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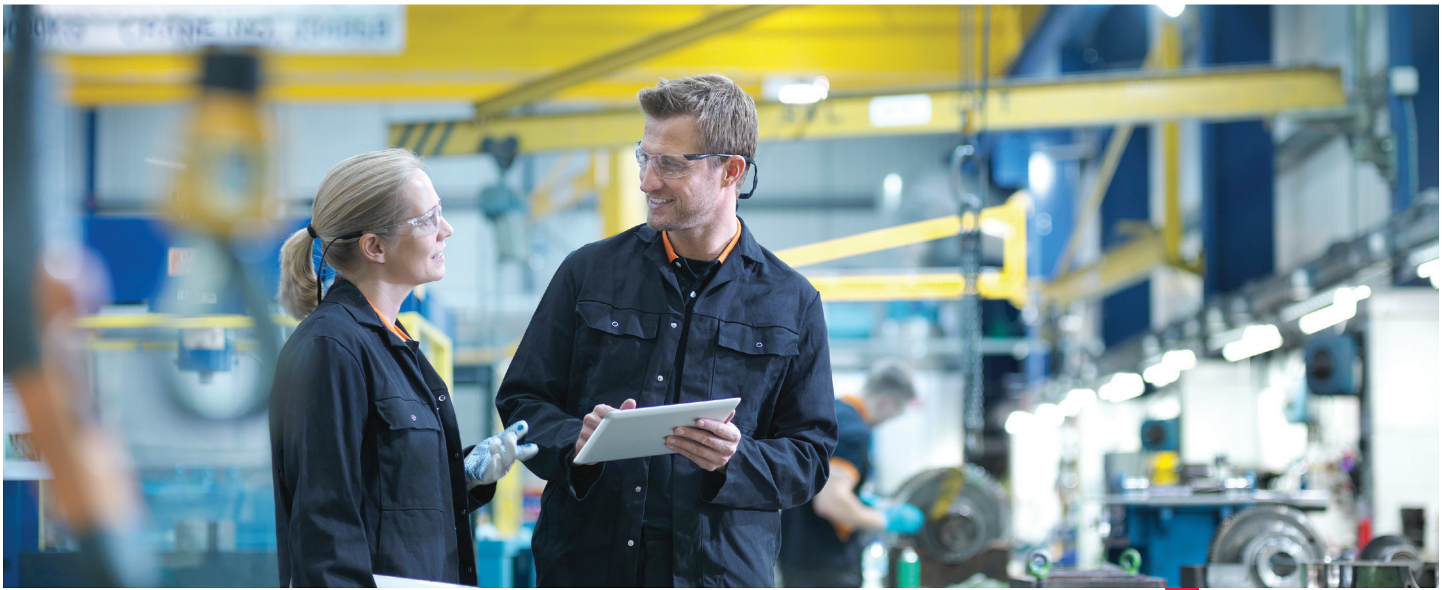
ASSURANCE ALERT



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NZ IFRS 15 – REVENUE RECOGNITION TO CHANGE FOR THE MANUFACTURING INDUSTRY

This month we take a closer look at the impacts of NZ IFRS 15 *Revenue from Contracts with Customers* on Tier 1 and Tier 2 for-profit entities in the manufacturing industry. For these entities, NZ IFRS 15 **could significantly change the pattern of revenue and profit recognition**, as well as affect bank covenants, performance-based compensation (including bonuses and share-based payments), internal budgeting processes, and market and investor communications.

NZ IFRS 15 contains more specific guidance on revenue recognition than the current NZ IAS 18 *Revenue* standard.

The following areas are likely to have a **significant impact** on entities within the manufacturing industry under NZ IFRS 15:

- Volume discounts
- Volume rebates
- Set up fees
- Payments to customers
- Payments received in advance.

Effective date and transition

The effective date of NZ IFRS 15 is for annual reporting periods beginning on or after 1 January 2017. Entities can choose to apply a 'full' or 'partial' retrospective approach when first applying this Standard.

If an entity chooses to apply the 'full' approach, it will retrospectively restate its comparatives in

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accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to certain exceptions for completed contracts.

