

## 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 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 \$25 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 \$12.5 million or more;
- (c) the proprietary company and the entities it controls (if any) have 50 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.

### Section 45A of the *Corporations Act 2001*

### 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*, AASB 118 *Revenue* and AASB 111 *Construction Contracts*).

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 139 *Financial Instruments: Recognition and Measurement*).

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*.



**Kylee Byrne**  
**Executive Director,**  
**Business Assurance and Advisory**



+ 61 3 8610 5292



kylee.byrne@pitcher.com.au



**Darryn Rundell**  
**Accounting Technical (IFRS) and**  
**Financial Reporting Specialist**



+ 61 3 8610 5574



darryn.rundell@pitcher.com.au

Est. 1991

Pitcher Partners is a full service accounting and business advisory firm with a strong reputation for providing quality advice to privately-owned, corporate and public organisations.

In Australia, Pitcher Partners has firms in Adelaide, Brisbane, Melbourne, Perth, Sydney and Newcastle. We collaboratively leverage from each other's networks and draw on the skills and expertise of 1,200+ staff, in order to service our clients.

Pitcher Partners Melbourne is the leader in the middle-tier market and is the largest accounting services firm in Melbourne after the Big 4 multinational firms.

Pitcher Partners is also an independent member of Baker Tilly International, the eighth largest network in the world by fee income. Our strong relationship with other Baker Tilly International member firms, particularly in Asia Pacific, has allowed us to open many doors across borders for our clients.

### MELBOURNE

+61 3 8610 5000  
partners@pitcher.com.au

### SYDNEY

+61 2 9221 2099  
partners@pitcher-nsw.com.au

### PERTH

+61 8 9322 2022  
partners@pitcher-wa.com.au

 PITCHER.COM.AU

### ADELAIDE

+61 8 8179 2800  
partners@pitcher-sa.com.au

### BRISBANE

+61 7 3222 8444  
partners@pitcherpartners.com.au

### NEWCASTLE

+61 2 4911 2000  
newcastle@pitcher.com.au

 an independent member of  
**BAKER TILLY**  
**INTERNATIONAL**

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.

The material contained in this publication is general commentary only, it is not professional advice. Before making any decision or taking any action in relation to your organisation or business, you should consult your professional advisor. To the maximum extent permitted by law, neither Pitcher Partners or its affiliated entities, nor any of our employees will be liable for any loss, damage, liability or claim whatsoever suffered or incurred arising directly or indirectly out of the use or reliance on the material contained in this publication.