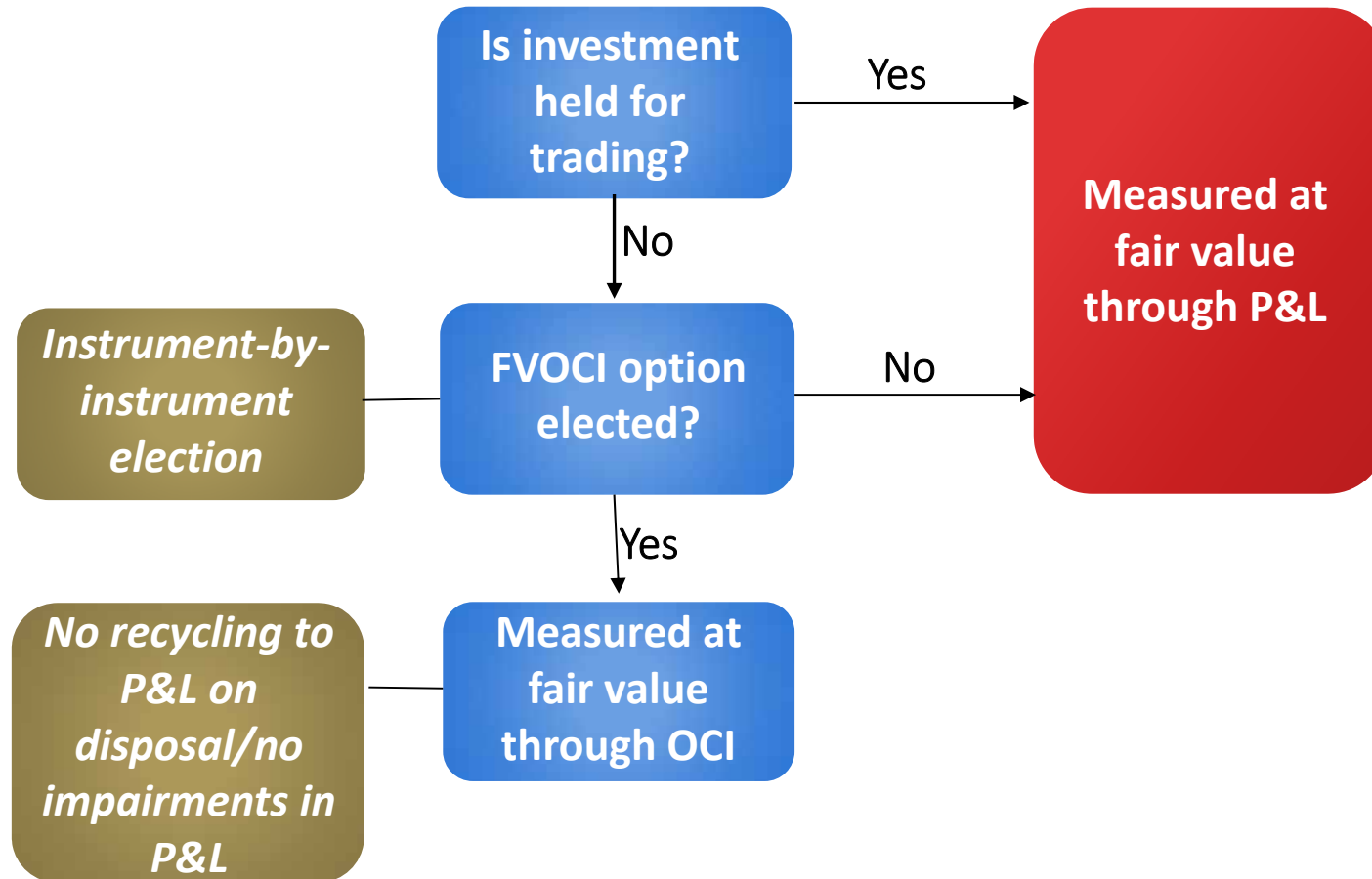
IFRS 9

Amortised cost

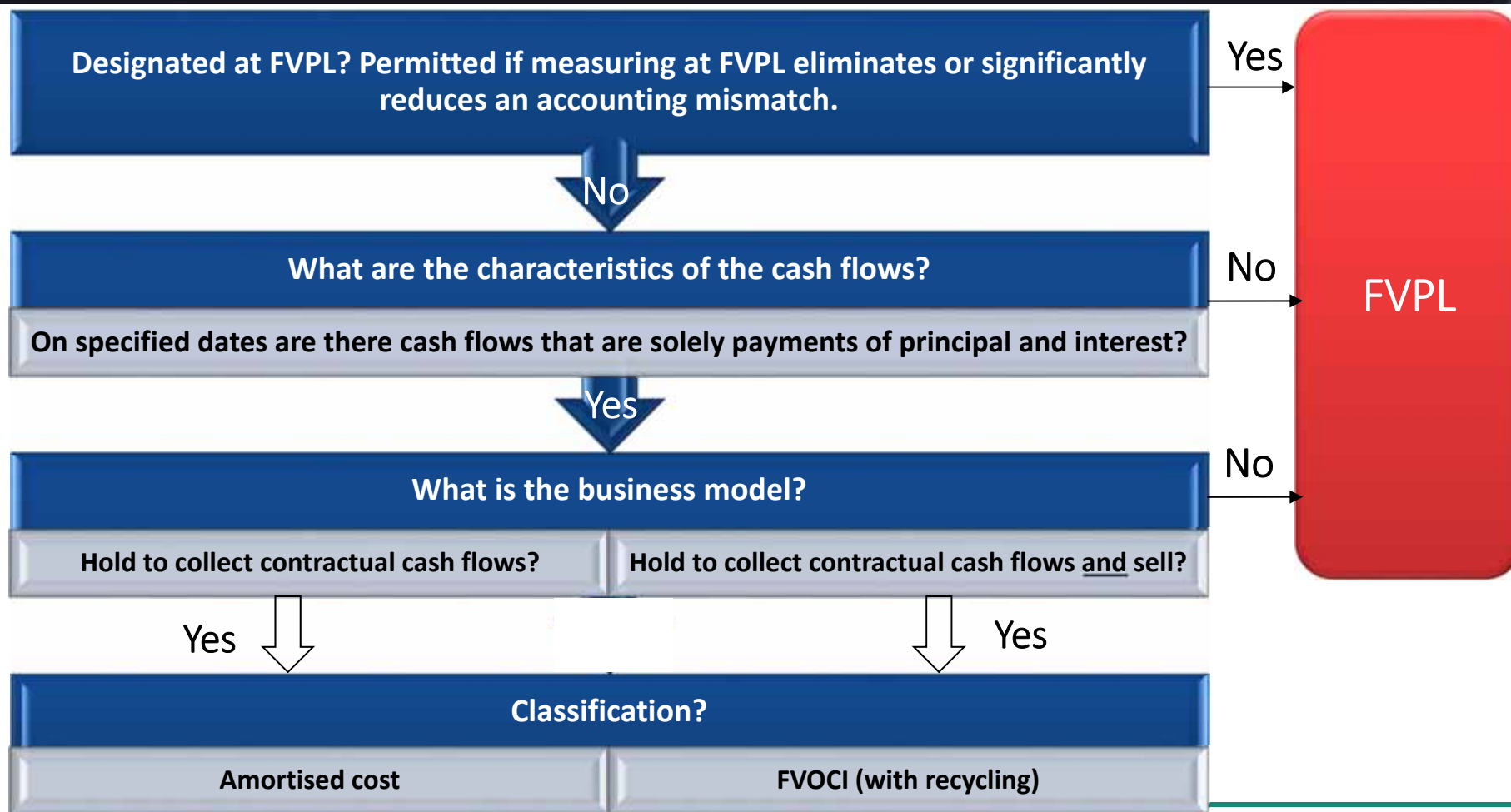
Fair value through OCI

Fair value through P&L

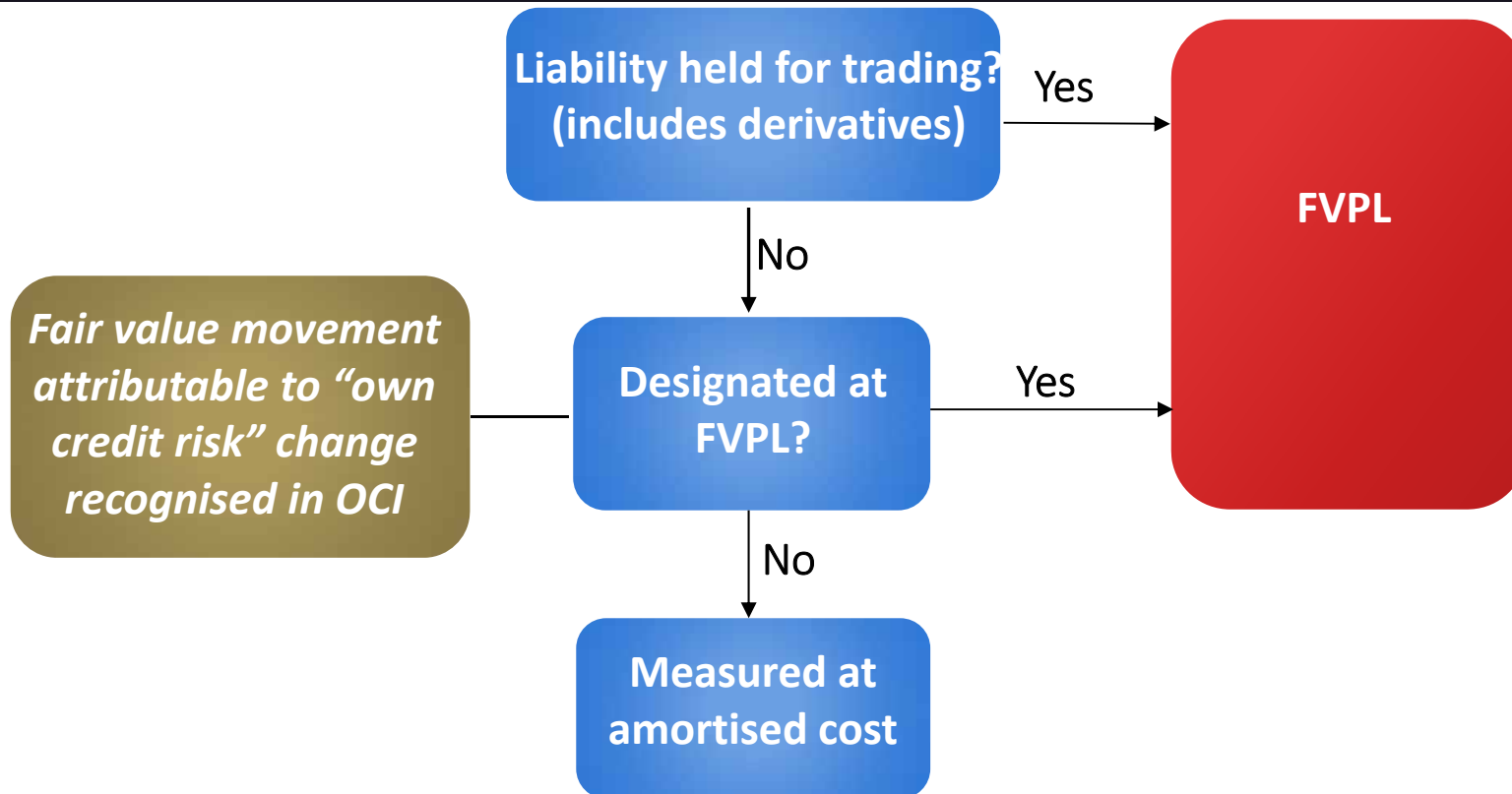
Equity instruments



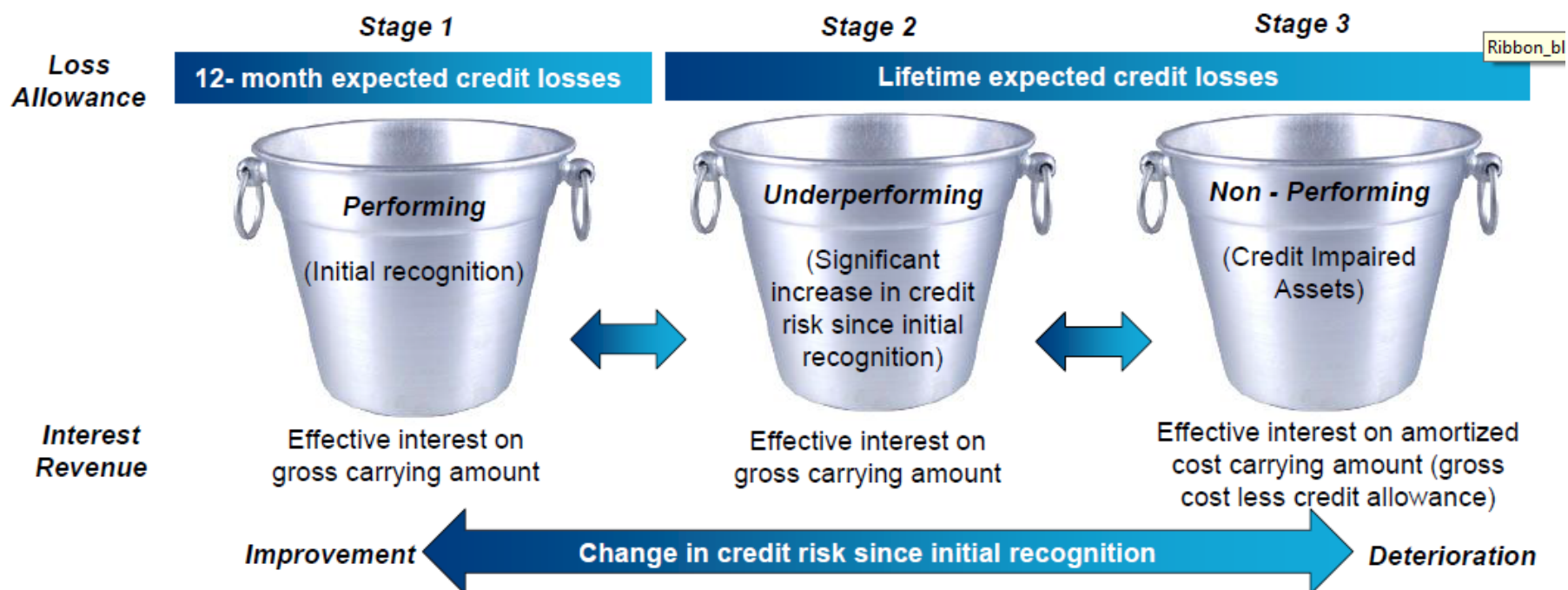
Debt instruments



Financial liabilities



Impairment model



Instruments that are credit impaired at initial recognition always remain in stage 3

Hedge accounting

- Remains optional
- Mechanics basically unchanged
 - Fair value hedge, Cash flow hedge, Net investment
 - Ineffectiveness to P&L
 - Formal designation and documentation
- But more risk management strategies should qualify for hedge accounting
 - 80-125% effectiveness threshold removed
 - Possible to hedge components of non-financial items (e.g. hedge crude oil component of jet fuel)
- Entities that hedge account need to can either:
 - transition to IFRS 9 hedge accounting or
 - wait until transition becomes mandatory (waiting on macro-hedging)