If applying the 'partial' approach', the entity will recognise the cumulative effect of the retrospective adjustments as an adjustment to opening retained earnings on 1 January 2017 (date of initial application). Contracts that are completed at the date of initial application are not retrospectively restated.

Volume discounts

NZ IFRS 15 includes more detailed guidance on 'variable consideration' and restricts the amount of variable consideration that can be recognised as revenue to the amount where it is '**highly probable that a significant reversal of revenue recognised will not occur**'.

Manufacturers often offer volume discounts as the production cost per unit typically decreases as more units are produced. Volume discounts are considered to be a form of 'variable consideration' under NZ IFRS 15 because the total amount to be paid by the customer for the contract is not known at the start, and is dependent on the total quantity of goods that is ultimately purchased by the customer.

Under NZ IFRS 15, manufacturing entities will need to estimate the amount of the volume discount and defer a portion of revenue until that discount is applied. This is likely to result in later recognition of revenue and profit in comparison with current accounting.

Example 1

On 1 July 2017, Widget Co signed a one year contract to supply widgets to Entity A for the following prices:

PRICE PER WIDGET	SALES VOLUME
$10	0-100,000 widgets
$9	100,001-200,000 widgets
$8	More than 200,000 widgets

Based on past experience, Widget Co estimates total sales volume of 150,000 widgets.

Question

At 31 December 2017 Widget Co has sold 30,000 widgets. How much revenue should Widget Co recognise under NZ IFRS 15?

Answer

The amount of revenue recognised per widget is $9.67. Therefore revenue recognised is $290,000 ($9.67 x 30,000). The amount is calculated as follows:

$10 per widget X 100,000 widgets	$1,000,000
$9 per widget X 50,000 widgets	$450,000
Total consideration	$1,450,000
Estimated total volume	150,000 widgets
Average price per widget	$9.67 ($1,450,000/150,000)

The average transaction price is $9.67 per widget.

	DR	CR
DR Cash ($10 per widget X 30,000 widgets)	$300,000	
CR Revenue ($9.67 per widget X 30,000 widgets)		$290,000
CR Contract liability		$10,000

The contract liability will reverse when sales >100,000 widgets and the amount billed is $9 per widget.

If 120,000 widgets are sold between 31 December 2017 and 30 June 2018, the journal entries are:

	DR	CR
DR Cash ($10 per widget X 70,000 widgets) + ($9 per widget X 50,000 widgets)	$1,150,000	
DR Contract liability	$10,000	
CR Revenue ($9.67 per widget X 120,000 widgets)		$1,160,000

The table below shows how revenue recognition for volume discounts is delayed under NZ IFRS 15.

	NZ IAS 18	NZ IFRS 15
31 December 2017		
Revenue	$300,000	$290,000
Contact liability (B/S)		$10,000
30 June 2018		
Revenue	$1,150,000	$1,160,000
Total	**$1,450,000**	**$1,450,000**

(B/S) = balance sheet account

Volume rebates

Volume rebates are also considered to be a form of 'variable consideration' under NZ IFRS 15 because the total amount to be paid by the customer for the contract is not known at the start and is dependent on the eventual sales volume to customers.

Under NZ IFRS 15, manufacturing entities will need to estimate the amount of the expected volume rebate, and defer a portion of revenue as a liability until the rebate is claimed. This is likely to result in a reduction of revenue in earlier reporting periods.

Example 2

On 1 July 2018, Widget Co signed a one year contract to supply widgets to Entity B for $10 a widget. If Entity B orders more than $1,000,000 widgets within 12 months, Entity B will receive 10 per cent of the purchase price as cash back.

Based on past history, Widget Co is quite certain that Entity B will order more than $1,000,000 worth of widgets within the 12 months period.

Question

On 31 December 2018, Widget Co has sold 50,000 widgets. How much revenue should Widget Co recognise under NZ IFRS 15?

Answer

The amount of revenue recognised per widget is $9 ($1,000,000 - $100,000 cash back /100,000 widgets). The difference between the unit selling price ($10) and $9 is recognised as a liability for cash consideration to be paid at the end of the 12 months period.

