



NZ ACCOUNTING
STANDARDS
BOARD

Disclosure of Accounting Policies

Issued March 2021

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This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 23 April 2021.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part E.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on *Disclosure of Accounting Policies* issued by the International Accounting Standards Board (IASB).

DISCLOSURE OF ACCOUNTING POLICIES

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *DISCLOSURE OF ACCOUNTING POLICIES* ISSUED IN FEBRUARY 2021

IASB DISSENTING OPINION

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 1 *PRESENTATION OF FINANCIAL STATEMENTS*

AMENDMENTS TO OTHER IASB BASIS FOR CONCLUSIONS AND IMPLEMENTATION GUIDANCE

Part A – Introduction

This Standard sets out amendments to NZ IFRS as a consequence of *Disclosure of Accounting Policies* issued by the International Accounting Standards Board (IASB). This amending standard is identical to *Disclosure of Accounting Policies*, except that it:

- (a) does not include the amendments made to IFRS Practice Statement 2 *Making Materiality Judgements* (because this Practice Statement does not form part of NZ IFRS); and
- (b) includes amendments to FRS-42 *Prospective Financial Statements* (a domestic standard) to align the terminology in FRS-42 with the amended terminology in NZ IAS 1 *Presentation of Financial Statements*.

The IASB’s *Disclosure Initiative—Principles of Disclosure Discussion Paper* (the POD DP) identified three main concerns about information disclosed in general purpose financial statements (collectively termed the ‘disclosure problem’). These concerns were:

- (a) not enough relevant information;
- (b) too much irrelevant information; and
- (c) ineffective communication of information.

The feedback on the POD DP suggested that guidance was required to assist entities in determining which accounting policies to disclose. The IASB added *Disclosure Initiative—Accounting Policies* project to its agenda in response to that feedback.

The objective of the project was to help stakeholders to improve accounting policy disclosures for the primary users of financial statements.

To achieve its objective, the IASB:

- (a) amended paragraphs 117–122 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policy information rather than their significant accounting policies; and
- (b) amended the Materiality Practice Statement to include guidance and examples on the application of materiality to accounting policy disclosures.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117E and 139V are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

Definitions

7 The following terms are used in this Standard with the meanings specified:

Accounting policies are defined in paragraph 5 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and the term is used in this Standard with the same meaning.

...

Financial statements

...

Complete set of financial statements

10 A complete set of financial statements comprises:

...

- (e) notes, comprising ~~material significant~~ accounting policy information policies and other explanatory information;

...

Structure and content

...

Notes

Structure

...

114 Examples of systematic ordering or grouping of the notes include:

...

- (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

- (ii) ~~material significant~~ accounting policy information policies applied (see paragraph 117);

...

Disclosure of accounting policy information policies

117 An entity shall disclose ~~material its significant~~ accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. policies comprising:

- (a) ~~the measurement basis (or bases) used in preparing the financial statements; and~~
 (b) ~~the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

- (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
 (b) the entity chose the accounting policy from one or more options permitted by NZ IFRS—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;
 (c) the accounting policy was developed in accordance with NZ IAS 8 in the absence of an NZ IFRS that specifically applies;

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- (d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or
- (e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one NZ IFRS to a class of material transactions.
- 117C Accounting policy information that focuses on how an entity has applied the requirements of the NZ IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the NZ IFRSs.
- 117D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.
- 117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other NZ IFRSs.
- 118 ~~[Deleted by IASB]It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~
- 119 ~~[Deleted by IASB]In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~
- 120 ~~[Deleted by IASB]~~
- 121 ~~[Deleted by IASB]An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.~~
- 122 **An entity shall disclose, along with material its significant accounting policy information policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**
- ...

Transition and effective date

- ...
- 139V Disclosure of Accounting Policies, issued in March 2021, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117E and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to NZ IAS 1 for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Part D – Amendments to Other NZ IFRSs

Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 21 and B5 are amended. Paragraph 44II is added. New text is underlined and deleted text is struck through.

Significance of financial instruments for financial position and performance

...

Other disclosures

Accounting policies

- 21 In accordance with paragraph 117 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses material its significant accounting policy information ~~policies comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.~~ Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

...

Effective date and transition

...

- 44II *Disclosure of Accounting Policies*, which amends NZ IAS 1 and was issued in March 2021, amends paragraphs 21 and B5. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

...

Appendix B Application guidance

...

Classes of financial instruments and level of disclosure (paragraph 6)

...

Other disclosure—accounting policies (paragraph 21)

- B5 Paragraph 21 requires disclosure of material accounting policy information, which is expected to include information about the measurement basis (or bases) for financial instruments used in preparing the financial statements ~~and the other accounting policies used that are relevant to an understanding of the financial statements.~~ For financial instruments, such disclosure may include:

...

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Paragraph 122 of NZ IAS 1 (as revised in 2007) also requires entities to disclose, along with material ~~its significant~~ accounting policy information ~~policies~~ or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Amendments to NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph 34 is amended and paragraph 38 is added. New text is underlined and deleted text is struck through.

All plans

Disclosure

34 The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:

...

(b) material ~~a summary of significant~~ accounting policy information ~~policies~~; and

...

Effective date

...

38 Disclosure of Accounting Policies, which amends NZ IAS 1 *Presentation of Financial Statements* and was issued in March 2021, amended paragraph 34. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendments to NZ IAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

5 NZ IAS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, material ~~comprising significant~~ accounting policy information ~~policies~~ and other explanatory information;

...

Effective date

- ...
60. Disclosure of Accounting Policies, which amends NZ IAS 1 and was issued in March 2021, amended paragraph 5. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendments to FRS-42 *Prospective Financial Statements*

The *Main features of the Standard* are amended. Paragraphs 28 and 60 are amended and paragraph 72H is added. New text is underlined and deleted text is struck through.

Main features of the Standard

- ...
- The Standard requires disclosure of:
- ...
- (i) material accounting policy information ~~significant accounting policies~~; and
 - (j) a cautionary note regarding possible variations in reported results.

Prospective financial reporting

Presentation of prospective financial statements

- ...
- 28 An entity shall present a complete set of prospective financial statements, which shall include the following:
- ...
- (e) notes, comprising a summary of material accounting policy information ~~significant accounting policies~~, significant assumptions and any other relevant information underlying (a) to (d).
- ...

Disclosure of accounting policies

- 60 Material accounting policy information used in preparing ~~Significant accounting policies used as a basis for the preparation of~~ prospective financial statements shall be disclosed in accordance with NZ IAS 1.
- ...
- 72H Disclosure of Accounting Policies, which amends NZ IAS 1 and was issued in March 2021, amended paragraphs 28 and 60. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Part E – Effective Date

This Standard shall be applied for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.