

RELEASE 7

ISSUED NOVEMBER 2000

Accounting Policies that have Authoritative Support within the Accounting Profession in New Zealand

Issued by the Accounting Standards Review Board

INTRODUCTION

- 1 This release of the Accounting Standards Review Board (the “Board”) updates and replaces Release 1 of the same title, which was issued by the Board in June 1994. It also incorporates in part the previous Release 5: *Application of Standards to Local Authorities*, the remainder of which is now incorporated in Release 6: *The Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards*.
- 2 The financial statements of reporting entities and groups, local authorities and various state sector bodies are required by the Financial Reporting Act 1993 (the “Act”), the Local Government Act 1974, and the Public Finance Act 1989, respectively, to comply with “generally accepted accounting practice”.
- 3 Financial statements comply with generally accepted accounting practice if they comply with approved financial reporting standards, or in the absence of such standards or applicable rules of law, if they comply with accounting policies that are appropriate to the circumstances of the reporting entity and “have authoritative support within the accounting profession in New Zealand”.
- 4 The Board is empowered under section 24(d) of the Act to give directions as to accounting policies that have authoritative support within the accounting profession in New Zealand.

DIRECTION BY BOARD ON EXISTING STANDARDS

- 5 The Financial Reporting Standards Board (the “FRSB”) of the Institute of Chartered Accountants of New Zealand* (the “Institute”) has for some time been reviewing and updating its Statements of Standard Accounting Practice (“SSAPs”) and

* The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

ASRB RELEASE 7

Financial Reporting Standards (“FRSs”) which were current at the time the Act came into force. Many of those have subsequently been replaced by new standards which became approved financial reporting standards under the Act. However, the task is a substantial one and the FRSB will still take some time to complete its review.

- 6 At the time of its establishment the Board was conscious that when the Act was to come into force, the SSAPs and FRSs would not qualify as approved financial reporting standards because none of them had been submitted to or approved by the Board but they would nevertheless remain in force as standards of the Institute until withdrawn or replaced and would therefore be considered to constitute generally accepted accounting practice under section 3(b) of the Act. The Board accordingly gave a direction on 2 June 1994 that all existing SSAPs and FRSs (other than FRS29) were deemed to have authoritative support within the accounting profession in New Zealand until replaced or withdrawn by the Institute or until a direction to the contrary was given by the Board. The Board’s reasons were explained in its Release 1. FRS29 was subsequently accorded the same status by a direction given on 26 April 1996.
- 7 The SSAPs and FRSs which at the date of this Release have not yet been withdrawn or replaced by an approved financial reporting standard, and which accordingly remain subject to those directions by the Board, are listed in Appendix 1 of this Release.
- 8 The Board draws attention to section 3(b) of the Act, which provides that in making a choice of an appropriate accounting policy, the question of authoritative support is relevant only in the absence of approved financial reporting standards or applicable rules of law. The Board’s direction should not be interpreted as excluding other possible sources of guidance on accounting policy choices in New Zealand and paragraph 4.5 of the Institute’s *Explanatory Foreword to General Purpose Financial Reporting* sets out other sources which may provide authoritative support for entities in the preparation of general purpose financial reports.

DIRECTION BY BOARD ON FRAMEWORK FOR DIFFERENTIAL REPORTING

- 9 On 7 May 1997 the Board gave a direction that the *Framework for Differential Reporting (1977)* issued by the Institute has authoritative support within the accounting profession in New Zealand.

DIRECTIONS BY BOARD ON APPLICATION OF STANDARDS TO LOCAL AUTHORITIES

- 10 The Local Government Amendment (No.3) Act 1996 required all “local authorities” (as defined in that Act) to comply with generally accepted accounting practice for accounting periods commencing on or after 1 July 1998. The term “local authority” does not include local authority trading enterprises, most of which are companies and so were then already subject to the Financial Reporting Act 1993 as reporting entities.

- 11 The Board accordingly made a determination on 20 November 1997 that (with certain exceptions) all approved financial reporting standards were applicable to local authorities (see Release 6).
- 12 At the same time, it gave a direction in respect of local authorities, the effect of which is that at the date of this Release the SSAPs and FRSs listed in Appendix 1 (being those which have not yet been reviewed and replaced) are deemed (subject to the qualifications set out in Appendix 2) to have authoritative support within the accounting profession in New Zealand for the purposes of the Local Government Act 1974, until replaced or withdrawn by the Institute or until a direction to the contrary is given by the Board. While the directions detailed in paragraph 6 of this Release would already have encompassed local authorities, certain qualifications were considered to be necessary and the Board accordingly deemed it appropriate, for the avoidance of doubt, to issue specific directions applicable to those entities.

John C Hagen

Chairman

Accounting Standards Review Board

10 November 2000

ASRB RELEASE 7

APPENDIX 1

Pronouncements considered to have authoritative support within the accounting profession in New Zealand as at 10 November 2000

- SSAP-3: *Accounting for Depreciation (revised 1984)*
- SSAP-6: *Materiality in Financial Statements (revised 1985)*
- SSAP-8: *Accounting for Business Combinations (revised 1990)*
- SSAP-12: *Accounting for Income Tax (revised 1991)*
- SSAP-17: *Accounting for Investment Properties and Properties Intended for Sale (issued 1989)*
- SSAP-18: *Accounting for Leases and Hire Purchase Contracts (revised 1990)*
- SSAP-21: *Accounting for the Effects of Changes in Foreign Currency Exchange Rates (issued 1988 and partially withdrawn 1998)*
- SSAP-22: *Related Party Disclosures (issued 1988)*
- SSAP-23: *Financial Reporting for Segments (issued 1989)*
- SSAP-25: *Accounting for Interests in Joint Ventures and Partnerships (revised 1992)*
- SSAP-28: *Accounting for Fixed Assets (issued 1991)*
- FRS-29: *Prospective Financial Information (issued 1996)*
- FRS-31: *Disclosure of Information About Financial Instruments (issued 1993) Framework for Differential Reporting (revised 1997)*

APPENDIX 2

Qualifications to directions applicable to local authorities and state sector bodies

The following accounting policies may not be appropriate in some circumstances for local authorities and, in the case of paragraphs 1, 2 and 4, state sector bodies:

- 1 SSAP-3: *Accounting for Depreciation* (revised 1984) — the requirement in paragraph 5.5 that the recoverable amount test be applied to depreciable assets the purpose of which is not to generate a cash flow.
- 2 SSAP-22: *Related Party Disclosures* (issued 1988) — the requirements in paragraphs 5.1(c), 5.1(d) and 5.1(e) that the financial details specified in those paragraphs be disclosed in respect of the specified related party relationships.
- 3 SSAP-23: *Financial Reporting for Segments* (issued 1989) — all the requirements of this standard.
- 4 SSAP-28: *Accounting for Fixed Assets* (issued 1991) — the requirements in paragraphs 5.3 and 5.6 as to the application of the recoverable amount test in respect of assets the purpose of which is not to generate a cash flow.

ASRB RELEASE 7