



A GUIDE TO

FINANCIAL STATEMENTS

NOTES ON STRATA FINANCIAL STATEMENTS



SUMMARY OF ACCOUNTING POLICIES

Abode Strata Management have prepared the financial statements on the basis that the **strata company is a non-reporting entity**. This determination has been made based on the determination by Abode Strata Management that there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the immediate needs of the owners.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below, for which Abode Strata Management have received independent, professional advice determining they are appropriate to meet the needs of the owners in the majority of circumstances. Such accounting policies are consistent with the previous period unless stated otherwise.



The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes.

The accounting policies that have been adopted in the presentation of the statements are as follows:

REVENUE AND OTHER INCOME

1

Revenue is measured at the value of the consideration received or receivable. For this purpose, deferred consideration is not discounted to its present value when recognising revenue.

2

In line with industry norms, levy income is recognised when due.

The financial statements contained herein recognise revenue on the day receipt becomes due. The purpose of this treatment is to align the levy revenue to the expenditure of the period to which it is budgeted to offset.

E.g.: Quarterly levy income raised in September (due 1 October) to be aligned to the expenditure incurred 1 October - 31 December.

3

All revenue is stated net of the amount of goods and services tax (GST).

INTEREST INCOME

It has long been established under common law principles in Australia that interest income is derived when received.

Interest revenue is therefore recognised on a cash basis in the financial statements.



SPECIAL PROJECTS / PROPERTY, PLANT AND EQUIPMENT

In line with industry norms, acquisitions of and improvements to property, plant and equipment are not reflected on the balance sheet and are instead expensed at cost to the special projects expenditure account on the Income and Expenditure statement. Such as:

- Vehicles like trucks
- Office furniture
- Machinery- lift vehicle gate.
- Buildings
- Undeveloped land

No provision for depreciation is maintained as part of the financial statements, however owners should be aware that they may be entitled to claim a tax deduction for depreciation expenses incurred against non-mutual income derived from common property of the strata company in their own tax returns*.

GOODS AND SERVICES TAX (GST)*

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Arrears, Prepayments and Creditors are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included in the liabilities section of the balance sheet.



INCOME TAX



Income tax on non-mutual income derived from the personal property of the strata company is recognised on a cash basis in the financial statements.

Tax is payable on this income at the company tax rate of 30%. Strata companies are rarely eligible for the base rate entity company tax rate of 27.5% as they are generally not considered to be carrying on a business for income tax purposes. Merely earning taxable income providing strata services such as records searches, letting property or earning interest is not sufficient according to professional advice received by Abode Strata Management. If owners believe the strata company qualifies as a base rate entity, the ATO recommends a private ruling is obtained to confirm this fact before applying the lower rate.

Whilst Abode Strata Management strive to adhere to accrual methods in financial reporting, in practice, it is difficult to apply the accrual method to income taxation as the amount of tax payable is often not known until after the financial statements have been prepared. To resolve this timing issue, and after receiving independent, professional advice in support of this application, income tax items are now reflected on a cash basis in the financial statements.

The amounts declared in the Income and Expenditure account, Income Tax Expenses, represent the net effect of:

- Payment of PAYG instalments (either for the current or prior financial year) paid during the reporting period.
- Payments / refunds of income tax assessments (income tax payable less PAYG instalments paid) paid or received during the reporting period.

Under a cash basis, income tax expenses are recorded accurately, however are not 100% aligned within the reporting period to which they apply.

INCOME TAX TREATMENT OF NON-MUTUAL INCOME DERIVED FROM THE COMMON PROPERTY OF THE STRATA COMPANY.

As per Taxation Ruling 2015/3, non-mutual income derived from common property is taxable in the hands of individual lot owners in line with their lot entitlement percentages. As such no tax is paid by the strata company on any such income.

Non-mutual income derived from common property can include, but is not limited to:

- Mobile phone tower rent
- Car parking bay rent
- Community Owner units rented out for commercial benefits

* Disclaimer: Abode Strata Management expressly declare that any advice is solely of a general nature and is not to be relied upon as professional, financial or taxation advice. Abode Strata Management are not registered tax agents and outsource all taxation requirements to registered professionals. Owners are strongly advised to seek independent advice from a suitable qualified tax agent in relation to any taxation matters that affect their personal circumstances.