

# ACCOUNTING NEWS



## HOW WILL CHANGE TO COMPANY TAX RATES AND THE REPEAL OF LOSS CARRY BACK RULES, MRRT AND CARBON TAX AFFECT MY DEFERRED TAX BALANCES?



WHEN THE GOVERNMENT ANNOUNCED ITS FEDERAL BUDGET IN MAY 2014, IT PROPOSED SEVERAL MEASURES THAT IMPACT CORPORATE TAXES, INCLUDING A PROPOSED REDUCTION TO THE COMPANY TAX RATE FROM 30% TO 28.5%, THE INTRODUCTION OF THE PAID PARENTAL LEAVE (PPL) LEVY OF 1.5% AND THE REPEAL OF BOTH THE MINERAL RESOURCE RENT TAX (MRRT) AND THE CARBON TAX.

**Will these changes impact the measurement of current tax liabilities and deferred tax assets and liabilities for the year ending 30 June 2014?**

No.

These changes will not impact the measurement of current tax liabilities and deferred tax assets and liabilities at 30 June 2014. This is because AASB 112 *Income Taxes* requires that current and deferred tax assets and liabilities be measured using tax rates that have been **enacted or substantively enacted** by the end of the reporting period.

Legislation to reduce company tax rates had not been **enacted** (received Royal Assent) or **substantively enacted** at 30 June 2014.

Despite the withdrawal of Australian Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*, the Australian Accounting Standards Board (AASB) considers that there would not be diversity in practice about what we consider to be '**substantive enactment**' of legislation in Australia.

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In this edition, we look at the accounting for deferred tax balances for 30 June 2014 and for future years given the proposed change to the corporate tax rate and the repeal of the MRRT and carbon tax legislation. For those entities governed by the ACNC, we explain which body they need to report to for years ending 30 June 2014.

Furthermore we look at the interim relief ASIC has granted for certain KMP disclosures in the Audited Remuneration Report, ASIC's final media release of focus areas for 30 June 2014 financial reports, recent changes to accounting for bearer plants and omnibus standard AASB 2014-1 *Amendments to Australian Accounting Standards* which picks up recent IASB changes to Accounting Standards.



The AASB's view is that:

- A non-linked tax Bill would only be considered substantively enacted when it had passed through both Houses of Parliament (Houses), and
- Where the commencement of a Bill is linked to the enactment or commencement of another Bill, the first Bill would not be considered substantively enacted until the second Bill has passed through both Houses of Parliament. This is because there is still significant uncertainty about the outcome of the second Bill until it has been passed.

#### Should these changes be disclosed as a non-adjusting post balance date event?

If these changes pass through both Houses before your financial statements are authorised for issue (substantive enactment), then yes, you will need to disclose the impact on the measurement of your deferred tax assets and liabilities. AASB 112 *Income Taxes*, paragraph 88, specifically requires these disclosures.

If these changes do not pass through both Houses before your financial statements are authorised for issue, you are not required to disclose subsequent event details in your financial statements. However, you may choose to do so by giving a status update of the progress of the legislation at the time your financial statements are authorised for issue and the likely impact on deferred tax balances recorded at 30 June 2014 if such changes do occur.

#### What impacts would the change to the corporate tax rate have on the measurement current tax and deferred tax balances?

A reduction in the corporate tax rate to 28.5% will only impact the measurement of **current tax liabilities** in the year in which the new rate becomes effective (expected for periods beginning on or after 1 July 2015). However, for companies with taxable income exceeding \$5 million, any decrease in the corporate tax rate will be partially offset by the paid parental leave levy (PPL) at 1.5% of taxable income that exceeds \$5 million.

However, once tax rates have been enacted or substantively enacted, deferred tax assets and liabilities must be measured at tax rates that are expected to apply to the **period when the asset is realised or the liability is settled**. This means that deferred tax on temporary differences must be recalculated using the new rate where assessable or deductible temporary differences are expected to be settled or realised at the new rate.

#### Example:

ABC Limited has \$5 million of tax losses it expects to recover as follows:

- \$2 million during the 30 June 2015 year
- \$3 million thereafter.

Assume that the 28.5% tax rate becomes effective for periods beginning on or after 1 July 2015.

