



Te Kāwai Ārahi Pūrongo Mōwaho  
EXTERNAL REPORTING BOARD

## Tier 3 (NFP) Standard

### REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

#### TIER 3 (NFP) STANDARD

Issued November 2013 and incorporates amendments to **[Month, Year]**

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## REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

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*Reporting Requirements for Tier 3 Not-for-profit Entities* (Tier 3 (NFP) Standard) is set out in paragraphs 1–9 and Appendices A, B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 (NFP) Standard should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*. The Basis for Conclusions and History of Amendments are available on the XRB website.

## Objective

1. The objective of this Standard is to enhance financial reporting by Tier 3 not-for-profit public benefit entities by setting out simple format accrual-based reporting requirements, that promote the provision of useful, transparent and comparable information in Tier 3 Performance Reports

## Scope

2. This Standard applies to not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. A not-for-profit public benefit entity is eligible to apply this Standard if it:
  - (a) Has total expenses less than or equal to \$2 million; and
  - (b) Does not have public accountability for financial reporting purposes.

Please refer to the Glossary for further information about how “not-for-profit public benefit entity”, “total expenses” and “public accountability” are defined for financial reporting purposes.

## Standard

3. A not-for-profit public benefit entity that is eligible for, and elects to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A (and when applicable the transitional provisions in Appendix B) and Appendix C (when accounting for interests in other entities) of this Standard.
  - 3.1. An entity that is eligible for, and elects to apply, this Standard may elect to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.
4. This Standard requires an entity to prepare a performance report that fairly presents the entity’s service performance, financial performance and cash flows for the financial year, and its financial position at its balance date. The Standard applies to the performance report of a single entity as well as an entity that has certain interests in other entities (discussed below).
  - 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity’s interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.
  - 4.2 [Deleted]
  - 4.3 [Deleted]
  - 4.4 [Deleted]
  - 4.5 [Deleted]
  - 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.
5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (*Explanatory Guide A5 Optional Template and Associated Guidance Notes for Reporting Requirements for Tier 3 Not-for-profit Entities*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.
6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use judgement to determine an appropriate method of accounting. The entity shall refer to, and consider the applicability of, the following in descending order:
  - (a) How this Standard deals with similar or related transactions or events;

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- (b) The relevant requirements in the Tier 2 PBE Standards dealing with the same, similar or related transactions or events; and
  - (c) The definitions and concepts in the [PBE Conceptual Framework](#) to the extent that they do not conflict with this Standard.
7. [Deleted]
  8. [Deleted]
  9. [Deleted]

## Appendix A: Specific Requirements

*This Appendix contains the requirements for an entity applying Reporting Requirements for Tier 3 Not-for-profit Entities. It is an integral part of the Standard.*

### Section 1: Introduction

- A1. This part of the Standard<sup>1</sup> sets out the requirements for the preparation of a simple format report known as the “Performance Report”. The Standard may be applied by an eligible not-for-profit (NFP) public benefit entity (PBE) that elects to apply this Standard in accordance with the requirements of [XRB A1 Application of the Accounting Standards Framework](#).
- A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.
- A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

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<sup>1</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the “Reporting Requirements for Tier 3 Not-for-profit Entities” abbreviated as “Tier 3 (NFP) Standard”.

## **Section 2: Objective of Reporting and Overview of Reporting Requirements**

### **Users and Their Needs**

- A4. The performance report for a NFP PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:
- (a) Providers of resources to the entity; and
  - (b) Recipients of services from the entity.
- A5. Examples of these users are:
- (a) Donors or grant making organisations, who contribute to a shelter for the homeless which relies on grants and donations from the community (resource providers); and
  - (b) Service recipients who benefit from the meals and short-term accommodation provided at the shelter.

### **Significance**

- A5.1. This Standard frequently uses the term “significant” which is an important concept to consider when preparing an entity’s performance report in accordance with this Standard. Significance applies to both financial and non-financial information.
- A5.2. Items are significant if excluding them from the performance report or making an error in reporting them could, individually or collectively, influence the decisions made by users relying on the performance report. For example, if an entity neglects to report an asset that it owns and as a result a user decides to donate to the entity, the excluded asset would be considered significant.
- A5.3. Items may be significant because of their nature, their size, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.
- A5.4. Deciding whether items are significant is a matter of judgement and must be considered in the context of each specific item and from the perspective of the users of the entity’s performance report.

### **Objective of Reporting**

- A6. An entity should prepare a performance report that addresses the following questions:
- (a) “Who are we?” – an overview of the entity;
  - (b) “Why do we exist?” – why the entity was established and what it seeks to achieve;
  - (c) “What did we do?” – what the entity did during the year in providing goods or services;
  - (d) “When did we do it?” – the period covered by the report, and a comparison of information with previous reporting periods;
  - (e) “What did it cost?” – what it cost to provide the goods or services, and to run the entity;
  - (f) “How was it funded?” – the sources of revenue used to pay for its activities in providing goods or services;
  - (g) “How did we do our accounting?” – the accounting policies applied; and
  - (h) “What do we need to continue operating?” – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.
- A7. The performance report is usually prepared for a financial year (which is a twelve-month period that ends on the entity’s “balance date”). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. The performance report may be prepared for a part year, but this is unusual and most likely occurs when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year.

## Required Components of the Performance Report

- A8. An entity shall prepare a performance report every financial year with the following components:
- (a) Entity information which explains what the entity is and why it exists (section 3);
  - (b) A statement of service performance which explains what the entity is seeking to achieve and what it did (section 4);
  - (c) A statement of financial performance showing what revenue the entity has received and the cost of running the entity (expenses), over the year, so that users can understand whether the entity has made a financial surplus or a deficit for the year (section 5);
  - (d) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);
  - (e) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);
  - (f) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and
  - (g) Notes to the performance report explaining some of the amounts shown in the statements in (b)–(e) above, as well as other information to help explain the entity's financial performance and financial position, including commitments, contingencies, and related party transactions (section 9).
- A9. An entity may use other titles for these statements if the entity considers them to be more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

## Presentation of the Entity's Performance

- A10. The performance report shall fairly present the entity's service performance, financial performance and cash flows over the financial year, and its financial position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:
- (a) Select and apply appropriate accounting policies;
  - (b) Present and disclose information in the best way to achieve the following goals:
    - (i) **Relevance:** the information can be used to assess the entity's performance.
    - (ii) **Faithful representation:** the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.
    - (iii) **Understandability:** information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.
    - (iv) **Timeliness:** The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation<sup>2</sup> defines the period by which the annual performance report must be completed.
    - (v) **Comparability:** users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.

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<sup>2</sup> The Charities Act 2005 requires that the financial statements must accompany the annual return that must be filed within 6 months of the end of the financial year.

- (vi) **Verifiability:** the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.

A11. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.

A12. [Deleted]

A13. It is important that information reported in the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

### **General Information**

A14. Each component in the performance report specified in paragraph A8 shall be clearly identified.

A15. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units. Identifying the branches or other operating units within the entity is relatively straightforward where the entity has legal form. For an unincorporated entity, the entity will need to look at factors such as whether those branches or other operating units are acting as part of the entity, for example, by using the entity's registration number on the Charities Register.

A16. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:

- (a) The name of the entity that is preparing the performance report;
- (b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate; and
- (c) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest thousand may be appropriate for a larger entity).

### **Comparative Information**

A17. Although the performance report focuses on the current financial year's information, comparative information for the previous financial year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.

A18. An entity may, but is not required to, report budgets or plans as an additional column alongside its actual results as further comparative information.

### **Consistency of Presentation**

A19. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

A20. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.

- A21. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:
- (a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
  - (b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.
- A22. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:
- (a) There has been a significant change in the entity's operations;
  - (b) The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A10(b) for guidance on those characteristics that information should have to make it useful for users); or
  - (c) This Standard requires that the presentation or a category of disclosure is changed.
- A23. Any changes to presentation or categories of disclosure due to the application of paragraph A22 also require similar changes to the comparative amounts, unless it is impracticable to do so.

### **No Offsetting of Amounts**

- A24. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:
- (a) Assets and liabilities shall not be offset against each other; and
  - (b) Revenue and expenses shall not be offset against each other.
- A25. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

A26. [Deleted]

A27. [Deleted]

### **Correction of Errors**

- A28. Significant errors shall be corrected as soon as practicable. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A212).

### **Changes in Accounting Estimates**

- A29. The use of estimates is an essential part of preparing the performance report on an accrual basis. For example, estimates may be required of:
- (a) Revenue earned to date under a contract;
  - (b) Bad debts arising from uncollected receivables;
  - (c) The current value of old inventory; and
  - (d) The useful lives of items or categories of property, plant and equipment.
- A30. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.
- A31. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.

A32. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

#### **Events After the Balance Date**

A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

A34. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:

- (a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.
- (b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:
  - (i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
  - (ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.
- (c) The discovery of fraud or errors that show that the performance report is incorrect.

A35. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:

- (a) The entity decides after the balance date, to make further grants to the community;
- (b) Purchases and disposals of assets that occur after balance date;
- (c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and
- (d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

## **Section 3: Entity Information**

### **Purpose and Value to Users**

A36. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the reporting entity.

### **Required Information**

A37. The entity information shall provide general descriptive information about the entity. This information shall comprise:

- (a) The entity's name, type of entity and legal basis (if any);
- (b) The entity's purpose or mission<sup>3</sup> (the key difference the entity is trying to make);
- (c) The entity structure (i.e. whether it includes separate operating units, divisions or branches);
- (d) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity);
- (e) The names of any entities controlled by the entity for financial reporting purposes; and
- (f) The entity's reliance on volunteers and donated goods or services.
- (g) [Deleted]

A37.1. The information required by paragraph A37 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is publicly available to users of the performance report at the same time.

A38. The amount of detail provided will depend on the size of the entity and the complexity of the entity's operations.

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<sup>3</sup> Also called vision, strategic goals, or outcome goals.

## **Section 4: Statement of Service Performance**

### **Purpose and Value to Users**

A39. The purpose of the statement of service performance is to provide information to help users understand what the entity did during the financial year to achieve its objectives.

A40. The statement of service performance provides information about:

- (a) What the entity is seeking to achieve over the medium to long term (i.e. its objectives); and
- (b) The significant activities the entity has undertaken during the financial year in working towards these objectives.

### **Required Information**

A41. The statement of service performance shall:

- (a) Describe what the entity is seeking to achieve over the medium to long term; and
- (b) Describe, and quantify to the extent practicable, the significant activities the entity has undertaken or what it has achieved during the financial year.

