

# Are you ready?

## For-profit entities: New Standard

30 September 2017 year ends

Published November 2017

This document outlines all standards issued by the XRB and the IASB which will be applicable for the first time or available for early adoption by for-profit entities (public benefit entities should refer to Public benefit entities: New standards) for financial years ending 30 September 2017. It will assist preparers of financial reports to:

- Ensure all NZ IFRSs and Interpretations that are mandatory for adoption have been applied in the correct period
- Identify and consider NZ IFRSs and Interpretations not yet mandatory, which may have relevance to an entity upon adoption.

NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires specific disclosures to be made when the adoption of a new or revised NZ IFRS or Interpretation results in a change in existing policy or new policy that is significant. NZ IAS 8 also requires disclosure of the possible impact of relevant NZ IFRSs and Interpretations on issue but not yet adopted. Tables 1 and 3 serve as a checklist to assist in the preparation of such disclosures.

### IASB – awaiting approval by the XRB

**Table 1:** contains all standards and interpretations issued by the IASB that the XRB has yet to endorse. In order to claim compliance with IFRSs, entities must disclose the possible impact of the relevant IASBs and IFRIC Interpretations on issue but not yet adopted. Accordingly, the impact of the IFRSs and IFRICs in Table 1 would need to be included in such disclosures, if relevant. These standards and interpretations cannot be (early) adopted until approval is made by the XRB.

### NZ IFRSs and Interpretations currently on issue

**Table 2:** contains all standards and interpretations that are mandatorily applicable for the first time for years ended 30 September 2017. Entities should ensure that they have adopted all of these standards in the 30 September 2017 financial statements. The standards and interpretations in Table 3 below are available for early

adoption for entities preparing financial statements for this period.

**Table 3:** includes all standards and interpretations available for early adoption at 30 September 2017. Even if entities are not electing to early adopt these pronouncements, entities should consider the potential impact on their financial statements and make the relevant disclosures in accordance with NZ IAS 8.

### Further information

Links to the relevant KPMG resources are included with each of the standards. In some cases, the KPMG resources may not have been released for all new standards and interpretations included in this edition of *For-profit entities: New standards*. Please refer to the KPMG website for the subsequent release of [IFRS News](#) and [Reporting Updates](#).

**Table 1: IASB standards and interpretations awaiting approval by the XRB<sup>1</sup>**

Standards	Effective for periods beginning	KPMG's guidance	Key requirements
<b><i>No standards or interpretations awaiting XRB approval as at 30 September 2017</i></b>			

<sup>1</sup> These standards and interpretations cannot be early adopted until made by the XRB.

**Table 2: NZ IFRSs and interpretations mandatorily applicable for the first time at 30 September 2017**

Standards	Effective for periods beginning	KPMG's guidance	Key requirements
NZ IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016	<a href="#">In the Headlines – Issue 2014/01</a>	Interim guidance permitting first-time adopters of NZ IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area.
<i>Accounting for Acquisitions of Interests in Joint Operations (Amendments to NZ IFRS 11)</i>	1 January 2016	<a href="#">Web article</a>	Business combination accounting required to be applied to acquisitions of interests in a joint operation that meets the definition of a 'business' under NZ IFRS 3 <i>Business Combinations</i> .
<i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 16 and NZ IAS 38)</i>	1 January 2016	<a href="#">In the Headlines – Issue 2014/08</a>	Clarifies that revenue-based depreciation for property, plant and equipment cannot be used.  Introduces a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. Limited opportunity for presumption to be overcome.
<i>Agriculture: Bearer Plants (Amendments to NZ IAS 16 and NZ IAS 41)</i>	1 January 2016	<a href="#">In the Headlines – Issue 2014/12</a>	Bearer plants are now in the scope of NZ IAS 16 <i>Property, Plant and Equipment</i> for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under NZ IAS 41 <i>Agriculture</i> .
<i>Equity Method in Separate Financial Statements (Amendments to NZ IAS 27)</i>	1 January 2016	<a href="#">Web article</a>	Allows the use of the equity method in separate financial statements in the accounting for associates, joint ventures and subsidiaries.
<i>Annual Improvements to NZ IFRSs 2012–2014 Cycle – various standards</i>	1 January 2016	<a href="#">IFRS Newsletter: The Balancing Items – Issue 7</a>	Amendments to existing accounting standards, particularly in relation to: <ul style="list-style-type: none"> <li>— NZ IFRS 5 – guidance on changes in method of disposal;</li> <li>— NZ IFRS 7 – clarifies 'continuing involvement for servicing contracts';</li> <li>— NZ IFRS 7 – clarifies offsetting disclosures are not specifically required in interim financial statements, but may be included under the general requirements of NZ IAS 34;</li> <li>— NZ IAS 19 – clarifies that the discount rates used should be in the same currency as the benefits to be paid are; and</li> <li>— NZ IAS 34 – clarifies that disclosures may be incorporated in the interim financial statements by cross-reference to another part of the interim financial report.</li> </ul>

