

# Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.

## Changes to financial reporting in New Zealand

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March 2015**

### Introduction

With 31 March 2015 fast approaching, it is timely to take stock of the substantial financial reporting changes that are being implemented in New Zealand and where to find help. 31 March 2015 is the first balance date that many entities will prepare their financial statements under the new Financial Reporting Act 2013. This may mean that certain entities will be preparing their financial statements under a different basis or using different accounting standards from those used previously.

### WHO is impacted?

The Financial Reporting Act 2013 and its enabling legislation, the Financial Reporting (Amendments to Other Enactments) Act 2013, came into force on 1 April 2014, replacing the Financial Reporting Act 1993. Two of the most noteworthy changes introduced by the new legislation are:

1. Many small and medium-sized<sup>1</sup> companies are no longer required to prepare general purpose financial reports (GPFR); instead they may prepare special purpose financial reports (SPFR).
2. Registered charities are now required to prepare GPFR; previously they had no statutory requirement to prepare GPFR.

The changes are intended to align the requirements under which entities prepare, have audited and file financial statements, with the indicators of financial reporting. These indicators of financial reporting are public accountability, economic significance and separation of owners from management.

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<sup>1</sup> Small and medium means not large, where large is defined in **section 45 of the Financial Reporting Act 2013**

## WHAT accounting applies?

GPFR must be prepared in accordance with the applicable financial reporting standards issued by the External Reporting Board (XRB). The XRB is an independent Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's Accounting Standards Framework (Standard XRB A1) separates "for-profit" and "public benefit" entities and has different accounting standards depending on the type and size of entity. Many of these accounting standards are new, and the framework is depicted in Table 1. The main changes are as follows:

1. The new sector specific accounting standards are aimed to better meet the needs of users, including new standards for Public Benefit Entities (PBEs).
2. The introduction of NZ IFRS RDR (*Reduced Disclosure Regime*) which has the same recognition and measurement requirements as full NZ IFRS with significantly fewer disclosures.

## HOW to determine which standards apply

1. Determine whether your entity is a PBE. PBEs are reporting entities 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. Further guidance as to whether or not an entity is a PBE can be found in Appendix A of XRB A1.
2. If it is a PBE, determine whether it is a public sector PBE or a not-for-profit PBE.
3. If the entity is not a PBE it is a for-profit. The term "for-profit entity" is not defined in XRB A1 but rather, comprises all entities that do not meet the definition of a PBE.

After determining the type, consider which tier the entity falls into. All entities initially default into Tier 1. However, if they meet the criteria to be in a lower tier and elect to be in that other tier, then they may prepare GPFR in accordance with the accounting standards of that lower tier.

If the entity elects to be in another tier, it must disclose in the notes of its financial statements that it has elected to report in accordance with a particular tier, along with the criteria that establish the entity as eligible to report in accordance with that tier.

XRB A1 does not deal with an entity's internal documentation process as to how the election itself is made. In addition, there are no legal requirements surrounding a director's or shareholder's resolution in this regard. So it is left to the entity to decide how best to tangibly demonstrate the election.

NZ IFRS (including RDR) apply to Tier 1 and 2 for-profit entities; PBE Standards (including RDR) apply to Tier 1 and 2 PBEs. Tier 3 PBEs apply simple format accrual standards. Tier 4 PBEs apply simple format cash standards – these are compliance frameworks and are referred to as "non-GAAP" standards. Tiers 3 and 4 of the for-profit framework are temporary tiers and apply standards which will soon be revoked.

All the standards are available for free download from the [XRB website](#). The accounting standards part of the XRB website has also been redesigned to reflect the new Framework. The redesign includes a series of decision trees to assist users in identifying the tier and suite of standards relevant to their particular entity.

## FREE ONLINE TOOL to help in determining requirements

We recognise that this is a significant reform resulting in a change to the obligations of many different types and sizes of entities. For this reason we have also developed a **Financial Reporting and Assurance Tool** to assist members navigate the new preparation, audit and filing requirements for a range of entities.

This free online tool is user friendly; it guides members through a series of questions to gather entity specific information in order to determine its legislative requirements. In addition, if the entity has a requirement to prepare GPFR, the tool provides guidance as to the applicable accounting standards. It concludes by producing an output report which summarises the requirements based on the inputs of the particular entity's circumstances.

## Revoking of standards

Tiers 3 and 4 of the for-profit framework were established as temporary tiers. The associated suites of standards; NZ IFRS Diff Rep and Old GAAP, were frozen from April 2011 due to the vast majority of entities applying these standards no longer having a legislative requirement to prepare GPFR for reporting periods beginning on or after 1 April 2014.

