XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Applying the Tier 3 Not-For-Profit Standard

Introduction for incorporated societies

Staff guidance

February 2026

Contents

Disclaimer

This guidance has been prepared by staff of the External Reporting Board (XRB). It does not form part of any Standard or authoritative publications issued by the XRB. It should not be used as a substitute for reading the Tier 3 (NFP) Standard, nor is it a substitute for professional accounting advice.

Introducing the Tier 3 Not-For-Profit Accounting Standard

With the introduction of the new Incorporated Societies Act 2022 (the new Act), incorporated societies that do not meet the 'small society' criteria, must apply Accounting Standards issued by the External Reporting Board (XRB). These requirements will take effect once a society has reregistered under the new Act.

If a society wishes to remain incorporated, it must reregister under the new Act by **5 April 2026**.

Who are the External Reporting Board (XRB)?

The XRB is an independent crown entity that is responsible for developing and issuing reporting standards on accounting, audit and assurance, and climate for entities across the private, public, and not-for-profit sectors. Our work ensures that New Zealand organisations follow consistent and transparent reporting practices, providing accurate and reliable financial information to stakeholders.

The XRB has developed Accounting Standards specifically for not-for-profit entities to provide useful financial information to interested stakeholders in a cost-effective manner.

The Tier 3 Not-For-Profit Accounting Standard

The Tier 3 Not-For-Profit (NFP) Accounting Standard (Tier 3 NFP Standard) is for small to mid-sized organisations. It is a single NZ financial reporting standard – all requirements are contained in one document. It is accrual based (meaning transactions are recorded as they occur rather than when money is paid/received) and is considered generally accepted accounting practice.

If you are eligible to apply the Tier 4 Not-For-Profit Accounting Standard or meet the 'small society' criteria set in the new Act, you can still voluntarily elect to apply the Tier 3 NFP Standard. This may be the right choice for you, if you have already been preparing financial statements on an accrual basis.

Note: All links in this document are to the XRB Standard Navigator and provide a simple way to access the Tier 3 NFP Standard.

What changes when applying the Tier 3 NFP Standard?

In the table below we outline the components of a performance report (Under the Tier 3 NFP Standard, it is called a performance report rather than financial statements). Some of these elements were not required under the old Incorporated Societies Act (the 1908 Act) and including these components provides valuable information and enhances accountability for readers of the performance report.

For each of the components of the performance report, the Tier 3 NFP Standard contains guidance on how you are expected to complete them.

Tier 3 NFP Standard Performance Report	Requirements of S23(1) of the 1908 Act
Entity Information	No equivalent requirement
Statement of Service Performance	No equivalent requirement
Statement of Financial Performance	Income and expenditure
Statement of Financial Position	Assets and liabilities
Statement of Cash Flows	No equivalent requirement
Statement of Accounting Policies	No equivalent requirement
Notes to the Performance Report	Information on mortgages, charges and security interests over property

Other key changes

Format and Presentation Requirements

There are general format and presentation requirements for each Statement. Specific categories are required to be used, and the composition of these categories cannot be changed. However, the names of these categories may be altered, and any further information can be provided in the Notes to the Performance Report.

Prescribed accounting policies

Under the Tier 3 NFP Standard, revenue, expenses, assets and liabilities are recorded when transactions occur. Accordingly, the Tier 3 NFP Standard includes accounting policies that must be used to determine when and how you record these items.

Disclosures in the Notes to the Performance Report

The Tier 3 NFP Standard specifies a range of disclosures that should be included in the Notes to the Performance Report, as applicable to your society.

Key concepts and terms

Accrual accounting (not cash accounting)

The Tier 3 NFP Standard is based on recording transactions on an accrual accounting basis; where revenue, expenses, assets or liabilities are recorded when a transaction occurs, regardless of when the cash payment is received or made.

If you were previously only recording transactions in the financial statements based on bank transactions (a cash basis[1]), you will need to consider, at financial year-end, whether any additional transactions need to be captured.

For instance:

- Receivables (amounts owed to you);
- Payables (amounts owed by you);
- Non-cash accounting impacts (like depreciation of assets); or
- Other accrual accounting entries (such as adjusting revenue and expenses for revenue received in advance of spending next year, or prepayment of expenses).