Transition

Need to decide whether to restate comparatives

- Can only restate if you don't use hindsight

For transition adjustments, carefully consider transitional provisions

Additional disclosure requirements will need to be considered

Entities may need to seek external accounting advice on complex issues

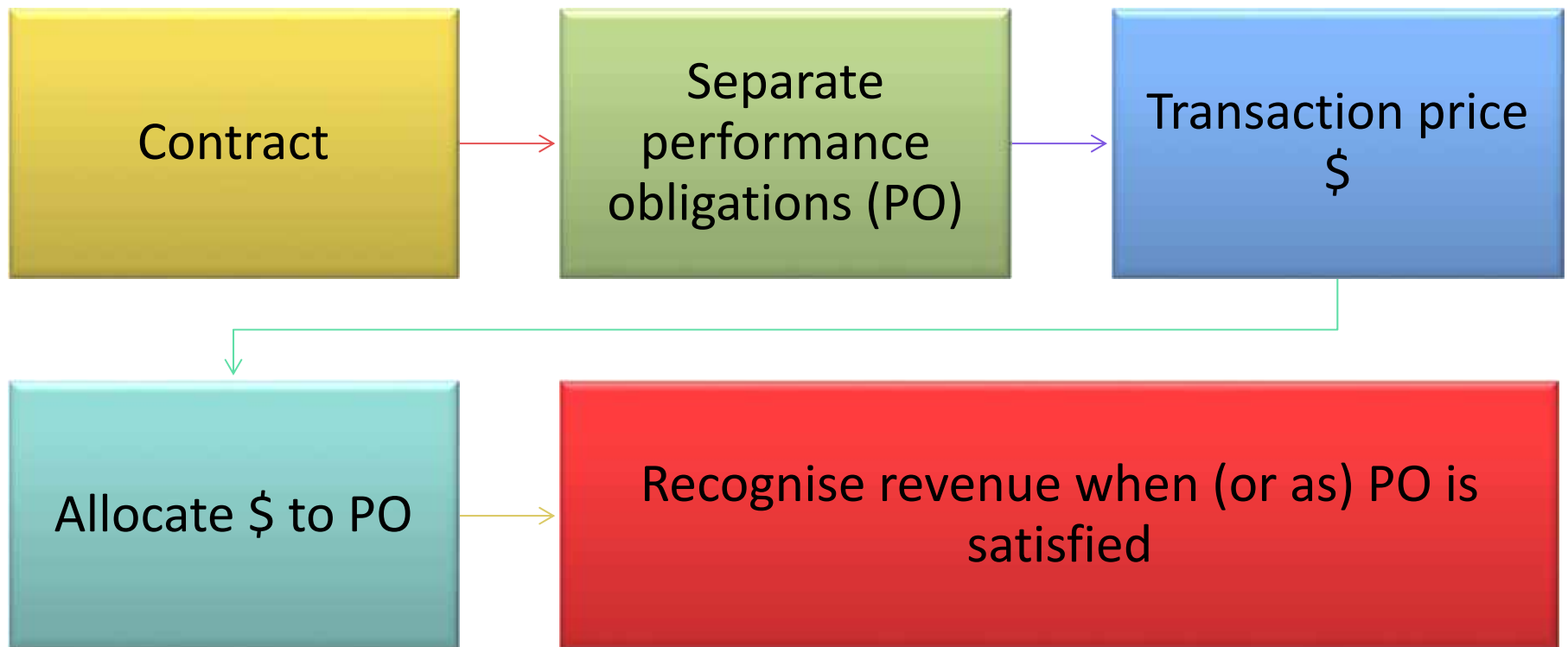
Engage with your auditor early on your approach to the transition

Revenue and expenses



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NZ IFRS 15 Revenue – 5 step model



