strata community association® VIC

Reporting standards

The financial management of Owners Corporations falls into the Special Purpose accounting category and as such is not required to meet any particular accounting standards such as those published by the Australian Accounting Standards Board, the ATO small proprietary company requirements, incorporated associations requirements, etc. This creates difficulties for managers and for auditors, as financial statements may be prepared without any common interpretation or procedures. This also causes confusion for members [lot owners] when management may change and an entirely different set of accounting standards is used.

Special Purpose accounting procedures should be designed to be clear, unambiguous and informative to all of the parties who will rely on the financial statements.

The purpose of these guidelines is to provide a set of recommendations that Owners Corporation Victoria Managers can follow to provide consistency within the industry, as to accounting treatment.

The guideline covers:

- Accrual or cash reporting
- Insurance – treat as expense on date of invoice
- Separation of Administration Fund and Maintenance Fund accounts
- GST treatment and reconciliation
- Treatment of special levies raised, but not spent by balance date
- Asset – treat as expense (do not depreciate)
- Accounts receivable
- Presentation of accounting reports – minimum standards

In regard to financial records and statements, the *Owners Corporations Act 2006* ("the Act") states:

33. Financial records

(*1*) *An Owners Corporation must keep proper accounts that—*

(a) cover all income and expenditure of the Owners Corporation and assets and liabilities of the Owners Corporation; and

(b) provide for the making of true and fair view reports of the financial situation of the Owners Corporation.

(2) An Owners Corporation that has an approved maintenance plan must keep separate accounts for its maintenance fund.

34. Financial statements

(1) An Owners Corporation must prepare annual financial statements for presentation at the annual general meeting of the Owners Corporation.

(2) A prescribed Owners Corporation must prepare its financial statements in accordance with the standards required by the regulations.

These sections provide only the most basic essentials and furthermore, the Owners Corporations Regulations 2018 do not provide any standards as indicated in section 34(2).

The following policies are recommended for all Victorian Strata Community Managers to apply to the accounts they present to members.

Accrual or cash reporting

Accrual accounting reports income when earned and expenses when incurred, regardless of when payment is received or made.

For example, fee income for an Owners Corporation is earned when the fees become due for payment not when the owner actually pays the fees. Similarly, an expense is incurred on supplier's invoice date, not when the supplier is paid.

1) ***Owners Corporations should always prepare their annual financial statements based on the accrual accounting method for both income and expenditure.***

Insurance treatment

Under company accounting standards, accrual accounting is taken a step further with the intention of reporting expenses in the period to which they relate. Insurance, for example, that falls due on 1st May would be treated as an expense for 2 months in the current year ending 30th June and 10 months in the following year, that is, as a prepayment at 30 June. This treatment is **not appropriate** for an Owners Corporation. The Owners Corporation must have the funds available when insurance falls due and so it budgets for all of the expense being incurred when insurance is invoiced.

Should the Owners Corporation decide to use premium funding and pay insurance over a number of months, the expense is still incurred when insurance falls due and the deferred payment treated as a creditor.

2) ***Insurance should be treated as an expense on the date of the invoice for the insurance premium.***

Annual Administration (Operational) Fund and Maintenance Fund Accounts

The Act requires an Owners Corporation that has an approved maintenance plan to keep separate accounts for its maintenance fund. Income and expenditure and reserve accounts must be reported separately (refer Guideline 4).

