

## **New Zealand Equivalent to International Financial Reporting Standard 1**

### **First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1)**

**Issued November 2004 and incorporates amendments up to November 2007.**

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants\* and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993.

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NZ IFRS 1

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ISBN 1-877430-09-9

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New Zealand Equivalent to International Financial Reporting Standard 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (NZ IFRS 1) is set out in paragraphs 1-47H and Appendices A-C. NZ IFRS 1 is based on International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) (2003) published by the International Accounting Standards Board (IASB). All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary. NZ IFRS 1 should be read in the context of its objective and the IASB's Basis for Conclusions on IFRS 1, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

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## HISTORY OF AMENDMENTS

### Table of Pronouncements – NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

This table lists the pronouncements establishing and amending NZ IFRS 1. The table is based on amendments approved as at 30 November 2007.

<b>Pronouncements</b>	<b>Date approved (ASRB approval)</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
NZ IFRS 1 <i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>	Nov 2004 (Approval 32)	1 Jan 2005	1 Jan 2007
NZ IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Nov 2004 (Approval 48)	1 Jan 2005	1 Jan 2007
Amendments to NZ IAS 39 <i>Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>	Apr 2005 (Approval 49)	1 Jan 2005	1 Jan 2007
Amendment to NZ IAS 19 <i>Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures</i>	Apr 2005 (Approval 50)	1 Jan 2006 Early application encouraged	1 Jan 2007
NZ IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>	Apr 2005 (Approval 54)	1 Jan 2006 Early application encouraged	1 Jan 2007
NZ IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>	Apr 2005 (Approval 57)	1 Jan 2006 Early application encouraged	1 Jan 2007

<b>Pronouncements</b>	<b>Date approved (ASRB approval)</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
<i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i>	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
Amendment to IFRS 6 and NZ IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Oct 2005 (Approval 68)	1 Jan 2006 Early application encouraged	1 Jan 2007
NZ IFRS 7 <i>Financial Instruments: Disclosures</i> and a complementary Amendment to NZ IAS 1 <i>Presentation of Financial Statements—Capital Disclosures</i> .	Nov 2005 (Approval 72)	Early application encouraged	1 Jan 2007
Amendment to the <i>Framework for Differential Reporting</i>	Dec 2005 (Approval 76)	1 Jan 2005	1 Jan 2007
NZ IFRIC 12 <i>Service Concession Arrangements</i>	Mar 2007 (Approval 88)	Early application encouraged	1 Jan 2008
NZ IAS 23 <i>Borrowing Costs</i> (revised 2007)	Jul 2007 (Approval 90)	Early application permitted	1 Jan 2009
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009
Omnibus amendments (2007-1)	Nov 2007 (Approval 95)	Early application permitted	1 Jan 2008

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<b>Table of Amended Paragraphs in NZ IFRS 1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Introduction	Amended	<i>Framework for Differential Reporting</i> [Jun 2005]
Introduction	Amended	Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005]
Introduction	Amended	NZ IAS 1 [Nov 2007]
Various	Terminology changed	NZ IAS 1 [Nov 2007]
Paragraph NZ 5.1	Inserted	<i>Framework for Differential Reporting</i> [Jun 2005]
Paragraph 6	Amended	NZ IAS 1 [Nov 2007]
Paragraph 7	Amended	NZ IAS 1 [Nov 2007]
Paragraph 8 Example	Amended	NZ IAS 1 [Nov 2007]
Paragraph 9	Amended	NZ IFRIC 12 [Mar 2007]
Paragraph 9	Amended	NZ IAS 23 [Jul 2007]
Paragraph 10	Amended	NZ IAS 1 [Nov 2007]
Paragraph 12	Amended	NZ IFRIC 4 [April 2005]
Paragraph 12(a)	Amended	NZ IFRIC 12 [Mar 2007]
Paragraph 12(a)	Amended	NZ IAS 23 [Jul 2007]
Paragraph 12(a)	Amended	NZ IAS 1 [Nov 2007]

<b>Table of Amended Paragraphs in NZ IFRS 1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 13(k)	Inserted	NZ IFRIC 4 [April 2005]
Paragraph 13(l)	Inserted	Amendments to NZ IAS 39 [April 2005]
Paragraph 13(m)	Inserted	NZ IFRIC 12 [March 2007]
Paragraph 13(n)	Inserted	NZ IAS 23 [Jul 2007]
Paragraph 20A	Inserted	Amendment to NZ IAS 19 [April 2005]
Paragraph 21	Amended	NZ IAS 1 [Nov 2007]
Paragraph 25A	Amended	Amendments to NZ IAS 39 [April 2005]
Paragraph 25F (and preceding headings)	Inserted	NZ IFRIC 4 [April 2005]
Paragraph 25G (and preceding headings)	Inserted	Amendments to NZ IAS 39 [April 2005]
Paragraph 25H (and preceding heading)	Inserted	NZ IFRIC 12 [March 2007]
Paragraph 25I (and preceding heading)	Inserted	NZ IAS 23 [Jul 2007]
Paragraph 32	Amended	NZ IAS 1 [Nov 2007]
Paragraph 35	Amended	NZ IAS 1 [Nov 2007]
Paragraph 36	Amended	NZ IAS 1 [Nov 2007]
Paragraph 36A	Amended	NZ IFRS 7 [Nov 2005]

