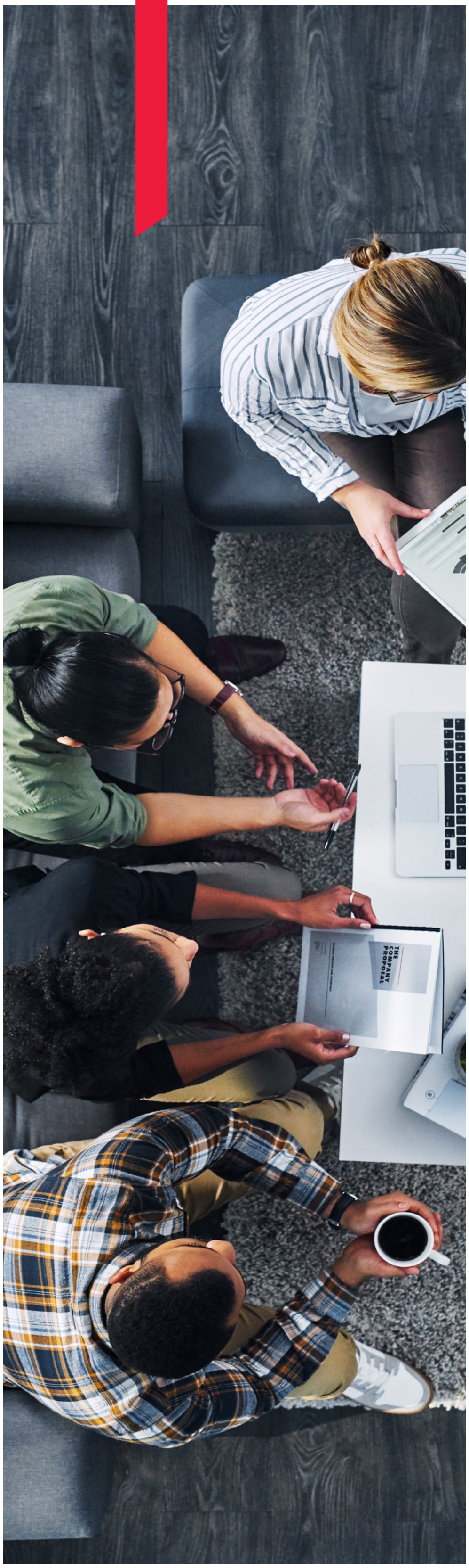
CHEAT SHEET

ADOPTING NZ IFRS OR NZ IFRS (RDR) FOR THE FIRST TIME (NZ IFRS 1)



BACKGROUND

Here at BDO IFRS Advisory, we have recently been noticing an increase in the number of entities who are transitioning into *general purpose financial reporting* under either New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) or New Zealand equivalents to International Financial Reporting Standards *Reduced Disclosure Regime* (NZ IFRS (RDR)) (being the only accounting frameworks in New Zealand that represents *New Zealand Generally Accepted Accounting Principles* (NZ GAAP)).

There are various reasons that an entity might now decide to (or be required to) step-up from *special purpose financial reporting* (SPFR) into NZ IFRS or NZ IFRS (RDR), including (but not limited to):

- Statutory requirements requiring financial statements to be prepared in accordance with NZ GAAP (i.e. exceeding the revenue, asset, shareholder thresholds under the financial reporting legislation applicable to the entity).
- The entity's lenders (i.e. Banks) requiring the entity to provide financial statements prepared in accordance with NZ GAAP.
- New investors requiring changes to the entity's Constitution, Founding documents, and/or Shareholders Agreements, and inserting clauses now requiring financial statements prepared in accordance with NZ GAAP.
- The entity is looking for potential sale, listing, or additional investment opportunities where the preparation of NZ IFRS or NZ IFRS (RDR) financial statements will be required and/or will facilitate the process.
- The entity's Directors and/or Audit Committee believes the preparation of financial statements in accordance with NZ GAAP represents best business practice and/or corporate governance.
- To ensure higher industry comparability across borders and reduce time and effort in preparing multiple financial statements to meet the group reporting requirements.

Irrespective of the reason **WHY** an entity steps-up into NZ IFRS or NZ IFRS (RDR) (NZ GAAP) reporting, **HOW** the step-up is required to be done remains the same.

Unsurprisingly, the first accounting standard in the suite of NZ IFRSs, NZ IFRS 1 *First-time adoption of New Zealand Equivalents to International Reporting Standards* (NZ IFRS 1), prescribes these requirements.

NZ IFRS 1 is a detail-heavy standard and provides various mandatory and optional accounting treatments for balances and transactions that can differ slightly from the "normal" accounting treatments prescribed in the individual NZ IFRSs that ordinarily apply.

