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Audit and Assurance

NZ IFRS and NZ GAAP

A comparison

April 2005

Differences between NZ Equivalents to IFRS and current NZ GAAP

Introduction

The New Zealand Financial Reporting Standards Board (FRSB) recently issued 36 new or revised financial reporting standards and 12 interpretations referred to as New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) applicable for all financial years beginning on or after 1 January 2007. These were approved by the Accounting Standards Review Board (ASRB) on 24 November 2004. These Standards reflect the 'stable platform' created by the International Accounting Standards Board (IASB) as at 31 March 2004. Entities may elect to adopt NZ IFRS for periods beginning on or after 1 January 2005 and are required to do so at the latest for periods beginning on or after 1 January 2007. Early adoption of the Standards before 1 January 2005 will not be permissible. When an entity adopts NZ IFRS it must do so in its entirety. Entities are not permitted to adopt individual standards on a piecemeal basis unless the FRSB/ ASRB have introduced them into NZ GAAP (for example FRS-40 allows early adoption of NZ IAS-19).

None of these standards are 100% compatible with existing New Zealand Financial Reporting Standards and also differ from the corresponding IFRS for the following reasons:

- wording has been amended to accommodate the New Zealand legislative environment, for example, references to the Financial Reporting Act 1993
- additional/amended requirements for public benefit entities
- in some cases the FRSB has permitted only one of a number of options available in the corresponding IFRS
- additional disclosures.

There are a number of differences between these NZ IFRS and current New Zealand GAAP. This publication outlines the major differences in relation to for-profit entities, excluding the majority of disclosure differences. Further amendments are still expected to the 'stable platform' and may be applicable in certain cases from 1 January 2005. Where an exposure draft has been issued, the following reflects these proposals.

Impact at 30 June 2005

Prior to the first financial reports prepared under NZ IFRS, New Zealand issuers, in accordance with *FRS-41: Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards',* are required to disclose in annual and interim financial reports ending on or after 30 June 2005:

- any known or reliably estimable information about the impacts on the financial report had it been prepared using NZ IFRS,
- if the impacts are not known, or reliably estimable, a statement to that effect.

Reliable estimation is considered impracticable only when it cannot be done after making every reasonable effort to do so. Entities other than issuers are encouraged to make these disclosures.

The disclosure required above may result in entities being forced to bring forward work on NZ IFRS where the above information cannot yet be determined. Therefore, entities should reassess their NZ IFRS projects to ensure that information gathering and analysis necessary for the disclosures are appropriately planned and timed.

First-time Adoption

The basic rule on first-time adoption under *NZ IFRS-1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* is that an entity must apply NZ IFRS retrospectively to its opening balance sheet at the date of transition. The date of transition is the beginning of the earliest period for which an entity presents full comparative information in its first NZ IFRS compliant financial statements. There are a number of exceptions to this rule, some of which are optional and some of which are mandatory. A summary of these is included under each relevant standard.

In addition, a general exception to retrospective application of NZ IFRSs must be applied. This is in relation to estimates. An entity's estimates under NZ IFRS at the date of transition must be consistent with estimates made for the same date under previous NZ GAAP (after adjustments to reflect any differences in accounting policies), unless there is objective evidence that the estimates were in error.

Further information on first-time adoption is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.

Contents

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
FINANCIAL STATEMENTS **Presentation of Financial Statements (NZ IAS-1 & Superseded FRS-2, FRS-7and FRS-9)**		
Financial statements required	Balance sheet Income statement Statement of changes in equity Cash flow statement Entities have a choice to include contributions and distributions from/to owners in the statement of changes in equity or in the notes.	Similar statements required although referred to by different names.
Extraordinary items	Extraordinary items prohibited.	Extraordinary items arise from events that are clearly distinct from the ordinary activities of the company, are outside the control or influence of managers or owners, and therefore are not expected to recur frequently or regularly – examples given are the expropriation of assets or an earthquake or other natural disasters.
Disclosure of expenses	Expenses must be disclosed by nature (e.g. wages and salaries) or function (e.g. administration). Cost of sales must be disclosed if the function method is selected.	No specific requirement.
Liabilities classification – current/non-current	Current liabilities include liabilities held primarily for the purpose of trading or where the entity does not have the unconditional right to defer settlement for at least 12 months after the balance sheet date, even if the original term was longer than 12 months and the liability is renegotiated after year end. However, where the entity has the discretion to refinance or rollover for at least 12 months under the terms of the existing loan facility, the loan is classified as non-current. Where an undertaking or covenant is in breach, and no period of grace has been provided at reporting date, generally the liability becomes payable on demand. The amount will be classified as current even where the lender has waived or otherwise dealt with the breach subsequent to the reporting period end. Where an undertaking or covenant is breached, and a period of grace has been provided at the reporting date, the amount will only be classified as non-current where it is not due for settlement until at least 12 months after reporting date and where during this period the lender cannot demand repayment.	Items are classified as current liabilities where they are expected to be settled or extinguished within one year after the balance sheet date. The current portion of a non current liability may be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis and there is reasonable assurance that the entity will be able to do so. No specific requirements where breach of loan covenants.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Disclosure of judgements and key sources of estimation uncertainty	The notes to the financial statements will need to include disclosure of key assumptions about the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, the judgements made by management in applying the accounting policies which have the most significant effect on the amounts recognised in the financial statements will need to be disclosed.	No similar requirements except that disclosure must be made of information from which it is possible to identify and evaluate exceptional risks of operating.
Cash Flow Statements (NZ IAS-7 & Superseded FRS-10)		
Classification	Cash flows from interest and dividends received and paid can be classified as operating, investing, or financing activities. Classification must be consistent from period to period.	Cash flows from interest received and paid and dividends received must be classified as operating activities.
Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS-8 & Superseded FRS-1 and FRS-7)		
Changes in accounting policies	A change in accounting policy should only be made if required by a Standard or Interpretation, or so as to give more reliable and relevant information about the effects of transactions, other events or conditions on the entity's financial statements. A change made on the basis of a new Standard should be accounted for in accordance with the transitional provisions specified in the standard, or in the same manner as a voluntary change in accounting policy if no transitional provisions exist. All voluntary changes in accounting policies should be accounted for retrospectively by adjusting the opening balance of retained earnings of the earliest period presented and restating prior periods. If it is impracticable to determine the cumulative effect of applying the new accounting policy to all prior periods, the entity: (a) applies the new accounting policy as far back as practicable. (b) disregards the portion of the cumulative restatement before that date that is impracticable to determine.	In the absence of transitional provisions of a new financial reporting standard, the retrospective effect of a change in accounting policy must be included in the current period's results and comparative information must not be restated.