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<b>Table of Amended Paragraphs in NZ IFRS 1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 36A	Deleted	NZ IAS 1 [Nov 2007]
Paragraph 36B (and preceding heading)	Inserted	NZ IFRS 6 [April 2005]
Paragraph 36B	Amended	Amendment to NZ IFRS 1 [Nov 2005]
Paragraph 36B	Deleted	NZ IAS 1 [Nov 2007]
Paragraph 36C (and preceding heading)	Inserted	NZ IFRS 7 [Nov 2005]
Paragraph 36C	Deleted	NZ IAS 1 [Nov 2007]
Paragraph 39(b)	Amended	NZ IAS 1 [Nov 2007]
Paragraph 43A	Amended	Amendments to NZ IAS 39 [April 2005]
Paragraph 45(a)	Amended	NZ IAS 1 [Nov 2007]
Paragraph 47A	Inserted	NZ IFRIC 1 [Nov 2004]
Paragraph 47B)	Inserted	NZ IFRIC 4 [April 2005]
Paragraph 47C	Inserted	NZ IFRS 6 [Apr 2005]
Paragraph 47C	Deleted	NZ IAS 1 [Nov 2007]
Paragraph 47D	Inserted	Amendment to NZ IAS 19 [April 2005]
Paragraph 47E	Inserted	Amendments to NZ IAS 39 [April 2005]

<b>Table of Amended Paragraphs in NZ IFRS 1</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 47F	Inserted	Omnibus amendments [Nov 2007]
Paragraph 47G	Inserted	NZ IAS 23 [Jul 2007]
Paragraph 47H	Inserted	NZ IAS 1 [Nov 2007]
Appendix A Defined Terms	Amended	<i>Framework for Differential Reporting</i> [Jun 2005]
Appendix A Defined Terms first New Zealand equivalents to IFRSs reporting period	Amended	NZ IAS 1 [Nov 2007]
Appendix A Defined Terms International Financial Reporting Standards	Amended	NZ IAS 1 [Nov 2007]
Appendix A Defined Terms opening New Zealand equivalents of IFRSs balance sheet	Amended	NZ IAS 1 [Nov 2007]
Appendix A Defined Terms reporting date	Deleted	NZ IAS 1 [Nov 2007]
Appendix B paragraph B2(i)	Amended	NZ IAS 1 [Nov 2007]

## **Introduction to NZ IFRS 1**

This Standard applies when an entity adopts New Zealand equivalents to International Financial Reporting Standards (IFRSs) for the first time by an explicit and unreserved statement of compliance with New Zealand equivalents to IFRSs.

In general, NZ IFRS 1 requires an entity to comply with each New Zealand equivalent to an IFRS effective at the end of its first New Zealand equivalents to IFRSs reporting period. In particular, NZ IFRS 1 requires an entity to do the following in the opening New Zealand equivalents to IFRSs statement of financial position that it prepares as a starting point for its accounting under New Zealand equivalents to IFRSs:

- (a) recognise all assets and liabilities whose recognition is required by New Zealand equivalents to IFRSs;
- (b) not recognise items as assets or liabilities if New Zealand equivalents to IFRSs do not permit such recognition;
- (c) reclassify items that it recognised under previous Generally Accepted Accounting Practice (GAAP) as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under New Zealand equivalents to IFRSs; and
- (d) apply New Zealand equivalents to IFRSs in measuring all recognised assets and liabilities.

NZ IFRS 1 grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. NZ IFRS 1 also prohibits retrospective application of New Zealand equivalents to IFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.

NZ IFRS 1 requires disclosures that explain how the transition from previous GAAP to New Zealand equivalents to IFRSs affected the entity's reported financial position, financial performance and cash flows.

An entity is required to apply NZ IFRS 1 when it first adopts New Zealand equivalents to IFRSs.

In adopting IFRS 1 for application as NZ IFRS 1:

- (a) paragraphs 3 and 4 have been amended to describe the circumstances in which an entity is required to apply NZ IFRS 1;
- (b) paragraph 18(a) has been deleted. New Zealand Equivalent to IAS 40 *Investment Property* (NZ IAS 40) does not permit the use of the cost model except in the circumstances outlined in paragraph 53 of NZ IAS 40; and
- (c) a definition of New Zealand equivalents to IFRSs has been inserted.

Profit-oriented entities that comply with NZ IFRS 1 will simultaneously be in compliance with IFRS 1.

Public benefit entities that have applied the New Zealand specific public benefit entity requirements or concessions and qualifying entities that have applied differential reporting concessions and that have not asserted compliance with IFRSs will not necessarily be in compliance with IFRS 1. IFRS 1 states that “An entity’s first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs by an explicit and unreserved statement in those financial statements of compliance with IFRSs.

### **Differential Reporting**

Qualifying entities must comply with all the provisions in this Standard.