As a result, the NZ IFRS Diff Rep and Old GAAP suites of standards will be revoked for reporting periods beginning on or after 1 April 2015, and will no longer form part of GAAP. Any for-profit entities that are currently reporting in accordance with Tier 3 or 4 standards that still have a legislative requirement to prepare GPFR will need to move to Tier 2 and apply NZ IFRS RDR.

Similarly the NZ IFRS PBE standards which apply to PBEs under the old accounting standards framework will become redundant from 1 April 2015 when they will be superseded by the new PBE Standards.

## SPFR package

As mentioned above, the new legislation removes the statutory requirement for many companies to prepare GPFR. However, amendments to the **Tax Administration Act 1994** (sections 21B and 21C) require all non-exempt companies to prepare SPFR that at least meet the Inland Revenue (IR) minimum requirements. These minimum requirements are contained in section 8 of the **Tax Administration (Financial Statements) Order 2014**.

To facilitate the preparation of SPFR, we have developed an optional special purpose financial reporting package known as a *Special Purpose Financial Reporting Framework for For-Profit Entities*. The package includes a set of condensed financial reporting guidelines for small and medium-sized entities (SMEs). The framework is accompanied by three sets of illustrative financial statements designed for the products, services and agricultural sectors. The framework and illustrative financial statements may be used for reporting periods beginning on or after 1 April 2014. Although voluntary, applying the guidelines and using the illustrative financial statements will ensure that IR minimum requirements are met.

We also took part in a series of nationwide roadshows held in conjunction with the XRB and the IR, covering the SPFR package, the XRB for-profit framework and the IR minimum requirements. You can access the **presentation** and a **recorded webinar** on the XRB website. The SPFR package is also **available for free download**.

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Table 1: The new Accounting Standards Framework

Tier	For-Profit Entity	Public Benefit Entity – Public Sector	Public Benefit Entity – Not-for-profit
1	<b>NZ IFRS</b> Exists – no change · Public accountability <sup>2</sup> (as defined); or · Large <sup>3</sup> (as defined) for-profit public sector entities	<b>PBE Standards</b> Effective periods beginning: 1 Jul 2014 for PS and 1 Apr 2015 for NFPs · Public accountability (as defined); or · Large (as defined)	
2	<b>NZ IFRS RDR</b> Effective periods beginning: 1 Dec 2012 · No public accountability (as defined); and · Not large (as defined) for-profit public sector entities <i>Which elect to be in Tier 2</i>	<b>PBE Standards RDR</b> Effective periods beginning: 1 Jul 2014 for PS and 1 Apr 2015 for NFPs · No public accountability (as defined); and · Not large (as defined) <i>Which elect to be in Tier 2</i>	
3	<b>NZ IFRS Diff Rep</b> Exists – no change <b>Transitional - to be revoked 1 Apr 2015</b> · No public accountability (as defined); and either · All of its owners are members of the entity's governing body; or · Not large (as defined) <i>Which elect to be in Tier 3</i>	<b>PBE Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR-A (PS))</b> Effective periods beginning: 1 Jul 2014 · No public accountability (as defined); and · Expenses ≤ \$2m <i>Which elect to be in Tier 3</i>	<b>PBE Simple Format Reporting Standard – Accrual (Not-for-profit) (PBE SFR-A (NFP))</b> Effective periods beginning: 1 Apr 2015 · No public accountability (as defined); and · Expenses ≤ \$2m <i>Which elect to be in Tier 3</i>
4	<b>“Old GAAP” (FRSs / SSAPs)</b> Exists – no change <b>Transitional - to be revoked 1 Apr 2015</b> · No public accountability (as defined); and · Not large (as defined); and · Not required to file financial statements <i>Which elect to be in Tier 4</i>	<b>PBE Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR-C (PS))</b> Effective periods beginning: 1 Jul 2014 · Allowed by law to use a non-GAAP standard; and · No public accountability (as defined); and · Operating payments < \$125k <i>Which elect to be in Tier 4</i>	<b>PBE Simple Format Reporting Standard – Cash (Not-for-profit) (PBE SFR-C (NFP))</b> Effective periods beginning: 1 Apr 2015 · Allowed by law to use a non-GAAP standard <sup>4</sup> ; and · No public accountability (as defined); and · Operating payments < \$125k <i>Which elect to be in Tier 4</i>

<sup>2</sup> Public accountability has a particular technical meaning which is defined in Standard XRB A1. Essentially it is any entity that is an issuer, a registered bank, a non-bank deposit taker, a registered superannuation scheme, or otherwise trades debt or equity securities in a public market or hold assets in a fiduciary capacity as part of its primary business.

<sup>3</sup> For-profit public sector entities and PBEs are large if they have total expenses over \$30 million.

<sup>4</sup> NFP entities permitted by law to use a non-GAAP standard are **Friendly Societies**, **Māori Incorporations** and **Registered Charities**.