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<tr><th>Topic</th><th>New Zealand Equivalents to IFRS</th><th>Current New Zealand GAAP</th></tr>
<tr><td>New Standards or Interpretations</td><td>Where an entity has not applied a new standard or interpretation that has been issued but is not yet effective, known or reasonably estimable information regarding the impact must be disclosed or a statement that the impact is not known or reliably estimable must be made.</td><td>No equivalent requirement.</td></tr>
<tr><td>Errors/fundamental errors</td><td>There is no distinction between errors and fundamental errors. All material errors are accounted for retrospectively, adjusting the opening balance of retained earnings of the earliest period reported. If it is impracticable to determine the cumulative amount of an error made in prior periods, the entity:
• makes the correction as far back as practicable
• disregards the portion of the cumulative restatement before that date that is impracticable to determine.</td><td>All errors other than fundamental errors must be corrected in the reporting period in which they are discovered. The opening balance of equity is adjusted for fundamental errors and the comparatives restated where practicable.</td></tr>
<tr><td colspan="3">Interim Financial Reporting (NZ IAS-34 & Superseded FRS-24)</td></tr>
<tr><td>Tax Expense</td><td>Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual tax rate changes.</td><td>Tax expense is calculated in accordance with SSAP-12 Accounting for Income Tax.</td></tr>
<tr><td>Disclosures and Comparatives</td><td>The following are required to be disclosed:
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<tr><th></th><th>Current Interim</th><th>Current year-to-date</th><th>Prior year Interim</th><th>Prior year-to-date</th><th>Prior year Annual</th></tr>
<tr><td>Balance Sheet</td><td>●</td><td></td><td></td><td></td><td>●</td></tr>
<tr><td>Income Statement</td><td>●</td><td>●</td><td>●</td><td>●</td><td></td></tr>
<tr><td>Statement of Changes in Equity</td><td></td><td>●</td><td></td><td>●</td><td></td></tr>
<tr><td>Cash Flow Statement</td><td></td><td>●</td><td></td><td>●</td><td></td></tr>
</table></td><td>The current interim period, the corresponding interim period in the previous year and the previous annual period are required to be disclosed.</td></tr>
<tr><td colspan="3">CONSOLIDATED FINANCIAL STATEMENTS
Consolidated and Separate Financial Statements (NZ IAS-27 & Superseded FRS-37)</td></tr>
<tr><td>Presentation of minority interests</td><td>Where losses applicable to the minority exceed its interest in the equity, the excess and any further losses attributable to the minority are charged to the group except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently makes profits, the group is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.</td><td>Losses are attributable to the minority in full unless the parent entity agrees to bear the responsibility for outgoings resulting from accumulated losses.</td></tr>
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Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Treatment in parent's financial statements	Investments in subsidiaries that are included in the consolidated financial statements should be included in the parent's own financial statements either: • at cost; or • in accordance with *NZ IAS-39: Financial Instruments: Recognition and Measurement*	Usually carried at cost, although revaluation is permitted.
	First-time Adoption Exemptions If a subsidiary becomes a first time adopter later than its parent, the subsidiary can measure its assets and liabilities at either: • the carrying amounts included in the consolidated financial statements based on the parent's date of transition; or • the carrying amounts required by NZ IFRS-1 based on the entity's own date of transition If an entity becomes a first time adopter later than its subsidiary then in its consolidated financial statements it measures the assets and liabilities of the subsidiary in the consolidated financial statements at the amounts in the financial statements of the subsidiary's own financial statements (adjusting for any consolidation adjustments etc). The above also apply in relation to associates and joint ventures. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
Business Combinations (NZ IFRS-3 & Superseded FRS-36)		
Refer to the Deloitte publication '*Business Combinations: A Guide to IFRS-3*' available from **www.iasplus.com** for further details.		
Scope	NZ IFRS-3 does not apply to the creation of joint ventures, business combinations involving mutual entities, business combinations of entities under common control, and business combinations in which separate entities or businesses are brought together to form a reporting entity by contract only, e.g. formation of dual listed entities.	Relief provided for intra - group reconstructions.
Acquired contingent liabilities	Contingent liabilities of the acquiree should be recognised and measured at their fair value at acquisition date if the fair value of the contingent liability can be measured reliably. The subsequent measurement of contingent liabilities recognised in a business combination is based on the higher of the amount recognised under *NZ IAS-37: Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less where appropriate any cumulative amortisation recognised in accordance with *NZ IAS-18: Revenue*.	Identifiable liabilities are recognised at the date of acquisition where it is probable that any associated resources embodying economic benefits will flow from the acquirer, and a reliable measure is available of their costs or fair value. Therefore contingent liabilities are not recognised at the date of acquisition. For subsequent changes in value, refer below.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Acquired restructuring provisions	Restructuring provisions should be recognised when allocating the cost of a business combination only when the acquiree has an existing liability for restructuring at the date of acquisition. Contractual obligations of the acquiree for which payment is triggered by a business combination would be recognised by the acquirer as part of allocating the cost of the combination. An acquiree's restructuring plan whose execution is conditional upon its being acquired in a business combination is not, however, a present obligation of the acquiree and is not recognised by the acquirer in determining goodwill.	Restructuring provisions that do not normally qualify as liabilities of the acquiree are recognised at acquisition if, and only if at, or before the date of acquisition the acquirer: • has developed the main features of a plan that involves terminating or reducing the activities of the acquiree; • has raised a valid expectation in those affected by the plan that it will implement the plan by announcing the main features of the plan at or before the date of acquisition; and • by the earlier of three months after the date of acquisition and the date when the annual financial statements are approved, the entity has developed those main features into a detailed formal plan. Only certain costs may be provided for.
Subsequent identification of changes in value of assets and liabilities	If the amounts assigned to the identifiable assets, liabilities or contingent liabilities of the acquiree can be determined only on a provisional basis by the end of the reporting period in which a business combination occurs, the acquirer must account for the combination using those provisional values. Any adjustments to those provisional values as a result of completing the initial accounting for the combination must be completed and recognised within twelve months of the acquisition date. Adjustments to the initial accounting for a business combination after that accounting has been completed can be recognised only in order to correct an error, and therefore accounted for retrospectively. Adjustments to the initial accounting are not to be recognised for the effect of changes in accounting estimates. A change in an accounting estimate is accounted for prospectively.	Adjustments must be made by the end of the first annual accounting period commencing after acquisition.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Goodwill	Goodwill is capitalised, allocated to 'cash-generating units' and subject to an annual impairment test but not amortised.	Goodwill is capitalised and amortised over its useful life, a period that is not to exceed 20 years. The unamortised balance of goodwill must be reassessed each year to ensure that future economic benefits are still probable.
Intangible assets	Intangible assets acquired in a business combination should be recognised separately from goodwill if they arise as a result of contractual or legal rights or are separable from the business and the fair value of the asset can be measured reliably.	Less guidance provided regarding intangible assets.
In-process research and development (IPR&D)	IPR&D to be recognised as an asset if the definition of an intangible asset is met and its fair value can be reliably measured.	Less guidance provided regarding IPR&D.
Excess/discount on acquisition	Excess of acquisition interest in the recognised net assets of the acquiree over cost should be recognised immediately in the income statement as a gain.	Discount on acquisition must be accounted for by reducing proportionately the fair values of the non-monetary assets acquired. Any remaining balance is recognised as revenue in net profit or loss.
Reverse acquisitions	Where an entity (the issuer) acquires another entity (the target) such that control of the combined entity passes to the holders of the shares issued as consideration (i.e. to the shareholders of the target), then the issuer may be deemed to have been acquired by the target and the purchase method of accounting should be applied to the assets and liabilities of the issuer.	Reverse acquisitions contemplated but no guidance given.
	First-time Adoption Exemptions An entity may choose not to apply NZ IFRS-3 retrospectively to past business combinations on transition. If this option is chosen, the most significant provisions of NZ IFRS-1 are: • the classification of former business combinations (e.g. acquisitions, poolings, reverse acquisitions) is maintained; • no remeasurement of original "fair values" established at the time of the business combination; and • the carrying amount of goodwill recognised under previous NZ GAAP is not adjusted except in specified instances. An impairment test must be performed at the date of transition in relation to the carrying amount of the goodwill. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Interests in Joint Ventures (NZ IAS-31 & Superseded SSAP-25)		
Held exclusively with view of disposal	Non-current assets held for sale are required to be measured at the lower of carrying amount and fair value less costs to sell.	NZ GAAP silent.
Jointly controlled entities	Choice of proportionate consolidation or equity accounting.	NZ GAAP silent. Usually treated as associates and equity accounted.
Jointly controlled operations	The venturer accounts for the assets it controls, the liabilities and expenses it incurs and its share of the income it earns from the sale of goods or services by the joint venture.	Similar treatment.
Jointly controlled assets	The venturer recognises: • its share of the jointly controlled assets • liabilities it has incurred • its share of any liabilities incurred jointly • any income from the sale of the output of the joint venture together with its share of expenses incurred by the joint venture • any expenses it has incurred.	Similar treatment.
	First-time Adoption Exemptions Refer to the first-time adoption exemptions under NZ IAS-27 above.	
Investments in Associates (NZ IAS-28 & Superseded FRS-38)		
Scope exclusion	Investments that would otherwise be associates held by venture capital organisations, mutual funds, unit trusts and other similar entities including investment-linked insurance funds may be accounted for under *NZ IAS-39: Financial Instruments: Recognition and Measurement* at fair value through profit or loss.	No such exclusion.
Accounting year-ends	Where it is not possible to obtain financial statements to the same date as the investor, the most recent available financial statements of the associate should be used in applying the equity method, and adjustments made for the effects of any significant events occurring between the accounting period ends. The difference between the reporting date of the associate and investor limited to three months.	Similar except that the difference between reporting dates could be greater than three months in the rare circumstances where statute fixes an annual balance date greater than three months difference and there is no reliable interim financial information available.
