Pitcher Partners

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Financial reporting guide

Large proprietary company test

This publication provides a high-level summary of the 'large proprietary company' test under section 45A of the *Corporations Act 2001*. A large proprietary company is required (subject to limited exceptions) to prepare, audit and lodge an annual financial report under Part 2M.3 of the *Corporations Act 2001*.

What is a large proprietary company?

In accordance with section 45A of the *Corporations Act 2001*, a proprietary company is classified as 'large' for a financial year (commencing on or after 1 July 2019) if the proprietary company satisfies at least 2 of the following 3 criteria:

(a) the consolidated revenue for the financial year of the proprietary company and the entities it controls (if any) is $50 million or more;

(b) the value of the consolidated gross assets at the end of the financial year of the proprietary company and the entities it controls (if any) is $25 million or more;

(c) the proprietary company and the entities it controls (if any) have 100 or more employees at the end of the financial year.

The meaning of 'control', 'consolidated revenue', 'consolidated gross assets' and 'employees' is discussed below.

When does a proprietary company 'control' an entity?

Whether a proprietary company 'controls' an entity for the purposes of the large proprietary company test is determined in accordance with Australian Accounting Standards, even if the Australian Accounting Standards do not otherwise apply to the proprietary company.

In accordance with AASB 10 *Consolidated Financial Statements*, a proprietary company 'controls' an entity when the proprietary company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

What is the prescribed basis of measuring 'consolidated revenue'?

Section 45A of the *Corporations Act 2001* requires 'consolidated revenue' to be calculated in accordance with Australian Accounting Standards in force at the relevant time, even if the Australian Accounting Standards do not otherwise apply to the financial year of some or all of the companies concerned.

In other words, 'consolidated revenue' refers to the aggregate amount of revenue that would be reported in the consolidated financial statements of the proprietary company and the entities it controls, calculated in accordance with the requirements of all Australian Accounting Standards (including, for example, AASB 10 *Consolidated Financial Statements* and AASB 15 *Revenue from Contracts with Customers*).

The consolidation process would include, for example, aggregating the revenue of the proprietary company for the financial year and the revenue of the entities it controlled during all or part of the financial year, and eliminating any intragroup revenue relating to transactions between the entities.

What is the prescribed basis of measuring ‘consolidated gross assets’?

Section 45A of the *Corporations Act 2001* requires ‘the value of consolidated gross assets’ to be calculated in accordance with Australian Accounting Standards in force at the relevant time, even if the Australian Accounting Standards do not otherwise apply to the financial year of some or all of the companies concerned.

In other words, the ‘value of consolidated gross assets’ refers to the total assets that would be reported in the consolidated financial statements of the proprietary company and the entities it controls, calculated in accordance with the requirements of all Australian Accounting Standards (including, for example, AASB 10 *Consolidated Financial Statements*, AASB 3 *Business Combinations*, AASB 112 *Income Taxes* and AASB 9 *Financial Instruments*).

The consolidation process would include, for example, aggregating the assets of the proprietary company at the end of the financial year and the assets of the entities it controlled at the end of the financial year, recognising any additional assets or valuation adjustments required by AASB 3 *Business Combinations*, and eliminating any intragroup assets relating to transactions between the entities.

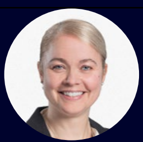
What is the prescribed basis of determining the number of employees?

Section 45A of the *Corporations Act 2001* provides little guidance as to the basis of measuring the number of employees, other than stipulating that part-time employees are taken into account as an appropriate fraction of a full-time equivalent.

Importantly, the number of employees is the sum of the employees of the proprietary company at the end of the financial year and the employees of the entities it controlled at the end of the financial year.

Further information and assistance

Contact Pitcher Partners for further information and assistance on the application of the large proprietary company test under section 45A of the *Corporations Act 2001*.



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