Standards	Effective for periods beginning	KPMG's guidance	Key requirements
<i>Investment Entities: Applying the Consolidation Exception (Amendments to NZ IFRS 10, NZ IFRS 12 and NZ IAS 28)</i>	1 January 2016	<a href="#">Web article</a>	<p>Under the amendments:</p> <ul style="list-style-type: none"> <li>— an investment entity parent is required to fair value a subsidiary providing investment-related services that is itself an investment entity;</li> <li>— an intermediate parent owned by an investment entity group is exempt from preparing consolidated financial statements; and</li> <li>— when a non-investment entity investor applies the equity method, it is permitted to retain the fair value accounting applied by its investment entity associate or joint venture.</li> </ul>
<i>Disclosure Initiative (Amendments to NZ IAS 1)</i>	1 January 2016	<a href="#">Web article</a>	<p>The amendments do not require any significant change to current practice, but should facilitate improved reporting, including an emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering or notes and the identification of significant accounting policies.</p>

**Table 3: NZ IFRSs and interpretations available for early adoption for 30 September 2017 year ends**

Standards	Effective for periods beginning	KPMG's guidance	Key requirements
<i>Disclosure Initiative (Amendments to NZ IAS 7)</i>	1 January 2017	<a href="#">Web article</a>	Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as effects of changes in foreign exchange rates and changes in fair values).
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to NZ IAS 12)</i>	1 January 2017	<a href="#">Web article</a>	The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Guidance on how to determine future taxable profit for the recognition test is also provided.
<i>Amendments to For-profit Accounting Standards as a Consequence of XRB A1 and Other Amendments</i>	1 January 2017	N/A – please refer to the <a href="#">amending standard</a> itself for further details	<p>XRB A1 and the Framework were updated to reflect the following key matters:</p> <ul style="list-style-type: none"> <li>• an updated description of the Tier accounting requirements;</li> <li>• clarifications to the definition of "public accountability" as a result of the enactment of financial markets conduct legislation; and</li> <li>• the removal of redundant requirements and duplications on completion of the staged implementation of the Framework.</li> </ul> <p>The changes do not affect the multi-standards approach, the Tier Structure or the policy that underlie the Accounting Standards Framework that was approved by the Minister of Commerce in 2012.</p> <p>The New Zealand Accounting Standards Board (NZASB) has also made consequential and other amendments to a number of For-profit Accounting Standards.</p>
<i>Annual Improvements to NZ IFRSs 2014-2016 Cycle (Amendments to NZ IFRS 12)</i>	1 January 2017	<a href="#">Web article</a>	The amendments clarify that the disclosure requirements in NZ IFRS 12 (other than those in paragraphs B10-B16) apply to all interests in other entities regardless of whether or not they are classified as held-for-sale, as held for distribution to owners or as discontinued operations.
<i>Annual Improvements to NZ IFRSs 2014-2016 Cycle (Amendments to NZ IFRS 1)</i>	1 January 2018	<a href="#">Web article</a>	The amendments delete the short-term exemptions that were contained in Appendix E of NZ IFRS 1 because they have now served their intended purpose.

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<i>Annual Improvements to NZ IFRSs 2014-2016 Cycle (Amendments to NZ IAS 28)</i>	1 January 2018	<a href="#">Web article</a>	<p>When an investment in an associate or a joint venture is held by an entity that is a venture capital organisation, or other qualifying entity, the entity may elect to measure that investment at fair value through profit or loss.</p> <p>The amendments clarify that the election is for each associate or joint venture, upon initial recognition.</p>
NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018	<a href="#">Web article</a> (with links to in-depth analysis)	The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.
<i>Clarifications to NZ IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018	<a href="#">Web article</a> (with links to in-depth analysis)	<p>Clarification of:</p> <ul style="list-style-type: none"> <li>— the application of principle versus agent considerations;</li> <li>— guidance on determining the nature of the entity's promise in granting a licence over intellectual property;</li> <li>— scope and applicability of the application guidance on sales-based or usage-based royalties promised in exchange for a licence or intellectual property; and</li> <li>— practical expedients on transition relating to contract modifications and completed contracts.</li> </ul>
NZ IFRS 9 <i>Financial Instruments</i>	1 January 2018	<a href="#">Web article</a> (with links to in-depth analysis)	<p>The XRB has released the completed NZ IFRS 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. It supersedes the previous versions NZ IFRS 9 issued in November 2009, November 2010 and December 2013.</p> <p>The application of the existing versions of NZ IFRS 9 from 1 February 2015 is limited to entities that have already early adopted them.</p>

