

Viewpoint

Audit and assurance

Under Australian equivalents to International Financial Reporting Standards (AIFRS), many property trusts will be required to present their unit holder's funds as debt..

Debt v. Equity Debate

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Challenge area

Under Australian equivalents to International Financial Reporting Standards (AIFRS), many property trusts will be required to present their unit holder's funds as debt because there is a contractual obligation for the trust to pay out cash to the unit holders in future.

New perspectives

This scenario would usually occur if either of the following conditions is present:

- the trust is a limited life entity;
- the trust is required to redeem unit holders' funds; or
- the trustees are required to distribute profits to the unit holders.

The implication here is that the trust has no equity and this may impact various performance measures included in trust constitutions, for example, the payment of fees to the responsible entity based on net assets of the trust.

It may also mean that the costs of raising this type of "debt" are expensed through the income statement rather than be offset directly against proceeds raised.

There is some good news, though, for trusts whose unit holders' funds are classified as debt merely because of they are a limited life entity.

Exposure Draft 150 – Proposed amendments to AASB 132 Presentation: Financial Instruments and AASB 101 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation, is proposing that unit holders' funds of limited life entities be classified as equity, provided that they are part of the most subordinated class of equity.



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The way forward

This could lead to an unusual situation where trusts reflect unit holders' funds as a liability now, and in future years restate their comparatives to present it as equity. This change will make it confusing for both boards and unit holders and may require some explanation by management.

The application date of these proposals is still unknown.

About the author

Wayne has over 13 years of audit and advisory services experience, having worked with other major accountancy firms across three continents.

Prior to joining BDO Wayne had national responsibility within another major accounting group for a range of technical advisory issues.

Wayne's recent experience includes a dual listing of Chartered Semi Conductors Limited on NASDAQ and the Singapore Stock Exchange, Senior Finance Manager on BMW's new Mini Project as well as numerous due diligence exercises.

For more information

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