The objective of NZ IFRS 1 is to "build" an NZ IFRS or NZ IFRS (RDR)-compliant opening balance sheet, being the starting point from which the application of the rest of the suite of NZ IFRSs are subsequently applied to going forward.

This *Cheat Sheet* has been produced as a high-level summary of key points for entities to be aware of when adopting NZ IFRS and applying NZ IFRS 1 (based on NZ IFRS' in effect as at the time of publishing - November 2020).

The layout of this *Cheat Sheet* is formatted to be used as quick checklist to assist entities in highlighting the various application areas of NZ IFRS 1 which may require specific attention.

NEED ASSISTANCE WITH YOUR ADOPTION OF NZ IFRS OR NZ IFRS (RDR)?

BDO *IFRS Advisory* is a dedicated service line available to assist entities in navigating all things *(NZ) IFRS* related. Further details are provided on the following page for your information.

AREAS COVERED IN THIS *CHEAT SHEET*

In order to navigate through this area of accounting, this *Cheat Sheet* is broken down into the following sections:

1. **The date that NZ IFRS or NZ IFRS (RDR) is adopted, and NZ IFRS 1 is applied**
2. **Retrospective application of NZ IFRS or NZ IFRS (RDR) – requirements and exemptions**
3. **Mandatory exceptions to be applied at the date of transition to NZ IFRS or NZ IFRS (RDR)**
4. **Your go forward requirements**

BDO

1. The date that NZ IFRS or NZ IFRS (RDR) is adopted, and NZ IFRS 1 is applied

The date that NZ IFRS or NZ IFRS (RDR) is adopted (date of transition to NZ IFRS or NZ IFRS (RDR)) is the beginning of the earliest comparative period to be presented in the first NZ IFRS or NZ IFRS (RDR) compliant financial statements.

For example, if an entity is planning to adopt NZ IFRS or NZ IFRS (RDR) for its 31 March 2021 annual financial statements, these financial statements will include (at a minimum) one year of comparatives (i.e. for the 31 March 2020 year).

Accordingly, the date of transition to NZ IFRS or NZ IFRS (RDR) will be **1 April 2019**.

It is from this date, **1 April 2019**, that NZ IFRS 1 is applied.

As you can see, this translates into an "involved", backwards-looking process for an entity, requiring:

(i) An opening NZ IFRS or NZ IFRS (RDR) balance sheet to be compiled in accordance with NZ IFRS 1 as at 1 April 2019.

(ii) Transactions for the comparative year (to 30 March 2020) being (re)processed in accordance with NZ IFRS or NZ IFRS (RDR).

(iii) Transactions for the current year (to 30 March 2021) being (re)processed in accordance with NZ IFRS or NZ IFRS (RDR).

For the 30 March 2021 financial statements, an entity will present the following balance sheets:

- Tier 1 (full NZ IFRS): As at **(i)** 1 April 2019, **(ii)** 31 March 2020, and **(iii)** 31 March 2021.
- Tier 2 (NZ IFRS (RDR)): As at **(ii)** 31 March 2020, and **(iii)** 31 March 2021.

2. Retrospective application of NZ IFRS or NZ IFRS (RDR) - requirements and exemptions

NZ IFRS 1 starts from the position that individual NZ IFRSs are applied on a fully retrospective basis (i.e. as if the entity had always applied NZ IFRS's.

NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors does not apply to the changes in accounting policies that are made on adopting of NZ IFRS's in its first NZ IFRS financial statements.

From there, certain exceptions and exemptions to general principle of retrospective application of NZ IFRS's at the date of transition for specific areas.

Listed below are the **(i)** **Mandatory exceptions**, and **(ii)** **Optional exemptions** (that are very specific in nature).

Mandatory exceptions	Optional exemptions
A. Accounting estimates	**I.** Business combinations
B. Previous derecognition of financial assets and financial liabilities	**J.** Share-based payment transactions
C. Hedge accounting and derivatives	**K.** Insurance contracts
D. Non-controlling interest treatment	**L.** Deemed cost of non-current assets
E. Financial instruments: Classification and measurement	**M.** Leases
F. Financial assets: Impairment	**N.** Cumulative translation differences
G. Financial liabilities: Embedded derivatives	**O.** Investments in subsidiaries, joint ventures and associates
H. Government loans	**P.** Assets and liabilities of subsidiaries, associates and joint ventures
	Q. Compound financial instruments (liability portion settled)
	R. Designation of previously recognised financial instruments
	S. Fair value measurement of financial assets or financial liabilities at initial recognition
	T. Decommissioning liabilities
	U. Service concession financial assets or intangible assets
	V. Borrowing costs
	W. Extinguishing financial liabilities with equity instruments
	X. Severe hyperinflation
	Y. Joint arrangements
	Z. Stripping costs in the production phase of a surface mine
	AA. Designation of contracts to buy or sell a non-financial item
	BB. Revenue
	CC. Foreign currency transactions and advance consideration

3. Mandatory exceptions to be applied at the date of transition to NZ IFRS or NZ IFRS (RDR)

Details of the various **mandatory** exemptions are provided in the checklist below.