A41.1. The information required by paragraph A40(a) is likely to be closely related to the entity's mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A41(a) should be more specific, focused on what the entity is seeking to achieve over the medium to long term.

A42. The information disclosed in the statement of service performance should be what the entity considers important for a user's overall understanding of its service performance (i.e. its significant activities or achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A42.1. To meet the requirements in paragraphs A40(b), the entity shall provide users with an appropriate and meaningful mix of measures and/or descriptions of its significant activities or achievements for the financial year. The measures and/or descriptions used by an entity may be:

- (a) Quantitative measures – e.g. quantity of goods and services, time taken to provide goods and services, etc.
- (b) Qualitative measures – e.g. compliance or non-compliance with a quality standard, ratings such as high, medium or low, etc; or
- (c) Qualitative descriptions – e.g. those based on participant observations.

A42.2. The most appropriate and meaningful measures and/or descriptions are those that measure or describe aspects of performance that are of particular value or importance to users to understand the entity's service performance. Refer to paragraph A10(b) for guidance on the qualitative characteristics that information should have to make it useful for users.

A42.3. An entity may present the information in the statement of service performance in whichever format it considers to be the most helpful to users' understanding of the entity's significant activities or achievements. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using:

- (a) Graphs;
- (b) Tables; or
- (c) Images or infographics showing the entity's activities and achievements during the financial year.

A42.4. Service performance information shall be reported consistently from year to year. If the entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes and the reason those changes were made. Possible reasons for a change in what is reported and how it is reported include changes in:

- (d) The nature of the entity's activities from the prior period or from what was planned;
- (e) The descriptions of goods and services or the way in which they are aggregated; or
- (f) The measures and/or descriptions used.

Changes to comparative information are permitted, but not required. If an entity chooses to restate comparatives it shall disclose the effect of the changes on that comparative information.

**Optional Information**

A43. An entity may wish to report additional information such as:

- (a) [Deleted]
- (b) Comments on those factors which affect the achievement of the entity's objectives. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors; and
- (c) The entity's plans for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity; and
- (d) [Deleted]

A44. [Deleted]

**Section 5: Statement of Financial Performance**

**Purpose and Value to Users**

A45. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity’s financial performance, including its revenue, expenses and the resulting surplus or deficit for the financial year.

**Format of Statement of Financial Performance**

**Required Information**

A46. The statement of financial performance shall be presented as follows:

|                             |    |
|-----------------------------|----|
| Revenue (by category)       | xx |
| Less expenses (by category) | xx |
| Surplus/(Deficit)           | xx |

A47. If the entity pays income tax, this shall be shown as a separate line item after surplus or deficit, with a further total called Surplus/(Deficit) after Tax also reported.

**Alternative Format**

A48. Where the making of grants and donations is a major activity of the entity, and/or where the entity receives significant grants for capital purposes an entity may elect to present these items separately from other revenue and expenses, in accordance with the following format:

|   |    |
|---|----|
| Revenue (by category)                     | xx |
| Less expenses (by category)               | xx |
| Operating surplus/(deficit)               | xx |
| Revenue from capital grants and donations | xx |
| Less grants and donations made            | xx |
| Surplus/(Deficit)                         | xx |

A49. [Deleted]

**Revenue**

A50. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A53)<sup>4</sup>.

A51. Revenue can come from various sources. Examples include public donations, grants from philanthropic trusts, donations and fees from members, funding for the provision of goods or services (including government contracts) and proceeds from the sales of goods or services (including trading revenue from commercial activities).

A51.1. A pledge is a promise made by a donor to contribute funds, goods or services, or other assets to the entity in the future. Revenue is not recorded until the funding, goods or services, or other assets are received, in which case it is accounted for in the same way as other donation revenue.

A52. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A83–A86).

A53. Some NFP entities have owners who contribute capital<sup>5</sup> (often occurring at start up). Contributions to the entity by these owners (other than membership fees, donations and fees for

<sup>4</sup> See the Glossary for a more detailed definition of revenue.

<sup>5</sup> This is analogous to a for-profit entity where the shareholders contribute share capital.

services) are classified as funds contributed by owners in the statement of financial position, and not as revenue (see also paragraphs A140–A141).

### **Required Information**

A54. In order to make information understandable to users, revenue shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Donations, koha, bequests and other general fundraising activities;
- (b) General grants;
- (c) Capital grants and donations;
- (d) Government service delivery grants/contracts;
- (e) Non-government service delivery grants/contracts;
- (f) Membership fees and subscriptions;
- (g) Revenue from commercial activities;
- (h) Interest, dividends and other investment revenue; and
- (i) Other revenue.

A55. Category (a) above includes donations, koha and bequests received from the public or other organisations, for example, central or local government, charitable trusts, foundations and other philanthropic agencies. It also includes any revenue from fundraising activities.

A55.1. Category (b) above includes any grants received which provide general funding for the entity.

A55.2. Category (c) includes any grants and donations received with an expectation from the resource provider that the funding is used to purchase or construct a significant asset. A grant which has an expectation over its final use but which is not in substance a contract for delivery of goods or services would be included in category (b) or category (c) depending on the nature of the expectation.

A55.3. Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (d) or (e) above depending on their source. These categories also include revenue from sales of goods or services which directly, in themselves, contribute to the achievement of an entity's stated purposes and are not related to a service delivery grants/contract. For example, an entity with the objective to improve mental health in the community which provides counselling services at a heavily discounted rate with the ability to do so being supported by donations or general grants.

A55.4. Category (g) includes any revenue received by the entity from the sale of goods or services in a commercial capacity. In this context, commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).

A55.5. Any revenue from members received in exchange for their membership to the entity would be included in category (f).

A56. An entity only needs to report against a category specified in paragraph A54 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A57. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A54, provided that the separate categories are still maintained.

A58. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall

then be used consistently in future periods so that the information reported is comparable over time.

A59. [Deleted].

A60. [Deleted]

A61. Further breakdowns (or “disaggregation”) of the categories in paragraph A54 may be provided in the notes to the performance report. For example, donations, koha, bequests and other general fundraising activities may be further disaggregated by fundraising campaign or type, such as by street collection, postal appeal, raffles or charity auction. The entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

### **Accounting for Revenue**

A62. Revenue shall be recorded on the occurrence of a recognition event. This is generally when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

**Table 1: Recording of Specific Types of Revenues**

| <b>Source</b>  | <b>When to Record</b>   | <b>Comments</b>  |
|--|---|--|
| <b>Donations, koha, bequests and other general fundraising activities</b>            |   |  |
| Fundraising – cash   | Record as revenue when cash is received.  | May be received in the form of donations or from the sale of goods or services (excluding sale of goods or services as a commercial activity).   |
| Fundraising – other  | If the entity receives an asset refer to section on “donated assets” below.<br>If the entity receives goods or services refer to section on “donated goods or services (other than donated assets)” below.  | As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.  |
| Insignificant donations and bequests   | Record as revenue when cash received.   | Revenue recognition shall not be deferred even if insignificant donations and bequests with documented expectations over use are significant in the aggregate.   |
| Significant donations and bequests received with no documented expectations over use | Record as revenue when cash received.   | Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.  |
| Significant donations and bequests received with documented expectations over use    | On receipt of the donation or bequest record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the documented expectations over use are met, the deferred revenue balance is reduced and revenue is recorded. | The deferred revenue balance as at balance date reflects the extent to which the documented expectations over use have not yet been satisfied.<br><br>Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied. |
| Donated assets (other than cash)   | <i>Significant donated assets with useful lives of 12 months or more:</i> Record on receipt at readily obtainable current   | <i>Significant donated assets that are recorded:</i> Disclose in the notes to the performance report details of the assets in accordance with the disclosure   |

| Source   | When to Record  | Comments  |
|--|---|---|
|  | <p>values (such as local council rateable value for land and buildings)</p> <p><i>Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:</i> Do not record the asset or any revenue from the donation.</p> <p><i>Other donated assets:</i> Do not record the asset or any revenue from the donation.</p> | <p>requirements of this Standard in relation to the particular class of asset (see paragraphs A190–A191).</p> <p><i>Significant donated asset not recorded:</i> Details are disclosed in the notes to the performance report (see paragraph A192).</p>  |
| Donated goods or services (other than donated assets)  | Do not record (for example cleaning services provide by members)  | Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A68).  |
| <p><b>General grants</b></p> <p><b>Capital grants and donations</b></p>  |   |   |
| Insignificant grants received  | Record as revenue when cash received.   | Revenue recognition shall not be deferred even if insignificant grants with expectations over use are significant in the aggregate.   |
| Significant grants, received with no expectations over use   | Record as revenue when cash received.   | Revenue recognition shall not be deferred even if the reporting entity expects to spend the funds received on related expenditures in future periods.   |
| Significant grants received with expectations over use   | <p>On receipt of grant, record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met, the deferred revenue balance is reduced and revenue is recorded.</p>  | <p>The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied.</p> <p>Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.</p> |
| <p><b>Government service delivery grants/contracts</b></p>   |   |   |
| Sale of goods  | Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).   | <p>If the purchaser pays before they receive their goods, the entity records a liability.</p> <p>If the purchaser does not pay on receipt of the goods, the entity records a debtor.</p>  |
| Revenue from the provision of services (including fees and charges relating to services delivered across the year) | Record as revenue by reference to the stage of completion of the services at balance date, based on the actual service provided as a percentage of the total service to be provided.  | <p>The stage of completion of a service may be determined in many ways including:</p> <p>(a) On an event by event basis if that is the basis for charging; or</p> <p>(b) Services performed to date as a percentage of total services.</p>  |

