



Amendments to XRB A2: Meaning of Specified Statutory Size Thresholds (Charities Amendment Act 2014)

This Standard was issued on 25 June 2015 by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 22 July 2015.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part C.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to make amendments to Standard XRB A2 *Meaning of Specified Statutory Size Thresholds*.

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Part A: Introduction

This Standard proposes amendments to XRB A2 *Meaning of Specified Statutory Size Thresholds*.

Part B: Amendments to XRB A2 *Meaning of Specified Statutory Size Thresholds*

The following amendments are made to the relevant paragraphs of XRB A2 *Meaning of Specified Statutory Size Thresholds*.

Amend paragraph 1. New text is underlined and deleted text is struck through.

1. The objective of this Standard is to set out the meaning of the following specified terms which are required under the Financial Reporting Act 2013, the Companies Act 1993, ~~and~~ the Friendly Societies and Credit Unions Act 1982 and the Charities Act 2005¹ to be defined in a financial reporting standard issued by the External Reporting Board (XRB):
 - (a) Total assets;
 - (b) Total revenue;
 - (c) Total operating payments; ~~and~~
 - (d) Total operating expenditure; and
 - (e) Control.

¹ As amended by the Charities Amendment Act 2014.

Amend paragraph 3. New text is underlined.

3. The Financial Reporting Act 2013 and the Companies Act 1993 provide for specified terminology (“total assets”, “total revenue” and “total operating payments”) relating to the size threshold of an entity for reporting purposes to be defined in a financial reporting standard issued by the XRB. Similarly, the Friendly Societies and Credit Unions Act 1982 also provides for the specified term (“total operating expenditure”) relating to the size threshold in that Act to be defined in a financial reporting standard issued by the XRB. The Charities Act 2005 (as amended by the Charities Amendment Act 2014) provides for specified terminology (“total operating expenditure” and “control”) relating to the size threshold of a charitable entity for assurance purposes to be defined in a financial reporting standard issued by the XRB. Relevant entities, in determining whether a particular provision of an Act applies, must apply the financial reporting standard that contains the meanings of those terms in assessing whether its particular size threshold has been met.

Amend paragraph 4. New text is underlined and deleted text is struck through.

4. This Standard applies to an entity that is required under an enactment to apply the following provisions, as applicable:
 - (a) ...
 - (b) ...
 - (c) ...
 - (d) ...
 - (e) section 204(3)(b) of the Companies Act 1993 (to determine “total revenue”); ~~and~~
 - (f) section 64(2) of the Friendly Societies and Credit Unions Act 1982 (to determine “total operating expenditure”); and
 - (g) section 42D of the Charities Act 2005 (to determine “total operating expenditure” and “control”).

Amend paragraph 8. New text is underlined.

8. For the purposes of sections 45(1) and 45(2) of the Financial Reporting Act 2013 and section 204(3) of the Companies Act 1993, the amount of total assets and total revenue are determined as follows:
- (a) where financial statements are prepared in accordance with accounting standards issued by the XRB or its sub-board, the New Zealand Accounting Standards Board, total assets and total revenue are the respective amounts recognised in the financial statements of the entity, prepared in accordance with the requirements of the Tier 2 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that are in effect and applicable to the entity as at each of the relevant balance dates or in each of the relevant accounting periods; and
 - (b) where financial statements are not prepared, or where financial statements are not prepared as specified in paragraph (a), total assets and total revenue are the respective amounts derived from the entity's accounting records, determined in accordance with the requirements of Tier 2 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that would be relevant to the entity if it was reporting in accordance with those accounting standards.

Amend paragraph 18. New text is underlined.

18. For the purpose of section 64(2) of the Friendly Societies and Credit Unions Act 1982, the amount of total operating expenditure is determined as follows:
- (a) where financial statements are prepared in accordance with accounting standards issued by the XRB or its sub-board, the New Zealand Accounting Standards Board, total operating expenditure is the amount of total expenses recognised in the financial statements of the entity, prepared in accordance with the requirements of the Tier 2 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that are in effect and applicable to the entity as at each of the relevant accounting periods; and
 - (b) where financial statements are not prepared, or where financial statements are not prepared as specified in paragraph (a), total operating expenditure is the amount of total expenses derived from the entity's accounting records, determined in accordance with the Tier 2 Accounting Standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that would be relevant to the entity if it was reporting in accordance with those accounting standards.

Insert heading and paragraphs 23A to 23H. New text is underlined.

Charities Act 2005: "Large" and "medium size" and the determination of "total operating expenditure" and "control"

23A Section 42C of the Charities Act 2005 provides that:

- (a) the financial statements of a charitable entity must be:
 - (i) audited by a qualified auditor if the charitable entity is large in respect of the accounting period to which the financial statements relate;
 - (ii) audited or reviewed by a qualified auditor if the charitable entity is of medium size in respect of the accounting period to which the financial statements relate; and
- (b) where financial statements are prepared on a consolidated basis in respect of a single entity, the parent entity must ensure that the financial statements of the single entity are:

- (i) audited by a qualified auditor if the single entity is large in respect of the accounting period to which the financial statements relate;
- (ii) audited or reviewed by a qualified auditor if the single entity is of medium size in respect of the accounting period to which the financial statements relate.

23B For the purposes of section 42C, section 42D of the Charities Act 2005 provides that a charitable entity or a single entity is:

- (a) large in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is \$1 million or more; and
- (b) medium size if it is not large and in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is \$500,000 or more.