Area [NZ IFRS 1 para]	Details	Relevant to my entity?
A - Accounting estimates [14]	Accounting estimates made to prepare pre-NZ IFRS financial statements cannot not be adjusted (revised) on transition to NZ IFRS, except in instances:	
	(i) To reflect differences in accounting policies required in adopting NZ IFRS, or	YES / NO / ?
	(ii) Where there is objective evidence that the estimate was an error (this is to prevent from using hindsight benefit to adjust original estimates)	YES / NO / ?
B - Previous derecognition of financial assets and financial liabilities [B2 - B3]	Under its previous GAAP, an entity may have derecognised financial assets or financial liabilities where this would not by permitted by NZ IFRS 9 *Financial Instruments*. Under this exemption, and entity does not have to correct this.	YES / NO / ?
	An entity can however elect to apply NZ IFRS 9 retrospectively from a date of its choosing, meaning any derecognitions not in compliance with NZ IFRS 9 that have occurred between this date, and the date of transition to NZ IFRS, can be "corrected", if they qualify for recognition as a result of a later transaction or event.	YES / NO / ?
C - Hedge Accounting and derivatives [B4 - B6]	(i) All derivatives are measured at fair value as per (NZ IFRS 9)	YES / NO / ?
	(ii) Any deferred gains/losses on derivatives form the applying previous GAAP are eliminated against opening retained earnings.	YES / NO / ?
	(iii) Hedging relationships that do not meet the criteria in NZ IFRS 9 to be hedging relationships are derecognised.	YES / NO / ?
	(iv) Prior to date of transition, a transaction designation as a hedge under the previous GAAP but does not meet the conditions for hedge accounting shall discontinue.	YES / NO / ?
D - Non-controlling interests (NCI) treatment [B7]	Generally, consolidation accounting under NZ IFRS 10 *Consolidated Financial Statements* is applied retrospectively under NZ IFRS 1, however, the following are areas where NZ IFRS 10 is instead only applied **prospectively** from the date of transition to NZ IFRS or NZ IFRS (RDR):	
	(i) Attributing total comprehensive income to the non-controlling interest (NCI), even if this makes the NCI negative.	YES / NO / ?
		YES / NO / ?
	(ii) Changes in ownership that do not result in loss of control.	YES / NO / ?
	(iii) Accounting for the loss of control of a subsidiary.	YES / NO / ?
	However, if an entity elects to apply the Business Combination optional exemption from a date prior to the date of transition to NZ IFRS or NZ IFRS (RDR) (refer I below), then NZ IFRS 10 (including the accounting treatment of NCIs) is also applied from this date.	
E - Financial instruments: Classification and measurement [B8 - B8C]	Generally, the classification and measurement requirements of NZ IFRS 9 are applied retrospectively under NZ IFRS 1, however, the following are areas where NZ IFRS 9 is instead only applied **prospectively** from the date of transition to NZ IFRS or NZ IFRS (RDR):	
	(i) Whether the financial asset meets the *solely payments of principal and interest* test, and *business model* test, are based on facts and circumstances at the date of transition to NZ IFRS or NZ IFRS (RDR) (and not the date or the financial asset's origination).	YES / NO / ?
	(ii) If the entity has financial assets with variable interest rates that reset at a frequency (i.e. monthly) that differs from the tenor if the base rate used (i.e. 90 day rate), and if in assessing the *solely payments of principal and interest* test at the date of transition to NZ IFRS or NZ IFRS (RDR) it is impractical to assess a modified time value of money element, then this is ignored.	YES / NO / ?
	(iii) If the entity has financial assets with prepayment features , and if in assessing the *solely payments of principal and interest* test at the date of transition to NZ IFRS or NZ IFRS (RDR) it is impractical to assess whether or not it is insignificant, then this is ignored.	YES / NO / ?
	(iv) If it is impractical to apply the effective interest rate retrospectively in order to determine the carrying amount of a financial instrument at amortised cost, then the fair value at the date of transition to NZ IFRS or NZ IFRS (RDR) is based on the new (forward looking) carrying amount.	YES / NO / ?
F - Financial assets: Impairment [B8D - B8G]	Generally, impairment requires the credit risk of the counterparty to be determined at the date of initial recognition, and then assessed for subsequent increases. Significant increases in credit risk result in a move from *12-month expected credit losses* ("Stage 1") being recognised, to *full life-time expected credit losses* ("Stage 2").	
	If it is impractical to determine whether a significant increase in credit risk has occurred at the date of transition to NZ IFRS, then impairment is based on the *full life-time expected credit losses* (i.e. "Stage 1" impairment cannot be applied).	YES / NO / ?
	This unless the financial asset is "investment grade" as at the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
G - Financial liabilities: Embedded derivatives [B9]	Whether an embedded derivative is required to be separated is based on the facts and circumstances that existed at the later of: (i) The date of initial recognition, or (ii) The date at which a reassessment is required under NZ IFRS 9 (i.e. as a result of a significant modification of terms).	YES / NO / ?
H - Government loans: Below-market interest rates [B10 - B12]	Generally, government loans issued at a below-market interest rate result in a government grant being recognised under NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.	
	For such loans still outstanding at the date of transition to NZ IFRS or NZ IFRS (RDR), the opening carrying amount is carried over from what was previously recognised (i.e. irrespective of whether the effect of the below-market interest rate was accounted for), and then NZ IFRS or NZ IFRS (RDR) is applied normally prospectively.	YES / NO / ?
	However, an entity can elect to apply NZ IAS 20 retrospectively, so long as information required to apply the accounting was available at the time the loan was entered into (i.e. hindsight cannot be used).	YES / NO / ?