| Source  | When to Record   | Comments  |
|---|--|---|
| <b>Non-government service delivery grants/contracts</b>   |  |   |
| Sale of goods   | Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).  | If the purchaser pays before they receive their goods, the entity records a liability.<br>If the purchaser does not pay on receipt of the goods, the entity records a debtor.   |
| Revenue from the provision of services (including fees and charges relating to services delivered across the year)                          | Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.  | The stage of completion of a service may be determined in many ways including:<br>(a) On an event by event basis if that is the basis for charging; or<br>(b) Services performed to date as a percentage of total services.   |
| <b>Membership fees and subscriptions</b>  |  |   |
| Fees and subscriptions in exchange for goods or services or to purchase goods or services at prices lower than those charged to non-members | <i>If the goods or services are of similar value in each time period (for example, a monthly magazine or monthly access to members' facilities):</i> Record as revenue evenly over the period in which the items are provided to the members.<br><i>If the goods or services vary in value from period to period:</i> Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the subscription. | Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.   |
| Other fees and subscriptions  | Record as revenue when cash received.  | Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.   |
| <b>Revenue from commercial activities</b>   |  |   |
| Sale of goods   | Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).  | If the purchaser pays before they receive their goods, the entity records a liability.<br>If the purchaser does not pay on receipt of the goods, the entity records a debtor.   |
| Provision of services   | Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.  | The stage of completion of a service may be determined in many ways including:<br>(a) On an event by event basis if that is the basis for charging; or<br>(b) Services performed to date as a percentage of total services.   |
| <b>Interest, dividends and other investment revenue</b>   |  |   |
| Interest  | Record as revenue as it is earned during the period.   | If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment.<br>If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable. |

| Source  | When to Record  | Comments   |
|---|---|--|
| Dividends and similar revenue   | Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).  | Dividends declared after the end of the financial year of the entity are not recorded as revenue.  |
| <b>Other revenue</b>  |   |  |
| Lease or rental revenue   | Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit. | If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment.<br><br>If the lessee pays after the leased asset is used, the entity (as lessor) records as an asset any amount owed to the entity. |
| Licence fees and royalties  | Record as revenue as they are earned in accordance with the substance of the relevant agreement.  | As a practical matter, this may be on a straight-line basis over the term of the agreement.  |
| Commission for acting on behalf of another entity as the agent of that other entity (the principal) | Record as revenue when receivable, which would usually be defined in the agency agreement.  | Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.   |
| Gain on sale of an asset  | Record as revenue when control of the asset transfers to the new owner.   | The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.   |

#### *Insignificant Donations, Grants and Bequests*

A62.1. Revenue from insignificant donations, grants and bequests is recorded when the funding is received.

#### *Significant Donations, Grants and Bequests With No Documented Expectations Over Use*

A63. Where there are no documented expectations communicated from the resource provider about how the funds will be used, revenue from significant donations, grants and bequests is recorded when the funding is received.

#### *Significant Donations, Grants and Bequests With Documented Expectations Over Use*

A64. [Deleted]

A65. Where there are documented expectations (identified in accordance with paragraphs A65.1–A65.6) about how or when the funds received from significant donations, grants (including capital grants) and bequests will be used, the reporting entity shall record the funds as deferred revenue. As or when the documented expectations are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.

#### Identifying Expectations

A65.1. An expectation over how or when the funding received from significant donations, grants and bequests will be used, for the purpose of paragraph A65 arises when:

- (a) the expectation is documented and agreed by both parties — being the resource provider (the funder) and the reporting entity (who receives the transfer of resources from the resource provider, typically in the form of a transfer of cash); and
- (b) the documented expectation is specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied (regardless of whether the resource provider monitors the use of the funding provided or not).

A65.2. Examples of specific expectations include obligations to acquire or build a specific asset or assets (e.g. construct a building under the terms of a capital grant); or expectations that the funding will be used for the provision of specific goods or services to third-party beneficiaries, to

cover general operating costs over a specified time period, or to support the delivery of specific programmes or activities.

- A65.3. An expectation to use funds from significant donations, grants and bequests to support the general operating costs of the reporting entity over an unspecified period of time is not specific enough to allow for funding received to be recognised as deferred revenue. In these circumstances, revenue is recognised immediately when the funding is received.
- A65.4. Internal expectations or decisions by those charged with governance about how or when the reporting entity expects to use funds received from donations, grants and bequests are not relevant when determining how to account for the associated revenue.
- A65.5. The expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). For an expectation to be both documented and agreed between the parties:
- (a) The resource provider has communicated the expectation to the entity within, for example, a formal contract, memo, letter or email; and
  - (b) The entity has communicated acceptance of the expectation to the resource provider by, for example, signing the formal contract, memo or letter; or agreeing to the expectation via email.
- A65.6. Where an application for funding sets out how or when the reporting entity expects to use the funds, then approval of the application by the resource provider is sufficient to demonstrate that there is agreement between both parties concerning the expectation over use.

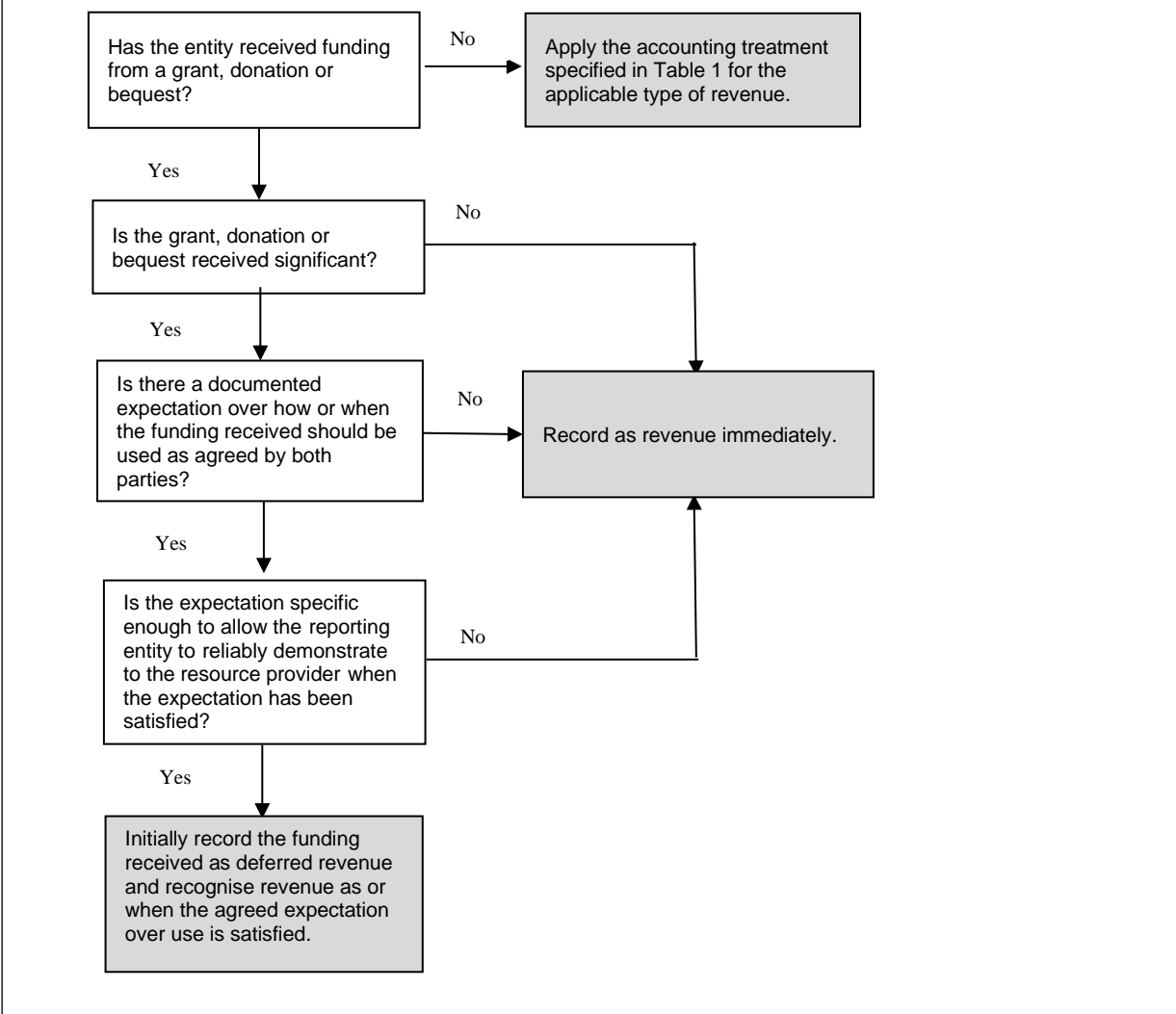
#### Timing of Revenue Recognition

- A65.7. The timing of revenue recognition is dependent on the nature of the documented expectation over use. A documented expectation over use (identified in accordance with paragraphs A65.1–A65.6) will either be satisfied by the reporting entity at a point in time or over a period of time.
- A65.8. The unit of account for the recognition of significant donations, grants and bequests with documented expectations over use, is each separate documented expectation identified. There may be multiple documented expectations attached to the funding, which will need to be accounted for separately when reducing the deferred revenue balance and recognising revenue.
- A65.9. Judgement will be required to determine an appropriate revenue recognition approach for determining the point in time at which, or the period over which, the documented expectation is satisfied. The following are examples of the different revenue recognition approaches that may be used, where there is a documented expectation.
- (a) Deliver specified goods or services to beneficiaries (e.g. to deliver 1,000 school lunches) – revenue could be recognised as the specified goods or services are delivered.
  - (b) Purchase an asset (e.g. a vehicle) – revenue could be recognised at the time the asset is purchased.
  - (c) Construct an asset (e.g. building) – revenue could be recognised over the construction period (e.g. on a stage of completion basis).
  - (d) Support general operating costs (over a specified time period, e.g., three years) – revenue could be recognised on a straight-line basis over the three-year period.
  - (e) Host an event or deliver a specific programme or activity – revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specified programme or activity are incurred.

A66. [Deleted]

A67. Figure 1 provides an overview of the revenue recognition approach for donation, grant and bequest funding received.

**Figure 1: Decision Tree: Accounting for Grant, Donation and Bequest Revenue**



*Goods or Services in Kind*

A68. An entity shall not record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A111). However, an entity shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A189).

**Expenses**

A69. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A147)<sup>6</sup>.

A70. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

<sup>6</sup> See the Glossary for a more detailed definition of expenses.

A71. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A83-A86).

**Required Information**

A72. In order to make information understandable to users, expenses shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Expenses related to fundraising;
- (b) Employee remuneration and other related expenses;
- (c) Volunteer related expenses;
- (d) Expenses related to commercial activities;
- (e) Other expenses related to service delivery;
- (f) Grants and donations made; and
- (g) Other expenses.

A73. An entity only needs to report against a category specified in paragraph A72 when the category is applicable to the entity. If a category is not applicable the entity may omit that category from its performance report.

A74. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A72, provided that the separate categories are still maintained.

A75. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A76. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses. For example, reimbursing an airfare for an employee to attend a conference. This is recorded in the appropriate category of expenses (for example, other expenses related to the delivery of entity objectives if that was the reason the travel took place).