## **NEW ZEALAND EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARD 1**

### **First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1)**

#### **OBJECTIVE**

- 1 The objective of this Standard is to ensure that an entity's *first New Zealand equivalents to IFRSs financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
  - (a) is transparent for users and comparable over all periods presented;
  - (b) provides a suitable starting point for accounting under *New Zealand equivalents to International Financial Reporting Standards (IFRSs)*; and
  - (c) can be generated at a cost that does not exceed the benefits to users.

#### **SCOPE**

- 2 An entity shall apply this Standard in:
  - (a) its first New Zealand equivalents to IFRSs financial statements; and
  - (b) each interim financial report, if any, that it presents under New Zealand Equivalent to IAS 34 *Interim Financial Reporting* (NZ IAS 34) for part of the period covered by its first New Zealand equivalents to IFRSs financial statements.
- 3 An entity's first New Zealand equivalents to IFRSs financial statements are the first annual financial statements in which the entity adopts New Zealand equivalents to IFRSs, by an explicit and unreserved statement in those financial statements of compliance with New Zealand equivalents to IFRSs. Financial statements under New Zealand equivalents to IFRSs are an entity's first New Zealand equivalents to IFRSs financial statements if, for example, the entity:
  - (a) presented its most recent previous financial statements:
    - (i) under national requirements that are not consistent New Zealand equivalents to IFRSs in all respects;
    - (ii) in conformity with New Zealand equivalents to IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with New Zealand equivalents to IFRSs;

- (iii) containing an explicit statement of compliance with some, but not all, New Zealand equivalents to IFRSs;
  - (iv) under national requirements inconsistent with New Zealand equivalents to IFRSs, using some individual New Zealand equivalents to IFRSs to account for items for which national requirements did not exist; or
  - (v) under national requirements, with a reconciliation of some amounts to the amounts determined under New Zealand equivalents to IFRSs;
- (b) prepared financial statements under New Zealand equivalents to IFRSs for internal use only, without making them available to the entity's owners or any other external users;
  - (c) prepared a reporting package under New Zealand equivalents to IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in NZ IAS 1 *Presentation of Financial Statements*; or
  - (d) did not present financial statements for previous periods.
- 4 This Standard applies when an entity first adopts New Zealand equivalents to IFRSs. It does not apply when, for example, an entity:
- (a) stops presenting financial statements under national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with New Zealand equivalents to IFRSs;
  - (b) presented financial statements in the previous year under national requirements and those financial statements contained an explicit and unreserved statement of compliance with New Zealand equivalents to IFRSs; or
  - (c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with New Zealand equivalents to IFRSs, even if the auditors qualified their audit report on those financial statements.
- 5 This Standard does not apply to changes in accounting policies made by an entity that already applies New Zealand equivalents to IFRSs. Such changes are the subject of:
- (a) requirements on changes in accounting policies in NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  - (b) specific transitional requirements in other New Zealand equivalents to IFRSs.

**Qualifying Entities**

*NZ 5.1. In applying this Standard a qualifying entity shall read all references to “New Zealand equivalents to IFRSs” as references to “New Zealand equivalents to IFRSs including, where applicable, differential reporting concessions”.*

**RECOGNITION AND MEASUREMENT**

**Opening New Zealand equivalents to IFRSs statement of financial position**

- 6 An entity shall prepare and present an *opening New Zealand equivalents to IFRSs statement of financial position* at the *date of transition to New Zealand equivalents to IFRSs*. This is the starting point for its accounting under New Zealand equivalents to IFRSs.

**Accounting policies**

- 7 **An entity shall use the same accounting policies in its opening New Zealand equivalents to IFRSs statement of financial position and throughout all periods presented in its first New Zealand equivalents to IFRSs financial statements. Those accounting policies shall comply with each of the New Zealand equivalents to IFRSs effective at the end of its first New Zealand equivalents to IFRSs reporting period, except as specified in paragraphs 13-34B and 37.**
- 8 An entity shall not apply different versions of New Zealand equivalents to IFRSs that were effective at earlier dates. An entity may apply a new Standard that is not yet mandatory if it permits early application.

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**Example: Consistent application of latest version of New Zealand equivalents to IFRSs**

**BACKGROUND**

The end of entity A’s first New Zealand equivalents to IFRSs reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 36). Therefore, its date of transition to New Zealand equivalents to IFRSs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements under its *previous GAAP* annually to 31 December each year up to, and including, 31 December 20X4.

**APPLICATION OF REQUIREMENTS**

Entity A is required to apply NZ IFRS 1 effective for periods ending on 31 December 20X5 in:

- (a) preparing and presenting its opening New Zealand equivalents to IFRSs statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new Standard is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that Standard in its first New Zealand equivalents to IFRSs financial statements.