4. Optional exemptions to be applied at the date of transition to NZ IFRS or NZ IFRS (RDR)

Details of the various **optional** exemptions are provided in the checklist below.

Area *[NZ IFRS 1 para]*	Details	Relevant to my entity?
I - Business combinations - *Subsidiaries* - *Joint arrangements* - *Associates* [*C1 - C5*]	*A - Option*	
	Option not to apply NZ IFRS 3 *Business Combinations* to business combinations that occurred prior to the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	An entity can however elect to apply NZ IFRS 3 retrospectively from a date of its choosing, meaning any business combinations that have occurred between this date, and the date of transition to NZ IFRS or NZ IFRS (RDR), can and must be accounted for in accordance with NZ IFRS 3.	YES / NO / ?
	B - Scope of the option	
	The optional exemption can ONLY be applied to transactions that result in obtaining "control" (as defined by NZ IFRS 10) of a "business" (as defined by NZ IFRS 3). For transactions where business combination accounting has been applied to transactions that fail this, the optional exemption cannot be applied, and NZ IFRS or NZ IFRS (RDR) is applied retrospectively (based on applicable NZ IFRSs that relate to the transaction).	
	C - Impact of the option when applied	
	It is important to note that where the optional exemption is applied, this **DOES NOT** mean that the amounts previously recognised prior to adopting NZ IFRS or NZ IFRS (RDR) are simply brought over unadjusted. That is, entities will be required to make adjustments with respect to:	
	• (Re)recognising financial assets and financial liabilities where the entity has elected to apply **B** above.	YES / NO / ?
	• Derecognising asset and liabilities that do not meet recognition criteria of applicable NZ IFRSs (or in the case of intangible assets, reclassifying these to goodwill).	YES / NO / ?
	• For assets and liabilities where NZ IFRS or NZ IFRS (RDR) requires subsequent fair value measurement, remeasuring these to fair value as at the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	• Recognising assets and liabilities that were not previously recognised, but where application of NZ IFRS or NZ IFRS (RDR) would require recognition and measurement of such items (i.e. leases, contingent liabilities that meet provision recognition criteria etc.)	YES / NO / ?
	• Impairment of goodwill as at date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	Goodwill is not adjusted:	
	(i) To exclude any "in-process R&D" (unless it qualifies for separate recognition).	YES / NO / ?
	(ii) For previous amortisation recognised.	YES / NO / ?
	(iii) For other previous adjustments to goodwill that would not be permitted under NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	There are additional considerations relating to:	
	(i) Where goodwill was previously recognised as a deduction from equity.	YES / NO / ?
	(ii) Where the definition of "control" is met under NZ IFRS 10 for an interest in an entity that was not previously consolidated.	YES / NO / ?
	D - Impact to the determination of non-controlling interests and deferred tax	
	Non-controlling interests and deferred tax as at the date of transition are determined based on the consequential values of assets and liabilities after applying the above option.	
J - Share-based payments (SBP) [*D2 - D3*]	*A – Equity-settled SBP*	
	Option not to apply NZ IFRS 2 Share-based payments to equity-settled SBP's that **vested** prior to the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	However, NZ IFRS 2 must still be applied to equity-settled SBPs (i) granted after the date of transition to NZ IFRS, and (ii) remain unvested as at the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	B – Cash settled SBP	
	Option not to apply NZ IFRS 2 to cash-settled SBP's that were **settled** prior to the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	However, NZ IFRS 2 must still be applied to cash-settled SBP (i) granted after the date of transition to NZ IFRS or NZ IFRS (RDR), and (ii) remain unvested as at the date of transition to NZ IFRS, and (iii) vested prior to the date of transition to NZ IFRS or NZ IFRS (RDR) but remain unsettled.	YES / NO / ?
K - Insurance contracts [*D4*]	Option to apply the transitional provisions in NZ IFRS 4 *Insurance contracts* (which restrict changes to an entity's pre-NZ IFRS or NZ IFRS (RDR) accounting policies relating to insurance contract accounting).	YES / NO / ?
L - Deemed cost of non-current assets [*D5 - D8B*]	*A – Property, Plant and Equipment (PP&E), Investment Property, and Right-of-use assets*	
	Option to fair value such assets as at the date of transition to NZ IFRS or NZ IFRS (RDR) (applied on an individual asset-by-asset basis) and use that fair value as its deemed cost at that date.	YES / NO / ?
	The use of the option on its own does not "bind" an entity to having to subsequently measure the asset under a fair value or revaluation model on an ongoing basis – this requirement will instead be prescribed by the associated NZ IFRSs where applicable.	
	Any assets that are not re-stated at fair value (as deemed cost) must nevertheless be considered for impairment.	YES / NO / ?

