

# 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*).

ASIC has also stated, in RG 280 *Sustainability reporting*, that revenue should be determined by reference to the definitions of income and revenue contained in AASB 15, and that depending on the business model of the entity or group concerned, entities may also consider other Australian Accounting Standards that give rise to the recognition of revenue, such as AASB 9 *Financial Instruments*, AASB 11 *Joint Arrangements*, AASB 17 *Insurance Contracts*, AASB 140 *Investment Property* and AASB 141 *Agriculture*.



The consolidation process for determining 'consolidated revenue' 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*, AASB 16 *Leases* and AASB 9 *Financial Instruments*).

The consolidation process for determining the 'value of consolidated gross assets' 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.

ASIC has also stated, in RG 280 *Sustainability reporting*, that as a helpful starting point, reference can be made to the definition of 'employees and others providing similar services' contained in AASB 2 *Share-based Payment*.

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*

p +61 3 8610 5292  
e [kylee.byrne@pitcher.com.au](mailto:kylee.byrne@pitcher.com.au)



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

p +61 3 8610 5574  
e [darryn.rundell@pitcher.com.au](mailto:darryn.rundell@pitcher.com.au)

Making  
business  
*personal*

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.

Adelaide | Brisbane | Melbourne | Newcastle | Perth | Sydney

**bakertilly**  
NETWORK MEMBER

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation. Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.

[pitcher.com.au](http://pitcher.com.au)