- 9 The transitional provisions in other New Zealand equivalents to IFRSs apply to changes in accounting policies made by an entity that already uses New Zealand equivalents to IFRSs; they do not apply to a first-time adopter's transition to New Zealand equivalents to IFRSs, except as specified in paragraphs 25D, 25H, 25I, 34A and 34B.
- 10 Except as described in paragraphs 13-34B, an entity shall, in its opening New Zealand equivalents to IFRSs statement of financial position:
  - (a) recognise all assets and liabilities whose recognition is required by New Zealand equivalents to IFRSs;
  - (b) not recognise items as assets or liabilities if New Zealand equivalents to IFRSs do not permit such recognition;
  - (c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under New Zealand equivalents to IFRSs; and
  - (d) apply New Zealand equivalents to IFRSs in measuring all recognised assets and liabilities.
- 11 The accounting policies that an entity uses in its opening New Zealand equivalents to IFRSs statement of financial position may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to New Zealand equivalents to IFRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to New Zealand equivalents to IFRSs.
- 12 This New Zealand equivalent to an IFRS establishes two categories of exceptions to the principle that an entity's opening New Zealand equivalents to IFRSs

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statement of financial position shall comply with each New Zealand equivalent to an IFRS:

- (a) paragraphs 13-25I grant exemptions from some requirements of other New Zealand equivalents to IFRSs.
- (b) paragraphs 26-34B prohibit retrospective application of some aspects of other New Zealand equivalents to IFRSs.

### **Exemptions from other New Zealand equivalents to IFRSs**

13 An entity may elect to use one or more of the following exemptions:

- (a) business combinations (paragraph 15);
- (b) fair value or revaluation as deemed cost (paragraphs 16-19);
- (c) employee benefits (paragraphs 20 and 20A);
- (d) cumulative translation differences (paragraphs 21 and 22);
- (e) compound financial instruments (paragraph 23); and
- (f) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 24 and 25);
- (g) designation of previously recognised financial instruments (paragraph 25A);
- (h) share-based payment transactions (paragraphs 25B and 25C);
- (i) insurance contracts (paragraph 25D);
- (j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E);
- (k) leases (paragraph 25F);
- (l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G);
- (m) a financial asset or an intangible asset accounted for in accordance with NZ IFRIC 12 *Service Concession Arrangements* (paragraph 25H); and
- (n) borrowing costs (paragraph 25I).

An entity shall not apply these exemptions by analogy to other items.

14 Some exemptions below refer to fair value. NZ IFRS 3 *Business Combinations* explains how to determine the fair values of identifiable assets and liabilities acquired in a business combination. An entity shall apply those explanations in determining fair values under this Standard, unless another New Zealand equivalent to an IFRS contains more specific guidance on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

**Business combinations**

- 15 An entity shall apply the requirements in Appendix B to business combinations that the entity recognised before the date of transition to New Zealand equivalents to IFRSs.

**Fair value or revaluation as deemed cost**

- 16 An entity may elect to measure an item of property, plant and equipment at the date of transition to New Zealand equivalents to IFRSs at its fair value and use that fair value as its deemed cost at that date.
- 17 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to New Zealand equivalents to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) fair value; or
  - (b) cost or depreciated cost under New Zealand equivalents to IFRSs, adjusted to reflect, for example, changes in a general or specific price index.
- 18 The elections in paragraphs 16 and 17 are also available for:
- (a) [Not applicable in New Zealand – NZ IAS 40 *Investment Property* does not permit the use of the cost model except in the circumstances outlined in paragraph 53 of NZ IAS 40.]
  - (b) intangible assets that meet:
    - (i) the recognition criteria in NZ IAS 38 *Intangible Assets* (including reliable measurement of original cost); and
    - (ii) the criteria in NZ IAS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

- 19 A first-time adopter may have established a deemed cost under previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. It may use such event-driven fair value measurements as deemed cost for New Zealand equivalents to IFRSs at the date of that measurement.

**Employee benefits**

- 20 Under NZ IAS 19 *Employee Benefits*, an entity may elect to use a ‘corridor’ approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to New Zealand equivalents to IFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to New Zealand equivalents to

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IFRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

20A An entity may disclose the amounts required by paragraph 120A(p) of NZ IAS 19 as the amounts are determined for each accounting period prospectively from the date of transition to New Zealand equivalents to IFRSs.

### **Cumulative translation differences**

- 21 NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity:
- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
  - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.
- 22 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to New Zealand equivalents to IFRSs. If a first-time adopter uses this exemption:
- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to New Zealand equivalents to IFRSs; and
  - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to New Zealand equivalents to IFRSs and shall include later translation differences.

### **Compound financial instruments**

23 NZ IAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of NZ IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, under this Standard, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to New Zealand equivalents to IFRSs.

### **Assets and liabilities of subsidiaries, associates and joint ventures**

- 24 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to New Zealand equivalents to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

- (b) the carrying amounts required by the rest of this Standard, based on the subsidiary's date of transition to New Zealand equivalents to IFRSs. These carrying amounts could differ from those described in (a):
  - (i) when the exemptions in this Standard result in measurements that depend on the date of transition to New Zealand equivalents to IFRSs.
  - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in NZ IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

- 25 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

#### **Designation of previously recognised financial instruments**

- 25A IAS 39 *Financial Instruments: Recognition and Measurement* permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances,
- (a) any entity is permitted to make an available-for-sale designation at the date of transition to IFRSs.
  - (b) *an entity that presents its first IFRS financial statements for an annual period beginning on or after 1 September 2006*—such an entity is permitted to designate, at the date of transition to IFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39 at that date.
  - (c) *an entity that presents its first IFRS financial statements for an annual period beginning on or after 1 January 2006 and before 1 September 2006*—such an entity is permitted to designate, at the date of transition to IFRSs, any financial asset or financial liability as at fair value through profit or loss

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provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39 at that date. When the date of transition to IFRSs is before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the date of transition to IFRSs and 1 September 2005.

