

The Manager
Technical Accounting Issues
External Reporting Board XRB
P O Box 11250
Manners Street Central
Wellington 6142

19 January 2021

Dear Sir/Madam

Clarification – Charity Annual Accounts - Tier 3 and Tier 4 reporting

I am writing to seek clarification please concerning presentation of items in the annual performance reports for Charities whose annual reports follow the Tier 3 (simple accrual) and Tier 4 (simple cash) accounting standards.

We audit and review numerous financial statements for Registered Charities. Their accountants, who prepare the required Tier 3 and Tier 4 Performance Reports, often look to us for guidance on best presentation.

To date a great deal of effort has been made to ensure that Charities use the standard categories of revenue and expenses for Tier 3 reports and receipts and payments for Tier 4 reports, including ensuring that all revenue/receipts and all expenses/payments are captured within the total revenue/receipts and expenses/payments. This has required a significant change for many accountants who are used to preparing special purpose annual accounts for income tax purposes and where total revenue, for example, is not shown as a separate total.

While accountants have made significant progress in recent years, it has come to my attention recently that the Tier 3 and Tier 4 accounting standards may not be as flexible as ourselves and others have appreciated and that further changes should be recommended to meet the requirements of the standards.

Two matters in particular:

1. For Tier 3 reporting in the Statement of Financial Performance – A54 of the standard specifies minimum aggregated categories. For example. “Donations, fundraising and other similar revenue” as a category of revenue. This is fine with general acceptance now, but the majority of accountants we deal with continue to show breakdowns within each category on the face of the Statement of Financial Performance, rather than in the notes. In most instances this does not make it difficult for users to understand the overall picture (as mentioned in A60), even though there is greater disclosure on the face of the financial statements than is envisaged by the accounting standard. The same issue applies to the categories and detail for both the Statement of Financial Position and the Statement of Cash Flows. **How strictly is the XRB interpreting the standard for requiring accountants to show only the category totals only on the face of the financial statements with the detailed breakdown in the notes?**
2. For Tier 3 reporting in the Statement of Financial Position – A88 and A89 of the standard sets out the format which includes showing Accumulated Funds after showing Assets and Liabilities. Many accountants show Accumulated Funds/Equity at the top of the Statement of Financial Position, rather than at the bottom of the page as this follows their standard template. **While either presentation provides the required disclosures, please advise how strictly is the XRB interpreting following the layout presentation of A88 and A89?**

While the examples above relate to the Tier 3 annual reports, the aggregated categories and detailed breakdown disclosures also affects those Charities following the Tier 4 reporting.

It is apparent that Tier 3 and Tier 4 accounting standards promote consistency by Charities in presentation to enable funders and the public accessing the performance reports on the Charities Services website ease of understanding with comparability amongst charities. In the last few years we have seen a significant improvement in the standardisation of presentation following the standards across the board for the Charities we deal with.

Your guidance on the matters above will be greatly appreciated. We will ensure that your advice on these matters is disseminated to accountants promptly.

Yours faithfully



Phillip Trounson
Director