80 Fitzgerald Ave
PO Box 13 625
Christchurch
Ph (03) 669 0542
info@commaccounting.co.nz

Your organisation could simplify its Financial Statements!

Your organisation currently prepares their accounts on an accrual basis, but you are entitled to use the simpler 'cash' basis once the new Financial Reporting rules for Charities come into effect. Should you change to this new Tier 4?

Tier 4 requires the following financial information:

- **A Statement of Cash Flows** (also called 'Statement of Receipts and Payments'). This requires you to record cash received and cash paid into and out of your bank accounts (or cash at hand) using normal categories. You do not need to calculate depreciation, or add unpaid bills or receipts into these figures.
- **A Statement of Assets and Liabilities** (also called 'Statement of Resources and Commitments'). This Statement requires you to list any fixed assets you may have at the price you paid for it at the time (or any valuation if they were donated) with the date they were acquired. No depreciation is calculated or applied. You also have to list any unpaid bills and any money owing to you here. This does not have to balance, and you do not have to provide an 'equity' figure.

Tier 4 also requires some 'non-financial' information which is very similar to the accrual-based Tier 3.

What are the advantages?

1. The required financial information can usually be compiled by a layperson as no complex accounting is involved.
2. Tier 4 Statements are easier to audit. If your accounts are audited each year, your audit bill may drop.
3. A Statement of Cash Flows is better understood by non-accountants as it shows actual cash going in and out. This may improve your internal accountability.
4. A Statement of Cash Flows will be mandatory for all Registered Charities from March 2016, regardless of Tier. Using Tier 4 means that you do not *also* have to create an accrual-based Income Statement – one job less to do for your accountant or yourself.
5. Simpler Notes to the Accounts

What are the disadvantages?

There is only one significant disadvantage: accrual-based accounting is more accurate. Cash-based financial information can be manipulated by delaying payments, for example.

What do you need to do?

All Registered Charities have to change their Financial Reporting. As you are currently reporting on an accrual basis you will have to *add* a Cash Flow Statement if you choose to continue with this. If you opt to change to Tier 4, the Cash Flow Statement *replaces* your current accrual-based Statement (such as the Statement of Financial Performance, Statement of Funding, or another name you may use).

If you are using an accountant they may not yet be familiar with the new rules. **We advise that all Charities currently using an accountant request an assurance from them that they are conversant with the new Financial Reporting Standards** for registered charities. You cannot assume that this is the case even if they are a member of Chartered Accountants Australia and New Zealand (CAANZ) or a Certified Professional Accountant (CPA) Australia.

Templates for the new Tier 4 are available from the External Reporting Board (www.xrb.govt.nz) or the Charities Services web site (www.charities.govt.nz). You may also want to ask CCA for a somewhat simpler sample Statement.

You do not need to change your accounting software.

If CCA are preparing your Statements we will automatically use a Tier 4-based format for all entitled entities unless advised otherwise by you.

CCA is happy to provide further advice if required.