NZ IFRS 15 - Revenue



Application of the 5 step model requires a detailed understanding of revenue contracts



May require significant work and judgement



Some entities are finding this challenging

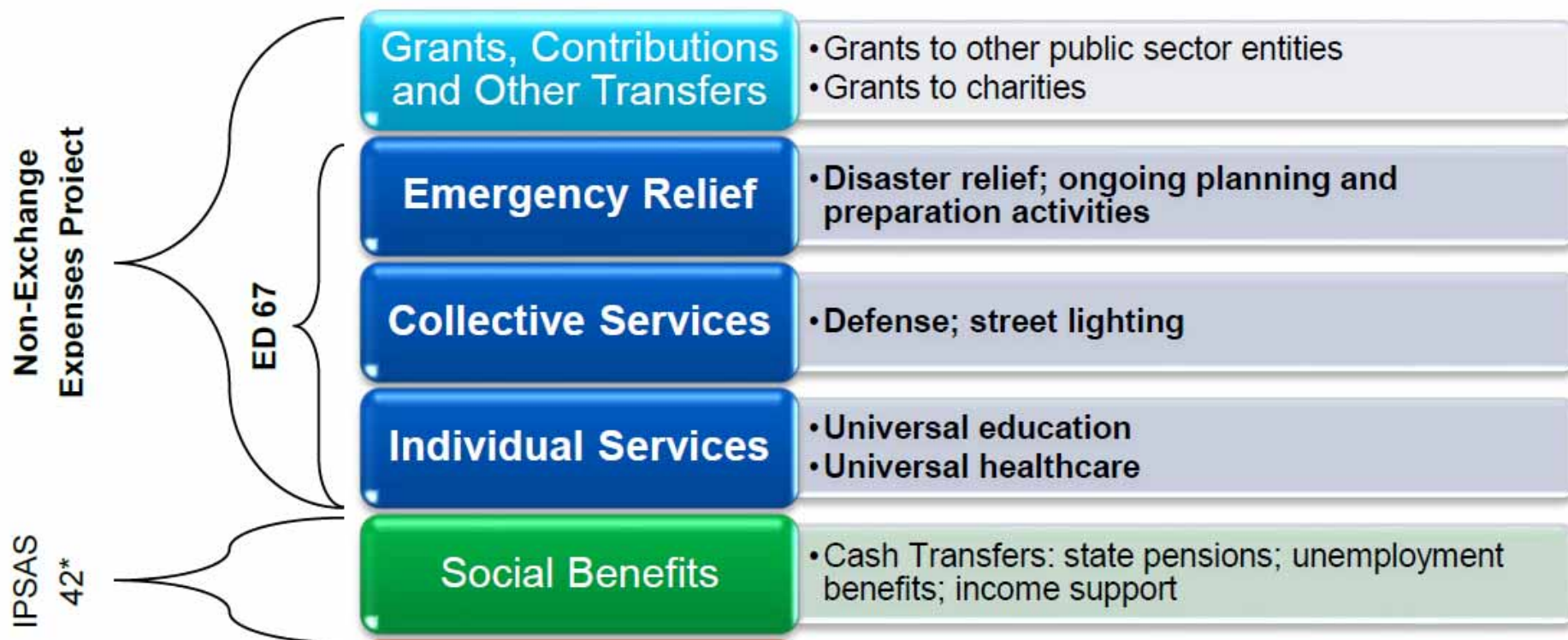


Engage with your auditor early on your approach to the transition

PBEs - Revenue

- IPSASB has issued a consultation paper on revenue accounting
- The IPSASB is developing exposure drafts on
 - A PBE equivalent to IFRS 15; and
 - An updated IPSAS 23, including measurement requirements for taxes
- Finalised standards are still some time away

PBEs – Non-exchange expenses



Leases



The image shows a financial statement table with a magnifying glass highlighting the word 'LEASE'. The table lists various assets and their values across four columns. The word 'LEASE' is printed in large, bold, blue letters over the table.

