**Scary Times for Charities?**

In case you haven't heard, the External Reporting Board (XRB) has introduced a new financial reporting framework which will affect ALL registered charities. You need to know about **two key traps in contains!**

First up, don't panic. The most visible part of these changes are in 2016. These changes mean, those charged with governance (such as Trustees and Directors) must understand what these legislative changes are and the impact they could have.

The two specific impacts of this legislation to be aware of are:

- What is a large charity?
- When do I record revenue?

Let's take a quick look at both questions.

1. **What is a LARGE charity?**

The XRB requires all charities with operating expenditure of over $2 million to prepare financial statements in accordance with a group of complex accounting standards. These standards are known as the International Public Sector Accounting Standards, or "IPSAS".

Crucially, this is the first time in New Zealand we have the IPSAS as a legislative requirement for Not-for-profits. It's a once-in-a-generation change!

Those in governance roles have to ensure compliance with complex accounting standards. For you this means adequate and appropriate resources will need to be in place to meet these requirements. Some charities will be prepared; others will not.

**A word of warning.**

There is a potential trap. The IPSAS includes a standard that requires the consolidation of entities when one entity has 'control' of another. A good example is when there are regional branches of a national body. Control is defined as:

Control = Power + Benefit

What do we mean by Control being equal to Power and Benefit? For one entity to be considered to be controlling another there must be evidence of "Power and Benefits".

This sounds a little complex - these are defined terms and working out whether Control exists can indeed be very complex and subjective.

They key point here is this. On the face of it, a charity might not have expenditure over $2 million by itself, but once it adds in all the expenditure of the entities it controls, it might indeed exceed that level.

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What this means is the charity must then file a set of consolidated financial statements covering all the entities. There is also a flow on effect - all the other entities will need to follow the IPSAS rules as well. This will increase the complexity (time and cost) of the financial reporting of the charities.

If you have a charity with operations in several entities, you need to take action now. Complete a review before the deadline. If you would like help, please contact Darren Wright at Darren.wright@wbcgco.nz or 021 335 373.

Let's look at the second key question.

**2. When do I record Revenue?**

For Not-for Profits, Grants and Donations received can be a significant source of income. When they are recorded they can greatly influence the results of operations in a particular year.

The rules regarding when to record revenue under the IPSAS have now changed. There are two types of revenue: Exchange transactions (when your charity receives income in return for something) and Non-exchange transactions (when your charity receives income and does not have to provide anything in return – e.g. grants and operating subsidies).

The TRAP here occurs where there is revenue received in advance of being used. Historically, such income (such as grants for special events) would be deferred until such an event happened.

From next year however, the IPSAS apply. For exchange transactions, if there are conditions attached to the income (e.g. this grant is for the centennial celebrations), then the revenue is delayed until such conditions are met. If there are no such conditions then revenue is recognised immediately in the financial statements, irrespective if there has been any activity or costs involved.

For Non-exchange transactions, revenue can only be deferred when there is a requirement to return the grant, if is not used as stipulated.

So what is the practical implication of all of this? It means that revenue might be recognised earlier than it was in the past, and may not fall in the same year as when expenses fall. This would lead to high surpluses in one year and large losses the following. These accounting rules will require careful communication with interested parties.

These are potentially significant changes impacting Charities. This article highlights only two.

Getting ready for the new reporting framework should be on every Board's Radar. Professional advice will never be more valuable to charities.

If you would like help, please contact Darren Wright at Darren.wright@wbcgco.nz or 021 335 373. Darren is an Audit Partner at William Buck Christmas Gouwland www.wbcg.co.nz

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