- (d) *an entity that presents its first IFRS financial statements for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B–AG4K, AG33A and AG33B and the 2005 amendments in paragraphs 9, 12 and 13 of IAS 39*—such an entity is permitted at the start of its first IFRS reporting period to designate as at fair value through profit or loss any financial asset or financial liability that qualifies for such designation in accordance with these new and amended paragraphs at that date. When the entity's first IFRS reporting period begins before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the beginning of that period and 1 September 2005. If the entity restates comparative information for IAS 39 it shall restate that information for the financial assets, financial liabilities, or group of financial assets, financial liabilities or both, designated at the start of its first IFRS reporting period. Such restatement of comparative information shall be made only if the designated items or groups would have met the criteria for such designation in paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39 at the date of transition to IFRSs or, if acquired after the date of transition to IFRSs, would have met the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A at the date of initial recognition.
- (e) *for an entity that presents its first IFRS financial statements for an annual period beginning before 1 September 2006*—notwithstanding paragraph 91 of IAS 39, any financial assets and financial liabilities such an entity designated as at fair value through profit or loss in accordance with subparagraph (c) or (d) above that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through profit or loss.

### **Share-based payment transactions**

25B A first-time adopter is encouraged, but not required, to apply NZ IFRS 2 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply NZ IFRS 2 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to New Zealand equivalents to IFRSs and (b) 1 January 2005. However, if a first-time adopter elects to apply NZ IFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in NZ IFRS 2. For all grants of equity instruments to which

NZ IFRS 2 has not been applied (eg equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of NZ IFRS 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which NZ IFRS 2 has not been applied, the entity is not required to apply paragraphs 26-29 of NZ IFRS 2 if the modification occurred before the later of (a) the date of transition to New Zealand equivalents to IFRSs and (b) 1 January 2005.

- 25C A first-time adopter is 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 to New Zealand equivalents to IFRSs. A first-time adopter is also encouraged, but not required, to apply NZ IFRS 2 to liabilities that were settled before 1 January 2005. For liabilities to which NZ IFRS 2 is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.

#### **Insurance contracts**

- 25D A first-time adopter may apply the transitional provisions in NZ IFRS 4 *Insurance Contracts*. NZ IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

#### **Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment**

- 25E NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* 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 prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to New Zealand equivalents to IFRSs. If a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to New Zealand equivalents to IFRSs in accordance with NZ IAS 37;
- (b) to the extent that the liability is within the scope of NZ IFRIC 1, estimate 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(s) that would have applied for that liability over the intervening period; and
- (c) calculate the accumulated depreciation on that amount, as at the date of transition to New Zealand equivalents to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under New Zealand equivalents to IFRSs.

## **Leases**

### **NZ IFRIC 4 *Determining whether an Arrangement contains a Lease***

25F A first-time adopter may apply the transitional provisions in NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to New Zealand equivalents to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

### **Fair value measurement of financial assets or financial liabilities**

25G Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of NZ IAS 39 paragraph AG76, and paragraph AG76A, in either of the following ways:

- (a) prospectively to transactions entered into after 25 October 2002; or
- (b) prospectively to transactions entered into after 1 January 2004.

### **Service concession arrangements**

25H A first-time adopter may apply the transitional provisions in NZ IFRIC 12 *Service Concession Arrangements*.

### **Borrowing costs**

25I A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of NZ IAS 23 *Borrowing Costs*, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to New Zealand equivalents to IFRSs, whichever is later.

## **Exceptions to retrospective application of other New Zealand equivalents to IFRSs**

26 This Standard prohibits retrospective application of some aspects of other New Zealand equivalents to IFRSs relating to:

- (a) derecognition of financial assets and financial liabilities (paragraphs 27 and 27A);
- (b) hedge accounting (paragraphs 28-30);
- (c) estimates (paragraphs 31-34); and
- (d) assets classified as held for sale and discontinued operations (paragraphs 34A and 34B).

### **Derecognition of financial assets and financial liabilities**

27 Except as permitted by paragraph 27A, a first-time adopter shall apply the derecognition requirements in NZ IAS 39 prospectively for financial years beginning on or after 1 January 2004. In other words, if a first-time adopter

derecognised non-derivative financial assets or non-derivative financial liabilities under its previous GAAP as a result of a transaction that occurred before 1 January 2004, it shall not recognise those assets and liabilities under New Zealand equivalents to IFRSs (unless they qualify for recognition as a result of a later transaction or event).