Treatment in parent financial statements	Where the investor issues consolidated financial statements, in the investor's separate financial statements, associates other than those acquired and held exclusively with a view to disposal in the near future, should be either carried at cost, or accounted for in accordance with NZ IAS-39.	Where the investor issues consolidated financial statements, in the investor's separate financial statements, associates should be accounted for at cost.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Treatment in parent financial statements (cont.)	Where the investor does not issue consolidated financial statements, in the investor's separate financial statements, associates must be equity accounted unless acquired and held with a view to disposal or where held by an investor whose owners do not object to the equity method not being applied, whose debt or equity instruments are not publicly traded and are not in the process of being issued into a public market, and the ultimate parent or any intermediate parent prepares for public use consolidated financial reports in accordance with NZ IFRS.	Where the investor does not issue consolidated financial statements, associates should be accounted for using the equity method in the investor's separate financial statements.
	First-time Adoption Exemptions. Refer to the first-time adoption exemptions under NZ IAS-27 above.	
ASSETS **Inventories (NZ IAS-2 & Superseded FRS-4)**		
	Compliance with superseded FRS-4 will ensure compliance with NZ IAS-2. Some minor scope and disclosure differences exist. In particular, NZ IAS-2 excludes from its scope inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products where such inventories are measured at net realisable value in accordance with well-established practices in those industries with changes recognised in profit or loss. Commodity broker-traders whose inventories are measured at fair value less costs to sell with changes recognised in the profit or loss are also excluded from having to comply with NZ IAS-2.	
Property, Plant and Equipment (NZ IFRS-5 and NZ IAS-16 & Superseded FRS-3 and SSAP-17)		
Initial measurement	The costs of assets exchanged should be measured at fair value unless: • the exchange transaction lacks commercial substance; or • the fair value of neither the asset received nor the asset given up is reliably measurable; in which case its cost is measured at the carrying amount of the asset given up.	Where an asset is exchanged for a similar item, the cost of the acquired item is measured as the carrying amount of the item given up. When the exchange is for dissimilar assets, the cost of the acquired item is measured at the fair value of the consideration given. Where the fair value of the consideration given is not readily ascertainable, reference must be made to the fair value of the item acquired.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Initial measurement (cont.)	Net proceeds from selling items produced in bringing the asset to its location (such as the sale of samples from testing equipment) would be deducted from the capitalised cost of the asset. However, revenue and expenses incidental to construction or development, but not necessary to bring the asset to its required location or working condition, would be separately recognised in net profit or loss.	New Zealand GAAP is silent on how to account for net proceeds from selling items produced in bringing the asset to its location, or working condition, or how to account for revenues and expenses incidental to construction or development, but not necessary to bring the asset to its required location or working condition. Similar treatment to NZ IFRS is implied for the latter as only costs directly attributable to bringing the item to working condition for its intended use are permitted to be capitalised.
Subsequent remeasurement	Option to measure either at cost less accumulated depreciation and impairment losses or at fair value at the date of valuation less subsequent depreciation. Where fair value is used, an independent valuer is required. NZ IAS-16 does not permit an asset to be carried at deemed cost, being the previous revalued amount, where the entity reverts from the fair value to the cost basis, except on first-time adoption. **Assets held for sale** Non-current assets held for sale are required to be measured at the lower of carrying amount and fair value less costs to sell. They are not depreciated. A non current asset (or disposal group) can only be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. It must be available for immediate sale in its present condition and its sale must be highly probable.	Similar in that entities can choose between the cost and fair value bases of measurement. An entity may choose to stop revaluing and may either continue to record at the latest revalued amount less depreciation and impairment or revert to the cost basis. An independent valuer is required where fair value is chosen. Similar treatment re assets withdrawn from use and held for sale. They must be recorded at the lower of carrying amount at the date the items are withdrawn from use and held for sale or net market value (or net realisable value for properties). The requirements for reclassification as held for sale are not as stringent for properties for sale.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Treatment of revaluation movement	Where a revaluation gives rise to a value uplift, it should be credited to the revaluation surplus (equity) unless it represents the reversal of a revaluation decrease of the **same asset** previously recognised as an expense, in which case it should be recognised as income. A decrease arising as a result of a revaluation should be recognised as an expense in so far as it exceeds the amount that can be charged to the revaluation surplus (i.e. the amount held in the revaluation surplus relating to the **same asset**). An impairment write-down should be recognised as an expense in so far as it exceeds the amount held in the revaluation surplus relating to the **same asset**. **Assets held for sale** A revaluation is required immediately before classification as held for sale for any asset carried at revalued amounts. Any subsequent write-down is recognised in net profit.	Similar except that movements can be offset within a **class** and only the net amount recognised in the revaluation surplus or the statement of financial performance, as appropriate. The reversal of a decrease previously recognised as an expense in respect of the **same class of asset** is recognised as income. Similar except that a charge to income will only arise to the extent that the write-down exceeds that balance of the revaluation reserve in respect of the **same class of assets**.
Treatment of accumulated depreciation at revaluation date	On revaluation, any accumulated depreciation is either: • Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount after revaluation equals its revalued amount; or • Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.	On revaluation, any accumulated depreciation must be eliminated against the gross carrying amount of the asset and the net amount restated to the revaluation amount of the asset.
Residual value	Residual value is reviewed at each balance date and is based on the current net amount expected from the disposal of the asset as if it were already at the age and condition expected at the end of its useful life.	Residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices unless the asset is revalued.
	First-time Adoption Exemptions **Deemed cost** An entity may elect to use one of the following amounts as the "deemed cost" of an item of property, plant and equipment: • fair value at the date of transition to NZ IFRS • a revaluation to fair value under previous NZ GAAP • fair value at the date of an event such as a privatisation or initial public offering where this was used as deemed cost under previous GAAP.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
	First-time Adoption Exemptions (cont.) This exemption is available for individual items. It does not have to be applied to an entire class. A similar exemption is available for intangible assets. **Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment** *NZ IFRIC-1 Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated over its remaining useful life. A first-time adopter is not required to apply the IFRIC retrospectively to changes in the liability which occurred before the date of transition. Instead, it: • measures the liability at the date of transition in accordance with *NZ IAS-37: Provisions, Contingent Liabilities and Contingent Assets*; • estimates the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk adjusted discount rate that would have applied for that liability over the intervening period; and • calculates the accumulated depreciation on that amount as at the date of transition on the basis of the current estimate of the useful life of the asset. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
Investment Property (NZ IAS-40 & Superseded SSAP-17)		
Measurement	NZ IAS-40 requires the use of the fair value model for accounting for investment property. Changes in the fair value are taken through the income statement and not the revaluation reserve.	Investment properties are accounted for at their net current value (including estimated disposal costs). Changes in net current value are recognised in the income statement or directly in the revaluation reserve.
Development margins	Investment properties under construction are accounted for at cost under NZ IAS-16 until completion. No development margin is recognised until classified as investment property. Properties intended for sale are accounted for at cost under *NZ IAS-2 Inventories*. No development margin is recognised until realisation.	Development margins on investment properties or properties intended for sale which are still under construction are accounted for progressively on a percentage of completion basis if certain criteria are met.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Operating leased investment properties	Lessees with property interests held under operating leases which meet the definition of investment properties may account for them as investment properties at fair value.	No specific guidance.
Intangible Assets (NZ IAS-38 & Superseded FRS-13 and SSAP-3)		
Refer to the Deloitte publication '*Business Combinations: A Guide to IFRS-3*' available on **www.iasplus.com** for further details. This has a section on IAS-38.		
Internally generated intangibles	Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items may not be recognised as assets.	Internally generated goodwill cannot be recognised as an asset, however there is no such prohibition under current New Zealand GAAP for the recognition of other types of internally generated intangibles as assets.
Revaluation	Revaluation only permitted if there is an active market.	No prohibition of revaluation to fair value but this would need to be reliably determinable.
Amortisation	Intangible assets with indefinite useful lives are not amortised but are instead subject to an annual impairment test. Intangible assets with finite useful lives to be amortised over useful life. Residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset or there is an active market for the asset.	No specific guidance on intangibles. Intangibles subject to similar impairment tests as other non-current assets. No restrictions placed on the estimation of residual value.
	First-time Adoption Exemptions Refer to the first-time adoption exemptions under NZ IAS-16 above.	
Agriculture (NZ IAS-41)		
Scope	Applies to biological assets, agricultural produce at the point of harvest and government grants relating to biological assets.	Limited guidance in relation to livestock, bloodstock and forestry.
Measurement of biological assets	Measured at fair value less estimated point of sale costs. If it is not possible to measure fair value reliably then recognise at cost less any accumulated depreciation and impairment losses. Once fair value is able to be reliably determined then the assets must be recorded at fair value less estimated point of sale costs.	There are a variety of practices including cost, standard values and net current value. Some bearer assets are accounted for similarly to property, plant and equipment.