Significant (Paragraphs A6-A9)

The Tier 3 NFP Standard frequently refers to 'significant'. An item is significant if recording and/or disclosure of the item, whether financial or non-financial, could influence a user's understanding of the entity's overall performance. If a disclosure is not significant, then it is not generally required.

You should keep this principle in mind and look to ensure the performance report only includes significant information, rather than an excessive amount of unhelpful detailed information.

Other requirements of the Tier 3 NFP Standard (Paragraphs A4-A36)

- **Comparative/prior year information** should be provided.
- **Consistency of presentation** – accounting policies should be selected and applied consistently. Information should be presented consistently across years.
- **No amounts should be offset or netted against each other** – except for valuation adjustments such as write downs of inventory, or property, plant and equipment, and GST owed/owing with Inland Revenue.
- **Correction of errors** – significant errors should be corrected as soon as practicable. These are errors that could influence a user's understanding of overall performance.

[1] If your society has operating payments of less than $140,000 in either of your last two financial years, you can apply the Tier 4 Standard which is cash based standard.

Statement of Service Performance

The Statement of Service Performance requires societies to include information about:

- **what your society is seeking to achieve over the medium- and long-term; and**
- **progress towards its objectives during the financial year.**

To display progress towards your medium- and long-term objectives, you should include a meaningful mix of measures that enable your members to evaluate the society's activities throughout the financial year.

These measures should align to your society's overall purpose and could be numerical (quantitative) or could be descriptive (qualitative) and it is often useful to have a mix of both.

Reporting your activities in previous years may also be needed to show your progress in a meaningful way – you should be as consistent as possible in what you are reporting year on year. See Section 4 of the Standard for further detail.

An example for a Sports Club

A Sports Club may have a purpose to promote and support participation in a sport. They may have medium- to long-term objectives, that broadly include increasing youth participation, increasing engagement with the community and improving facilities.

During the year, and in pursuit of its objectives, the club hosted workshops at several local schools, held several community 'have a go' days, more widely advertised registration, and purchased some new equipment to replace aging items.

The club would show progress on these objectives by providing a mix of quantitative and qualitative measures that show how the activities undertaken during the year contribute towards the club's objectives:

- *Increasing youth participation* – by comparing the current year number of youth teams to previous years and planned targets, and/or by describing changes to youth programmes or improvements in retention or wider outreach that support this objective .
- *Increasing engagement with the community* – by showing year on year increasing amounts of events and turn out at events held for the community, and/or narrative information on the community response, partnerships formed, or feedback received.
- *Improved facilities* – by outlining the purchase of new equipment in line with an overall plan to improve facilities, and/or explaining how these purchases have enhanced training quality, safety, or participant experience.

For information on Assets & Liabilities and Revenue & Expenses, please refer to XRB's other guides on the next page

Other resources

The XRB has several resources to help you as you begin to report under the Tier 3 NFP Standard. These include:

- Tier 3 Not-For-Profit (NFP) Accounting Standard

  Sets out the full accounting requirements that Tier 3 NFP organisations must follow when preparing financial statements/performance reports

- Reporting Template for Tier 3 (NFP) Entities

  An optional, formatted template to help Tier 3 organisations prepare compliant performance reports

- What's changed in the new Tier 3 (NFP) Standard? – Explanatory Guide

  Summarises the key updates to the revised Tier 3 Standard, and explains how these changes will impact your reporting

- Financial Reporting by Not-for-profit Entities: The Reporting Entity – Explanatory Guide

  Helps you determine the 'boundary' of an organisation for reporting purposes (e.g. whether branches or other entities must be consolidated)

- Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes – Explanatory Guide

  Helps you identify relationships with other entities that must be reported (such as joint arrangements or investments in associates)

- Tier 3 NFP Revenue & Expenses Guide

  Outlines key rules when recording revenue and expenses, and highlights a common revenue scenario for incorporated societies

- Tier 3 NFP Assets & Liabilities Guide

  Provides practical guidance on accounting for common asset and liability types under the Tier 3 Standard

- Tier 3 NFP Transition Guide

  Supports organisations transitioning to the Tier 3 Standard, outlining practical steps and transitional requirements

- Tier 3 NFP Watch Out For...

  Highlights a couple of common areas where more complex requirements may apply (accounting for interests in other entities, and accounting for transactions when you are acting as an agent for another organisation)

You can find more information and all of our resources on our Incorporated Societies webpage