Area *[NZ IFRS 1 para]*	Details	Relevant to my entity?
	B - Intangible assets	
	Option to fair value these assets as at the date of transition (applied on an individual asset-by-asset basis) and use that fair value as its deemed cost of these assets, subject to the standard criteria being met (under NZ IAS 38 *Intangible assets*) with respect to: • Recognition of intangible assets (including reliable measurement), and • Whether the revaluation model can be applied to intangible assets (i.e. the existence of an active market where the intangible asset is traded). **The use of the option on its own does not "bind" an entity to having to subsequently measure the asset under a fair value or revaluation model on an ongoing basis – this requirement will instead be prescribed by the associated NZ IFRSs where applicable**	**YES / NO / ?**
	Any assets that are not re-stated at fair value (as deemed cost) must nevertheless be considered for impairment.	**YES / NO / ?**
	C – Exploration and evaluation assets (oil and gas operations)	**YES / NO / ?**
	An entity's pre-NZ IFRS or NZ IFRS (RDR) accounting policies may have permitted capitalising amounts related to *exploration* and *evaluation* activities that would not be permitted under NZ IFRSs. In such cases, there is an option to use the pre-NZ IFRS or NZ IFRS (RDR) carrying value as the (deemed) cost of these assets as at the date of transition to NZ IFRS or NZ IFRS (RDR) (applied on an individual asset-by-asset basis), less any impairment required in accordance with NZ IFRS 6.	
	D – Development or production assets (oil and gas operations)	**YES / NO / ?**
	An entity's pre-NZ IFRS or NZ IFRS (RDR) accounting policies may have permitted capitalising amounts related to *development or production activities* that would not be permitted under NZ IFRSs. In such cases, there is an option to allocate the pre-NZ IFRS or NZ IFRS (RDR) carrying values on a pro-rata basis to the cost of the other underlying assets in the cost-centre, less any impairment required in accordance with NZ IAS 36 *Impairment of assets*.	
	E – Rate regulation	**YES / NO / ?**
	An entity's pre-NZ IFRS or NZ IFRS (RDR) accounting policies may have permitted capitalising amounts to non-current assets that would not be permitted under NZ IFRSs. In such cases, there is an option to use the pre-NZ IFRS or NZ IFRS (RDR) carrying values of as the (deemed) cost of these assets as at the date of transition to NZ IFRS or NZ IFRS (RDR) (applied on an individual asset-by-asset basis), less any impairment required in accordance with NZ IAS 36. **Note: NZ IFRS 1 prohibits deemed cost from being applied to other types of assets that are not mentioned above**.	
M - Leases *[D9 - D9E]*	***A – Whether an agreement is (or contains) a "lease"***	
	Generally, whether or not an agreement is (or contains) a "lease" (as defined by NZ IFRS 16 *Leases*) is based on the facts and circumstances that exist at the date the lease is entered into. However, an entity can instead elect to make this determination based on the facts and circumstances that exist at the date of transition to NZ IFRS or NZ IFRS (RDR).	**YES / NO / ?**
	B – Amounts recognised as lessee	
	Generally, a lessee would be required to apply NZ IFRS 16 to its leases retrospectively (i.e. for each lease, determine the accounting its commencement date, and then roll-forward the accounting to the date of transition to NZ IFRS or NZ IFRS (RDR). However, an entity can instead elect to apply a simplified approach that is similar to the *Modified Retrospective Method* (and other applicable expedients) that is included in the transitional provisions of NZ IFRS 16.	**YES / NO / ?**
N - Cumulative transition differences *[D12 - D13]*	Option for entities to "reset" their *Foreign Currency Translation Reserve* (FCTR) balances presented in equity back to zero as at the date of transition to NZ IFRS or NZ IFRS (RDR). **Accordingly, when determining the gain or loss on the disposal of a foreign operation, entities that use this option will only include amounts recorded in FCTR subsequent to the date of transition to NZ IFRS or NZ IFRS (RDR).**	**YES / NO / ?**
O - Investments in subsidiaries, joint ventures, and associates *[D14 - D15A]*	**Applies to Separate (i.e. non-consolidated) financial statements only.** Option to use either the pre-NZ IFRS or NZ IFRS (RDR) carrying values, or fair value, as the (deemed) cost of these assets as at the date of transition to NZ IFRS or NZ IFRS (RDR) (applied on an individual investment-by-investment basis).	**YES / NO / ?**
P - Assets and liabilities of subsidiaries, joint ventures, and associates *[B8 - B8C]*	**Applies where group entities have different dates of transition to NZ IFRS or NZ IFRS (RDR).**	**YES / NO / ?**
	A – Subsidiary (or joint venture or associate) adopts NZ IFRS or NZ IFRS (RDR) later than its parent	**YES / NO / ?**
	In its own *Separate* financial statements, the subsidiary measures its assets and liabilities either: (i) Based on the values used by the Parent in its consolidated accounts as at its date of transition to NZ IFRS or NZ IFRS (RDR) (if there were no adjustments for consolidation procedures and the effects of business combination accounting for when the Parent acquired the entity). **This will require a subsidiary to apply NZ IFRS 1 in exactly the same way as its Parent has (i.e. using (not using) the same options).** **Adjustments will be required to (for example) re-instate intra-group balances that are eliminated on consolidation.** **While this option results in more "consistent" group accounting (facilitating more streamlined subsequent consolidation procedures), a Subsidiary (or joint venture or associate) is still able to elect different accounting policies from its Parent for subsequent measurement of various items (i.e. the use of the cost model or revaluation model (fair value model) for PP&E (Investment property).**	