3) ***Separate income and expenditure reports for the annual administration budget and the maintenance fund must be provided showing the surplus or deficit for each.***

Statement of Financial Position As at (Date)		
Owners Corporation No.	**Address:**	
Previous Year	**Members Funds**	***Current Year***
50,200	Administration Fund	54,800
4,600	Surplus / deficit	3,200
	Administration Fund Reserve	**58,000**
154,000	Maintenance Fund	170,200
16,200	Increase (Decrease) Current Year	(24,000)
	__Maintenance Fund Reserve	**146,200**
225,000	**Total Members Fund Reserves**	**204,200**
	Assets	
21,500	Cash at Bank	15,000
206,600	Investment Account	186,600
8,200	Contribution Arrears	6,200
2,200	GST Receivable	4,400
238,500	**Total Assets**	**212,200**
	Liabilities	
6,100	Contributions Prepaid	2,100
5,000	Sundry Creditors	3,400
2,400	GST Payable	2,500
13,500	**Total Liabilities**	**8,000**
225,000	**Net Assets**	**204,200**

As can be seen from the above report, full details are provided as to the total funds reserve, assets and liabilities while still reporting the individual positions of the administration fund and maintenance fund separately.

4) ***Assets and Liabilities (in the Balance Sheet) may be presented as a consolidated financial statement so long as the detailed reserve figures are shown for both the administration fund and maintenance fund.***

5) ***Notes to the Statement of Position should include:***

- **Details of Leases of Assets – Value, Commitment and Final Date**
- **Details of Loans from Financial Institutions – Value and Final Date**

Goods and Services Tax (GST) Treatment

Owners Corporations have a tax file number (TFN) that identifies them as individual entities.

Owners Corporations that receive $150,000 (or more) during a financial year, must register for an Australian Business Number (ABN) and will be required to include GST on any fee / levy notice to members of the Owners Corporation.

Those Owners Corporations that are required to charge GST may also recover that GST component paid to suppliers when they make the quarterly Business Activity Statement (BAS).

In an Owners Corporation that is registered, it is essential that the Owners Corporation manager adopts the correct accounting process. When $110 is invoiced to an owner, the Owners Corporation is entitled to retain $100 of that amount and must pay $10 to the ATO. The fee income is $100 and will be reported in the income and expenditure statement as $100. The amount of $10 owed to the ATO is a liability of the Owners Corporation and must appear in the balance sheet as a liability to be paid.

A supplier's invoice of $110 will be reported as an expense of $100 and $10 as an asset to be collected (entitlement) in the balance sheet.

Payment of GST to the ATO in the BAS return will reduce the liability so will be a payment from the balance sheet and similarly receipt from the ATO will reduce the asset on the balance sheet. Payments to, or receipts for GST, must never be treated as income and expenditure in the Owners Corporation account.

The entries to properly record GST are as follows:

		DR	CR
Accounts receivable	(balance sheet)	$110.00	
GST liability	(balance sheet)		$10.00
Fee Income	(income and expenditure)		$100.00

and

		DR	CR
Expense	(income and expenditure)	$100.00	
Accounts payable	(balance sheet)		$110.00
GST asset	(balance sheet)	$10.00	

If the Owners Corporation has elected to pay GST on a cash basis rather than an accruals basis, further entries are required when payment is received or made.

6) GST amounts must only be reported as balance sheet items and never in the income and expenditure statement.

Public Officer

It should be noted that only primary contacts, including public officers, authorised contacts, registered tax agents, registered BAS agents, temporarily appointed tax professionals and specialist tax advisors can contact the ATO on behalf of an entity.

There are specific authorisation rules for each of these contacts. To find out more visit the ATO website.

Of importance to note is that for efficient management of an OC, a nominee from within a strata management firm should be identified as the public officer to the ATO.

The ATO form upon which to provide these details is NAT 2943, Change of Registration Details.

You can order a paper copy of this form via the ATO:

- through online ordering; https://www.ato.gov.au/about-ato/contact-us/order-publications/

- by phoning **1300 720 092** 24 hours a day, seven days a week.

Visit https://www.ato.gov.au/Business/Registration/Update-your-details/

This obligation may result in confusion and/or unnecessary delays during the handover process of an Owners Corporation's records.

To maximise efficiencies, the form should be completed by the incoming manager as all the questions need to be answered by them, including nominating the new public officer. The outgoing manager (and/or the nominated public officer from within the outgoing management firm) must sign the form to authorise the changes, including the appointment of the new public officer.

