

Technical Accounting Alert

Directors' Report for a Limited by Guarantee Company

Introduction

The purpose of this alert is to draw attention to the changes in the streamlined directors' report for those limited by guarantee companies that are required to prepare financial statements as from 30 June 2010. Whilst there has been a reduction in the potential disclosures required, the streamlining also requires additional information about the company's objectives, strategy and performance measurement.

Overview

The Corporate Reporting Reform Act contains a new streamlined 'for directors' report (S300 B) for those limited by guarantee companies that are required to prepare financial statements as from 30 June 2010, and this replaces the general corporate directors' report (S299 and S300). Small limited by guarantee companies (revenues less than \$250,000 and do not have deductible gift recipient status) of course are exempted from the requirement to prepare a financial report.

The intention of the changed legislation was to exclude the large number of provisions that are not relevant for typical not-for-profit limited by guarantee companies. These include disclosures relating to the payment of dividends and options issued to directors as remuneration. Given that not-for-profit companies are generally purpose or objective driven, the Government argued that stakeholders in not-for-profit companies are likely to be particularly interested in the objectives of the organization and how the activities conducted during the period contributed to achieving those objectives.

Section 300 B of the Corporations Act sets out the requirements for the annual directors' report of companies limited by guarantee which are as follows:

300 B: Annual directors' report—companies limited by guarantee

- The directors' report for a financial year for a company limited by guarantee must:
 - contain a description of the short and long term objectives of the entity reported on;
 - set out the entity's strategy for achieving those objectives;
 - state the entity's principal activities during the year;
 - state how those activities assisted in achieving the entity's objectives; and
 - state how the entity measures its performance, including any key performance indicators used by the entity.
- The entity reported on is:
 - the company (if consolidated financial statements are not required); or
 - the consolidated entity (if consolidated financial statements are required).

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- The directors' report for a financial year for a company limited by guarantee must also include details of:
 - the name of each person who has been a director of the company at any time during or since the end of the year and the period for which the person was a director;
 - each director's qualifications, experience and special responsibilities;
 - the number of meetings of the board of directors held during the year and each director's attendance at those meetings;
 - for each class of membership in the company—the amount which a member of that class is liable to contribute if the company is wound up; and
 - the total amount that members of the company are liable to contribute if the company is wound up.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact member or Keith Reilly - National Head of Professional Standards at keith.reilly@au.gt.com