Appendix 5: Accounting policies

This Appendix illustrates examples of accounting policies for selected assets and liabilities that might be developed by a not-for-profit entity with relatively simple transactions. The policies are consistent with the requirements of NZ IFRSs for public benefit benefits [52]. However, it is possible that other policies that are consistent with these standards could also be developed.

An entity may not require all of these policies. NZ IAS 1 (paragraph 108) requires disclosure of (i) the measurement basis (or bases) used in preparing the financial statements and (ii) the other accounting policies used that are relevant to an understanding of the financial statements.

The main choice available to entities under NZ IAS 16 is whether to measure assets at depreciated historic cost or at fair value. The policy illustrated uses depreciated historic cost for most assets and fair value for land and buildings.

Bequests

Bequests are recognised as income when probate of the will has been granted, receipt of the bequest is probable and the amount of the bequest can be measured reliably. Non-current bequests are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are regularly reviewed for impairment.

Cash and cash equivalents

[The statement of cash flows is optional for most small to medium not-for-profit entities].

Cash and cash equivalents comprise deposits with banks and bank and cash balances, net of bank overdrafts. Deposits are included when they have a maturity of no more than three months from the date of acquisition. In the statement of financial position, bank overdrafts are included in current financial liabilities.

Inventories

Inventory held for sale is measured at the lower of cost and net realisable value.

Inventory held for distribution at no or nominal consideration is measured at the lower of cost and current replacement cost.

Cost is determined on a first in, first out basis. If inventories are acquired at no cost, or for nominal consideration, cost is the current replacement cost at the date of acquisition.

Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Receivables

Receivables are recognised at the original invoice amount less impairment losses.

Property, plant and equipment

Owned assets

Land and buildings have been revalued, by class, to fair value as determined by an independent registered valuer. Land and buildings are revalued to fair value with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Heritage assets have been revalued, by class, to fair value as determined by an independent registered valuer. They are revalued to fair value with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Because the useful life of the heritage assets is indeterminate they are not depreciated. They are regularly reviewed for impairment.

[52] This Guide assumes that all not-for-profit entities are public benefit entities. Refer Chapter 1.

Except for land and buildings and heritage assets, items of property, plant and equipment are stated at cost, less accumulated depreciation and any impairment losses. The cost of property, plant and equipment is generally the purchase cost, together with any incidental costs of acquisition.

The cost of donated items of property, plant and equipment is the fair value at the date of acquisition.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probably that future economic benefits or service potential associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Depreciation

Depreciation is calculated so as to write off the cost or revalued amounts of property, plant and equipment, to their estimated residual value, on a straight-line basis over the expected useful economic lives of the assets concerned.

The estimated useful lives of assets are as follows:

Freehold buildings	25 to 50 years
Furniture and equipment	10 years
Leasehold improvements	10 years
Motor vehicles	3 years
Office equipment	3 to 5 years
Computer equipment	3 to 5 years

Leasehold premises are amortised over the period of the lease. Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

Computer software

The costs of acquiring and bringing computer software licences into use are capitalised. Computer software licences are held at cost and amortised over their expected useful economic lives.

Investments

Available-for-sale

Shares held by the entity which are classified as available-for-sale[53] are stated at fair value, with any resulting gain or loss recognised directly in equity, except for impairment losses. When these investments are derecognised (for example, when they are sold), the cumulative gain or loss previously recognised directly in equity is recognised in net surplus or deficit. The fair value of the shares is their quoted bid price at the reporting date.

Held to maturity

Shares and debentures that are to be held to maturity[54] are stated at cost after adjustments for:

a) interest accrued.

b) premiums or discounts.

These adjustments are amortised over the term of the investment.

[53] Available-for-sale is a classification used in NZ IAS 39. Refer to Chapter 4.
[54] Held to maturity is a classification used in NZ IAS 39. Refer to Chapter 4.

Leased assets

If the entity assumes substantially all the risks and rewards of ownership under a lease, the lease is classified as a finance lease. The asset acquired by way of the finance lease is recorded at the fair value of the leased asset less accumulated depreciation and impairment losses.

Payables

Trade and other payables represent liabilities for goods and services provided to the entity prior to the end of the financial year that are unpaid. These amounts are usually settled in 30 days. The notional amount of the creditors and payables is deemed to reflect fair value.

Employee entitlements

Short-term benefits

Employee benefits that the entity expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

The entity recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the entity anticipates it will be used by staff to cover those future absences.

Long-term benefits

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Donations (including volunteer services)

Cash donations that are not subject to restrictions or condition are accounted for at the time of receipt. Income relating to appeal donations is recognised only when cash is received in the entity's bank account.

Volunteer services which are reliably measurable are recognised at fair value. Other volunteer services are not recognised.

Grants and donations subject to conditions and restrictions

Grants and donations that are subject to restrictions, but which are not required to be returned to the donor are recognised as income when they are received. Details of restrictions are disclosed in the notes.

Grants and donations that are subject to conditions (that is, that are subject to binding terms imposed by an external party, such as funding for a particular activity) are recognised as income when it is likely that the entity will comply with the terms of the grant or donation. If the entity is unable to comply with the terms of the grant or donation and this is a condition of keeping the grant or donation, the grant or donation is recognised as a short-term liability until it is returned to the donor or the conditions are fulfilled.

Monies donated for special purposes are invested separately. Movements in these balances are shown in the notes.

Members' fees

Income received from members' fees is allocated proportionally over the period to which they relate. The unearned portion of fees is shown under current liabilities.

Grant expenditure

The entity makes discretionary grants. The grants are recognised as expenditure when a successful applicant has been notified of the entity's decision to award the applicant a grant.

Goods and services tax

Entities registered for GST:

All items in the financial statements are stated exclusive of GST except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Entities not registered for GST:

The [entity] is not registered for GST. All amounts are stated inclusive of GST.

Cash flows

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance.
The following are the definitions of the terms used in the cash flow statement:

(a) Operating activities include all transactions and other events that are not investing or financing activities.

(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash.

(c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.

(d) For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and bank and cash balances, net of bank overdrafts. Deposits are included when they have a maturity of no more than three months from date of acquisition.