If the outgoing manager fails to sign the form and is being difficult, the incoming manager can complete the form and write to the ATO providing a copy of the Contract of Appointment and the ATO will accept this.

NB: The SCA (Vic) Contract of Appointment confirms that an OC manager can be appointed as the Public Officer as an additional service, and that a fee may be chargeable as per rate agreed to in Schedule 2.2 Additional Services.

7) An OC must authorise a public officer to be the point of contact with the ATO. Upon handover the ATO Form NAT2943 should be completed by the incoming manager and must be signed by the existing public officer to authorise the changes.

GST Reconciliation

It is essential that the GST amounts in the balance sheet be reconciled each year. Generally BAS returns must be lodged within 28 days of the end of a quarter, but it is quite likely that an invoice will be received that relates to the quarter after the BAS return has been lodged. In such circumstances, it is possible that an input credit the Owners Corporation may be entitled to will not be claimed. Additionally, a charge may be backdated to an owner after the BAS date and a liability not included.

8) When preparing the annual financial statements, the balance sheet stating the GST owed to or by the ATO must be accurate.

It is strongly recommended that you demand a reconciliation of GST from the previous manager when accounts are presented on handover of management. If this is not provided the new manager must undertake a reconciliation themselves. Accepting accounts that may not be accurate is a dereliction of the manager's duties and will only lead to problems when the new manager's accounts are found to be incorrect because the opening balance was incorrect.

9) Managers must provide a reconciliation of GST when providing the accounts on handing over to a new manager.

Special Levies raised but not spent

A requirement of the *OC Act* is that the reports reflect a true and fair view of the financial position of the Owners Corporation. Owners will use these to inform themselves of the current position and prospective purchasers will review them to establish the financial position of the Owners Corporation they are buying into.

To report a special levy income without any offsetting expenditure or notation will provide a misleading picture of the financial position. The surplus generated for the year adding to owners' retained funds will be overstated.

Please note precedent in court cases requires an Owners Corporation to spend the funds raised by way of special levy, only for the purpose for which it was raised. It is very dangerous for a manager to incorporate these funds in retained earnings without any notation.

The income that has been invoiced must be reported in the income and expenditure statement. The Owners Corporation manager has two options to deal with the item:

a) make a clear note in the accounts; or
b) raise an estimate expense and report that in the income and expenditure report offset by a contingent liability. A note should again be made in the accounts to explain this.

An example would be

		CURRENT YEAR	BUDGET	PREVIOUS YEAR
INCOME				
Annual fees		30,000.00	30,000.00	29,000.00
Special Levy	Note 1	18,000.00		
TOTAL INCOME		**$48,000.00**	**$30,000.00**	**$29,000.00**
EXPENDITURE				
Electricity		4,866.36	5,000.00	4,689.90
Insurance		18,952.75	20,000.00	18,052.65
Management fees		5000,00	5000,00	4,750.00
TOTAL EXPENDITURE		**$28,819.10**	**$30,000.00**	**$27,492.55**
SURPLUS/(DEFICIT)	Note 1	**$19,180.90**	**$0.00**	**$1,507.45**

Note 1: A special levy was raised to replace the front gates. The funds raised were not expended in the financial year.

10) Special levy moneys that have not been expended must be explained in the financial statements and not just incorporated into Owners Retained Funds without explanation.

Assets – treat as an expense

Australian accounting standards require assets purchased to be reported as Assets in the balance sheet and then depreciated over the life of the asset. Such a treatment is not appropriate for an Owners Corporation.

The Owners Corporation must account to its members for its income and all expenditure, regardless of whether the expense is capital by nature, resulting in the level of funds remaining. If an Owners Corporation pays $10,000 to purchase furniture and equipment for an on-site building manager, that money has gone and is no longer available to owners to spend. Owners Corporation accounting has traditionally expended the entire amount in the year of acquisition, but it is regularly queried by auditors and for this reason it has been included in these guidelines.