Agricultural produce	Accounted for at fair value less estimated point of sale costs at the point of harvest. Thereafter accounted for as inventory under NZ IAS-2.	
Gains and losses and changes in fair value	Changes in fair value less estimated point of sale costs are recognised in the income statement.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Borrowing Costs (NZ IAS-23 & Superseded FRS-3)		
	Compliance with superseded FRS-3 will ensure compliance with NZ IAS 23 in most instances.	
Impairment of Assets (NZ IAS-36 & Superseded FRS-3 and FRS-36)		
Refer to the Deloitte publication '*Business Combinations: A Guide to IFRS-3*' available on **www.iasplus.com** for further details. This has a section on IAS-36.		
Definition of recoverable amount	Recoverable amount is the higher of the asset's 'fair value less costs to sell' and 'value in use' (determined on a discounted basis).	Recoverable amount is defined as the greater of 'net market value' and 'value in use'. Value in use is defined as the present value of the net future cash flows obtainable from an asset's continuing use and ultimate disposal.
Impairment test	Detailed guidance provided for calculating the impairment of an asset particularly when such assessment has to be done by cash generating unit rather than for an individual asset. There are a number of restrictions when calculating value in use.	No detailed guidance provided.
Reversal of Impairment losses	Prior impairment losses are required to be reversed in some circumstances where they result from a change in estimates used to determine an asset's recoverable amount. However, impairment losses for goodwill can never be reversed.	Impairment losses can be reversed including for goodwill in certain circumstances.
Non-Current Assets Held for Sale and Discontinued Operations (NZ IFRS-5 & Superseded FRS-3, FRS-9 and SSAP-17)		
Definition of discontinued operations	Discontinued operations defined as a 'component' of an entity that has either been disposed of, or is classified as held for sale and: • represents a separate major line of business or geographical area of operations; • is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or • is a subsidiary acquired exclusively with a view to resale. Components of an entity are any operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Disclosure as discontinued may be earlier than under NZ GAAP.	Discontinued activities defined as the activities of a business segment that have been sold or terminated. A business segment is a distinguishable component of an entity, the activities of which represents a line of business significant to the entity as a whole and/or are directed to a particular class of customer significant to the entity as a whole.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Definition of discontinued operations (cont.)		Operations are considered sold or terminated when: • the sale or termination is completed in the period or within three months after balance date or by the date the financial statements are approved (the earlier); • if a termination, the former operating activities have ceased permanently; • the termination has a material effect on the nature and focus of the operations; and • the assets, liabilities, results, operations and activities are clearly distinguishable both physically and operationally.
Disclosure of discontinuing operations	Initial disclosure event not a trigger for disclosure as discontinued operations. Disclosure required where entity has disposed of the operation, or when the criteria for classification as a 'discontinued operation' are met. Extraordinary items are prohibited. Requires disclosure on the face of the income statement of the total post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on disposal of the assets or disposal group constituting the discontinued operation.	Disclosures as discontinued operations required in the period in which the operations are sold or terminated. Classification of an individual revenue or expense associated with a discontinued operation as extraordinary is allowed, but expected to be rare. The gain or loss is required to be disclosed separately where practical.
Non-current asset held for sale	Specific criteria to be met before a non-current asset can be classified as held for sale. A non current asset (or disposal group) can only be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. It must be available for immediate sale in its present condition and its sale must be highly probable. Non-current assets classified as held for sale are to be measured at lower of carrying amount and fair value less costs to sell. Such assets shall not be depreciated.	Criteria not as strict to be classified as held for sale. Properties intended for sale which are readily realisable and intended to be held for not more than one year are classified within current assets at the lower of cost and net realisable value. No distinction made between other non-current assets expected to be recovered through continuous use and non-current assets expected to be recovered through sale. General recognition and measurement provisions applied.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
	First Time Adoption Exemptions A first-time adopter must apply NZ IFRS-5 retrospectively unless the date of transition is prior to 1 January 2005. Retrospective application of NZ IFRS-5 requires an entity to reverse depreciation on non-current assets classified as held for sale from the date they met the held for sale criteria. If an entity has a date of transition prior to 1 January 2005 however, it applies NZ IFRS-5 prospectively and does not reverse previous depreciation. It may choose to do so however, if the valuation and other information needed to apply NZ IFRS-5 was obtained at the date the assets met the held for sale criteria.	
LIABILITIES **Employee Benefits (NZ IAS-19)**		
Defined benefit plans	Defined benefit plans are recognised at the present value of the defined benefit obligation less the fair value of any plan assets, adjusted for unrecognised past service costs and certain actuarial gains and losses. An entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised.	There is currently no New Zealand accounting standard that deals with accounting for retirement benefits and an expense is generally brought to account as contributions are paid to the fund, unless the entity has a legal, constructive or equitable obligation to fund the short fall.
Discounting of non-current employee benefits	High quality corporate bond rate used to discount non-current employee benefits except where no deep market exists. Government bond rates are then used instead. This is likely to be the case in New Zealand. All non-current employee benefits measured on a discounted basis.	No specific guidance. Salaries and wages, annual leave and sick leave, regardless of whether they are current or non-current, are often measured at nominal amounts.
Actuarial valuation required	Long-term employee benefits including long service leave measured using an actuarial valuation.	Long service leave often recognised only when it vests.
	First-time Adoption Exemptions In relation to defined benefit plans, an entity may elect to recognise all the cumulative actuarial gains and losses at the date of transition to NZ IFRS, even if it uses the corridor approach for later actuarial gains and losses. If this exemption is used it must be applied to all plans. If this election is not made then the entity would need to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Provisions, Contingent Liabilities and Contingent Assets (NZ IAS-37 & Superseded FRS-15)		
Expected recovery of costs relating to provisions	Recognised as assets when it is **virtually certain** that they will be received.	Recoveries of costs related to provisions are recognised when it is **probable** that they will be received.
Contingent assets	Contingent assets and recoveries against provisions can be recognised when their realisation is virtually certain.	Contingent assets are not recognised.
Income Taxes (NZ IAS-12 & Superseded SSAP-12 and FRS 36)		
Recognition – deferred tax liabilities	**Balance Sheet Approach** A deferred tax liability should be recognised for all **taxable temporary differences** other than temporary differences arising from: • the initial recognition of goodwill • goodwill for which amortisation is not deductible for tax purposes • the initial recognition of an asset/liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit • undistributed profits from investments in subsidiaries, branches, associates and joint ventures, where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.	**Income Statement Approach** Full provision for all **timing differences.**
Recognition – deferred tax asset	A deferred tax asset should be recognised for all **deductible temporary differences** to the extent that it is **probable** that taxable profit will be available against which the deductible temporary differences can be utilised other than temporary differences arising from: • the initial recognition of an asset/liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit • investments in subsidiaries, branches, associates and joint ventures where it is not probable that the temporary difference will reverse in the foreseeable future.	Realisation of a debit balance in the deferred tax account must be **virtually certain**.
Unused tax losses and unused tax credits	A deferred tax asset should be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is **probable** that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.	Realisation of the benefit must be **virtually certain**.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Measurement – deferred tax assets and liabilities	Deferred tax assets and liabilities should not be discounted and should be measured on the basis of how management expects, at the reporting date, that the carrying amount of an asset or liability will be recovered or settled.	No reference to discounting, although in practice deferred taxes were not discounted other than in relation to life insurance entities and sometimes in the case of deferred taxes arising in a business combination. Management expectations were not taken into account.
Deferred tax arising from a business combination – fair value adjustments	Fair value adjustments may give rise to temporary differences. Deferred tax is recognised and adjusts goodwill. More temporary differences likely to arise than timing differences under NZ GAAP.	Deferred tax is recognised in relation to fair value adjustments.
Deferred tax arising from a business combination – acquirer's own unrecognised deferred tax asset	Recognised if now probable but not adjusted against goodwill.	Recognised and adjusted against goodwill if now virtually certain asset able to be realised.
Subsequent recognition of a deferred tax asset after a business combination	Deferred tax asset recognised with resulting deferred tax income recognised in profit or loss. In addition, goodwill reduced to carrying amount it would have been if deferred tax asset recognised at acquisition and the reduction in goodwill recognised as an expense. The recognition of deferred tax asset limited to amount that does not create or increase discount on acquisition.	Adjust goodwill only if recognised by the end of the first annual accounting period commencing after acquisition, otherwise credit to net profit or loss.
Recognition of tax benefits related to employee share options	Recognised in income statement unless exceeds related cumulative remuneration expense, then excess recognised in equity.	Silent.
Recognition of deferred tax in relation to revaluations	Required. Measured based on tax consequences that would follow from the expected manner of recovery of the carrying value of the assets (i.e. through sale or use).	Tax effects on revaluation recognised if expected to crystallise through the realisation by sale of the asset in the foreseeable future.
Income taxes – recovery of revalued non-depreciable assets (i.e. land)	Measure based on the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset.	Not applicable.