Journal for 31 December 2018:

	DR	CR
DR Cash ($10 per widget X 50,000 widgets)	$500,000	
CR Revenue ($9 per widget X 50,000 widgets)		$450,000
CR Liability - consideration payable to customer		$50,000

If Widget Co sold 100,000 widgets to Entity B between 31 December 2018 and 30 June 2019, journal entries at 30 June 2019 are:

	DR	CR
DR Cash ($10 per widget X 100,00 widgets)	$1,000,000	
CR Revenue ($9 per widget X 100,000 widgets)		$900,000
CR Liability - consideration payable to customer		$100,000

	DR	CR
DR Liability - consideration payable to customer	$150,000	
CR Cash		$150,000

The table below shows how revenue recognition for volume rebates is impacted under NZ IFRS 15. While the overall net impact on profit or loss is the same under both NZ IAS 18 and NZ IFRS 15 (albeit the selling cost and revenue could occur in different reporting periods under NZ IAS 18), the total amount shown as revenue under NZ IFRS 15 will be less by the amount of the volume discount.

	NZ IAS 18	NZ IFRS 15
31 December 2018		
Revenue	$500,000	$450,000
Selling cost	($50,000)	
Liability (B/S)	$50,000	$50,000
30 June 2019		
Revenue	$1,000,000	$900,000
Selling cost	($100,000)	-

(B/S) = balance sheet account

Set up fees

Fees for procurement of specialist machinery/equipment, recruiting specialist skilled employees, or building capacity to fulfil the contract are not recognised separately as revenue when incurred. As the customer does not directly receive a benefit from these activities, this does not represent revenue. Instead, any fees charged are recognised when the related goods are sold. Costs in relation to these activities may be capitalised and amortised as the goods are sold.

Example 3

On 30 June 2018, Widget Co signed a contract to supply Entity C with a special type of widget for $10 each. Entity C places an order for 100,000 widgets. To manufacture this type of widget, Widget Co needs to incur costs of $30,000 to reconfigure its machinery. Entity C has agreed to pay an upfront, non-refundable set up fee of $50,000 for the reconfiguration. Cost of production is $4 per widget.

Question

How should Widget Co recognise the setup fee and the associated costs under NZ IFRS 15?

Answer

The $50,000 received from the customer is not recognised separately as revenue on 30 June 2018, but is deferred and recognised as revenue as the widgets are sold. The reconfiguration costs are capitalised and amortised over the period of the contract. Under NZ IFRS 15, this results in revenue and profit being deferred in comparison to current accounting.

Journals for 30 June 2018 are:

	DR	CR
DR Cash	$50,000	
CR Deferred revenue		$50,000

	DR	CR
DR Contract asset	$30,000	
CR Cash		$30,000

Assume by 31 December 2018 that 50,000 widgets were sold. Revenue recognised per widget is $10.50 (($10 X 100,000) + $50,000)/100,000). Journals for 31 December 2018 are:

	DR	CR
DR Cash ($10 x 50,000)	$500,000	
DR Deferred revenue	$25,000	
CR Revenue ($10.50 x 50,000)		$525,000

	DR	CR
Cost of goods sold	$15,000	
CR Contract asset		$15,000

The table below shows how revenue recognition for setup fees is delayed under NZ IFRS 15.

	NZ IAS 18	NZ IFRS 15
30 June 2018		
Revenue	$50,000	-
Expense	($30,000)	-
Profit	$20,000	-
Deferred revenue (B/S)	-	$50,000
Contract asset (B/S)	-	$30,000
31 December 2018		
Revenue	$500,000	$525,000
COGS	($200,000)	($215,000)
Gross profit	$300,000	$310,000
Deferred revenue (B/S)	-	$25,000
Contract asset (B/S)	-	$15,000

(B/S) = balance sheet account

Payments to customers

Manufacturers may make payments to their customers for promoting their products or other services. Under NZ IFRS 15, payments paid to a customer are treated as a reduction in revenue, rather than as a separate cost.

Example 4

On 1 July 2017, Chairs Co enters into a contract to sell 1,000 chairs at $100 each to Entity C. Chairs Co also pays $10,000 to Entity C to ensure that its chairs are prominently placed in Entity C's stores for the next 12 months.

