Accounting Alert

Staying on top of developments

In this issue:

- IASB re-exposes the revenue recognition exposure draft
- FMA signals restrictions on the use of alternative profit measures
- New standards and current exposure drafts
- IPSASB issues standard on service concession arrangements for grantors

This Accounting Alert provides you with information about a number of recent developments in New Zealand financial reporting.

We will continue to keep you apprised of developments as they occur, so watch this space …

IASB re-exposes the revenue recognition exposure draft

Given the significance of the proposals on revenue recognition for financial reporting, the International Accounting Standards Board (IASB) has re-issued the exposure draft on *Revenue from Contracts with Customers* for comment. The core principle of the exposure draft remains unchanged, "*an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services*", and entities will still follow five key steps in determining revenue recognition (refer figure 1). However, there have been changes to simplify some of the proposals and to provide additional guidance.

Figure 1: Steps for revenue recognition

Step 1
- Identify the contract with a customer

Step 2
- Identify the separate performance obligations in the contract

Step 3
- Determine the transaction price

Step 4
- Allocate the transaction price to the separate performance obligations in the contract

Step 5
- Recognise revenue when (or as) the entity satisfies each performance obligation

(continues …)

The proposals are a significant change from current practice and entities with the following types of arrangement in particular may find there will be a change in the amount and/or timing of revenue recognition:

- Multiple element contracts - where more than one good or service is provided within a single contract and delivery takes place at different times
- Goods or services are delivered over time
- Consideration received in return for goods and/or services is variable
- Revenue is received in advance of goods or services being delivered.

Even if revenue recognition does not change, increased disclosure requirements will impact all entities required to adopt the new standard when it is issued. The IASB aims to finalise the standard in the second half of 2012. The mandatory adoption date is yet to be determined but the IASB has stated that it will not be for periods beginning before 1 January 2015.

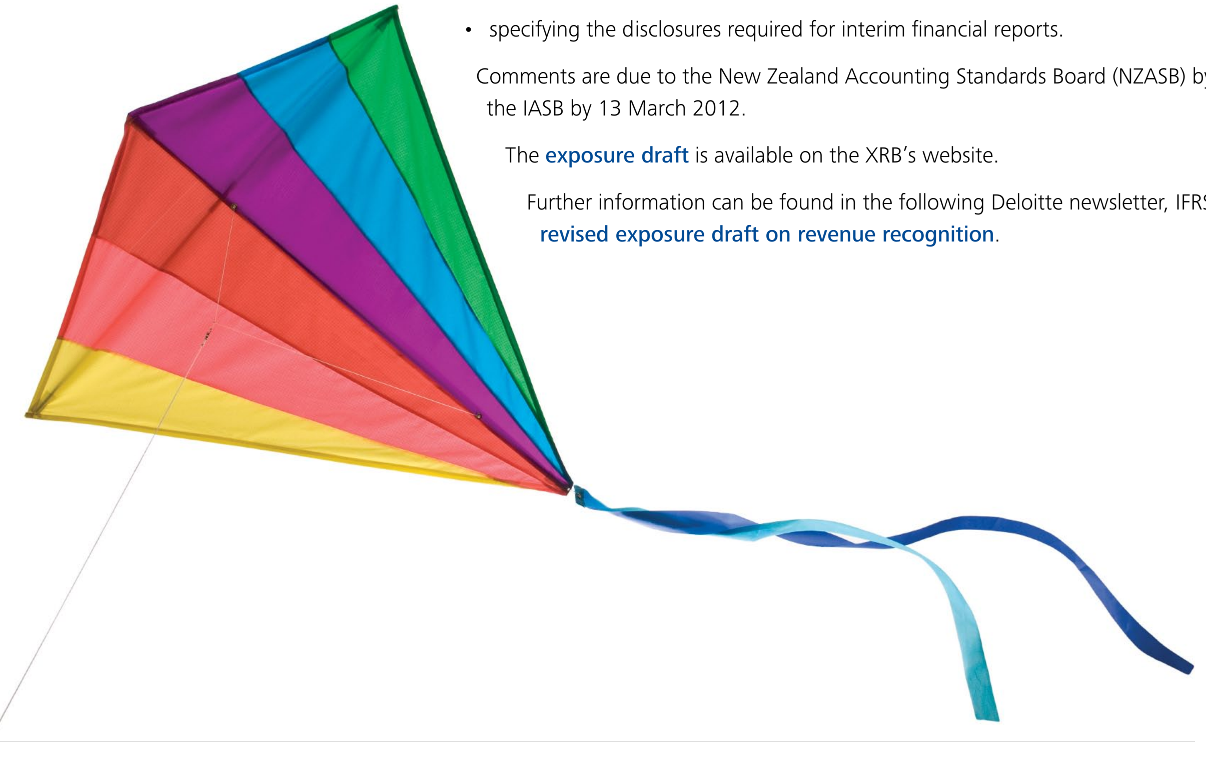
Changes from the previous exposure draft include:

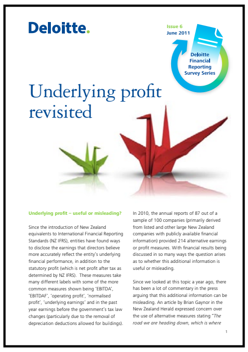
- amending the principle for identifying separate performance obligations in a contract by clarifying when a good or service is distinct
- adding criteria to determine when a performance obligation is satisfied over time and, hence, when revenue is recognised over time
- simplifying the measurement of the transaction price when estimation is required. The standard now allows an approach that is based on either the probability-weighted amount (the original requirement) or the most likely amount (i.e. management's best estimate) "*depending on which method the entity expects to better predict the amount of consideration to which it will be entitled*".
- aligning the accounting for product warranties more closely with existing requirements when the customer does not have the option to purchase the warranty separately
- removing the requirement to assess for individual onerous performance obligations if at inception, a contract's obligations are expected to be satisfied within a year
- adding some optional relief from retrospective application of the proposals
- specifying the disclosures required for interim financial reports.

Comments are due to the New Zealand Accounting Standards Board (NZASB) by 20 February 2012 and to the IASB by 13 March 2012.

The exposure draft is available on the XRB's website.

Further information can be found in the following Deloitte newsletter, IFRS in Focus: IASB issues revised exposure draft on revenue recognition.





FMA signals restrictions on the use of alternative performance measures

The Financial Markets Authority (FMA) has signalled that it intends to issue a draft regulatory guide for public consultation in 2012 regarding the use of alternative performance measures by financial markets issuers. This is not unexpected given press commentary over the past year arguing that "underlying profit", "normalised earnings" and other measures provided by companies can be misleading.

The FMA website outlines what the proposals are expected to include which are largely consistent with previous guidance issued by the Securities Commission. However, we note that the FMA has signalled that the draft regulatory guidance is likely to include "*restrictions on the use of non-confirming financial information on the face of the financial statements*".

The FMA will consider guidance issued by the Australian regulator in their development of guidance for the New Zealand market. Details are available on their website at:

http://www.fma.govt.nz/keep-updated/reports-and-papers/fma-signals-its-intention-to-provide-guidance-on-the-use-of-alternative-performance-measures/

For more information on the practice of reporting underlying profit in New Zealand refer to Issue 6 of the Deloitte Financial Reporting Series: Underlying profit revisited available at www.deloitte.com/nz/financialreportingsurvey

New standards and current exposure drafts

The NZASB has issued two accounting standards: Amended NZ IAS 19 *Employee Benefits*; and Presentation of Items of Other Comprehensive Income – Amendment to NZ IAS 1 *Presentation of Financial Statements*. These amendments only apply to for-profit entities.