Financial statement presentation	Current and deferred tax should be recognised as income or an expense and included in net profit or loss for the period, except to the extent that the tax arises from: • a transaction or event which is recognised directly in equity • a business combination. If the tax relates to items that are credited or charged directly to equity, the tax should also be charged or credited directly to equity. If the tax arises from a business combination, it should be recognised as an identifiable asset or liability at the date of acquisition.	Where reserve movements give rise to income tax effects these are required to be recognised directly against the related reserve. Similar in relation to business combinations except that more temporary differences may arise under NZ IFRS.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
INCOME STATEMENT **Revenue (NZ IAS-18)**		
Definition of revenue	'Revenue' excludes income outside ordinary activities.	'Revenue' encompasses all forms of income.
Revenue from the sale of goods	The standard requires five conditions to be met to recognise revenue from the sale of goods: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.	No specific guidance, largely the recognition is based on the transfer of control.
Revenue from rendering of services	Revenue arising from the rendering of services is recognised by reference to the stage of completion when the outcome can be estimated reliably. The outcome can be measured reliably when all the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the entity; (c) the stage of completion of the transaction at the balance sheet date can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.	No specific guidance.
Deferred revenue	Deferred revenue must be discounted and the release of the discount must be treated as interest revenue.	No specific guidance other than in relation to the sale of an item of property, plant and equipment where receipt of the sales proceeds is deferred. The consideration received is discounted.
Interest revenue	Interest revenue must be recognised using the effective interest method in NZ IAS-39.	No specific guidance.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Accounting for Government Grants & Disclosure of Government Assistance (NZ IAS-20 & Superseded FRS-3 and FRS-36)		
Criteria for recognition	Government grants should not be recognised until there is reasonable assurance that: • The entity will comply with the conditions attaching; and • The grants will be received.	No standard dealing specifically with government grants.
Income recognition	Recognise as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis – not to be credited directly to equity.	
Grants in relation to assets	Grants related to assets may be treated as deferred income or by deducting the grant from the carrying amount of the asset.	Grants must be recognised as revenue. They are not permitted to be deducted from the cost of the asset.
Non monetary grants	Non monetary grants, such as land or other assets may be recognised at fair value or a nominal amount.	Recognise donated or subsidised assets as assets and revenue at fair value in the period in which control is obtained.
Leases (NZ IAS-17 & Superseded SSAP-18)		
Land lease classification	Classified as operating or finance in the usual manner however land should be considered separately from any building on the land for the purposes of lease classification.	No specific requirement to consider land and buildings separately.
Operating leases of investment property	A property interest held under an operating lease can be classified as investment property provided that the rest of the definition of investment property is met and the lessee uses the fair value model in NZ IAS 40 to account for the interest.	Accounted for as operating leases with lease payments recognised as an expense over the lease term based on the pattern of benefit.
Accounting for lease incentives	The aggregate cost/benefit of incentives should be recognised as a reduction of rental income/ expense over the lease term on a straight-line basis unless another systematic basis is more representative of the time pattern of the benefit.	No specific guidance.
Initial direct costs of a lease-lessor	Initial direct costs should be included in the initial measurement of the finance lease receivable or capitalised to the cost of the leased asset in relation to an operating lease, effectively reducing the amount of income recognised over the lease term, unless incurred by a manufacturer or dealer lessor in which case they should be expensed.	The lessor's initial costs in relation to a lease are required to be expensed immediately or allocated against income over the lease term. Manufacturers or dealers must expense immediately.
Evaluating the substance of transactions involving the legal form of a lease	Where transactions have the legal form of a lease but do not in fact convey the right to use an asset (e.g. where they are part of a series of linked transactions), the accounting should reflect the substance of the transaction.	No specific guidance.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Determining whether an arrangement contains a lease	Even if an arrangement is not legally a lease transaction it may be considered to contain a lease if fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use the asset.	No specific guidance.
The Effects of Changes in Foreign Exchange Rates (NZ IAS-21 & Superseded FRS-21 and SSAP-21)		
Functional currency	Each entity in the group, including the parent must determine its functional currency, the currency of the primary economic environment in which it operates. It accounts for its operations in that currency. Foreign operations formerly classified as 'integrated' under New Zealand GAAP will typically have the same functional currency as the parent.	'Functional currency' is not a concept under New Zealand GAAP. New Zealand companies have typically accounted for their operations in NZD.
Presentation currency	Financial statements may be presented in any currency, but if the New Zealand currency is not used, disclosure must be provided as to why another presentation currency has been chosen. Where the presentation currency differs from the functional currency for any entity in the group, any translation difference is recognised directly in equity.	New Zealand companies typically present their financial statements in NZD.
Translation of fair value adjustments and goodwill	Fair value adjustments and goodwill are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the balance sheet date.	Entities have a choice to treat as assets and liabilities of the foreign operation and translate at the closing rate or as assets and liabilities of the entity reporting. In the latter case non monetary items would be translated at the exchange rate at the date of the transaction.
Disposal of a foreign operation	Translation differences in relation to a net investment in a foreign operation are transferred to the income statement on disposal of the foreign operation.	On disposal of a foreign operation any translation differences recognised in equity are transferred direct to retained earnings. They are not recycled to the income statement.
Other exchange differences dealt with in reserves	Differences arising on a monetary item that, in substance, forms part of an investment in a foreign operation (settlement neither planned nor likely to occur) should be dealt with in reserves until the disposal of the net investment, at which time they should be recognised as income/expense. Differences arising on a foreign currency liability accounted for as a hedge of an entity's net investment in a foreign operation, should be dealt with in reserves until the disposal of the investment, at which time they should be recognised as income/expense.	Similar but differences recognised in reserves cannot be recognised in income/expense on disposal of the investment.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
	First-time Adoption Exemptions A first time adopter may reset the foreign currency translation reserve to zero at the date of transition. The gain or loss on disposal of a foreign operation would then exclude any translation gains or losses that arose before the date of transition. Goodwill and fair value adjustments in relation to foreign operations which were not treated as assets and liabilities of the foreign operation do not need to be restated. NZ IAS-21 is then applied prospectively to all acquisitions arising after the date of transition. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
Financial Reporting in Hyperinflationary Economies (NZ IAS-29)		
	Applies to the translation of financial statements, including the consolidated financial statements of any entity which reports to the parent in the currency of a hyperinflationary currency. The financial statements and the corresponding figures for previous periods are restated for changes in the general purchasing power of the functional currency. The gain or loss on the net monetary position is included in profit or loss and separately disclosed. Also applies to the primary financial statements of an entity in a hyperinflationary economy, however these requirements are not currently applicable in the New Zealand context as New Zealand is not a hyperinflationary economy.	No specific guidance.
Earnings Per Share (NZ IAS-33)		
Scope	NZIAS-33 must be applied by entities whose ordinary shares or potential ordinary shares are publicly traded and by entities that are in the process of issuing such shares. An entity which chooses to present earnings per share must do so in accordance with NZ IAS-33.	
Disclosure	An entity must disclose basic and diluted earnings per share attributable to the equity holders of the parent entity on the face of the income statement for: - • Profit or loss; and • Profit or loss from continuing operations. Where an entity has discontinued operations, basic and diluted earnings per share must also be disclosed either on the face of the income statement or in the notes.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Measurement	NZ IAS-33 specifies that: • ordinary shares that will be issued upon the conversion of mandatorily convertible instruments should be included in the calculation of basic EPS • for contracts that may be settled either in ordinary shares or in cash, at the issuer's option, it should be presumed that the contract will be settled in ordinary shares and the resulting potential ordinary shares should be included in the calculation of diluted EPS • for contracts that may be settled either in ordinary shares or in cash, at the holder's option, the more dilutive of cash settlement and share settlement should be used in calculating diluted EPS • gains/losses on the settlement of preference shares to be deducted from earnings used in the EPS calculation.	No New Zealand standard. Entities listed on NZX must comply with IAS-33.
FINANCIAL INSTRUMENTS AND EQUITY **Financial Instruments: Disclosure and Presentation (NZ IAS-32 & Superseded FRS-27 and FRS-31)**		
Classification of compound financial instruments including convertible debt instruments	The instrument must be split into its liability and equity components.	No specific guidance provided and there are a variety of practices.
Classification of mandatory redeemable preferred shares (stock)	Mandatory redeemable preference shares will be classified as a liability.	No specific guidance provided but generally treated as liabilities.
Classification of financial instruments - contingent settlement provisions	Where there is a contingent settlement provision, the instrument must be classified as a liability, unless the provision is not genuine or settlement is only required in the event of liquidation of the issuer.	No specific guidance.
Offsetting financial assets and liabilities	Offsetting should be performed and a net amount reported only when there is a legally enforceable right to set off and the entity intends to settle net or simultaneously.	Only permitted when parties owe each other fixed amounts of money; have an agreement to set off, intend to set off and the right to set off is enforceable at law.
Re-acquired own equity instruments (treasury shares)	Deducted from equity. No gain or loss should be recognised in the income statement.	No specific guidance but generally deducted from equity.
Interest, dividends, gains and losses	The treatment should be consistent with the balance sheet treatment. For example the interest relating to a financial liability is recognised in profit or loss. Distributions to equity holders are recognised directly in equity net of income tax.	No specific guidance.
Cost of an equity transaction	Only include incremental external costs directly attributable to the equity transaction. For compound instruments costs are split between debt and equity in proportion to the allocation of proceeds. Portion relating to equity deducted from equity net of tax.	No specific guidance.

