

Online Feedback on NZASB ED PBE IPSAS 43 Leases

Received from	Feedback received
Tom Scott, AUT	<p>How to account for assets rented by companies has long been a controversial issue in accounting. Not accounting for rented assets could mean that users of financial reports are unaware of both the sizable commitment to make rental payments, and the use of the rented asset for production purposes. In two pieces of published research, I examined the effect for a sample of councils and charities and base my below comments on them.</p> <p>For councils, I found there is no effect on key financial performance metrics. Specifically, the very large relative asset bases of councils, such as water and roading infrastructure dwarfs the impact of any change. This is important, as councils are required to break even and have restrictions on their borrowing capacity, any material change would directly affect New Zealanders via increased rates or reduced council services. Thus, for organisations like councils the new standard would likely provide more information without any (material) costs. Furthermore, the extra information under the new lease standard is likely particularly useful as some councils do access public debt markets in New Zealand and operate effectively for profit council controlled organisations.</p> <p>In contrast, the impact on charities is material. First, it will result in the only major debt for many charities. Second, most charities aim to break-even, that is spend all their income (from donations etc) on providing services. This results in charities likely having a large increase in both debt levels and profitability under the new accounting standard. As some charities may explicitly prohibit debt in their constitution or it may not be viewed as in the best interest of the beneficiaries to take on debt, or aim to not have large surpluses, this will likely have real-world impacts on the charities ability to deliver services unless it is well understood by their board. As many charities do not have any debt, there may also be technical difficulties in applying this new rule for charities in terms of finding a discount rate. To alleviate these operational issues, there could be general discount rates provided by the Charities Services and clarification that it does not breach the criteria of "borrowings" and an information guide for boards.</p> <p>References: Fahad, N., and Scott, T. 2022, The impact of lessee and lessor accounting in local councils. Australian Accounting Review. Fahad, N., and Scott, T. 2022, The effect of capitalising operating leases on charities. Australian Accounting Review 35, 141-148.</p>
Nicol O'Donnell, Aviva (incorp. Christchurch Women's Refuge) Charitable Trust	<p>We feel that suggested changes for Tier 1 and Tier 2 public sector and not-for-profit entities only add a lot of complexity and there is not a lot of value for users/readers.</p> <p>Also, the impact of resourcing and implementation of changes should be consideration, especially for NGOs.</p>

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Anne Topham, Peak Chartered Accountants Limited	<p>My concern about this proposal is that it applies to Tier 2 entities in a PBE environment. (In a for profit environment the thresholds are significantly higher minimising the impact.) Other organisations are caught by virtue of what they are (e.g. schools). As a result of this a significant number of organisations are going to be caught by this accounting policy. Not only will this be more complex from an accounting perspective for them, but it will add no benefit to the majority of these organisations. The concessions in 4.6 do not go far enough - they should be exempt from the requirement to comply from this standard in its entirety.</p>
Clare Randall, Arohanui Hospice	<p>We are writing to provide feedback on the proposals for Tier 1 and Tier 2 public sector and not-for-profit entities with regard to leases.</p> <p>As a NFP Charity, we currently disclose in the notes to our Tier 2 accounts, any leases and their commitment value (unless immaterial). The work required (and associated cost) of complying with the proposed standard, in our view, outweighs any additional benefit to the reader of the accounts, or to the community. As a charity that is supported by community funding, the additional cost would ultimately come out of community money.</p> <p>We respectfully submit that not for profit charities be excluded from this proposed requirement.</p>