A76.1. Category (b) in paragraph A72 above includes all remuneration paid to employees of the entity and all other costs directly related to their employment. Costs incurred for independent contractors are also included in category (b).

A76.2. Category (d) in paragraph A72 above includes all expenses attributable to commercial activities carried out by the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases these expenses would instead be considered fundraising expenses and therefore be included in category (a).

A76.3. Category (e) in paragraph A72 above includes all costs attributable to providing goods and services or carrying out activities in pursuit of the entity's stated purposes or objectives (excluding expenditure allocated to other categories).

A77. [Deleted]

A78. [Deleted]

A79. Further breakdowns or disaggregation of the categories in paragraph A72 may be provided in the notes to the performance report. For example, employee remuneration and volunteer and other employee expenses could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other expenses relating to employees (for example,

ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

### Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is “incurred”). The timing of the recording of specific expense types is provided in Table 2.

**Table 2: Recording of Specific Types of Expenses**

| Source   | When to Record   | Comments   |
|--|--|--|
| <b>Expenses related to fundraising</b>                               |  |  |
| Advertising costs, printing of fundraising materials, staff training | Record the expense when the advertising service is received or the other expense is incurred.                  | This category would include expenses associated with seeking gifts or <u>public</u> donations.   |
| Amounts paid to third party fundraisers                              | Record the expense when it is incurred.  |  |
| <b>Employee remuneration and other related expenses</b>              |  |  |
| Wages and salaries and annual leave                                  | Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements. | Amounts for leave entitlements are recorded as liabilities.<br>Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities. |
| Wages and salaries paid in advance                                   | Record the expense when the staff provide services.  | Record as an asset (prepayment) until the relevant services are provided.  |
| Performance related bonuses  | Record the expense when the employee is notified that the bonus has been granted.                              |  |
| Superannuation contributions   | Record the expense as staff provide services.  | This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities.  |
| Other (including ACC levies)   | Record the expense in accordance with the relevant agreement.  | Often recorded as an expense evenly over the period of the agreement.  |
| Independent contractor costs   | Record the expense as contractors provide services and become entitled to fees.                                |  |
| <b>Volunteer related expenses</b>                                    |  |  |
| Honoraria  | Record the expense when the honoraria are paid.  | The payment of honoraria is usually discretionary so there is no obligation on the entity prior to payment.  |
| Vouchers provided to volunteers (such as petrol vouchers)            | Record the expense when the voucher is purchased.  |  |
| <b>Other expenses related to service delivery</b>                    |  |  |
| Administration and overhead costs                                    | Record the expense when the cost is incurred.  | Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.  |

| <b>Source</b>  | <b>When to Record</b>  | <b>Comments</b>   |
|--|--|---|
| Other costs associated with the delivery of services | Record the expense when the cost is incurred.  |   |
| Purchase of inventory for sale or distribution       | Record the expense when the goods are sold or distributed.   | Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.   |
| Inventory written down or written off                | Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution). | Inventory may lose value as:<br>(a) It ages (for example, fresh food);<br>(b) Future customers would not pay as much for the inventory;<br>(c) Stock becomes obsolete; and<br>(d) The inventory is less valuable to service recipients. |
| <b>Expenses related to commercial activities</b>     |  |   |
| Inventory sold or distributed                        | Record the expense when the goods are sold or distributed.   | Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.   |
| Inventory written down or written off                | Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution). | Inventory may lose value as:<br>(a) It ages (for example, fresh food);<br>(b) Future customers would not pay as much for the inventory;<br>(c) Stock becomes obsolete; and<br>(d) The inventory is less valuable to service recipients. |
| Administration and overhead costs                    | Record the expense when the cost is incurred.  | Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.   |
| Other costs associated with the delivery of services | Record the expense when the cost is incurred.  |   |
| <b>Grants and donations made</b>                     |  |   |
| Grants and donations made                            | Record the expense when the grant or donation has been approved and the recipient advised.   |   |
| <b>Other expenses</b>                                |  |   |
| Affiliation fees                                     | Record the expense when the fees are due to be paid.   |   |
| Interest expense                                     | Record the expense as it is incurred during the period.  | This category is the amount paid during the period which relates to borrowings. Includes any interest amount owing but not yet paid.  |

| Source  | When to Record  | Comments   |
|---|---|--|
| Impairment charges<br>(changes in the value of assets)<br><br>Reversal of an impairment charge recorded in a prior period | Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value.<br><br>Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased.<br><br>(see paragraphs A107.1 and A107.2) | The impairment expense is the amount by which the asset's recorded amount is reduced.<br><br>Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts).<br><br>See also Table 3 for further discussion on impairment. |
| Depreciation  | Record the expense at year end based on the established depreciation rate.  | See also Table 3 for further discussion on depreciation.   |
| Tax expense   | Record the expense in the financial year to which the tax payable relates.  | If a tax return is filed, record the tax payable at the amount in the tax return. Otherwise, record at an estimated amount.  |
| Loss on sale of an asset  | Record the expense when control of the asset transfers to the new owner.  | The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.  |
| Other expenses  | Record the expense when it is incurred.   | It may be useful to consider the above principles.   |

## Other Information

### Required Information

- A81. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.
- A82. An entity may include the entity's budgets or plans for the current financial year if they are available, but this is not required.

### Amounts Payable or Receivable on Behalf of Others

- A83. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" for another party (for example, the Government<sup>7</sup>, another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.
- A84. An entity is a principal (that is, acting on its own behalf) when:
- (a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;
  - (b) The entity establishes the prices, either directly or indirectly, for those goods or services; and
  - (c) The entity bears the customer's credit risk for any amount receivable from the customer.
- A85. An example of the entity as principal is when the entity organises a conference for a group of NFP entities, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.
- A86. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

<sup>7</sup> For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.



**Section 6: Statement of Financial Position**

**Purpose and Value to Users**

A87. The purpose of the statement of financial position is to provide a snapshot of the entity’s assets liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a point in time (being the balance date). The statement provides users with information about the assets that can be used in the future, and the liabilities that will have to be settled in future periods.

**Format of Statement of Financial Position**

**Required Information**

A88. The statement of financial position shall be presented as follows:

|                                 |    |
|---------------------------------|----|
| Assets (by category)            | xx |
| Less Liabilities (by category)  | xx |
| Net assets                      | xx |
| Accumulated Funds (by category) | xx |

A89. [Deleted]

A90. [Deleted]

**Assets**

A91. Assets are resources owned by the entity that are expected to provide benefits to the entity in the future<sup>8</sup>.

**Required Information**

A92. In order to make information understandable to users, assets shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A102):

- (a) Cash and short-term deposits;
- (b) Debtors and prepayments;
- (c) Inventory;
- (d) Property, plant and equipment; and
- (e) Investments.

A93. Cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date of commencement.

A94. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

A95. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A96. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include food, clothing or goods held for distribution, stocks held in charity shops, information brochures printed for the entity but not yet distributed, goods purchased for resale, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

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<sup>8</sup> See the Glossary for a more detailed definition of assets.

- A97. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.
- A98. Investments are shares, term deposits (with a maturity of more than three months from the date of commencement), bonds, units in unit trusts, or similar financial instruments held by the entity.
- A99. An entity only needs to report the categories specified in paragraph A92 separately when the category is applicable and significant to the entity.
- A100. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A92, provided that the separate categories are still maintained.
- A101. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A102. In presenting the statement of financial position the entity shall identify those assets which are expected to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.
- A103. [Deleted].
- A104. [Deleted]
- A105. Additional categories to those in paragraph A92 may be presented in the statement of financial position where doing so is necessary to provide users with an improved understanding of the assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.
- A106. Breakdowns or disaggregation of the categories in paragraph A92 may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

**Accounting for Assets**

- A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

**Table 3: Recording of Specific Types of Asset**

|  |   |
|--|---|
| <b>Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)</b> |   |
| When to record   | When the cash is received (either in hand or in the bank account).  |
| Measurement  | At the amount held.   |
| <b>Debtors</b>   |   |
| When to record   | When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future.<br><br>Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance). |
| Initial measurement  | At the amount owed.   |
| When to record impairment  | When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.  |

|  |  |
|--|--|
| Change measurement at balance date                               | Consider whether any amounts are impaired (see paragraph A108).<br>If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.   |
| When to no longer record   | When amount is collected or written off.   |
| <b>Prepayments</b>   |  |
| When to record   | When the payment is made.  |
| Initial measurement  | At the amount relating to the future goods or services to be received.   |
| When to record impairment  | If the entity is unlikely to get the service it has paid for.  |
| Change measurement at balance date                               | Re-measure at the amount relating to the future services still to be received at that date.  |
| When to no longer record (when to expense)                       | Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.  |
| <b>Inventory</b>   |  |
| When to record   | When the inventory is acquired.  |
| Measurement  | Purchased inventories: At cost.  |
| When to record impairment  | <i>Goods for sale:</i> Write-down to lower of cost and selling price.<br><i>Goods for use or distribution:</i> Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).  |
| Change measurement at balance date                               | Only if impaired.  |
| When to no longer record (when to expense)                       | When the inventory is sold, distributed or written off.  |
| <b>Property, Plant and Equipment (including Heritage Assets)</b> |  |
| When to record   | When the property, plant and equipment is purchased or when it is donated.   |
| Initial measurement  | <i>Purchased:</i> Cost (cash price equivalent).<br><i>Donated:</i> Current value (such as local council rateable value).   |
| When to record impairment  | <i>Asset to be sold:</i> If the market price for an equivalent asset falls below the carrying amount of the asset.<br><i>Asset to be used:</i> If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).                       |
| Change measurement at balance date                               | <i>Record depreciation:</i> spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value.<br>Note that land is not depreciated.<br><i>For classes of asset that the entity elects to revalue:</i> record revaluation gains/losses when the assets are revalued. |
| When to no longer record   | When sold, otherwise disposed of or written off.   |
| <b>Investments</b>   |  |
| When to record   | When the investment is purchased.  |
| Initial measurement  | <i>Purchased:</i> At the amount paid.<br><i>Donated:</i> Current value (such as market value)  |
| When to record impairment  | If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.  |

|  |   |
|--|---|
| Change measurement at balance date   | If the current market price falls below cost.<br><i>For publicly traded investments the entity elects to measure at current value: record revaluation gains/losses when the investments are revalued.</i> |
| When to no longer record   | When sold, otherwise disposed of, or written off.   |
| <b>Other Assets</b>  |   |
| When to record   | When:<br>(a) The asset is acquired; and<br>(b) The asset has a cost or value that can be measured reliably <sup>(a)</sup> .   |
| Initial measurement  | At the amount paid or other value that can be measured reliably.  |
| When to record impairment  | If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).   |
| When to no longer record   | When the asset is sold or otherwise disposed of.  |
| (a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. |   |

### *Reversal of Impairment Charges*

A107.1 If there is any indication that an impairment charge recorded in prior periods for an asset:

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

- (a) In the case of inventories, be limited to the amount of the original write-down;
- (b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

### *Calculating Debtors*

A108. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

- (a) Financial difficulty of the other party;
- (b) A breach of contract by the other party, such as a default in interest or principal payments;
- (c) The entity granting to the other party a concession relating to debt payment; or
- (d) Other information indicating that the receivable may not be collected.

