COMMUNITY BANK® NEWS UPDATE

Issue 2
January 2018

AFS Partners in success
Chartered Accountants

The Molonglo Community Bank® supports over 100 community groups in the ACT every year.
Above is a great shot of some of the community groupsand sports clubs in front of the iconic Lake Burley Griffin in Canberra.

Welcome to the second edition of the AFS & Associates Community Bank® News Update. We successfully launched our first edition last year and we are delighted to now bring you edition two. Our aim is to keep Community Banks® around Australia up to date with the latest accounting news and changes important to them. Please call us for a chat if you have any questions about topics raised in this issue, we'd love to help. It is important to us that information is shared across the Community Bank® network in Australia.

David Hutchings, Senior Partner.

Share buyback process

We have seen an increased interest in share buybacks and return of capital in the Community Bank® network and we have advised several companies on these. There are some important rules and regulations to follow during these processes. To make sure you're taking the right steps refer to our Share Buyback Process flyer at **bit.ly/sharebuybackprocess**. Alternatively you can contact Dennis Barnett, firm Partner on 03 5443 0344 to talk about how we can help you undertake a share buyback or return of capital.

New standard for lease accounting

Significant changes will be made to how you account for leases in the financial statements. The Australian Accounting Standard *AASB 16 - Leases* is mandatory from 1 January 2019 and requires lessees to account for all leases 'on balance sheet' by recognising a 'right of use' asset and a lease liability.

For Community Bank® companies the greatest change will be accounting for leases on branch premises, typically five years with options for additional five year terms. The change will see the recognition of a substantial asset and liability on the company's balance sheet for branch leases.

Although this is an accounting change, it will have commercial and borrowing implications across organisations. The practical challenges of preparing for implementation could also be significant. Some exceptions apply for short term and low values leases.

We recommend preparing for this accounting update at 30 June 2018, as comparative data will be required come 30 June 2019 when it becomes mandatory reporting. To discuss any concerns further please contact Jayde Mullane, Senior Audit Manager on 03 5443 0344.

REMINDER: December 2017 half year financial report

The majority of Community Banks® are set up as public companies and are classified as disclosing entities. Therefore under Section 302 of the Corporations Act 2001, a half year (31 December) financial report must be prepared and audited or reviewed by the company's auditor and lodged with the Australian Securities & Investments Commission (ASIC) by 16 March 2018.

If you would like to discuss this requirement please contact Josh Griffin, Audit Manager on 03 5443 0344.

Did you know:

We again completed and lodged with ASIC on time over 130 Community Bank year-end audits for June 2017.

Jayde Mullane Senior Manager

Meet the Team

Jayde joined the AFS team in the year 2000 working in our business services department. After a few years he headed north for a sea change to the Sunshine Coast before returning to Bendigo and AFS in 2006 as part of the audit team.

Jayde is now a Senior Manager, gaining experience in a wide range of industries over the years including not-for-profits, government organisations and financial services. He now works largely with our Community Bank team, handling many of the multi-site and more complex companies. He is also our company taxation specialist within the audit team. Jayde especially enjoys working with and providing guidance to our team members.

Although retired from competitive sports these days, Jayde played football and cricket in Bendigo for a number of years and also enjoyed competing in triathlons while living in Queensland. He is also a proud supporter of the mighty Richmond Tigers.

Most of his free time outside of work is spent with his two children, Jaxon, age 11 and Eva, age 9.

CEF tax deductibility

The Community Enterprise Foundation (CEF) is a charitable foundation auspiced by the Bendigo and Adelaide Bank Group and it has worked closely with Bendigo Bank's network of community and charitable partners since its inception in 2005.

Contributions made to the CEF are tax deductible for Community Bank® franchise companies. Losses and outgoings can be deductible if they are either:

- incurred in gaining or producing assessable income (first positive limb)
- necessarily incurred in carrying on a business for that purpose (second positive limb).

There needs to be sufficient links between the outgoing incurred and the subsequent generation of assessable income for contributions to retain their tax deductible status.

It is therefore extremely important to ensure funds are not stockpiled in the CEF for excessive periods of time as the derivation of income can become too removed from the initial outgoing. The Board needs to ensure a sound grants program is in place, or there is at least a plan to spend accumulated funds on community projects. This then provides an arguable position to the Australian Tax Office that the outgoing is in connection with generating assessable income.

If you would like to know more about the disclosure please contact Josh Griffin.

Dividend Payments

Section 11.3 of the franchise agreement with Bendigo and Adelaide Bank Limited includes a distribution limit that restricts the amount that can be paid to shareholders by way of dividends in any 12 month period. The distribution limit per the franchise agreement is the greater of:

- 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
- the weighted average interest rate on 90 days bank bills over the 12 month period plus 5%, multiplied by the average share capital over the 12 month period.

The board also has obligations under the *Corporations Act 2001* (The Act) to act in the best interests of the company and to ensure that the company does not have negative net assets after the payment of a dividend.

Under s254T(1) of the Act a company must not pay a dividend unless:

a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of a dividend; and

b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and

c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors if the company would become insolvent as a result of the payment.

We are more than happy to assist your company with dividend calculations to ensure the above requirements are met.

Did you know: We provide a number of services to Community Banks® including:

- Community surveys
- Share registry services
- Audit of accounts
- Prospectus preparation
- Preparation of accounts
- Valuations
- Due diligence on acquisitions
- Corporate secretarial advice
- Income tax, payroll tax and FBT advice
- Share transactions such as:
  - Share bonus issues
  - Capital raising
  - Share buybacks; and
  - Return of capital

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61 Bull Street
Bendigo VIC 3550

PO Box 454
Bendigo VIC 3552

P 03 5443 0344
E afs@afsbendigo.com.au

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