Question

On 31 December 2017, Chairs Co sells 500 chairs. How much revenue should Chairs Co recognise under NZ IFRS 15?

Answer

On 1 July 2017, Chairs Co recognises an asset of $10,000 being 'prepayment' for a right to occupy the prominent display area. The journals are:

	DR	CR
DR Asset – Right to prominent display	$10,000	
CR Cash		$10,000

On 31 December 2017, the amount of revenue to be recognised is reduced by the amount of payment to Entity C. Revenue to be recognised per chair is $90 {[($100x1,000)-$10,000]/1,000}

Journal entries for 31 December 2017 are:

	DR	CR
DR Cash ($100 per chair X 500 chairs)	$50,000	
CR Revenue ($90 per chair X 500 chairs)		$45,000
CR Asset – Right to prominent display ($10,000/1,000) X 500		$5,000

Contracts with payments received in advance

Customers may enter into a contract with a manufacturer where the customer pays upfront for the goods to be received in a future period (more than 12 months). Under NZ IFRS 15, the amount of revenue recognised on contracts with such arrangements is likely to be higher than the actual contract price. The advance payment from the customer represents a form of a financing to the manufacturer. Revenue recognised under NZ IFRS 15 would effectively be 'grossed up' by the amount of interest expense (being the amount 'borrowed' from the customer to fund the manufacturer).

Example 5

On 1 January 2017, Manufacturer Y is paid $3 million to supply ABC Ltd with 1 million badges at the end of each year for the next three years. Assume cost of goods sold is $500,000 per year. Manufacturer Y's three year borrowing rate is 10 per cent.

Question

How should Manufacturer Y account for the contract under NZ IFRS 15?

Answer

YEAR	OPENING CONTRACT LIABILITY (A)	NZ IFRS 15 INTEREST EXPENSE (B) = (A) X 10 %	NZ IFRS 15 REVENUE (C)	CLOSING CONTRACT LIABILITY (D) = (A) +(B) – (C)
2017	$3,000,000	$300,000	$1,100,000 [($3m+$300,000)/3m]X1m	$2,200,000
2018	$2,200,000	$220,000	$1,210,000 [($2.2m+$220,000)/2m] X1m	$1,210,000
2019	$1,210,000	$121,000	$1,331,000	

Total revenue of $3,641,000, and interest expense of $641,000 is recognised under NZ IFRS 15 for the three year contract as follows:

	2017	2018	2019	TOTAL
NZ IFRS 15				
Revenue	$1,100,000	$1,210,000	$1,331,000	$3,641,000
Cost of goods sold	$500,000	$500,000	$500,000	$1,500,000
Gross profit	**$600,000**	**$710,000**	**$831,000**	**$2,141,000**
Interest expense	$300,000	$220,000	$121,000	$641,000
Net profit	**$300,000**	**$490,000**	**$710,000**	**$1,500,000**

Revenue of $3 million is recognised under NZ IAS 18 for the three year contract as follows:

	2017	2018	2019	TOTAL
NZ IAS 18				
Revenue	$1,000,000	$1,000,000	$1,000,000	$3,000,000
Cost of goods sold	$500,000	$500,000	$500,000	$1,500,000
Gross profit	**$500,000**	**$500,000**	**$500,000**	**$1,500,000**
Interest expense	Nil	Nil	Nil	Nil
Net profit	**$500,000**	**$500,000**	**$500,000**	**$1,500,000**

Practical implications

The impacts of NZ IFRS 15 are not only the significant changes in the patterns of revenue and profit recognition as the above examples have shown.

In the case of volume discounts, systems and processes would need to be in place to determine the amount of revenue to be deferred and to track the balance of the deferred revenue liability account.

For some payments to customers and set up costs that qualify for recognition as an asset, systems and processes need to be in place to set up an additional asset account and to determine the amount of amortisation to be recognised as goods or services are provided.

If there are any contracts with significant advanced payment terms, systems and processes will also need to be in place to account for the implicit borrowing cost and calculate the 'grossed up' revenue.