### *Heritage Assets*

A109. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A110. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement

of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

#### *Donated Assets*

A111. Significant donated assets, such as items of property, plant and equipment, shall be recorded at readily obtainable current values (such as local council rateable value for land and buildings), where it is practicable to obtain such current values.

A112. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

#### *Revaluation of Property, Plant and Equipment*

A113. As specified in Table 3, purchased property, plant and equipment is generally measured on a cost basis. However, an entity may elect to revalue a class of property, plant and equipment. An entity is more likely to make such an election when the value of an asset is expected to increase over that asset's life.

A113.1. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets within that class of property, plant, and equipment.

A113.2. A class of property, plant, and equipment is a grouping of assets of a similar nature or function. Possible classes of property, plant and equipment are:

- (a) Land;
- (b) Buildings;
- (c) Motor vehicles;
- (d) Furniture and fixtures;
- (e) Office equipment;
- (f) Computers (including software); and
- (g) Machinery.

A114. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A114.1. When a revaluation approach is applied, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable value may be used.

A114.2. Where an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.

A115. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset, is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

A115.1. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A115.2. Where an entity elects to revalue its land and buildings based on a local council rateable value it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may

choose to disclose that current value, and the basis (valuation by an independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.

A116.1. If an entity elects to revalue a class of assets it shall:

- (a) Present a separate property, plant and equipment revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143 and A196);
- (b) Recognise revaluation gains for the class as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through the property, plant and equipment revaluation reserve, unless they reverse a revaluation loss recognised as an expense in a prior period ;
- (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through the property, plant and equipment revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of property, plant and equipment”.

A116.2. For the purpose of applying paragraph A116.1 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different classes.

A116.3. Some or all of the revaluation gains included in net assets/accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A116.4. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

- (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value);
- (b) The date of the valuation; and
- (c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

#### Investment property

A116.5. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity's ordinary activities.

A116.6. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A113 – A116.4). This means that an entity can choose to account for investment property on a cost or revaluation basis. An entity may elect to present investment property as a separate class of property, plant and equipment.

#### Investments

A116.7. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure that class of investment at its current market value.

A116.8. Electing to revalue a class of publicly traded investments after initial recognition of the purchased asset, is an accounting policy choice. Therefore, once a class of publicly traded investments is revalued the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

A116.9. If an entity elects to measure a class of publicly traded investments at current market value, it may elect to recognise gains/losses on revaluation either:

- (a) in revenue or expenses in the statement of financial performance; or
- (b) in accumulated funds in the statement of financial position.

A116.10. If an entity elects to recognise gains/losses on revaluation of publicly traded investments in accumulated funds in the statement of financial position, it shall:

- (a) Present a separate investment revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);
- (b) Recognise revaluation gains for the investments as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the investment revaluation reserve, unless they reverse a revaluation loss recognised as an expense in a prior period;
- (c) Recognise revaluation losses for the investment as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the investment revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of publicly traded investments”.

A116.11. For the purpose of applying paragraph A116.9 revaluation gains and losses relating to individual assets of the revalued class of publicly traded investments shall be offset against other assets of that class but shall not be offset against assets of different classes.

A116.12. Some or all of the revaluation gains included in net assets/accumulated funds in respect of publicly traded investments may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. Transfers from the investment revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A116.13. If investments are reported at current market value an entity shall disclose:

- (a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).
- (b) In the notes to the performance report, an analysis of investments by class reconciling the opening and closing carrying amounts of each class of investment, with those held at current market value being identified separately from those held at cost less impairment.

#### *Assets Held on Behalf of Others*

A117. Assets held as an agent on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A83 – A86 for a discussion on principals and agents).

#### **Liabilities**

A118. Liabilities are the amounts owed by the entity at balance date<sup>9</sup>.

#### **Required Information**

A119. In order to make information understandable to users, liabilities shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A128):

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<sup>9</sup> See the Glossary for a more detailed definition of liabilities.

- (a) Bank overdraft;
- (b) Creditors and accrued expenses;
- (c) Employee costs payable;
- (d) Deferred revenue; and
- (e) Loans.

A120. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity's operations. GST payable to Inland Revenue is also part of creditors.

A121. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid, water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A122. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees' remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

A123. [Deleted]

A124. Loans are amounts borrowed by the entity.

A125. An entity only needs to report the categories specified in paragraph A119 separately when the category is applicable and significant to the entity.

A126. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A119, provided that the separate categories are still maintained.

A127. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A128. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as "current liabilities". The remaining liabilities shall then be classified as "non-current liabilities".

A128.1. The balance of deferred revenue with respect to unsatisfied resource provider expectations over significant donation, grant and bequest funding at balance date shall be reported as a category of liabilities in the statement of financial position.

A129. [Deleted]

A130. Additional categories to those in paragraph A119 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A131. Breakdowns or disaggregation of the categories in paragraph A119 may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

### **Accounting for Liabilities**

A132. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

**Table 4: Recording of Specific Types of Liability**

|                                       |  |
|---------------------------------------|--|
| <b>Bank Overdraft</b>                 |  |
| When to record                        | When the overdraft occurs.   |
| Measurement                           | At the amount of the actual overdraft (not the overdraft facility).  |
| <b>Creditors and Accrued Expenses</b> |  |
| When to record                        | When transaction occurs that creates the payment obligation, for example on the receipt of goods or services from a supplier.  |
| Initial measurement                   | At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid   |
| Change measurement at balance date    | Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).  |
| When to no longer record              | When settled.  |
| <b>Employee Costs Payable</b>         |  |
| When to record                        | When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for an entity with paid employees to have no employee costs payable.   |
| Initial measurement                   | At the amount to be paid.  |
| Change measurement at balance date    | If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).  |
| When to no longer record              | When settled.  |
| <b>Deferred Revenue</b>               |  |
| When to record                        | When a significant donation, grant or bequest with expectations over use is received.  |
| Initial measurement                   | At the amount of the donation, grant or bequest received.  |
| Change measurement at balance date    | Assess whether (or to what extent) expectations over use have been satisfied. If expectations have not been fully satisfied, assess the amount of the donation, grant or bequest that relates to expectations which have not yet been satisfied. |
| When to no longer record              | When the expectations over use are satisfied.  |
| <b>Provisions</b>                     |  |
| When to record                        | When an event has occurred that leads to an obligation.  |
| Initial measurement                   | At the entity's best estimate of the amount to be paid.  |
| Change measurement at balance date    | Review the estimate of the amount of the obligation in light of conditions at balance date.  |
| When to no longer record              | When no obligation remains.  |
| <b>Loans</b>                          |  |
| When to record                        | When the amount borrowed has been received.  |
| Initial measurement                   | At the amount borrowed from the lender (usually referred to as the loan principal).  |
| Change measurement at balance date    | Include any loan principal outstanding and any interest owing that has not yet been paid.  |
| When to no longer record              | When all principal and interest has been paid.   |

### *Provisions*

A133. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A134. A provision shall be recorded as a liability when:

- (a) The entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that the entity will have to settle the obligation; and
- (c) The entity can make a reliable estimate of the amount of the obligation.

A135. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

### *Possible Future Liabilities*

A136. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

### *Contingent Liabilities*

A137. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A199–A201).

### **Accumulated Funds**

A138. The accumulated funds balance is the difference between the assets and liabilities of the entity. It is therefore the component that balances the statement of financial position. The accumulated funds balance represents the net assets available to the entity to fulfil its objectives in the future. In the for-profit sector the equivalent term is equity.

A138.1. Movements in accumulated funds include the surplus or deficit for the year, revaluation reserve movements, and other transactions directly with owners in their capacity as owners. In general, transactions with owners (described as capital contributed by owners in paragraph A140 below) are uncommon for a not-for-profit entity and most transactions are recorded through the statement of financial performance rather than directly through the Accumulated Funds balance.

A138.2. For the purposes of applying the requirements in this Standard, the term "owners" specifically refers to those who have made capital contributions as described in paragraph A140 below. The term "owners" can include individuals or other entities.

### **Required Information**

A139. In order to make information understandable to users, the balance of accumulated funds shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately, where they are applicable to the entity:

- (a) Capital contributed by owners (if any);
- (b) Accumulated surpluses or deficits;
- (c) Reserves:
  - (i) Restricted and discretionary reserves;
  - (ii) Property, plant and equipment revaluation reserve;
  - (iii) Investment revaluation reserves; and
  - (iv) Other reserves.

A139.1. When an entity elects to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard, it may be required to present additional categories of accumulated funds balances based on the requirements of the Tier 2 PBE Standard applied.

A140. The capital contributed by owners category represents contributions to the entity by owners in their capacity as owners that:

- (a) Convey to owners the entitlement to:
  - (i) Distributions by the entity during its life; and/or
  - (ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) Give the owner a voice in the management of the entity as an owner; and/or
- (c) Can be sold, exchanged, transferred, or redeemed.

A141. [Deleted]

A142. The accumulated surpluses or deficits category represents the total of all the surpluses and deficits from the commencement of the entity, excluding any transactions with owners in their capacity as owners/ (if any), and amounts transferred to other reserves.

A143. Reserves are of four types:

- (a) Restricted reserves which an entity may elect to create by a transfer from accumulated surpluses or deficits where funds received may only be used for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. The restriction must be set by an external party, and must not meet the criteria to be considered a “documented expectation” (in which case the funds would instead be recognised as deferred revenue, see paragraphs A65 – A67) for example:
  - (i) A bequest which specifies that the funds received may only be invested and that any investment returns may be used as the entity sees fit.
  - (ii) [Deleted]
  - (iii) [Deleted]
- (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as an internal decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.
- (c) Revaluation reserves including the:
  - (i) Property, plant and equipment revaluation reserve which represents the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).
  - (ii) Investment revaluation reserve which represents the increase in value of publicly traded investments over their carrying amounts (where an entity has elected to measure such items at revalued amounts and also elected to recognise the increases in value directly in accumulated funds).
- (d) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

A144. An entity only needs to report the categories specified in paragraph A139 separately when the category is applicable to the entity.

