February 2013 Newsletter

This Issue

Accounting Standards – Do MPs know what they'll be asked to sign off?.
Refunds – If you have 'refund' accounts, you're probably doing it wrong.
Capital Expenses - When does an item become a fixed asset?

Coming Up

19 February: CCA Workshop: Financial Statements – what do they mean? 9.30-11am.

5 March: CCA Workshop: Using CCA Spreadsheets for Your Organisation. 9.30-10.30 am.

19 March: CCA Workshop: Accounting for Grants and Government Contracts. 9.30-11.30 am.

More info here. To register click here.

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The Accounting Standards Challenge

As I have reported already, new accounting standards (or to be more precise: financial reporting standards) are in the pipeline for even the smallest not-for-profits. The External Reporting Board (XRB) is presently consulting on the (not mandatory) *templates* it plans to release to help non-profits comply with the standards, but the sector has not actually been consulted about the standards themselves.

I am particularly concerned that the changes are hidden in a package that eases the reporting burden for small businesses, and therefore is not being challenged in parliament. MPs do not seem to be aware that in the same stroke they are asked to add to the reporting burden of non-profits.

I think that non-profits should be treated in their own right, and that parliamentarians should deal with the new non-profit accounting standards separately, especially as they are going against the trend of the rest of the legislative package.

To recap, the main concerns CCA has about the proposed standards and the accompanying changes to the NZ Accounting Framework are:

- A new mandatory Statement of Cash Flows, which is of little use.

- Financial Reporting mandatory even for the tiniest entities and even those that have membership income only (no public donations or funding).
- Accrual accounting mandated too early (from $40,000 in expenditure. For businesses it is $2,000,000).
- Unclear separation of non-mandatory information in templates (Budget figures; Statement of Service Performance).
- More financial information means more information to verify for an auditor and correspondingly higher audit costs.
- Integration with existing accounting software problematic.

Most people would be involved with some sort of club, neighbourhood or leisure group, which would be affected by these changes. I believe it is in the public interest that MPs deal with this knowingly.

Harald

Refunds

It's a fact of normal operations that sometimes you accidentally overpay an account, that you return faulty goods, or that you have to refund an overpaid bill or maybe an unspent portion of a grant. Often, we find those transactions in a 'refunds' or 'miscellaneous' account – which is not where they belong.

A refund is the reversal of a previous purchase or income – it is not an income or an expenditure in itself.

As an example let's say you paid conference fees for two people, but a couple of weeks before the conference starts something comes up for one of them, and only one person can go. You get a refund for part of the conference fee of that person.

What happened here is that your conference expenditure has been reduced. However, if you put the refund into a 'refund' account under income, you are still also showing the higher conference fee under expenses. Both, your income and expenditure are misrepresented.

If you get a refund, you need to code that refund *to the account that the expenditure was taken from*, in this case the 'conference fees' account. Likewise, if you pay out a refund, this needs to go into the income account that you credited with the original amount.

MYOB and Xero will generally warn you that you are coding money in to an expense account (or vice versa). This is only to help avoid accidental mistakes, and you can confidently click this warning away.

'Capital' Expenses

The term capital expenses generally refers to the purchase of fixed assets. If you buy something that is expected to last you for more than a year you are supposed to 'capitalise' this expenditure, meaning it becomes part of your Balance Sheet, not an expense in your Income Statement.

There is a misconception that purchases under $500 always have to be expensed, not capitalised. The reality is that entities paying income tax are *allowed* to deduct capital purchases under $500 per item from their income in full in the year they acquired it. It is not mandatory – IRD is just trying to be helpful. However, non-profits are generally not liable for income tax, and the $500 threshold simply does not apply.

This does not mean that a non-profit has to capitalise everything. You can still implement the $500 rule, but if you do, you have to mention it in the notes to your accounts. It is also acceptable to set any other threshold, such as $100 or so, as long as you disclose this.

What is a reasonable threshold, under which capital items should simply be treated as expenditure? There are two things to consider: your overall expenditure (i.e. would doing so distort your financial statements) and whether you want to keep track of your asset.