The impact and change of NZ IFRS 15 to systems and processes should not be underestimated.

► **For more on the above, please contact your local BDO representative**

FOR-PROFIT ENTITIES - IMPACTS OF TRANSITIONING FROM DIFFERENTIAL REPORTING TO NZ IFRS REDUCED DISCLOSURE REGIME: (13) DISCLOSURE DIFFERENCES

As highlighted in the December edition of *Assurance Alert*, there are a number of key differences for for-profit entities to consider when transitioning from differential reporting (Tier 3) to NZ IFRS Reduced Disclosure Regime (Tier 2).

In this final article we will be addressing the impact of some of the more significant changes in disclosure requirements between the two frameworks, given that there are both:

i. Disclosure exemptions afforded under NZ IFRS (Diff Rep) that are no longer afforded under NZ IFRS (RDR); and

ii. Disclosure exemptions afforded under NZ IFRS (RDR) that were not afforded under NZ IFRS (Diff Rep).

In May 2014 the XRB issued a document titled '*Differences between NZ IFRS RDR and NZ IFRS Diff Rep*' which details a full list of the disclosure differences

i. Disclosures that will no longer have to be made under NZ IFRS (RDR)

The following is a summary of some of the more generically relevant and significant disclosures that will not be required under NZ IFRS (RDR), that were previously required under NZ IFRS (Diff Rep).

- *Effect of share-based payments* – an entity will only have to disclose the total share-based payment expense recognised in profit or loss, and the carrying amount of share-based payment liabilities in the statement of financial position (NZ IFRS 2.50 – 52)
- *Gains and losses from assets and liabilities acquired in a business combination* – an entity will no longer have to provide details in relation to this (NZ IFRS 3.B67(e)).
- *Defaults and breaches of financial liabilities* – an entity will only have to disclose information regarding defaults and breaches where the financial liability remains outstanding at period end and the breach has not been remedied as at reporting date (NZ IFRS 7.18 – 19).
- *Expenses by Function and Nature* – when an entity elects to present expenses by Function in the statement of profit or loss and other comprehensive income, it will no longer have to have a note disclosures presenting expenses by Nature (NZ IAS 1 104).
- *Externally imposed capital requirements* - an entity will no longer have to provide details in relation to this (NZ IAS 1.135(d) – (e)).
- *Information regarding the reporting entity* – an entity will no longer have to disclose its domicile, legal form, and nature of operations (NZ IAS 1.138).
- *Construction contracts in progress* - an entity will no longer have to provide details in relation to this (NZ IAS 11.40).
- *Reconciliation of property, plant and equipment* – an entity will only have to provide a reconciliation of opening to closing carrying value for the current period (i.e. no prior period reconciliation is required (NZ IAS 16.RDR 73.1).
- *Lessee's party to a finance lease* – an entity will no longer have to disclose a reconciliation of total of future minimum lease payments (i.e. gross lease payments, less interest, to give carrying value) (NZ IAS 17.RDR 31.1).
- *Goodwill and intangible assets with indefinite useful lives* - an entity will no longer have to provide details in relation the carrying amount of these allocated to a single, or across multiple, cash generating units (NZ IAS 36.134, 135).
- *Reconciliation of intangible assets* – an entity will only have to provide a reconciliation of opening to closing carrying value for the current period (i.e. no prior period reconciliation is required (NZ IAS 38.RDR 118.1).
- *Reconciliation of investment property at fair value* – an entity will only have to provide a reconciliation of opening to closing carrying value for the current period (i.e. no prior period reconciliation is required (NZ IAS 40.RDR 76.1).
- *Investment property measured at fair value* - an entity will no longer have to provide a reconciliation between the fair value valuation gain and the gain recognised in profit or loss
- *Reconciliation of biological assets* – an entity will only have to provide a reconciliation of opening to closing carrying value for the current period (i.e. no prior period reconciliation is required (NZ IAS 41.RDR 50.1).

ii. Disclosures that will now have to be made under NZ IFRS (RDR)

The following is a summary of some of the more generically relevant and significant disclosures that will **be required** under NZ IFRS (RDR), that were previously afforded an exemption under NZ IFRS (Diff Rep).