A145. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A139, provided that the separate categories are still maintained.

### ***Accounting for Accumulated Funds***

A146. Capital contributed by owners shall be recorded at the amount received or paid to owners in their capacity as owners.

A147. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period's surplus or deficit from the statement of financial performance, plus any transfers to/from reserves.

A148. Reserves shall be recorded as follows:

- (a) Restricted and discretionary reserves shall be recorded at the opening balance of the reserve plus/minus transfers to/from accumulated surpluses or deficits.
- (b) Revaluation reserves shall be recorded at the opening balance of the reserve plus/minus the increase/decrease in value of each class of revalued asset required to be recognised directly in accumulated funds (where an entity has elected to measure such items at revalued amounts).
- (c) Other reserves shall be recorded at the opening balance of the reserve plus/minus any amounts required to be recognised directly in accumulated funds as a result of an entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

### **Approval and Issue of Performance Report**

A148.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

#### ***Required Information***

A148.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

#### **Other Information**

#### ***Required Information***

A149. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

A150. An entity may include the entity's budgets or plans for the current financial year if they are available, but this is not required.

**Section 7: Statement of Cash Flows**

**Purpose and Value to Users**

A151. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received, and how the cash was used during the year. An understanding of an entity’s cash flows is helpful to users in making decisions about the entity’s ability to continue operating in the future and whether funds received have been appropriately spent on advancing the entity’s objectives.

A152. [Deleted]

**Format of Statement of Cash Flows**

**Required Information**

A153. The statement of cash flows shall be presented as follows:

|  |                |
|--|----------------|
| Cash Flows from Operating Activities (by category) | xx             |
| Cash Flows from Other Activities (by category)     | xx             |
| Net Increase/(Decrease) in Cash                    | <hr/> xx       |
| Add Opening Cash Balance                           | xx             |
| Closing Cash Balance                               | <hr/> xx <hr/> |

A154. [Deleted]

A155. Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

A156. Operating activities are the activities of the entity that are carried out as part of its normal operations, for example, the funding received and the costs paid in delivery of the entity’s objectives

A157. The statement of cash flows does not include:

- (a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A83–A86). For example, rent collected on behalf of, and paid over to, the owners of properties; and
- (b) Transactions not involving cash, for example depreciation and donated goods or services.

**Cash Flows from Operating Activities**

**Required Information**

A158. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

*Cash Received:*

- (a) Donations, koha, bequests and other general fundraising activities ;
- (b) General grants;
- (c) Capital grants and donations;
- (d) Government service delivery grants/contracts;
- (e) Non-government service delivery grants/contracts;
- (f) Membership fees and subscriptions;

- (g) Gross sales from commercial activities;
- (h) Interest, dividends and other investment receipts; and
- (i) Other cash received.

*Cash Payments:*

- (a) Payments related to public fundraising;
- (b) Employee remuneration and other related payments;
- (c) Volunteer related payments;
- (d) Payments related to commercial activities;
- (e) Other payments related to service delivery;
- (f) Grants and donations paid; and
- (g) Other payments.

A159. An entity only needs to report against a category specified in paragraph A158 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A160. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A158, provided that the separate categories are still maintained.

A161. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A162. [Deleted]

A163. [Deleted]

A164. Further breakdowns or disaggregation of the categories in paragraph A158 may be provided in the notes to the performance report, for example, a breakdown of cash payments related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

## **Cash Flows from Other Activities**

### ***Required Information***

A165. In order to make information understandable to users, cash flows from other activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

*Cash Received:*

- (a) Sale of property, plant and equipment;
- (b) Sale of investments;
- (c) Cash received from loans from other parties;
- (d) Cash received from owners (capital contributions); and
- (e) Capital grants

*Cash Payments:*

- (a) Payments to acquire property, plant and equipment;
- (b) Payments to purchase investments;
- (c) Repayments of loans from other parties; and
- (d) Capital distributed to owners.

A166. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include loans made to other entities.

A167. An entity only needs to report against a category specified in paragraph A165 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A168. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A165, provided that the separate categories are still maintained.

A169. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

## **Cash Balances**

### ***Required Information***

A170. Cash balances is the same amount reported as “cash and short-term deposits” less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, at call deposits with banks or term deposits with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A93).

## **Section 8: Statement of Accounting Policies**

### **Purpose and Value to Users**

A171. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

### **Format of Statement of Accounting Policies**

#### ***Required Information***

A172. The statement of accounting policies shall comprise two components:

- (a) Accounting policies applied; and
- (b) Changes in accounting policies.

### **Accounting Policies Applied**

A173. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

#### ***Required Information***

A174. The following shall be included in the statement of accounting policies.

#### ***Basis of Preparation***

A175. The statement of accounting policies shall disclose that:

- (a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;
- (b) All transactions are reported using the accrual basis of accounting; and
- (c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A176).

A176. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A210). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale (i.e., current realisable) value.

#### ***Goods and Services Tax (GST)***

A177. The statement of accounting policies shall disclose:

- (a) Whether the entity is registered for GST; and
- (b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

#### ***Specific Accounting Policies***

A178. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A179. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see Appendix C), the PBE Standard applied shall be disclosed.

### **Changes in Accounting Policies**

A181. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A182. An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

### **Required Information**

A183. When an entity changes its accounting policy an entity shall disclose:

- (a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and
- (b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A184. Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

### **Accounting for Changes in Accounting Policies**

A185. Changes in accounting policies shall be applied from the beginning of the current reporting period.

## **Section 9: Notes to the Performance Report**

### **Purpose and Value to Users**

A186. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

### **Required Information**

A187. The following matters shall be included in the notes to the performance report.

A188. [Deleted]

### ***Deferred Revenue: Unused Significant Donations, Grants or Bequests with Expectations over Use***

188.1. Where the entity has received a significant donation, grant or bequest for which revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

- (a) The purpose and nature of the expectations over future use; and
- (b) When the entity expects to satisfy the remaining expectations over use.

### ***Goods or Services in Kind Provided to the Entity***

A189. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required.

### ***Property, Plant and Equipment***

A190. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

- (a) A description of the asset class (for example, equipment, furniture);
- (b) The carrying amount of the asset class at the beginning of the financial year;
- (c) The depreciation and/or impairment expense recorded for the asset class for the financial year;
- (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and
- (e) The carrying amount of the asset class at the end of the financial year.

A191. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A113–A116.4).

## **Investments**

A191.1. Where the entity has elected to measure a class of investments at its current market value (see paragraphs A116.7 – A116.13) the entity shall disclose for each class of investment in the notes to the performance report:

- (a) A description of the asset class (for example, shares, bonds);
- (b) Whether the asset class is held at current market value or cost less impairment;
- (c) The carrying amount of the asset class at the beginning of the financial year;
- (d) The amount of any revaluation gain/loss recognised in the investment revaluation reserve or in revenue/expense in the statement of financial performance due to changes in the market value of the asset class for the financial year; and
- (e) The carrying amount of the asset class at the end of the financial year.

A191.2. For each class of investment held at current market value the entity shall also disclose the source and date of the valuation (for example, NZX-quoted price at the balance date).

### **Significant Donated Assets not Recorded**

A192. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

### **Significant Heritage Assets not Recorded**

A193. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A110), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

### **Assets Used as Security for Liabilities**

A194. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

- (a) The nature and amount of the loan that is secured; and
- (b) The nature and amount of the asset(s) used as security.

### **Assets Held on Behalf of Others**

A195. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

- (a) A description of the assets which it holds in this capacity; and
- (b) The name of the entity on whose behalf the assets are held.

### **Changes in Accumulated Funds**

A196. The notes to the performance report shall include an explanation of the movements between the opening and closing balances for each category of Accumulated Funds. An entity shall also disclose the nature and purpose of each restricted and discretionary reserve.

A196.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its reserves.

A196.2. In meeting the requirements of paragraph A196.1 for restricted reserves, an entity shall disclose a description of the purpose of the reserve and the nature of the restriction on the reserve.

A196.3. In meeting the requirements of paragraph A196.1 for discretionary reserves, an entity shall disclose a description of the purpose of the reserve, the entity's plans for applying the reserve towards its stated purposes, and when the entity expects the reserve will be applied.

A196.4. Information which an entity may consider disclosing in meeting the requirements of paragraphs A196.2 and A196.3 includes:

- (a) Whether the entity intends to begin any specific projects to which the reserve will be applied;
- (b) To what extent the reserve represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or
- (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

### **Commitments**

A197. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A198. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

- (a) Commitments to lease or rent assets;
- (b) Commitments to purchase property, plant and equipment; and
- (c) Commitments to provide loans or grants.

### **Contingent Liabilities**

A199. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A200. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

- (a) A brief description of the nature of the contingent liability;
- (b) A best estimate of the amount of the contingent liability (where this can be estimated);
- (c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and
- (d) The possibility of any reimbursement.

A201. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

- (a) The nature of the guarantee;
- (b) The maximum amount of any guarantees provided to others; and
- (c) The likelihood of the entity being required to make payment under the guarantee.

### **Related Party Transactions**

#### *Explanation*

A202. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes normal business transactions as well as transactions below market price (including the provision of free goods or services).

A203. Related parties comprise:

- (a) People that have significant influence over the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and
- (b) Other entities that have significant influence over the entity.

A204. Related party relationships exist throughout the NFP sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

- (a) Related party relationships can influence the way in which an entity operates with other entities;
- (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

A205. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

- (a) The sale of a significant resource (such as a building) to the spouse of a member of the governing body of the entity;
- (b) The provision of preferential access to services provided by the entity to the child of the president of the entity;
- (c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party; and
- (d) A member of the governing body providing professional services (for example, accounting or legal services) to the entity at no cost.

#### *Requirements*

A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:

- (a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or
- (b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

A207. For each disclosed transaction the following shall be reported:

- (a) A description of the related party relationship;
- (b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and
- (c) Any amounts due from or to related parties at balance date.

#### **Events After the Balance Date**

A208. Where events after balance date occur (see paragraphs A33–A35), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

- (a) The nature of the event; and
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and

- (c) The effect, if any, on the entity's ability to continue operating.