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<i>Classification and Measurement of Share-based Payment Transactions</i> (Amendments to NZ IFRS 2)	1 January 2018	<a href="#">Web article</a>	<p>The amendments clarify:</p> <ul style="list-style-type: none"> <li>— cash-settled share-based payments should be measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method;</li> <li>— classification of share-based payments settled net of tax withholdings; and</li> <li>— accounting for a modification of a share-based payment from cash-settled to equity-settled.</li> </ul>
<i>Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts</i> (Amendments to NZ IFRS 4)	1 January 2018	<a href="#">Web article</a>	<p>This amendment addresses the temporary accounting consequences of the different effective dates of NZ IFRS 9 <i>Financial Instruments</i> and the forthcoming insurance contracts Standard.</p> <p>The Amendments to NZ IFRS 4 <i>Insurance Contracts</i>:</p> <ul style="list-style-type: none"> <li>— permit entities whose predominant activities are connected with insurance to defer the application of NZ IFRS 9 until 2021 (the 'temporary exemption'); and</li> <li>— permit all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when NZ IFRS 9 is applied before the new insurance contracts Standard is issued (the 'overlay approach')."</li> </ul>
<i>RDR Expected Credit Losses</i> (Amendments to NZ IFRS 7)	1 January 2018	N/A – please refer to the <a href="#">amending standard</a> itself for further information	Provides disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 7 <i>Financial Instruments: Disclosures</i> as amended by NZ IFRS 9 <i>Financial Instruments</i> (as issued in 2014). The concessions are the same as those available under the equivalent Australian accounting standard (AASB 7).
NZ IFRS 16 <i>Leases</i> *	1 January 2019	<a href="#">Web article</a> (with links to in-depth analysis)	<p>NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases.</p> <p>Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p>

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<i>NZ IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation)</i>	1 January 2018	<a href="#">Web article</a>	This interpretation clarifies which exchange rate to use in reporting foreign currency transactions when a payment is made or received in advance.
<i>Transfers of Investment Property (Amendments to NZ IAS 40)</i>	1 January 2018	<a href="#">Web article</a>	This amending standard clarifies the requirements as to when there is a change in the use of a property, supported by evidence, which causes a transfer into, or out of, investment property.
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</i>	1 January 2020	<a href="#">Web article</a>	<p>The amendments require the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under NZ IFRS 3 <i>Business Combinations</i> (whether housed in a subsidiary or not).</p> <p>The IASB postponed the effective date of this amendment indefinitely pending the completion of its research project on the equity method of accounting. In New Zealand the Financial Reporting Act 2013 requires all accounting standards to have an effective date, accordingly the XRB has deferred the effective date of the amendments to 1 January 2020.</p>
NZ IFRS 17 <i>Insurance Contracts</i>	1 January 2021	<a href="#">KPMG NZ News</a> , May 2017 <a href="#">Web article</a> <a href="#">First impressions</a>	<p>The key principles in the standard require an entity to:</p> <ol style="list-style-type: none"> <li>identify as insurance contracts those contracts that meet the definition of an insurance contract in Appendix A of the standard;</li> <li>separate from the insurance contract specified embedded derivatives, distinct investment components and distinct performance obligations;</li> <li>divide the contracts into groups it will recognise and measure at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin);</li> <li>recognise the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk (unless a group of contracts is or becomes loss-making, in which case the loss is recognised immediately);</li> <li>present separately insurance revenue, insurance service expenses and insurance finance income or expenses; and</li> </ol>



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			f) disclose information that enables users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.  Source: NZASB public meeting papers 2 August 2017, item 10.1
<i>NZ IFRIC 23 Uncertainty over Income Tax Treatments</i>	1 January 2019	<a href="#">Web article</a>	This IFRIC Interpretation aims to reduce diversity in how companies recognise and measure a tax liability or tax asset when the income tax treatment has yet to be accepted by tax authorities.

\* Early application of NZ IFRS 16 *Leases* is permitted only for entities that also apply NZ IFRS 15 *Revenue from Contracts with Customers*.

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