Area *[NZ IFRS 1 para]*	Details	Relevant to my entity?
	(ii) Based on applying NZ IFRS 1 as at the Subsidiary's date of transition to NZ IFRS or NZ IFRS (RDR). **This option may result in less "consistent" group accounting, requiring consolidation adjustments to be made on an ongoing basis to account for any differences between the way in which NZ IFRS 1 has been applied.** ***B – Parent adopts NZ IFRS or NZ IFRS (RDR) later than its Subsidiary (or joint venture or associate)*** In its own Consolidated financial statements, the Parent uses the (NZ IFRS or NZ IFRS (RDR)) carrying amounts of the Subsidiary (or joint venture or associate), after consolidation procedures and the effects of business combination accounting for when the Parent acquired the entity.	YES / NO / ? YES / NO / ?
Q - Compound financial instruments (liability portion settled) *[D18]*	Generally, if the liability portion of a compound financial instrument has **been settled prior** to the date of transition to NZ IFRS or NZ IFRS (RDR), retrospectively applying NZ IAS 32 *Financial Instruments: Presentation* would require two separate amounts to be split out and recognised in equity: (i) The cumulative accredited interest on the liability portion (taken to retained earnings), and (ii) The equity (conversion feature) portion (recognised as a separate reserve in equity). However, an entity can instead elect to not make this split for compound financial instrument has been settled prior to the date of transition to NZ IFRS or NZ IFRS (RDR). **Compound financial instruments with liability portions that remain outstanding (unsettled) as at the date of transition to NZ IFRS or NZ IFRS (RDR) must retrospectively apply NZ IAS 32 in full.**	YES / NO / ? YES / NO / ?
R - Designation of previously recognised financial instruments *[D19 - D19C]*	***A – Designating financial assets and financial liabilities at fair value through profit or loss*** Generally, the ability for an entity to elect to designate financial assets and financial liabilities at *fair value through profit or loss* is based on meeting specific criteria in NZ IFRS 9 as at the date the financial asset or financial asset originates. However, an entity can instead elect to make this designation based on meeting the criteria of NZ IFRS 9 as at the date of transition to NZ IFRS or NZ IFRS (RDR). ***B – Determining where changes in the fair value of financial liabilities as a result of "own-credit risk" are presented*** Generally, when financial liabilities are designated as at *fair value through profit or loss*, the portion of the fair value gains or losses that is attributable to changes in the entity's own-credit risk are recognised in *other comprehensive income* (OCI), rather than *profit or loss*. This is unless doing so creates (or enlarges) an "accounting mismatch" (i.e. there is an associated financial asset also measured at fair value with a largely equal and opposite fair value impact that is recognised in its entirety in *profit or loss*). This determination is based on facts and circumstances that exist at the date the financial liability originates. However, an entity can instead elect to make this designation based on facts and circumstances that exist as at the date of transition to NZ IFRS or NZ IFRS (RDR). ***C – Classifying investments in shares (equity investments) that are not held-for-trading*** Generally, entities can elect on an investment-by-investment basis to classify such investments as either *fair value through profit or loss,* or, *fair value through other comprehensive income*. This determination is made at the date the investment is acquired. However, an entity can instead elect to make this determination as at the date of transition to NZ IFRS or NZ IFRS (RDR) (on an investment-by-investment basis).	YES / NO / ? YES / NO / ? YES / NO / ?
S - Fair value measurement of financial assets or financial liabilities at initial recognition *[D20]*	Generally, if a financial asset or financial liability's fair value differs from its transaction price, but the fair value is not based entirely on observable market data, then NZ IFRS 9 prohibits the recognition of a "day-1" gain or loss on initial recognition (instead, "shadow" or "off-balance sheet" accounting is applied to release the gain or loss into profit or loss over the term of the financial asset or financial liability). However, an entity can instead elect to ignore having to make this assessment for financial assets and financial liabilities that exists as at the date of transition to NZ IFRS or NZ IFRS (RDR) (i.e. only have to apply this aspect of NZ IFRS 9 prospectively to new financial assets and financial liabilities).	YES / NO / ?
T - Decommissioning liabilities - *Property, plant and equipment (PP&E)* - *Exploration, evaluation, development or production assets* *[D21 - D21A]*	***A – Property, plant and equipment (PP&E)*** Generally, the costs to decommission items of PP&E are included in the cost of the item of PP&E, and a corresponding provision is recognised (in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* then requires that subsequent re-estimates in the value of the provision are recognised against the cost of the PP&E (rather than directly in PP&E), and subsequent depreciation of the item of PP&E is adjusted prospectively. A full retrospective application of this requirement when adopting NZ IFRS or NZ IFRS (RDR) would in some cases prove challenging. However, an entity can instead elect to bring in this accounting treatment by: (i) Determining the value of the provision as at the date of transition to NZ IFRS or NZ IFRS (RDR) (ii) Using an appropriate discount rate, "reverse-engineer" the provision back to the value it would have been at the date the item of PP&E was initially recognised. (iii) Calculate the rolled-forward accumulated depreciation on this amount up to the date of transition to NZ IFRS or NZ IFRS (RDR). ***B – Exploration, evaluation, development or production assets*** If an entity has applied the option(s) detailed in K above to exploration, evaluation, development or production assets, decommissioning liabilities are accounted for as follows: (i) Determining the value of the provision as at the date of transition to NZ IFRS or NZ IFRS (RDR) (ii) Recognise any difference to opening retained earnings.	YES / NO / ? YES / NO / ?