A209. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

#### ***Ability to Continue Operating***

A210. Where the entity plans to stop operating within 12 months from balance date (see paragraph A176), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

- (a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;
- (b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and
- (c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A211. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

#### ***Correction of Errors***

A212. When an entity corrects a significant prior period error (see paragraph A28), it shall report in the notes to the performance report:

- (a) A description of the error and how it was corrected; and
- (b) The line items and amounts that have been corrected.

#### ***Additional Information***

A213. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

#### ***Optional Information***

A214. An entity may include in the notes to the performance report:

- (a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;
- (b) Additional information about donations, fundraising and other similar revenue including a list of donors; and
- (c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

## Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

### 1. Revenue Earned

#### **Scenario 1**

A charity that provides health services (the reporting entity) has a government contract where it invoices the government after the services have been provided.

*Treatment:* The reporting entity records revenue in the statement of financial performance (as revenue from providing goods or services) when the health services have been delivered. In practice this will normally be when the invoice is issued to the government (if issued on a monthly basis or something similar). Any amounts invoiced but not yet received at balance date are recorded as a debtor in the statement of financial position.

#### **Scenario 2**

A charity that provides health services (the reporting entity) has a government contract where the government bulk funds the charity at the beginning of each quarter in advance of the services having been delivered.

*Treatment:* The reporting entity records:

- (a) The bulk funding received in advance as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category "revenue in advance"); and
- (b) Revenue in the statement of financial performance (revenue from providing goods or services) as the health services are delivered; and reduces the liability for the funding received in advance by the same amount at the same time.

### 2. Donations, Grants and Bequests with and Without Expectations Over Use

#### **Scenario 1 – Donation from a private individual with no documented expectation over use**

A marae is presented with a significant koha from manuhiri (visitors) in the form of cash to support its activities. The marae intends to use the koha to fund a particular project; however, the manuhiri did not communicate any expectations over use of the koha to the marae.

*Treatment:* As the manuhiri did not communicate any expectations over the use of the koha to the marae, the marae records the koha as revenue in the statement of financial performance (as revenue from donations, koha, bequests, and other fundraising activities) upon receipt of the koha.

*Optional Information:* The marae may include other information about the koha received in the notes to the performance report (see paragraph A61) if they consider it is appropriate to provide more information.

#### **Scenario 2 – Grant with a time-specified expectation**

A charity that delivers social services (the reporting entity) receives a grant to support its general operating activities at the beginning of its financial year. The grantor specifies in writing that the charity must use the grant over the next two years.

*Treatment:* There is a documented expectation over the use of the grant from the grantor, which is time specified (i.e. funds to be used over a two-year period). Therefore, the reporting entity:

- (a) Records the grant as deferred revenue upon receipt of the funds;
- (b) Records the grant as revenue in the statement of financial performance (as grant revenue) on a straight-line basis (i.e. records half the grant as grant revenue at the end of the financial year in which the grant was received);
- (c) Records a corresponding reduction in the deferred revenue balance; and
- (d) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, the fact that the grant is to be used over a period

of two years, and when the reporting entity expects to fulfil the grantor's expectations in full (see paragraph A188.1).

*Optional Information:* The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

Note: for a time-specified expectation, revenue is recognised on a straight-line basis over the specified period, regardless of how much of the funding has actually been spent as at balance date.

### **Scenario 3 – Bequest to be used to fund the construction of an asset**

A charity receives a bequest for the purposes of building new premises. This expectation has been documented and agreed between the charity and a representative of the donor's deceased estate.

*Treatment:* There is a documented expectation over the use of the bequest, which relates to the construction of an asset. Therefore, the reporting entity:

- (a) Records the bequest as deferred revenue upon receipt of the funds;
- (b) Records the bequest in the statement of financial performance (as revenue from capital grants and donations) on a stage of completion basis (i.e. recognise a percentage of the bequest as revenue, based on the percentage of total expected expenditure incurred to date), with a corresponding reduction in the deferred revenue balance; and
- (c) Provides information in the notes to the performance report outlining the total amount of the bequest, the amount of the bequest unused, the fact that the bequest is to be used to fund the construction of the new premises, and when the reporting entity expects to fulfil the resource provider's expectations in full (see paragraph A188.1).

## **3. Donated Assets**

The family of a deceased person (who is not a related party) donates a house, some artefacts and other miscellaneous items from the estate to a charity (the reporting entity). The house has a local council rateable valuation, is considered to be significant, and will have a useful life of 12 months or more. The artefacts are considered significant and will have an indefinite useful life of 12 months or more. However, the value of the artifacts is not readily obtainable. The other miscellaneous items are considered insignificant.

*Treatment:* When the donated assets are received, the reporting entity:

- (a) Records:
  - (i) The house as an asset in the statement of financial position (as property, plant and equipment) at the government valuation (see paragraph A111);
  - (ii) Revenue in the statement of financial performance (as donations, fundraising and other similar revenue) at the same amount as the house was recorded at in the statement of financial position; and
  - (iii) The basis and date of the valuation, and the information required for property, plant and equipment, in the notes to the performance report (see paragraph A190);
- (b) Does not record the artefacts (because their value is not readily obtainable) but discloses in the notes to the performance report details of the artefacts received (see paragraph A192); and
- (c) Does not record the other miscellaneous items (because their value is insignificant).

*Optional Information:* The reporting entity may include in the notes to the performance report a list of donations received including these donated assets.

#### 4. Donated Goods or Services

A charity (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the charity. The value of the free services is significant to the charity.

*Treatment:* The reporting entity does not record the donated services (see paragraph A68). However, the donated service is disclosed in the notes to the performance report (see paragraph A189).

#### 5. Pledges

A local radio station conducts a fundraising appeal for a kōhanga reo in the area (the reporting entity). Listeners send in pledges, promising to send donations of specified amounts of money. At the conclusion of the appeal, a significant amount has been pledged. The pledged donations are not binding on those making the pledge.

*Treatment:* The kōhanga reo does not record any amount in respect of the pledges until it receives the funds pledged.

*Optional Information:* The kōhanga reo may wish to record in the notes to the performance report the result of the fundraising appeal.

#### 6. Volunteer Services

The reporting entity is a charity shop run by volunteers.

*Treatment:* The entity information section reports that the entity is reliant on volunteers' donation of time, and the donation of goods for sale, for the operation of the charity shop (see paragraph A37(f)).

*Optional Information:* In its statement of service performance the entity may provide a quantification of the contributions from volunteers in terms of numbers of volunteers, number of volunteer hours or full-time staff equivalents involved in running the shop (see paragraph A43(a)(iv)).

#### 7. Loans and Revenue from Loan Forgiveness

##### **Scenario 1**

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are required to begin immediately.

*Treatment:* When the loan is received it is recorded as a liability (a loan) in the statement of financial position. Repayments are recorded as a reduction in the loan in the statement of financial position (so that the amount at balance date reflects the loan principal outstanding).

##### **Scenario 2**

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are not required to begin for five years. After four years, the parishioner decides not to require repayment of the loan.

*Treatment:* When the loan is received it is recorded as a liability (a loan) in the statement of financial position. When the loan is forgiven, the amount of the loan is recorded as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and the liability (loan) is removed from the statement of financial position.

*Optional Information:* The reporting entity may wish to record in the notes to the performance report the donation and the reason that it no longer has the loan recorded in the statement of financial position.

## 8. Grants and Donations Expense

### **Scenario 1**

A philanthropic trust (the reporting entity) makes grants to worthy organisations. The Trust's policy is that all grants are discretionary and it does not advise organisations receiving a grant in advance of paying the grant.

*Treatment:* The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when the grants are paid.

### **Scenario 2**

A philanthropic trust (the reporting entity) makes grants to worthy organisations. After each Trust meeting the Trust advises organisations that have been approved for a grant of that fact in writing. The grants are typically paid out two months after the written notification.

*Treatment:* The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when it notifies the organisations in writing. It also records a liability (as a creditor) in the statement of financial position.

## 9. Liabilities and Contingent Liabilities

At its annual charity gala, a charity (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the reporting entity disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

*Treatment:* In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

## 10. Related Parties

### **Scenario 1**

The reporting entity has total operating payments of \$200,000. A few of these payments (\$50,000) are made to the spouse of the chairperson for office administration duties of the entity. The payments are made on normal terms and conditions.

### **Scenario 2**

The reporting entity has total operating payments of \$200,000. A few of these payments (\$500) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at the same hourly rate as the office administrator receives.

*Treatment:* In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A203).

In scenario 1 the transactions with the related party are significant to the entity (see paragraph A206(a)) and therefore the entity reports in the notes to the performance report the information set out in paragraph A207(a)–(c).

In scenario 2 the transactions with the related party are not significant to the entity and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

## Section 11: Glossary

*This Glossary contains all terms defined in this Standard.*

|  |   |
|--|---|
| <b>Accounting policies</b>             | The specific policies and practices used by the entity when preparing the performance report.   |
| <b>Accumulated funds</b>               | Represents the net assets available to the entity to fulfil its objectives in the future. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.   |
| <b>Assets</b>                          | Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).   |
| <b>Associate</b>                       | An entity over which the investor has significant influence.  |
| <b>Bad debt</b>                        | Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).  |
| <b>Balance date</b>                    | The date to which the performance report is prepared. It is usually an end of month date, for example, 31 March 20XX.   |
| <b>Carrying amount</b>                 | The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).   |
| <b>Cash</b>                            | Cash on hand and bank account balances (e.g., cheque and savings accounts)  |
| <b>Commitments</b>                     | Contracts or similar arrangements entered into by the entity to pay money in the future.  |
| <b>Consolidated performance report</b> | The performance report of an economic entity <sup>10</sup> presented as that of a single entity.  |
| <b>Contingent liability</b>            | A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because: (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation). |
| <b>Control</b>                         | An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.  |
| <b>Controlled entity</b>               | An entity that is controlled by another entity.   |
| <b>Controlling entity</b>              | An entity that controls one or more entities.   |
| <b>Deficit</b>                         | The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.   |
| <b>Depreciation</b>                    | The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.  |
| <b>Documented expectation</b>          | An expectation from a resource provider, agreed with the entity in writing, about how and/or when funding will be used. A documented expectation is specific enough for the entity to be able to demonstrate when the expectation has been fulfilled.   |

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<sup>10</sup> Note the term group is sometimes used to refer to the economic entity.