11) ***All expenditure, even capital expenditure, is to be reported in the income and expenditure statement. Assets should not be depreciated over time but reported in the year of purchase.***

Accounts Receivable

Some accounting packages report a Net figure for accounts receivable, being the sum of members in arrears, less those paid in advance. This treatment does not comply with the requirement of providing a true and fair view. The Owners Corporation has both an asset of those members in arrears and a liability of those members who have paid in advance.

12) ***When presenting annual financial statements Members in Arrears must be shown as an asset and Member in Advance must be shown as a liability in the balance sheet.***

Presentation of Financial Statements

To ensure the annual financial reports are informative they should include basic minimum components. These are:

a) The income and expenditure statement may show Current Year plus the Budget and Last Year’s results for comparison
b) The Balance Sheet should show Current Year plus Last Year for comparison
c) A statement of accounting policies used should be provided. It is impossible to make sense of a financial report unless the reader is informed as to what accounting policies are used. For example, many managers will take up tax paid in the year in which it is paid, not in the year in which the taxable income was earned and this may produce misleading information unless the reader is aware of the policy. An Owners Corporation may earn $20,000 in interest on maintenance funds invested and therefore have a tax liability of around $6,000 which is paid in the following year. But in the following year there was a big painting project using up much of the maintenance funds and, as a result, interest earned was only $5,000. Unless the reader is aware of the policy the accounting reports would not make sense. Providing a statement of accounting policies contributes to the level of professionalism of Owners Corporation managers in the eyes of the members.

A sample statement is provided below. Each company should ensure it adds, deletes and/or amends as necessary to ensure it is applicable to its own company policies.

OWNERS CORPORATION XXXXXXX

Notes to the Financial Statements
For the Year ended XXXDATEXXX

Statement of Accounting Policy

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a special purpose financial report prepared in order to satisfy the financial reporting requirements of the *Owners Corporation Act 2006.* The Owners Corporation Committee has determined that the Owners Corporation is not a reporting entity.

The financial report has been prepared solely in accordance with the requirements of the Owners Corporation Act 2006 and no other applicable Accounting Standards, Australian Accounting Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below. Such accounting policies are consistent with the prior period unless otherwise stated.

Basis of Accounting

The accounts of the Owners Corporation are prepared to best establish the value of the Owners funds. As such, they are prepared on a modified accruals basis.

1. **Income**
    a. Fee income is recognised on an accrual basis. Fees payable are taken into account on the first day of the fee period to which they apply, regardless of whether they have been paid or are still outstanding.
    b. Bank interest, Interest on outstanding fees and other interest is treated on a cash basis and taken into account when it is received by the Owners Corporation.
    c. Other income is taken into account on the date on which it is invoiced or the date on which it is received, whichever is the most appropriate.

2. **Expenditure**
    a. Expenses paid are taken into account on the date of the invoice or the date on which the service is supplied/goods are delivered, whichever is the most appropriate.
    b. Insurance and similar expenses that may apply to more than one period are taken into account in the period in which they are paid and no prepayment for the future period is made.
    c. Income tax payable is generally not of material value and tax paid is taken into account when the payment is made. No provision is made for future tax liability.
    d. Provision for staff entitlements and other liabilities are made only if considered material.
    e. Asset purchases building improvements and the like are treated as an expense at the time of purchase and are not taken into account on the balance sheet and depreciated over the life of the asset.

3. **GST**
    a. Income, expenditure and assets of the Corporation are recognised net of the amount of Goods and Services Tax (GST), except where the GST incurred is not recoverable from the Australian Taxation Office (ATO).
    b. Receivables and payables are stated inclusive of GST.
    c. The net amount of GST payable to, or recoverable from, the ATO is presented as the GST Account on the Statement of Assets and Liabilities.