Area [NZ IFRS 1 para]	Details	Relevant to my entity?
U - Service concession financial assets or intangible assets: [D22]	Option to apply the transitional provisions in NZ IFRIC 12 *Service Concession Arrangements* (which require full retrospective application, unless impracticable to do so).	YES / NO / ?
V - Borrowing costs [D23]	Generally, borrowing costs are required to be capitalised to the costs of assets that meet the definition of "qualifying assets" (i.e. take a substantial period of time to get ready for intended use or sale). An entity can elect to apply these requirements either: (i) From that date of transition to NZ IFRS or NZ IFRS (RDR), or (ii) An earlier date. **Whichever date is selected, an entity does not restate the carrying amount of any assets to which borrowing costs have been capitalised prior to that date under pre-NZ IFRS or NZ IFRS (RDR) accounting policies.**	YES / NO / ?
W - Extinguishing financial liabilities with equity instruments [D25]	Option to apply the transitional provisions in NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (which permit NZ IFRIC 19 to be applied only on a prospective basis – i.e. only to transactions that occur after the date of transition to NZ IFRS or NZ IFRS (RDR)).	YES / NO / ?
X - Severe hyperinflation [D26 - D30]	In summary, certain reliefs are provided for those entities whose functional currency was subject to hyperinflation but "normalises" prior to the date of transition to NZ IFRS or NZ IFRS (RDR), such that and entity may elect to: • Measure all assets and liabilities held before the functional currency's "normalisation" date at fair value, and • Use that fair value as the opening deemed cost at the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
Y - Joint arrangements [D31]	Option to apply the transitional provisions in NZ IFRS 11 *Joint Arrangements* (with some additional modifications) that addresses situations where there is a change in treatment when NZ IFRS 11 is applied.	
	A - From proportionate consolidation, to the equity method: The opening *equity accounted* carrying amount is equal to the aggregate of the carrying amount of the individual assets and liabilities (including goodwill) that were previously proportionately consolidated. This amount is then tested for impairment in accordance with NZ IAS 36 as at the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	B - From the equity method, to accounting for a line-by-line share of revenue, expenses, assets, and liabilities. The previous equity accounted carrying amount is derecognised and the individual carrying amounts of the share in assets, and liabilities is recognised. Any differences are first offset against any recognised goodwill, and then taken against opening retained earnings.	YES / NO / ?
Z - Stripping costs in the production phase of a surface mine [D32]	Option to apply the transitional provisions in NZ IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (which permit NZ IFRIC 20 to be applied only on a prospective basis – i.e. only to transactions that occur after the date of transition to NZ IFRS or NZ IFRS (RDR)).	YES / NO / ?
AA - Designation of contracts to buy or sell a non-financial item [D33]	Subject to meeting the criteria of NZ IFRS 9, certain contracts to buy or sell non-financial assets that can be settled net in cash (or with some other financial instrument) can be designated as *fair value through profit or loss*. This designation is made irrevocably at the date the contract is entered into. However, an entity can instead elect to make this designation as at the date of transition to NZ IFRS or NZ IFRS (RDR) for such contracts that exist.	YES / NO / ?
BB - Revenue from contract with customers [D34 - D35]	Option to apply the transitional provisions in NZ IFRS 15 *Revenue from Contracts with Customers*, which address accounting relief with respect to:	
	(i) Contacts that were completed prior to the date of transition to NZ IFRS or NZ IFRS (RDR) (including the treatment of variable consideration associated with these)	YES / NO / ?
	(ii) Modifications to contracts that occurred prior to the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?
	(iii) Certain disclosures relating to transaction prices allocated to remaining performance obligations and when that revenue is expected to be recognised.	YES / NO / ?
CC - Foreign currency transactions and advanced consideration [D36]	Generally, NZ IFRIC 22 *Foreign Currency Transactions and Advance Consideration* clarifies that only monetary balances are re-translated. Accordingly balances relating to amounts that are prepaid or received in advance (which are not monetary) in foreign currencies are recognised at the exchange rates as at the date those payments are paid or received, and not subsequently changed to reflect changes in the exchange rate to when the underlying transaction occurs (e.g. purchasing (providing) goods or services from suppliers (to customers)). However, an entity can elect not to apply these requirements to transactions that have occurred prior to the date of transition to NZ IFRS or NZ IFRS (RDR).	YES / NO / ?