- 27A Notwithstanding paragraph 27, an entity may apply the derecognition requirements in NZ IAS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply NZ IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

### **Hedge accounting**

- 28 As required by NZ IAS 39 *Financial Instruments: Recognition and Measurement*, at the date of transition to New Zealand equivalents to IFRSs, an entity shall:
- (a) measure all derivatives at fair value; and
  - (b) eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.
- 29 An entity shall not reflect in its opening New Zealand equivalents to IFRSs statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under NZ IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under previous GAAP, it may designate an individual item within that net position as a hedged item under New Zealand equivalents to IFRSs, provided that it does so no later than the date of transition to New Zealand equivalents to IFRSs.
- 30 If, before the date of transition to New Zealand equivalents to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in NZ IAS 39 the entity shall apply paragraphs 91 and 101 of NZ IAS 39 to discontinue hedge accounting. Transactions entered into before the date of transition to New Zealand equivalents to IFRSs shall not be retrospectively designated as hedges.

### **Estimates**

- 31 An entity's estimates under New Zealand equivalents to IFRSs at the date of transition to New Zealand equivalents to IFRSs shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**
- 32 An entity may receive information after the date of transition to New Zealand equivalents to IFRSs about estimates that it had made under previous GAAP.

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Under paragraph 31, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period under NZ IAS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to New Zealand equivalents to IFRSs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made under previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening New Zealand equivalents to IFRSs statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in its profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4.

- 33 An entity may need to make estimates under New Zealand equivalents to IFRSs at the date of transition to New Zealand equivalents to IFRSs that were not required at that date under previous GAAP. To achieve consistency with NZ IAS 10, those estimates under New Zealand equivalents to IFRSs shall reflect conditions that existed at the date of transition to New Zealand equivalents to IFRSs. In particular, estimates at the date of transition to New Zealand equivalents to IFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 34 Paragraphs 31-33 apply to the opening New Zealand equivalents to IFRSs statement of financial position. They also apply to a comparative period presented in an entity's first New Zealand equivalents to IFRSs financial statements, in which case the references to the date of transition to New Zealand equivalents to IFRSs are replaced by references to the end of that comparative period.

### **Assets Classified as held for sale and discontinued operations**

- 34A NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires that it shall be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of NZ IFRS 5. NZ IFRS 5 permits an entity to apply the requirements of the Standard to all non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after any date before its effective date, provided the valuations and other information needed to apply the Standard were obtained at the time those criteria were originally met.
- 34B An entity with a date of transition to New Zealand equivalents to IFRSs on or after 1 January 2005 shall apply NZ IFRS 5 retrospectively. [First sentence deleted – not applicable in New Zealand.]

## PRESENTATION AND DISCLOSURE

35 Except as described in paragraph 37, this New Zealand equivalent to an IFRS does not provide exemptions from the presentation and disclosure requirements in other New Zealand equivalents to IFRSs.

### Comparative information

36 To comply with NZ IAS 1, an entity's first New Zealand equivalents to IFRSs financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.\*

36A [Deleted by IASB]

36B [Deleted by IASB]

36C [Deleted by IASB]

### Non-NZ IFRS Comparative Information and Historical summaries

37 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information under New Zealand equivalents to IFRSs. This Standard does not require such summaries to comply with the recognition and measurement requirements of New Zealand equivalents to IFRSs. Furthermore, some entities present comparative information under previous GAAP as well as the comparative information required by NZ IAS 1. In any financial statements containing historical summaries or comparative information under previous GAAP, an entity shall:

- (a) label the previous GAAP information prominently as not being prepared under New Zealand equivalents to IFRSs; and
- (b) disclose the nature of the main adjustments that would make it comply with New Zealand equivalents to IFRSs. An entity need not quantify those adjustments.

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\* Refer to NZ IAS 1 paragraphs 10 and NZ 10.1 for details of the concessions available to qualifying entities and public benefit entities in respect of a complete set of financial statements.

## **Explanation of transition to New Zealand equivalents to IFRSs**

**38 An entity shall explain how the transition from previous GAAP to New Zealand equivalents to IFRSs affected its reported financial position, financial performance and cash flows.**

### **Reconciliations**

- 39 To comply with paragraph 38, an entity's first New Zealand equivalents to IFRSs financial statements shall include:
- (a) reconciliations of its equity reported under previous GAAP to its equity under New Zealand equivalents to IFRSs for both of the following dates:
    - (i) the date of transition to New Zealand equivalents to IFRSs; and
    - (ii) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP.
  - (b) a reconciliation to its total comprehensive income under New Zealand equivalents to IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income under previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
  - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening New Zealand equivalents to IFRSs statement of financial position, the disclosures that NZ IAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to New Zealand equivalents to IFRSs.
- 40 The reconciliations required by paragraph 39(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- 41 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 39(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 42 NZ IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts New Zealand equivalents to IFRSs. Therefore, NZ IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first New Zealand equivalents to IFRSs financial statements.
- 43 If an entity did not present financial statements for previous periods, its first New Zealand equivalents to IFRSs financial statements shall disclose that fact.