<table>
<tr><th>Topic</th><th>New Zealand Equivalents to IFRS</th><th>Current New Zealand GAAP</th></tr>
<tr><td>Disclosures</td><td>Requires disclosures of information about financial risks and risk management policies, terms of financial instruments and accounting policies. Also requires a disclosure of information about impairment of financial assets and defaults or breaches of loan agreements.</td><td>Similar requirements but not as extensive. No specific disclosure is required of impairment or breaches of loan agreements.</td></tr>
<tr><td></td><td>First-time Adoption Exemptions
If the liability component of a compound financial instrument is no longer outstanding at the date of transition, an entity is not required to retrospectively account for the two components of equity (the cumulative interest accreted on the liability and the original equity component).
Further information is available in the Deloitte publication First-time adoption: A Guide to IFRS-1, freely available on www.iasplus.com.</td><td></td></tr>
<tr><td colspan="3">Financial Instruments: Recognition and Measurement (NZ IAS-39 & Superseded FRS-21, FRS-26, FRS-31 and SSAP-21)</td></tr>
<tr><td>Financial Instruments – recognition</td><td>Requirement to recognise all financial assets and financial liabilities on balance sheet, including derivatives.</td><td>No specific guidance provided.</td></tr>
<tr><td>Embedded derivatives</td><td>An embedded derivative should be separated from the host contract and accounted for as a derivative if all of the following conditions are met:
• the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
• a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
• the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.</td><td>No specific guidance. Embedded derivatives are generally not separated from the host contact.</td></tr>
<tr><td>Financial assets - measurement</td><td>Measurement and recognition of changes in the value of financial assets will depend on the specified classification of the financial asset. Financial assets will be classified as one of the following four categories:
<table>
<tr><th>Classification</th><th>Measurement</th><th>Changes in Value</th></tr>
<tr><td>Asset available for sale</td><td>Fair value</td><td>Equity, subject to impairment.</td></tr>
<tr><td>Loans or receivables</td><td>Amortised cost, subject to impairment</td><td>Profit or loss</td></tr>
<tr><td>Held to maturity</td><td>Amortised cost, subject to impairment</td><td>Profit or loss</td></tr>
<tr><td>Financial assets at fair value through profit or loss</td><td>Fair value</td><td>Profit or loss</td></tr>
</table></td><td>No specific guidance. Financial assets are generally not carried at fair value unless they are trading assets or non-current assets being revalued through the asset revaluation reserve. Where revalued assets are sold, the asset revaluation reserve is not recognised in current profit or loss but may be transferred to retained earnings.</td></tr>
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Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Financial assets - measurement (cont.)	Derivatives (including certain embedded derivatives) are always classified as a financial instrument at fair value through profit or loss with changes in fair value recognised in net profit unless specified hedging criteria are met. Fair value is not required for investments in equity instruments (or certain related derivatives) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The standard provides guidance as to when a financial instrument can be reliably measured. Specific criteria exist as to when it is acceptable to classify investments as held to maturity.	
Financial assets – derecognition	A financial asset, or portion of a financial asset, should be derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the entity has transferred the financial asset and the transfer qualifies for derecognition. An entity has transferred a financial asset if, and only if, it either: a) Transfers the contractual rights to receive the cash flows of a financial asset; or b) Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay those cash flows to one or more recipients in an arrangement that meets three specified conditions. If an entity has retained substantially all such risks and rewards, it continues to recognise the transferred asset. If it has transferred substantially all such risks and rewards, it derecognises the transferred asset. If an entity has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset, it needs to assess whether it has retained control over the transferred asset. If it has retained control, the entity continues to recognise the transferred asset to the extent of its continuing involvement in the transferred asset. If it has not retained control, the entity derecognises the transferred asset. On derecognition, the profit or loss on disposal, is the difference between: a) the carrying amount of the asset (or portion of the asset), and b) the sum of the proceeds (including any new asset obtained less any new liability assumed) and any prior adjustment to fair value previously dealt with in equity. Transfers that do not qualify for derecognition should be accounted for as collateralised borrowings.	No specific guidance provided.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Financial liabilities – measurement	Measure liabilities that are held for trading at fair value with changes in the fair value recognised through the profit or loss. Derivatives are deemed to be "held-for-trading" unless hedging instruments. All other financial liabilities are recognised at amortised cost. Any financial liability can be designated as fair value through the profit or loss on initial recognition and measured at fair value. (This ability is proposed to be restricted by the IASB in its exposure draft "The Fair Value Option").	No specific guidance. Liabilities usually recognised at amortised cost.
Financial liabilities – derecognition	Liabilities may only be derecognised when extinguished. In-substance defeasance is not permitted. The difference between the carrying amount of a liability (or part of a liability) extinguished or transferred to any other party, including related unamortised costs, and the amount paid for it should be included in net profit or loss for the period. An exchange of debt instruments with substantially different terms or a substantial modification of terms of an existing financial liability are both treated as an extinguishment of a liability and recognition of a new financial liability.	Similar to NZ IFRS but also allows in-substance defeasance to be treated as extinguishment if certain conditions are met.
Hedged items	A held-to-maturity investment (as opposed to a loan or receivable) cannot be designated as a hedged item with respect to interest rate risk or prepayment risk. If the hedged item is a financial asset or liability, it may be designated as a hedged item only in relation to those risks where effectiveness can be measured. If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk or in its entirety for all risks because of the difficulty of isolating and measuring the impact of changes due to risks other than foreign currency risks. Fair value hedge accounting of interest rate risk for a portfolio of assets and/or liabilities may be undertaken provided certain criteria are met.	No specific exclusion. No specific requirement for effectiveness to be measured. No specific exclusion.
Hedging instruments	The use of derivatives as hedging instruments is not restricted, except for some written options. However non-derivative financial instruments can only hedge foreign exchange risk.	No specific guidance.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Hedge accounting	There are three types of hedge relationships: a) Fair value hedge – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, that is attributable to a particular risk and that could affect reported net income – gain or loss from the hedging instrument is recognised in profit or loss, with changes in the fair value of the hedged item relating to the hedged risk recognised in the profit or loss to the extent hedged, even if normally measured at cost or unrecognised. Any ineffectiveness is automatically recognised in the profit or loss.	A short term transaction hedged by a foreign currency forward exchange contract can be recognised at the forward rate.
	b) Cash flow hedge – a hedge of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and will affect reported net income – report change in fair value of hedging instrument that is determined to be an effective hedge in equity, then recycle to the income statement when hedged item affects net income. The ineffective portion of the hedge is to be taken to net profit immediately. Gains or losses on hedging of non-financial asset or non-financial liability may be included in the initial cost of the asset or liability.	If the hedging instrument relates to the hedge of future purchases or sales, the costs and gains and losses on the hedging instrument are deferred and measured as part of the transaction.
	c) Hedge of net investment – similar accounting to cash flow hedges. On disposal the gain or loss in equity is recognised in profit or loss.	Hedge of net investment similar to NZ IFRS, except no requirement to test for effectiveness. (Excess exchange differences on the liability component to those on the net investment are required to be expensed through the statement of financial performance). On disposal the gain or loss in equity is transferred direct to retained earnings.
Effectiveness of hedge	The effectiveness of the hedge must be reliably measurable. The hedge is required to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The actual results must be within a range of 80 to 125%. The hedge is required to be assessed on an ongoing basis prospectively and determined actually to have been highly effective throughout the financial reporting period (i.e. retrospectively).	No specification of how effective the hedge has to be. At the inception of the hedge and during the term of the hedging instrument, it is expected that the hedge will be effective in reducing exposure to the risks intended to be hedged. There is no specific requirement to actually measure or determine that effectiveness.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Hedge documentation	At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.	No specific formal documentation requirements.
Trade versus settlement date	A contract for the purchase or sale of financial assets that requires delivery of the assets within the time frame generally established by regulation or convention in the market place concerned (sometimes called a 'regular way' contract) is a financial instrument. A 'regular way' purchase or sale of financial assets should be recognised using trade date accounting or settlement date accounting. When settlement date accounting is applied, an entity will account for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it will account for the acquired asset i.e. in profit or loss for assets designated as fair value through profit or loss, in equity for available-for-sale assets and it is not recognised for assets carried at amortised cost.	No corresponding guidance and practice may vary.
	First-time Adoption Exemptions Designation of a financial asset or financial liability at 'fair value through profit or loss' or as 'available for sale' must be made on initial recognition. A first time adopter may elect to make this designation at the date of transition. *First-time Adoption Mandatory Exceptions to Retrospective Application* **Derecognition** If a first time adopter derecognised non-derivative financial assets or liabilities under previous NZ GAAP as a result of a transaction that occurred before 1 January 2004, it is prohibited from recognising those assets and liabilities under NZ IFRS unless it obtained the information needed to comply with NZ IAS-39 at the time of initially accounting for those transactions. **Hedge accounting** A first-time adopter must: • measure all derivatives at fair value; and • eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.	