At 30 June 2014, the deferred tax asset is \$1.5 million (30% of \$5 million).

The deferred tax asset on tax losses will be recalculated as follows for disclosure as a non-adjusting post balance date event:

TAX LOSS	DATE RECOVERABLE	TAX RATE	TOTAL
\$2 million	30 June 2015	30%	\$600,000
\$3 million	Post 30 June 2015	28.5%	\$855,000
Deferred tax assets			\$1,455,000

This will result in a reduction of deferred tax assets of \$45,000 (\$1.5 million less \$1.455 million). This reduction of \$45,000 will impact your income tax expense and will be a reconciling item in your effective tax rate note to the financial statements.

#### What impacts would the repeal of the MRRT and related legislation (repeal of loss carry back rules) have on deferred tax balances? Small business owners will also be affected

The repeal of the MRRT legislation could have accounting implications for entities beyond those subject to MRRT. For example, small business owners will be affected because the change will also result in:

- Repeal of the \$1 million loss carry-back rules
- Reduction in the small business instant asset write-off threshold from \$6,500 to \$1,000
- Repeal of the accelerated depreciation for motor vehicles.

At the time of writing (July 2014), legislation for the repeal of the MRRT (*Minerals Resource Rent Tax Repeal and Other Measures Bill 2013*) and related legislation had passed through the House of Representatives and was awaiting approval of the Senate. Therefore repeal was **not substantively enacted** at 30 June 2014.

#### Impacts

These changes in legislation, as well as changes to the corporate tax rate, were not substantively enacted at 30 June 2014. Therefore the following balances remain unchanged:

- Deferred tax assets as a result of the **starting base market value uplift (MRRT)**
- Deferred tax assets as a result of the **loss carry-back rules**
- Deferred tax liabilities as a result of instant asset write-offs and accelerated depreciation for motor vehicles.

In all the above cases, if the relevant legislation passes through the Senate (and is therefore substantively enacted) prior to your financial statements being authorised for issue, you will need to include subsequent event disclosure for these non-adjusting events. If the legislation is not substantively enacted when your financial statements are authorised for issue, you may choose to disclose that the deferred tax balances have not been adjusted for the proposed changes and include a status update in the notes to your financial statements.

#### What impacts would the repeal of the Carbon Tax have on my deferred tax balances?

It is unlikely that entities impacted by the carbon tax during the fixed price phase (until 30 June 2015) would have accounting implications that impact deferred tax assets and liabilities. As such, potential changes to corporate tax rates and the repeal of the carbon tax is unlikely to have any impact on deferred tax assets and liabilities at 30 June 2014.

#### Watch this space

We will update you in future newsletters when this legislation has been substantively enacted so you can make the appropriate adjustments and/or disclosures in financial statements for 30 June 2014 onwards.

# ACNC UPDATE - REPORTING REQUIREMENTS FOR CHARITIES FOR 30 JUNE 2014



## Background

The Australian Charities and Not-for-profits Commission (ACNC) was established in December 2012 with the introduction of the *Australian Charities and Not-for-profits Commission Act 2012* (Act) to form one national regulatory body for all charities and not-for-profit entities.

As part of the Government's agenda to reduce red tape, the *Australian Charities and Not-for-profits Commission (Repeal) (No. 1) Bill 2014* (the Bill) was introduced into Parliament in March 2014. Its aim is to abolish the ACNC and return regulatory functions back to the Australian Tax Office (ATO) and the Australian Securities and Investments Commission (ASIC).

The repeal of the ACNC will not take effect until a second Bill is passed, setting out the details of the Centre of Excellence that will replace the ACNC.

The Bill was referred by the Senate to the Senate Economics Legislation Committee for enquiry and report back.

Despite the large number of submissions favouring keeping the ACNC, the *Senate Economics Legislation Committee report* has recommended that the ACNC legislation be repealed, effectively abolishing the ACNC.

## Who do I report to for 30 June 2014?

The Bill is dependent on the passing of a second Bill outlining details of the ACNC's successor, and at the time of writing, the second Bill had not yet been drafted.

It is therefore likely that until the second Bill passes, it is 'business as usual' for the ACNC, and that you lodge your 30 June 2014 financial reports with the ACNC by 31 December 2014.