The amendments to NZ IAS 19:

- primarily propose changes for the recognition and presentation of post-employment benefits. In particular, the corridor approach has been removed requiring the recognition of changes in the defined benefit obligation and in plan assets when those changes occur. Changes are disaggregated into three components: service costs, net interest on the net defined benefit liabilities/(assets) and remeasurements on the liabilities/(assets), with clarity on where these components are presented (profit or loss, or other comprehensive income).

- change the definition of short-term employee benefits from "*due to be settled*" to "*expected to be settled wholl*y" within twelve months after the end of the annual reporting period. This may result in some arrangements being reclassified as long-term employee benefits that will need to be measured using actuarial assumptions.

- provides clarification between benefits payable in exchange for termination of employment and benefits payable in exchange for service where an employee's service is to be terminated.

The updated standard is available on the XRB website **here** and is applicable for periods beginning on or after 1 January 2013.

The amendment to NZ IAS 1 primarily requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they will be subsequently reclassified from OCI to profit or loss, or not. The amendment is available on the XRB Website **here** and is applicable for periods beginning on or after 1 July 2012.

For more information refer to our IFRS in Focus publications:

- IASB amends accounting for post-employment benefits
- IASB issues Amendments to IAS 1 on Presentation of Items of Other Comprehensive Income

Current exposure drafts

The following exposure drafts are still open for comment.

Exposure draft		Comments due
ED/2011/4 Investment Entities	The ED proposes an exemption from consolidation of subsidiaries if an entity meets strict criteria as an investment entity. Fair value measurement would instead be followed by the investment entity. For more information refer to our IFRS in Focus: **IASB issues exposure draft on investment entities**	NZASB: Deadline has passed IASB: 5 January 2012
ED/2011/5 Government Loans (Proposed Amendments to IFRS 1)	This exposure draft is of limited relevance to New Zealand for-profit entities. It addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. For more information refer to our IFRS in Focus: **IASB issues exposure draft on prospective application of IAS 20 to government loans at below-market rates of interest for first-time adopters of IFRSs**	NZASB: 5 December 2012 IASB: 5 January 2012
ED/2011/6 Revenue from Contracts with Customers	Refer above for detail of the proposals.	NZASB: 20 February 2012 IASB: 13 March 2012
ED 2011-1 Omnibus Amendments	This New Zealand exposure draft proposes differential reporting concessions for new standards NZ IFRS 10, 11, 12 and 13 and amendments to XRB A1 *Application of Accounting Standards* to allow first time reporters meeting certain criteria to prepare general purpose financial statements in accordance with old NZ GAAP if their first reporting date is on or after 1 July 2011.	NZASB: 3 February 2012
ED - Recommended Practice Guideline: **Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**	The IPSASB has issued a draft recommended practice guideline for comment. The proposals recommend disclosure of the principles, assumptions and approaches to methodology that underpin long-term projections included in certain types of reports issued by the Government and Local Authorities.	NZASB: 18 February 2012 IPSASB: 29 February 2012
ED - IPSASB Consultation Paper: **Reporting Service Performance Information**	The IPSASB is working on a framework for public sector entities to use when reporting service performance information. The consultation paper is asking for feedback on the IPSASB's preliminary views and on some matters where the IPSASB has not yet formed a view.	NZASB: 29 February 2012 IPSASB: 15 April 2012

IPSASB issues standard on service concession arrangements for grantors

The International Public Sector Accounting Standards Board (IPSASB) recently issued IPSAS 32: *Service Concession Arrangements: Grantor* which discusses the accounting for public sector entities involved in service concession arrangements. The IPSASB notes that "*An arrangement within the scope of this Standard typically involves an operator constructing or developing an asset used to provide a public service or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining the asset for a specified period of time*." Not all such arrangements will fall within the scope of the standard.

The standard is consistent with the principles in IFRIC 12: *Service Concession Arrangements* which operators use to determine whether or not they should recognise an asset in a service concession arrangement. This should result in consistent decision making between operators and grantors.

The standard is available on the IPSASB website: http://www.ifac.org/publications-resources/ipsas-32-service-concession-arrangements-grantor

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