23C For the purposes of section 42D of the Charities Act 2005, the amount of total operating expenditure is determined as follows:

- (a) where financial statements are prepared in accordance with accounting standards issued by the XRB or its sub-board, the New Zealand Accounting Standards Board, total operating expenditure is the amount of total expenses recognised in the financial statements of the entity, prepared in accordance with the requirements of the Tier 1, Tier 2 or Tier 3 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that are in effect and that are applied by the entity as at each of the relevant accounting periods; and
- (b) where financial statements are not prepared, or where financial statements are not prepared as specified in paragraph (a), total operating expenditure is the amount of total expenses derived from the entity's accounting records, determined in accordance with the requirements of Tier 3 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that would be relevant to the entity if it was reporting in accordance with those accounting standards.

23D Total operating expenditure includes all expenses (including losses, where applicable) that are required to be recognised in revenue and expense and excludes the components of other comprehensive revenue and expense.

23E Total operating expenditure is the amount recognised in the financial statements of the entity, prepared in accordance with the accounting policies adopted by the entity (where financial statements are prepared in accordance with accounting standards issued by the XRB or the New Zealand Accounting Standards Board) or with accounting policies that the entity would adopt (where financial statements are not prepared, or where financial statements are not prepared in accordance with accounting standards issued by the XRB or the New Zealand Accounting Standards Board).

23F Net amounts are to be included in determining total operating expenditure only where accounting standards require or permit items to be accounted for, and recognised, as net amounts in the financial statements.

23G As the calculation of the thresholds covers two balance dates/accounting periods, total operating expenditure would be the amount determined based on the entity's accounting policies adopted and accounting standards effective at each of those balance dates/accounting periods. An entity is not required to retrospectively adjust the amount taken from the first balance date/accounting period for any changes in its accounting policies or for standards that become effective in the second balance date/accounting period.

23H For the purposes of section 42D of the Charities Act 2005, the meaning of the term "control" is set out in the relevant PBE Standards issued by the New Zealand Accounting Standards Board as applicable to not-for-profit entities.

Insert paragraph 25. New text is underlined.

25. Amendment to XRB A2 Meaning of Specified Statutory Size Thresholds (Charities Amendment Act 2014) issued in June 2015 amended paragraphs 1, 3, 4, 8 and 18 and added paragraphs 23A-23H. A reporting entity shall apply those amendments for reporting periods beginning on or after 1 April 2015.

BASIS FOR CONCLUSIONS ON STANDARD XRB A2 DEFINITIONS

Amend paragraph BC1. New text is underlined.

BC1. This Standard was issued by the External Reporting Board (XRB) to give meaning to specified terminology in the Financial Reporting Act 2013, the Companies Act 1993 and the Friendly Societies and Credit Unions Act 1982 relating to the size thresholds of an entity for reporting purposes. The Standard also gives meaning to specified terminology in the Charities Act 2005² relating to the size thresholds for assurance purposes.

² As amended by the Charities Amendment Act 2014.

Insert paragraph BC3A. New text is underlined.

BC3A. The Charities Act 2005 includes the size threshold (total operating expenditure) to determine whether a charitable entity or a single entity is large or medium size for the purposes of determining the entity's assurance requirements. Total operating expenditure is required to include the total operating expenditure of the entity and all entities that it controls. The Charities Act 2005 provides for a financial reporting standard (or part of a standard) to define the terms used for the size thresholds. The financial reporting standard must then be applied by the charitable entity or a single entity in determining its assurance requirements.

Amend sub-heading and paragraph BC4. New text is underlined and deleted text is struck through.

Size thresholds for "large" and "medium size"

BC4. To ensure that consistent and reliable measures are used by all entities to determine whether they meet the relevant size thresholds for financial reporting purposes, the XRB decided that:

- (a) ...
- (b) the relevant GAAP is Tier 2 accounting standards in effect and applicable to the entity as at each of the relevant balance dates or in each of the relevant accounting periods as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)*.

Insert paragraph BC4A. New text is underlined.

BC4A. In the case of the Charities Act 2005, where financial statements are prepared, the relevant GAAP is the requirements of the accounting standards in Tier 1, Tier 2 or Tier 3 as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* that were applied by the entity as at each of the relevant balance dates or in each of the relevant accounting periods. Where financial statements are not prepared, the relevant GAAP is the requirements in the Tier 3 accounting standards as specified in External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities plus Public Sector PBEs plus Not-for-profit Entities minus Tier 3 and Tier 4 Update)* that would be relevant to the entity if it was reporting in accordance with those standards.

Amend paragraph BC7. New text is underlined and deleted text is struck through.

BC7. In relation to the thresholds for financial reporting, ~~the~~ XRB decided to link the measures to Tier 2 accounting standards because in the for-profit sector, the test is to determine if an entity should report under Tier 2 given that the test for a for-profit entity to be in Tier 1 is “public accountability”, not size-based. In the PBE sector, Tier 2 standards are proposed to be used for simplicity sake, given that there are no recognition or measurement differences between Tier 1 and Tier 2 standards.

Insert paragraph BC7A. New text is underlined.

BC7A. In relation to the thresholds for assurance under the Charities Act 2005, where financial statements are not prepared or where financial statements are not prepared in accordance with XRB’s standards, the XRB decided to link the measures to Tier 3 rather than the Tier 2 because the thresholds for assurance fall within the Tier 3 size criteria in the Accounting Standards Framework and the recognition and measurement requirements between Tier 3 and Tier 2 are similar.

Insert paragraph BC10. New text is underlined.

BC10. The XRB decided that the term “control” should have the same meaning as that set out in the relevant PBE Standards as applicable to not-for-profit entities.

Part C: Effective Date

This Standard is effective for reporting periods beginning on or after 1 April 2015.