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
	First-time Adoption Exemptions (cont). • An entity cannot reflect in its opening balance sheet a hedging relationship of a type that does not qualify for hedge accounting under NZ IAS-39. However, if an entity designated a net position as a hedged item under previous NZ GAAP, it may designate an individual item within that net position as a hedged item under NZ IFRS provided that it does so no later than the date of transition. If the entity had before the date of transition designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in NZ IAS-39 the entity has to apply the provisions of NZ IAS-39 relating to the discontinuance of hedge accounting (e.g. if the hedge was a cash flow hedge of a future transaction which is still expected to occur, the gain or loss will remain in equity until the transaction occurs and then it will be recorded in the income statement when the transaction affects profit or loss). Transactions entered into before the date of transition to NZ IFRS cannot be retrospectively designated as hedges. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
Share-based Payments (NZ IFRS-2 & Superseded FRS-30)		
Refer to IAS Plus Newsletter '*IASB publishes IFRS-2 Share-based Payment*' and the Deloitte publication '*Share-based Payment: A Guide to IFRS-2*', available from **www.iasplus.com**, for further details.		
Scope	Applicable to all share-based payments.	No specific guidance. Certain disclosures required in relation to employee share ownership plans.
Recognition	Recognise fair value of employee share options as an expense over vesting period, based on fair value at grant date.	No specific guidance. Equity-settled share-based payments not typically recognised.
Measurement - equity-settled share-based payments	Distinction between market and non-market based performance conditions. For equity-settled share-based payments with no or non-market based performance conditions, a 'true-up' model is used whereby the total amount expensed is adjusted based on actual number of equity instruments that have vested. Reversal of prior period expense (credit) is recognised where equity instruments do not vest due to a failure to meet a non-market based performance or service condition.	No specific guidance.
Measurement - cash-settled share-based payments	Based on fair value of liability at each reporting date with changes in value included in the income statement.	No specific guidance.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
	First-time Adoption Exemptions A first time adopter has an option not to apply NZ IFRS-2 to equity instruments that were granted on or before 7 November 2002 and those that were granted after 7 November 2002 but which vested before the later of the date of transition and 1 January 2005. However, an entity may choose to apply NZ IFRS-2 to such instruments if it has previously disclosed publicly the fair value of those equity instruments, determined at measurement date, as defined in NZ IFRS-2. Certain disclosures are still required for those grants to which NZ IFRS-2 has not been applied. Similar provisions apply to modifications which occurred before the later of the date of transition and 1 January 2005. An entity is also encouraged but not required to apply NZ IFRS-2 to liabilities arising from share-based payment transactions that were settled before the date of transition or prior to 1 January 2005. For liabilities to which NZ IFRS-2 applies, comparative information after 7 November 2002 must be restated. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
DISCLOSURE **Events After the Balance Sheet Date (NZ IAS-10 & Superseded FRS-5)**		
	Compliance with superseded FRS-5 will ensure compliance with NZ IAS-10.	
Segment Reporting (NZ IAS-14 & Superseded SSAP-23)		
Scope	Applies to entities whose debt or equity securities are publicly traded or in the process of being issued.	Entities which qualify for differential reporting or which are wholly owned subsidiaries of entities reporting in New Zealand are exempted.
Basis of reportable segments	A primary and secondary format must be determined. The dominant source and nature of risks will determine whether the primary format will be business or geographical. Reference must be made to the way information is reported to the Board of Directors and the CEO. More extensive disclosures are required for the primary format including segment liabilities, capital expenditure, depreciation and amortisation.	Industrial and geographical segment information must be disclosed. Disclosures not as extensive.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Related Party Disclosures (NZ IAS-24 and Superseded SSAP-22)		
	Similar definitions and disclosures in both NZ IAS-24 and SSAP-22, but NZ IAS-24 includes as related parties post employment benefit plans for the benefit of employees of the entity or of any entity that is a related party of the entity. NZ IAS-24 also requires disclosure of **key management personnel** compensation in the following categories: - • short term employment benefits • post employment benefits • other long term benefits • termination benefits • share based payments.	
INDUSTRY SPECIFIC STANDARDS **Construction Contracts (NZ IAS-11 & Superseded FRS-14)**		
	Compliance with superseded FRS-14 will ensure compliance with NZ IAS-11, in most instances.	
Insurance Contracts (Phase 1) (NZ IFRS-4 & Superseded FRS-34 and FRS-35)		
Scope	Requirements will apply only to insurance contracts, including medical benefits insurance contracts. Insurance contracts defined in terms of contracts subject to significant insurance risk – risk other than financial risk. Therefore, insurance companies will be required to comply with all other Standards. Non-insurance contracts regulated under insurance legislation that do not include an insurance risk are accounted for in accordance with NZ IAS-39.	Superseded FRS-34 applies to each entity which is a life insurer or the parent entity in a group that includes a life insurer. Superseded FRS-35 applies to general insurance activities.
Life insurance activities	Policy liabilities are discounted at the risk free rate to the extent that the benefits under the life insurance contract are not contractually linked to the performance of the asset held. A liability adequacy test must be performed. All assets to be accounted for under other standards. Assets backing insurance liabilities to be measured at fair value where an available option within other accounting standard. 'Excess of market value over net assets of controlled entities' cannot be recognised as an asset. Apply NZ IAS-39 to financial liabilities arising from investment contract (non-insurance contracts). However such liabilities must be designated as fair value through the profit or loss.	Policy liabilities discounted at a rate that reflects the returns anticipated on investments supporting policy liabilities. All assets of a life insurer measured at net market value. Life insurers recognise the excess of net market value in a subsidiary over the net assets of the subsidiary. Life insurance policies measured using Margin on Services method.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
General insurance activities	Premium revenue recognised on fully prospective basis from attachment date, that is requiring the recognition of premium liabilities at the commencement of a contract where insurance liabilities, less related deferred acquisition costs and intangible assets, is insufficient to meet estimated future cash flows. Premium liabilities must include a risk margin for uncertainty. Liability to be discounted using the risk free discount rate. A liability adequacy test must be performed. Assets backing insurance liabilities to be measured at fair value where an available option within other accounting standard.	Premium revenue is recognised under a deferral and matching model, that is, in accordance with the pattern of the incidence of risk. Unearned premium revenue and deferred acquisition costs are recognised in the balance sheet. Deferred acquisition costs written off to the extent not recoverable. No reserve required for deficiency. Liability discounted using the risk free discount rate. Assets integral to an entity's general insurance activities measured at net market value.
	First-time Adoption Exemptions 2005 first time adopters do not need to restate their comparative period in accordance with NZ IFRS-4. Previous NZ GAAP must then be applied if this election is made. Disclosure of the nature of the main adjustments that would make the information comply with NZ IFRS-4 must be disclosed. This does not need to be quantified. Further information is available in the Deloitte publication *First-time adoption: A Guide to IFRS-1*, freely available on **www.iasplus.com**.	
Disclosures in the Financial Statements of Banks and Similar Financial Institutions (NZ IAS-30 & Superseded FRS-33)		
	Similar disclosures to those required by FRS-33 are required by NZ IAS-30.	
Accounting and Reporting by Retirement Benefit Plans (NZ IAS-26 & Superseded FRS-32)		
Measurement of Plan assets	Investments carried at fair value.	Assets measured at net market value.