- *Contingent consideration in a business combination* – an entity will have to disclose an estimate of the range of outcomes for any contingent consideration arrangements (NZ IFRS 3.B64(g)(iii)).
- *Goodwill recognised from material business combinations* - an entity will have to disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the period (NZ IFRS 3.67(d)).
- *Subsidiaries that are disposal groups and discontinued operations* – an entity will have to disclose information on these (NZ IFRS 5.36A).
- *Impairment allowance accounts for financial assets* - an entity will have to disclose a reconciliation of changes in any impairment allowance accounts attached to its financial assets (NZ IFRS 7.16).
- *Significant judgements* – an entity will have disclose significant judgements made in the process of applying the entity's accounting policies (NZ IAS 1.122)
- *Significant estimates* - an entity will have to disclose significant estimates it has applied and any estimation uncertainties (NZ IAS 1.125)
- Impact of inventories on profit or loss - an entity will have to disclose inventories recognised as an expense during the period, any impairment write downs, and any reversals of previous impairment write downs (NZ IAS 2.36(d) – (f)).
- *Construction contract revenue and methodology* - an entity will have to disclose contract revenue recognised during the period, and the methods used in determining both contract revenue and stage of completion (NZ IAS 11.39(a) – (c)).
- *Reconciliation of property, plant and equipment* – an entity will now have to provide a full reconciliation of opening to closing carrying value (for the current period only – see above) (NZ IAS 16.73).
- *Lessees party to both operating and finance leases* - an entity will have to disclose a general description of material operating and/or finance leasing arrangements (NZ IAS 17.31(e) and NZ IAS 17.35(d))
- *Categories of revenue* - an entity will have to disclose the amount of each significant category of revenue recognised during the period (NZ IAS 18.35(b) – (c)).
- *Capitalised borrowing costs* - an entity will have to disclose the amount of borrowing costs capitalised in the period (NZ IAS 23.26(a)).
- *Compensation paid to key management personnel* - an entity will have to disclose the total amount of key management personnel compensation, but not disaggregated by category (NZ IAS 24. RDR 17.1).
- *Reconciliation of intangible assets* – an entity will now have to provide a full reconciliation of opening to closing carrying value (for the current period only – see above) (NZ IAS 38.118(e)).
- *Investment properties at fair value* – an entity will now have to disclose details of any contractual obligations for purchase, construction or development, repairs, maintenance, and/or enhancements (NZ IAS 40.75(h).
- *Reconciliation of biological assets* – an entity will now have to provide a full reconciliation of opening to closing carrying value (for the current period only – see above) (NZ IAS 41.50).

iii. Disclosures regarding interests in subsidiaries, joint arrangements, and associates

The disclosure requirements for an entity's interest in subsidiaries, joint arrangements, and associates will now be located within a single standard, NZ IFRS 12 *Disclosure of Interests in Other Entities*, rather than the individual standards that govern the recognition and measurement of these interests.

Entities reporting under NZ IFRS (RDR) are afforded numerous disclosure exemptions under NZ IFRS 12 in relation to an entity's interest in subsidiaries, joint arrangements, and associates, however there are still some key disclosures that must be made which are highlighted below:

- *Significant judgements and assumptions* - an entity will have to disclose significant judgements and assumptions made in determining whether the entity has control, joint control, and/or significant influence as well as the classification if its joint arrangements into either joint operations or joint ventures (NZ IFRS 12.7).