**Designation of financial assets or financial liabilities**

43A An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph 25A. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

**Use of fair value as deemed cost**

44 If an entity uses fair value in its opening New Zealand equivalents to IFRSs statement of financial position as deemed cost for an item of property, plant and equipment or an intangible asset (see paragraphs 16 and 18), the entity's first New Zealand equivalents to IFRSs financial statements shall disclose, for each line item in the opening New Zealand equivalents to IFRSs statement of financial position:

- (a) the aggregate of those fair values; and
- (b) the aggregate adjustment to the carrying amounts reported under previous GAAP. [Amended by FRSB – reference to investment property in first sentence deleted.]

**Interim financial reports**

45 To comply with paragraph 38, if an entity presents an interim financial report under NZ IAS 34 *Interim Financial Reporting* for part of the period covered by its first New Zealand equivalents to IFRSs financial statements, the entity shall satisfy the following requirements in addition to the requirements of NZ IAS 34:

- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
  - (i) a reconciliation of its equity under previous GAAP at the end of that comparable interim period to its equity under New Zealand equivalents to IFRSs at that date; and
  - (ii) a reconciliation to its total comprehensive income under New Zealand equivalents to IFRSs for that comparable interim period (current and year-to-date). The starting point for that reconciliation shall be total comprehensive income under previous GAAP for that period or, if an entity did not report such a total, profit or loss under previous GAAP.
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report under NZ IAS 34 for part of the period covered by its first New Zealand equivalents to IFRSs financial statements shall include the reconciliations described in paragraph 39(a) and (b) (supplemented by the details required by paragraphs 40 and 41) or a cross-reference to another published document that includes these reconciliations.

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- 46 NZ IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, NZ IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

### **EFFECTIVE DATE**

- 47 An entity is required to apply NZ IFRS 1 when it first adopts New Zealand equivalents to IFRSs. NZ IFRS 1 becomes operative from 1 January 2005.
- 47A An entity shall apply the amendments in paragraphs 13(j) and 25E for annual periods beginning on or after 1 September 2004. If an entity applies NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for an earlier period, these amendments shall be applied for that earlier period.
- 47B An entity shall apply the amendments in paragraphs 13(k) and 25F for annual periods beginning on or after 1 January 2006. If an entity applies NZ IFRIC 4 *Determining whether an Arrangement contains a Lease* for an earlier period, these amendments shall be applied for that earlier period.
- 47C [Deleted by IASB]
- 47D An entity shall apply the amendments in paragraph 20A for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to NZ IAS 19 *Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures* for an earlier period, these amendments shall be applied for that earlier period.
- 47E An entity shall apply the amendments in paragraphs 13(l) and 25G for annual periods beginning on or after 1 January 2005. If an entity applies the amendments to NZ IAS 39 *Financial Instruments: Recognition and Measurement—Transition and Initial Recognition of Financial Assets and Financial Liabilities* for an earlier period, these amendments shall be applied for that earlier period.
- 47F An entity shall apply the amendments in paragraphs 9, 12(a), 13(m) and 25H for annual periods beginning on or after 1 January 2008. If an entity applies NZ IFRIC 12 for an earlier period, these amendments shall be applied for that earlier period.
- 47G An entity shall apply the amendments in paragraphs 13(n) and 25I for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 23 for an earlier period, these amendments shall be applied for that earlier period.
- 47H NZ IAS 1 (as revised in 2007) amended the terminology used through New Zealand equivalents to IFRSs. In addition, it amended paragraphs 6, 7,

8 (Example), 10, 12(a), 21, 32, 35, 36, 39(b) and 45(a), Appendix A and paragraph B2(i) in Appendix B, and deleted paragraphs 36A-36C and 47C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

## Appendix A

### Defined terms

This Appendix is an integral part of the Standard.

<b>date of transition to New Zealand equivalents to IFRSs</b>	The beginning of the earliest period for which an entity presents full comparative information under New Zealand equivalents to IFRSs in its <b>first New Zealand equivalents to IFRSs financial statements</b> .
<b>deemed cost</b>	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the <b>deemed cost</b> .
<b>fair value</b>	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>first New Zealand equivalents to IFRSs financial statements</b>	The <b>first annual financial statements</b> in which an entity adopts New Zealand equivalents to International Financial Reporting Standards (IFRSs), by an explicit and unreserved statement of compliance with New Zealand equivalents to IFRSs.
<b>first New Zealand equivalents to IFRSs reporting period</b>	The latest reporting period covered by an entity's <b>first New Zealand equivalents to IFRSs financial statements</b> .
<b>first-time adopter</b>	An entity that presents its <b>first New Zealand equivalents to IFRSs financial statements</b> .
<b>International Financial Reporting Standards (IFRSs)</b>	<b>Standards and Interpretations adopted by the International Accounting Standards Board (IASB)</b> . They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

<b>New Zealand equivalents to IFRSs</b>	Standards and Interpretations approved by the Accounting Standards Review Board (ASRB) comprising New Zealand equivalents to: <ul style="list-style-type: none"><li>(a) International Financial Reporting Standards;</li><li>(b) International Accounting Standards; and</li><li>(c) International Interpretations.</li></ul>
<b>opening New Zealand equivalents to IFRSs statement of financial position</b>	An entity's statement of financial position (published or unpublished) at the <b>date of transition to New Zealand equivalents to IFRSs</b> .
<b>previous GAAP</b>	The basis of accounting that a <b>first-time adopter</b> used immediately before adopting New Zealand equivalents to IFRSs.
<b>qualifying entities</b>	Entities which meet the requirements of the <b>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting</b> Regime to qualify for differential reporting concessions in standards.