Topic	New Zealand Equivalents to IFRS	Current New Zealand GAAP
Accounting for Extractive Industries (NZ IFRS-6 & Superseded TPA-6)		
	NZ IFRS-6 grandfathers current New Zealand GAAP. Entities will only be able to change their accounting policies if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. The Standard makes it clear however that exploration and evaluation costs carried forward by entities in the extractive industries in respect of the area of interest prior to any activity in that area of interest entering the development stage are not excluded from the scope of NZ IAS-36. An impairment test must be performed when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. The Standard is effective for annual periods beginning on or after 1 January 2006. Early adoption is encouraged.	Currently there is no New Zealand Standard on accounting for extractive industries; however there is guidance in the form of a technical practice aid (TPA). The TPA is applicable to all phases in an extractive industry operation, from exploration to production and restoration of the site. The 'successful effort' method is used to determine whether costs arising from exploration, evaluation, development and construction should be carried forward. Exploration and evaluation costs carried forward by entities in the extractive industries in respect of an area of interest prior to any activity in that area of interest entering the development stage are not tested for impairment provided exploration and evaluation activities in the area of interest have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board and International Financial Reporting Standards, including:

- A news page (updated almost daily). Day-by-day past news back to December 2000
- Detailed summaries of all standards and interpretations
- E-learning modules for each IAS and IFRS – made available at no charge in the public interest
- Model IFRS financial statements and disclosure checklists
- IFRS compliance checklists
- Downloadable Deloitte publications relating to IFRS (over 60 publications available)
- Background and updates on all IASB and IFRIC agenda projects, including decision summaries of all IASB meetings
- Comparisons of IFRSs and various national GAAPs
- Complete history of the adoption of IFRSs in Europe, with links to all the relevant documents
- Information about adoption of IFRSs elsewhere around the world
- Updates on national accounting standards development in nearly 40 countries throughout the world
- A resource library of important documents relating to International Financial Reporting Standards
- Description of the IASB structure, component bodies, and key organisations with which it interrelates
- History of the IASB, including a comprehensive chronology
- Links to nearly 200 global IFRS-related websites
- Even some tools to help in your work, such as world time clock, 9-year calendar, unit conversions, amortisation calculator, telephone codes, currency converter, stock market indexes, worldwide weather, and a calculator.

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