  Note: An entity should note that even though there appears to be RDR exemptions in paragraph 9 of NZ IFRS 12 in relation to examples of the types of significant judgements that may exist (e.g. where it is determined there is no control even though more than half of the voting rights are held), if ultimately it is deemed by management that the judgement(s) made in relation to these scenarios are in fact significant, then the entity should still disclose details of these judgements in accordance with NZ IFRS 12.7.
- *General details regarding subsidiaries* - an entity will have to disclose the composition of the group, each subsidiaries reporting date that is different from the parent's.
- *Restrictions regarding subsidiaries* - an entity will have to disclose details regarding significant restrictions in the entity's ability to access group assets and settle group liabilities (such as, restrictions relating to the transfer of cash between group entities) (NZ IFRS 12.13(a)(i).
- *General details regarding joint arrangements and associates* - an entity will have to disclose for each material joint arrangement and/or associate, the name, principal place of business and country of incorporation, ownership and voting interests held, the composition of the group, each subsidiaries reporting date that is different from the parent's (NZ IFRS 12.21(a)).
- *General details regarding joint arrangements classified as joint ventures and associates* - an entity will have to disclose for each material joint arrangement classified as a joint venture and/or associate, the method of accounting (i.e. equity method or fair value), its quoted fair value (if the entity is public listed and the entity has elected to use the equity method), commitments relating to joint ventures, contingent liabilities relating to joint ventures and associates (NZ IFRS 12.21(b) and 23).

NZ IFRS 12 also requires Tier 2 reporters to provide disclosures relating to the following interest in entities (which are not addressed above):

- Investment entities
- Consolidated structured entities
- Unconsolidated structured entities of non-investment entities
- Unconsolidated structured entities of investment entities.

Summary of the overall impact

The level and direction of the impact to an entity's disclosure requirements in moving from NZ IFRS (Diff Rep) to NZ IFRS (RDR) will need to be assessed on a case-by-case basis, as it is dependent upon the nature of items recognised in its balance sheet and types of transactions that it enters into.

At a high-level, the move from NZ IFRS (Diff Rep) to NZ IFRS (RDR) will require entities to 'tell more of the story' around their financial statements, in particular around significant management judgements, assumptions and estimates.

What should affected entities be doing now?

Affected entities will need to begin determining which disclosures will:

- Fall away under NZ IFRS (RDR)
- Need to be introduced under NZ IFRS (RDR)

Entities are strongly encouraged to assess and address the impact of this change as early as possible in order to mitigate potential issues in the transition to NZ IFRS (RDR).

- **For more on the above, please contact your local BDO representative**

THE END OF THE ROAD FOR DIFFERENTIAL REPORTING AND 'OLD GAAP' (FOR-PROFIT ENTITIES)

For profit entities will recall that in March 2015 the External Reporting Board (XRB) issued a revised version of XRB A1 *Accounting Standards Framework* and an accompanying *Revocation Notice* in respect of for-profit entities reporting under Tier 3 (NZ IFRS (Diff Rep) and Tier 4 (NZ FRS, or 'Old GAAP'), essentially revoking these frameworks from the suite of for-profit accounting standards, for reporting periods beginning on or after 1 April 2015.

The question now at the forefront of many for-profit entities is… 'If I currently prepare accounts under Tier 3 or Tier 4, what happens going forward?'

Background – Why is Differential Reporting and 'Old GAAP' being revoked

For-profit entities should now be well aware that the financial reporting landscape has, over the last 2 years, been going through a significant transition period, the largest since the issue of the Financial Reporting Act in 1993.

Effective from 1 April 2014 (i.e. for reporting periods beginning on or after this date) the revised versions of the Financial Reporting Act 2013 and Companies Act 1993 became effective.

The Financial Reporting Act 2013, in essence, provides the legal requirements of WHO has to prepare general purpose financial statements, whilst mandating the External Reporting Board (XRB) as the body to establish the general purpose financial reporting framework that these should be prepared under.

The intention of this change (at least for for-profit entities) was to reduce compliance costs for small and medium-sized entities (SMEs), and in order to achieve this:

- The thresholds for general purpose financial reporting were increased and simplified, and
- The number of distinct financial reporting frameworks was reduced by the XRB from three (NZ IFRS, NZ IFRS (Diff Rep), and 'Old GAAP') to only one (NZ IFRS) with a two Tier structure (full reporting, and reduced disclosure reporting).

The final step in this overhaul of the for-profit financial reporting framework, and to remove any doubt, was for the XRB to remove NZ IFRS (Diff Rep) and 'Old GAAP' from its suite of general purpose financial reporting framework, for periods beginning on or after 1 April 2015.

Impact – What does this mean?