## Appendix B

### Business combinations

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

- B1 A first-time adopter may elect not to apply NZ IFRS 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to New Zealand equivalents to IFRSs). However, if a first-time adopter restates any business combination to comply with NZ IFRS 3, it shall restate all later business combinations and shall also apply NZ IAS 36 *Impairment of Assets* and NZ IAS 38 *Intangible Assets* from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002, it shall restate all business combinations that occurred between 30 June 2002 and the date of transition to New Zealand equivalents to IFRSs, and it shall also apply NZ IAS 36 and NZ IAS 38 from 30 June 2002.
- B1A An entity need not apply NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to New Zealand equivalents to IFRSs. If the entity does not apply NZ IAS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied under previous GAAP.
- B1B An entity may apply NZ IAS 21 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to New Zealand equivalents to IFRSs; or
  - (b) all business combinations that the entity elects to restate to comply with NZ IFRS 3, as permitted by paragraph B1 above.
- B2 If a first-time adopter does not apply NZ IFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

- (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to New Zealand equivalents to IFRSs that were acquired or assumed in a past business combination, other than:
- (i) some financial assets and financial liabilities derecognised under previous GAAP (see paragraph 27); and
  - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position under previous GAAP and also would not qualify for recognition under New Zealand equivalents to IFRSs in the separate statement of financial position of the acquiree (see paragraph B2(f)-B2(i)).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see paragraph B2(g)(i)).

- (c) The first-time adopter shall exclude from its opening New Zealand equivalents to IFRSs statement of financial position any item recognised under previous GAAP that does not qualify for recognition as an asset or liability under New Zealand equivalents to IFRSs. The first-time adopter shall account for the resulting change as follows:
- (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset under NZ IAS 38 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and minority interests) as part of goodwill (unless it deducted goodwill directly from equity under previous GAAP, see paragraph B2(g)(i) and B2(i)).
  - (ii) the first-time adopter shall recognise all other resulting changes in retained earnings.\*
- (d) New Zealand equivalents to IFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening New Zealand equivalents to IFRSs statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.

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\* Such changes include reclassifications from or to intangible assets if goodwill was not recognised under previous GAAP as an asset. This arises if, under previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

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- (e) Immediately after the business combination, the carrying amount under previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost under New Zealand equivalents to IFRSs at that date. If New Zealand equivalents to IFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised under previous GAAP, it does not have a deemed cost of zero in the opening New Zealand equivalents to IFRSs statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that New Zealand equivalents to IFRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, under its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as NZ IAS 17 *Leases* would require the acquiree to do in its New Zealand equivalents to IFRSs statement of financial position. Conversely, if an asset or liability was subsumed in goodwill under previous GAAP but would have been recognised separately under NZ IFRS 3, that asset or liability remains in goodwill unless New Zealand equivalents to IFRSs would require its recognition in the financial statements of the acquiree.
- (g) The carrying amount of goodwill in the opening New Zealand equivalents to IFRSs statement of financial position shall be its carrying amount under previous GAAP at the date of transition to New Zealand equivalents to IFRSs, after the following three adjustments:
  - (i) If required by paragraph B2(c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset under previous GAAP. Similarly, if paragraph B2(f) requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill under previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and minority interests).
  - (ii) A contingency affecting the amount of the purchase consideration for a past business combination may have been resolved before the date of transition to New Zealand equivalents to IFRSs. If a reliable estimate of the contingent adjustment can be made and its payment is probable, the first-time adopter shall adjust the goodwill by that amount. Similarly, the first-time adopter shall adjust the carrying amount of goodwill if a previously recognised contingent adjustment can no longer be measured reliably or its payment is no longer probable.

- (iii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply NZ IAS 36 *Impairment of Assets* in testing the goodwill for impairment at the date of transition to New Zealand equivalents to IFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by NZ IAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to New Zealand equivalents to IFRSs.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to New Zealand equivalents to IFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:
  - (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition under NZ IAS 38 in the statement of financial position of the acquiree);
  - (ii) to adjust previous amortisation of goodwill;
  - (iii) to reverse adjustments to goodwill that NZ IFRS 3 would not permit, but were made under previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to New Zealand equivalents to IFRSs.
- (i) If the first-time adopter recognised goodwill under previous GAAP as a deduction from equity:
  - (i) it shall not recognise that goodwill in its opening New Zealand equivalents to IFRSs statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
  - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.
- (j) Under its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary under previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that New Zealand equivalents to IFRSs would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to New Zealand equivalents to IFRSs between:
  - (i) the parent's interest in those adjusted carrying amounts; and
  - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.

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- (k) The measurement of minority interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect minority interests and deferred tax.
- B3 The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph B1 applies equally for all such acquisitions.