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| <b>Economic entity</b>                                | A controlling entity and its controlled entities.   |
| <b>Entity</b>   | An entity is an organisation which may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.   |
| <b>Expenses</b>                                       | All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners (in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense. |
| <b>Fair value</b>                                     | The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.  |
| <b>Financial year</b>                                 | A twelve-month period ending on the entity's balance date.  |
| <b>Impairment</b>                                     | When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change or the asset is damaged. Impairment tests apply to both tangible and intangible assets.  |
| <b>Intangible assets</b>                              | Assets without a physical presence (for example, trademarks, patents).  |
| <b>Inventory</b>                                      | Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, the goods for sale in a charity shop.  |
| <b>Joint arrangement</b>                              | An arrangement of which two or more parties have joint control.   |
| <b>Joint control</b>                                  | The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.   |
| <b>Joint venture</b>                                  | A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.  |
| <b>Liabilities</b>                                    | Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.  |
| <b>Measurement</b>                                    | Quantification of activities in terms of money, being New Zealand dollars.  |
| <b>Not-for-profit public benefit entity (NFP PBE)</b> | A public benefit entity that is not a public sector public benefit entity.  |
| <b>Notes to the performance report</b>                | Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.   |
| <b>Performance report</b>                             | A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and  |

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|                                | notes to the performance report prepared in accordance with this Standard.  |
| <b>Public accountability</b>   | <p>While NFP PBEs are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>An entity is considered to have public accountability for financial reporting purposes when it has issued debt or equity instruments through a public offering or its main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in XRB A1.</p>                              |
| <b>Public benefit entity</b>   | 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.  |
| <b>Recording</b>               | Including <u>a</u> revenue, expense, asset or liability <u>item</u> in the statements of the performance report (also referred to as recognition).  |
| <b>Recognition event</b>       | <p>An event that brings about the legal obligation for the entity to:</p> <p>(a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or</p> <p>(b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash.</p> <p>This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).</p>   |
| <b>Related parties</b>         | People or entities that have significant influence over the reporting entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.  |
| <b>Reporting entity</b>        | An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment, it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a NFP entity.   |
| <b>Revenue</b>                 | All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings. |
| <b>Significant</b>             | An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user’s understanding of the entity’s overall performance. For the purposes of this Standard it has the same meaning as material.  |
| <b>Significant influence</b>   | The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.   |
| <b>Statement of cash flows</b> | A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.   |

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| <b>Statement of financial performance</b> | A statement that shows an entity's revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.   |
| <b>Statement of financial position</b>    | A statement that reports a picture of the entity's position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.  |
| <b>Statement of service performance</b>   | A statement that provides information to help users understand what the entity did during the financial year to achieve its objectives. It is particularly useful in the not-for-profit sector when the focus is on achieving objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.   |
| <b>Surplus</b>                            | The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.   |
| <b>Total expenses</b>                     | <p>For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance.</p> <p>Where revenue and expense are offset as required or permitted, any net expense is included in total expenses.</p> <p>Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.</p> |

## Appendix B: Application Date and Transition

*This Appendix is an integral part of the Standard.*

### Application Date

B1. *Reporting Requirements for Tier 3 Not-for-Profit Entities*, issued in [April 2023]. A not-for-profit public benefit entity shall apply this standard for periods beginning on or after 1 April 2024. A not-for-profit public benefit entity may elect to apply this standard to an earlier accounting period where that accounting period ends after this standard takes effect.<sup>11</sup>

B2. The previous version of this standard is available on the [XRB website](#)

### Transition

#### Objective

- B3. This part of the Standard<sup>12</sup> is designed to assist an entity that is either:
- (a) preparing its first performance report under this Standard (paragraphs B9 – B17); or
  - (b) applying for the first time a new accounting requirement or accounting policy introduced by the *2023 Amendments to the Tier 3 (NFP) Standard* (paragraphs B18 – B30)

### Preparing the first performance report under Tier 3 (NFP) Standard

#### Transitional Groups

- B4. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances. There are likely to be four types of entities applying this Standard for the first time:

Group 1: New entities – those that have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

#### General Provisions

- B5. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B14 to B17.
- B6. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared, for example, if the performance report is being prepared in accordance with these general provisions for the year ended 31 March 2016, the beginning of the earliest comparative period would be 1 April 2014.
- B7. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.
- (a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.

<sup>11</sup> *Reporting Requirements for Tier 3 Not-for-Profit Entities* takes effect on the 28th day after publication of the standard in the Gazette

<sup>12</sup> This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Not-for-profit Entities abbreviated as Tier 3 (NFP) Standard.

- (b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.
- (c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.

B8. Separate disclosure of significant restatements is encouraged, but is not required.

**Special Provisions**

*Group 1: New Entities*

B9. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. A new entity shall disclose its date of commencement in the notes to the performance report.

*Group 2: Entities Previously Applying Tier 4 Accounting Requirements*

B10. An entity in this Group shall follow one of the following two options:

- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
- (b) Apply the general provisions of this Standard.

*Group 3: Entities Previously Applying Tier 2 Accounting Requirements*

B11. An entity in this Group shall follow one of the following two options:

- (a) Provide comparative data based on the applicable information reported in its financial statements for the previous year prepared in accordance with Tier 2 PBE Accounting Requirements; or
- (b) Apply the general provisions of this Standard.

*Group 4: Other Entities*

B12. An entity in this Group shall follow one of the following two options:

- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
- (b) Apply the general provisions of this Standard.

**Initial application of the 2023 Amendments to Tier 3 (NFP) Standard**

B13. The requirements in paragraphs B20 to B30 below are only applicable to entities that were previously applying Tier 3 PBE Accounting Requirements (i.e., those who have complied with Tier 3 PBE Accounting Requirements in the previous financial year).

B14. If the entity did not apply Tier 3 PBE Accounting Requirements in the previous financial year, it shall instead apply this Standard in accordance with the transitional arrangements set out in paragraphs B9 to B17 above.

**Categories of revenue and expense**

B15. When presenting its statement of financial performance, an entity may need to make significant changes to how it aggregates its revenue and expenses in accordance with paragraphs A54 to A61 and A72 to A79 of this Standard.

- B16. In accordance with paragraph A23 of this Standard, where an entity makes any changes to its presentation or categories of disclosure due to the requirements of this Standard, it is also required to make similar changes to the comparative amounts, unless it is impracticable to do so.

### ***Revenue recognition***

- B17. An entity shall treat any changes in revenue recognition arising from the amendments to paragraphs A65 to A65.9 of this Standard as a change in accounting policy. In accordance with paragraph A185, an entity shall apply the change in accounting policy from the beginning of the current reporting period and shall disclose the information required by paragraph A183.
- B18. For the avoidance of doubt, an entity shall not reassess its recognition of revenue or unused donations or grants with conditions derived from significant grants, donations and bequests in previous reporting periods except to the extent required to fulfil the disclosure requirements in paragraph A183(b). However, applying the requirements in this standard may result in an entity recognising revenue from unused donation or grants with conditions on a different basis than it would have if it had continued to apply the requirements in the previous version of this standard.

### ***Revaluation of assets***

- B19. There are likely to be two groups of entities applying the requirements in this Standard.
- (c) Group 1: Entities that previously accounted for property, plant and equipment and/or publicly traded investments at cost in accordance with the requirements of this Standard.
- (d) Group 2: Entities that previously elected to revalue property, plant and equipment and/or publicly traded investments by applying the requirements of the applicable Tier 2 PBE Standard(s).
- B20. An entity in Group 1 may elect to apply the amendments to paragraphs A113 to A116.13 and revalue its property, plant and equipment and/or publicly traded investments in the current and future reporting periods, in which case it shall account for this election as a change in accounting policy in accordance with paragraphs A181 to A185 of this Standard.
- B21. An entity in Group 2 shall choose one of the following options for each revalued class of assets.
- (a) Option 1: Continue applying the requirements in the applicable Tier 2 PBE Standard(s) to the revalued class of assets.
- (b) Option 2: Cease applying the requirements in the applicable Tier 2 PBE Standard(s) to the revalued class of assets and instead apply the revaluation requirements in this Standard.
- B22. An entity that chooses Option 1 shall continue applying the applicable Tier 2 PBE Standard to that class of assets in the current and future reporting periods unless one of the criteria for a change in accounting policy set out in paragraph A182 is met.
- B23. An entity that chooses Option 2 shall treat any change as a result of applying the amendments to paragraphs A113 to A116.13 as a change in accounting policy as described in paragraph A182(a). In accordance with paragraph A185, an entity shall apply the change in accounting policy from the beginning of the current reporting period and shall disclose the information required by paragraph A183.
- B24. When applying the requirements in this Standard, an entity may elect to revalue property, plant and equipment assets based on a council valuation. An entity may make such an election regardless of whether the council valuation was most recently updated before the beginning of the current period. In this circumstance the entity shall revalue their property, plant and equipment using the most recent council valuation applicable to each revalued asset.

### ***Opting-up***

- B25. An entity that has previously elected to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction may be required to change the presentation of the statement of financial performance in accordance with paragraph C8 of this Standard.

- B26. In accordance with paragraph A23 of this Standard, where an entity makes any changes to its presentation or categories of disclosure due to the requirements of this Standard, it is also required to make similar changes to the comparative amounts, unless it is impracticable to do so.

## Appendix C: Application of PBE Standards

*This Appendix contains the requirements for an entity when applying a PBE Standard and is an integral part of the Standard.*

### Interests in Other Entities

- C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:
  - (a) PBE IPSAS 35 *Consolidated Financial Statements*
  - (b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*
  - (c) PBE IPSAS 37 *Joint Arrangements*
- C2. If an entity controls another entity, it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.
- C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.
- C4. If an entity has an interest in a joint arrangement, it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 and PBE IPSAS 38.
- C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (\*). Where an entity elects to apply a disclosure concession, it shall comply with any RDR paragraphs associated with that concession.

### Other Applications of PBE Standards

- C6. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Standards to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 27 *Agriculture* so that it can measure its biological assets and agricultural produce at fair value less costs to sell, or an entity may decide to opt up to PBE IPSAS 25 *Employee Benefits* to account for long-term employee benefits.
- C7. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, the entity:
  - (a) Shall disclose this in the statement of accounting policies; and
  - (b) Cannot choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181– A182).
- C8. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:
  - (a) Recognise the effect of that transaction directly in accumulated funds; and
  - (b) Present the cumulative effect of similar transactions as a separate reserve within Accumulated Funds.