	54,881	25,150	254,800	254,800
ASSETS				
CURRENT ASSETS:				
Cash	31,059	985	28,590	14,985
Temporary Investments	50,859	987	48,521	32,405
Accounts Receivable	585,290	200	535,084	320,535
Note received				
Inventory	1,072,211		1,002,155	641,283
TOTAL CURRENT ASSETS	1,739,419	1,172	1,912,290	1,013,208
NON-CURRENT ASSETS:				
Long-Term Investments	1,698,625		1,402,600	1,250,000
Property Plant and Equipment	2,770,836		20,058	25
Intangible Assets			18,067	15
Other assets			1,488,350	1,500,000
TOTAL NON-CURRENT ASSETS	4,469,461		2,929,015	2,765,525
TOTAL ASSETS	6,208,880	1,172	4,841,305	3,778,733

NZ IFRS 16 – Leases



- Lessees to recognise most leases on the balance sheet
 - Lease liability and associated “right to use” asset
 - Both initially measured at PV of lease payments over the lease term
 - Depreciate right of use asset
 - Interest expense on lease liability using discount rate determined at lease commencement
 - Two exemptions: low value and short term leases
- Lessor accounting largely unchanged from NZ IAS 17 *Leases*

NZ IFRS 16 – Consequences

- Assets Increase
- Liabilities Increase
- Gearing Increase
- Operating expenses Decrease
- EBIT Increase
- EBITDA Increase
- Total expense over lease term Unchanged
- Total expense early years on of lease Increase
- Total expense later years of lease Decrease
- Operating cash Outflows Decrease
- Financing cash Outflows Increase

IPSASB Leases Project

- ED issued in January 2018
- Proposed lessee accounting: same approach as IFRS 16
- Proposed lessor accounting is different to IFRS 16
 - Book a receivable and deferred revenue liability
 - Spread deferred liability over the lease term
 - Recognise underlying asset
- Includes guidance on concessionary leases



LEASE

IPSASB Leases Project



- Constituent feedback:
 - Broad support for proposed lessee approach
 - There was not broad support for the proposed lessor and concessionary leases approach
 - IPSASB is carefully considering its next steps
- Timing issues between application of NZ IFRS 16 and an IPSAS standard:
 - Risk for PBE mixed group consolidations in having to reverse for-profit lessee accounting balances.



Accounting for Groups



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Accounting for groups

	For Profits	PBEs
PBE IPSAS 34 - Separate Financial Statements;	NZ IFRS 10,11,12, IAS 27,28 already effective	Periods beginning on or after 1 January 2019 (30 June 2020)
PBE IPSAS 35 - Consolidated Financial Statements;		(replaces PBE IPSAS 6,7,8)
PBE IPSAS 36 - Investments in Associates and Joint Ventures;		Requires broader and more comprehensive disclosures.
PBE IPSAS 37 - Joint Arrangements;		
PBE IPSAS 38 - Disclosure of Interests in Other Entities.		
IPSAS 40 Public Sector Combinations		NZASB still to approve in NZ

PBE IPSAS 35 Consolidated financial statements – Control definition



PBE IPSAS 35	PBE IPSAS 6
<p>Control another entity when:</p> <ul style="list-style-type: none">a) Power over the other entity;b) Exposure, or rights, to variable benefits from its involvement with the other entity; andc) The ability to use its power to affect the nature or amount of the benefits from its involvement with the other entity. <p>Guidance on establishing control through:</p> <ul style="list-style-type: none">- Pre-determination- Special relationships	<p>Control over another entity when:</p> <ul style="list-style-type: none">(a) Power to govern the financial and operating policies that guide the activities of the other entity, except<ul style="list-style-type: none">(i) Where the policies have been irreversibly predetermined; or(ii) Where the determination of the policies is unable to materially impact the level of potential ownership benefits.(b) An entitlement to a significant level of current or future ownership benefits

Questions?