In essence, what this all means is that the very last reporting date where a for-profit entity can prepare general purpose financial statements in accordance with either NZ IFRS (Diff Rep) or 'Old GAAP' is **29 February 2016.**

This means, that for-profit entities that have a 31 March reporting date will NOT be able to prepare general purposed financial statements in accordance with NZ IFRS (Diff Rep) or 'Old GAAP' for their 31 March 2016 year ends… because these general purposed financial reporting frameworks will no longer **legally** exist as at this reporting date.

Therefore, if a for-profit entities has a 31 March reporting date, and is required to prepare general purposed financial statements as at 31 March 2016 (either legally, due to their constitution, or due to lending covenants etc.) the entity would be required to prepare their general purpose financial statements in accordance with NZ IFRS (RDR), at a minimum.

For some Tier 3 and Tier 4 for-profit entities, the transition up to NZ IFRS (RDR) will pose a significant issue, and may potentially require substantial time and cost.

Tier 3 and Tier 4 entities that are no longer caught by the Financial Reporting Act 2013 do not have a general purpose financial reporting requirement and thus can report under a special purpose framework for annual periods beginning on or after 1 April 2014. For these entities, NZ IFRS (Diff Rep) or 'Old GAAP' can still be applied for year ends up to 29 February 2016. However, as mentioned above, these frameworks will be revoked for periods ending 31 March 2016 and thus will no longer be able to be applied form that date onwards.

Over the last six months, *BDO Assurance Alerts* have provided guidance on a number of the key recognition, measurement, presentation, and disclosure differences between NZ IFRS (Diff Rep) and NZ IFRS (RDR), which may be useful to a number of entities. We would encourage for-profit entities that may be concerned with their transition requirements to read through these.

- **For more on the above, please contact your local BDO representative**

NEW BDO PUBLICATIONS

The Audit section of our website (www.bdo.co.nz/audit) includes a range of publications on accounting standards issues. For example:

- **NZ IFRS Industry Issues** contains a high level overview of the impact of new standards on particular industries. Recent NZ IFRS Industry Issues include overviews of the impact of NZ IFRS 15 *Revenue from Contacts with Customers* on the manufacturing; retail; telecommunications, software; media, construction-real estate and professional services industries.
- **Summaries on a Page (SOAPs)** contain summaries of NZ IFRS Standards for for-profit entities and PBE Standards for public sector and not-for profit entities currently in effect in New Zealand.

Also look for the **'BDO International IFRS'** link which includes resources such as:

- **IFRS at a glance** – 'one page' and short summaries of all IFRS standards.
- **IFRS News at a glance** – provides high-level headlines of newly released documents by the IASB and IFRS related announcements by securities regulators.
- **Need to Knows** – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Recent Need to Knows include IFRS 9 *Financial Instruments - Impairment of Financial Assets* (Dec 2014), IFRS 15 *Revenue from Contracts with Customers* (Aug 2014), IFRS 9 *Financial Instruments* (May 2014), *Hedge Accounting* (IFRS 9 *Financial Instruments*) (Jan 2014).
- **IFRS in Practice** – practical information about the application of key aspects of IFRS, including industry specific guidance. Recent IFRS in Practice include IFRS 15 *Revenue from Contracts with Customers – Transition*; IFRS 15 *Revenue from Contracts with Customers* (Oct 2014), IAS 7 *Statement of Cash Flows*, *Distinguishing between a business combination and an asset purchase in the extractives industry* (March 2014), IAS 36 *Impairment of Assets* (Dec 2013) *and Common Errors in Financial Statements – Share-based Payment* (Dec 2013).
- **Comment letters on IFRS standard setting** – includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients. Latest comment letters include IASB - ED 2014-4 *Measuring Quoted Investments in Subsidiaries*, IASB - ED 2014-3 *Recognition of Deferred Tax Assets for Unrealised Losses*; *Joint Ventures and Associates at Fair Value*; IASB ED 2014-02 *Investment Entities: Applying the Consolidation Exception*, IASB ED 2014-01 *Disclosure Initiative and Request for information – Post-implementation Review: IFRS 3 Business Combinations.*

- **For more on the above, please contact your local BDO representative.**

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