5. Your go-forward requirements

While it is unlikely that all of the above mandatory exceptions and optional exemptions will be relevant and applicable to an entity, it is likely that a number of significant "generic" areas of accounting will need to be considered by almost all entities transitioning to NZ IFRS or NZ IFRS (RDR), including (but not limited to) addressing the treatment of:

- Past business combinations.
- Lease accounting as lessee, and
- Revenue accounting.

In addition to working through the requirements to transition into NZ IFRS or NZ IFRS (RDR), the next step in the process will be for an entity to identify and address the various different recognition, measurement, and presentation requirements that the individual NZ IFRSs will impose on an entity going forward in their subsequent day-to-day accounting treatment (i.e. those that differ from what an entity has been applying prior to adopting NZ IFRS or NZ IFRS (RDR)).

These will be highlighted in our next *Cheat Sheet* (including a separate *Cheat Sheet* for those entities stepping up from the *Special Purpose Financial Reporting* framework as issued from *Chartered Accountants Australia and New Zealand* (CAANZ)).

It would be an understatement to say that there is a potentially a high risk for the transition to NZ IFRS or NZ IFRS (RDR) to be done incorrectly and/or incompletely where care is not taken in working through the transition to NZ IFRS or NZ IFRS (RDR).

With that in mind, for certain entities, partnering with or formally engaging with an NZ IFRS expert to assist in analysing and documenting the entity's transition to NZ IFRS or NZ IFRS (RDR) will be a serious consideration.

Members of BDO's *IFRS Advisory* department come ready with real life experience in adopting *NZ IFRS* 16 and are therefore well placed to provide entities with the expertise and assistance they require.

For more information as to how BDO *Accounting Advisory Services* might assist with your entity in navigating this and other areas of IFRS application, please contact James Lindsay at BDO *Accounting Advisory Services* (james.lindsay@bdo.co.nz ☎ +64 21 166 0844), and visit our webpage below.

https://www.bdo.nz/en-nz/ifrs-advisory

For those entities still working through their adoption of the new lease accounting standard (NZ IFRS 16), visit our dedicated "Adopting NZ IFRS 16 webpage" for more information and resources on NZ IFRS 16.

https://www.bdo.nz/en-nz/nz-ifrs-16