Refer to [Options Paper, Australia's Charities and Not-for-profits](#) if you would like an opportunity to comment on the ACNC's successor body.

## What do I report?

Read [Financial reporting requirements for charities and not-for-profit entities](#) from Accounting News, October 2013 which summarises all the reporting requirements for entities registered with the ACNC.

The ACNC has also issued a [Guide for Board Members](#) to assist board members in understanding their charities' obligations to the ACNC.

Remember to mention the *Australian Charities and Not-for-profits Commission Act 2012* in your 'basis of preparation' section of your financial statements, as well as in your responsible entity's/directors' declaration.

## Do companies limited by guarantee (CLBG) registered with the ACNC need to lodge their financial statements with ASIC?

No.

Companies limited by guarantee registered with the ACNC do not have to lodge financial statements with ASIC until the ACNC is formally dismantled with the passing of the second Bill.

## Do CLBG registered with the ACNC still need to comply with the remaining requirements of the Corporations Act 2001?

Yes with some exceptions. ASIC's guidance on [Charities registered with the ACNC](#) summarises the sections of the *Corporations Act 2001* that do not apply to CLBG registered with ASIC. Basically, all sections apply except:

- You do not need to lodge changes to your constitution or inform ASIC if you adopt or repeal a constitution
- You do not need to send a copy of your constitution to members who request a copy
- You are no longer required to notify ASIC of a change of your address details. The ACNC will advise ASIC of changes
- You are no longer required to notify ASIC of the appointment, resignation or retirement of directors, secretaries and alternate directors, or submit personal details of directors and secretaries
- You will not be sent an annual statement each year and you will not have to review your details or pay the annual review fee.

## Watch this space

Please look out for further editions of Accounting News for updates when the final legislation for repealing the ACNC is passed, and details of what the new reporting line will be for your charity.

# ASIC GRANTS RELIEF FOR KMP DISCLOSURES BECAUSE OF CORPORATIONS REGULATIONS DRAFTING ANOMALIES

DIRECTORS AND KEY MANAGEMENT PERSONNEL (KMPs) OF COMPANIES THAT ARE DISCLOSING ENTITIES WILL BE RELIEVED TO KNOW THAT THEY WILL NOT BE REQUIRED TO DISCLOSE THE SHAREHOLDINGS OF ALL ENTITIES IN WHICH THEY HAVE AN INVESTMENT.

## Background

Companies that are disclosing entities with years ending on or after 30 June 2014 will now include all key management personnel (KMP) disclosures in their Audited Remuneration Report, rather than in the notes to their financial statements.

In previous years, the following Australian-specific information about KMPs was required to be disclosed in the financial statements by AASB 124 *Related Party Disclosures*:

- Reconciliation of KMP option and rights holdings
- Reconciliation of KMP share holdings
- Loans to KMPs
- Other transactions and balances with KMPs.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* deleted these requirements and instead, *Corporations Regulation* 2M.3.03(1), items 17 to 24, now require this information to be disclosed in the Audited Remuneration Report.

## Drafting anomalies

When transferring the requirements across from AASB 124 to Regulation 2M.3.03(1), there were some drafting anomalies, which if followed literally, would result in disclosure of:

- All shareholdings of a KMP, rather than just shareholdings in the disclosing entity or any of its subsidiaries, and
- All non-arm's length transactions involving equity instruments (other than share-based payment compensation), by KMPs during the period, rather than just transactions with the disclosing entity and any of its subsidiaries.

## Fixing the problem

In anticipation that the Regulation will be amended in the next few months, the Australian Securities and Investments Commission (ASIC) issued Class Order 14/632 *Key management personnel equity instrument disclosures* on 1 July 2014. Consistent with AASB 124, CO 14/632 allows disclosures about KMP equity instruments in the **disclosing entity and its subsidiaries only**, rather than for every company in which the KMP has an investment.

CO 14/632 is an interim order and only provides relief for financial years ending on or before 30 September 2014. The above disclosures only apply from 30 June 2014 year ends, which mean that the Class Order relief will be effective for years ending 30 June 2014 to 30 September 2014.

## Conditions of the Class Order

CO 14/632 does not require disclosing entities to disclose in their directors' report that they have relied on the Class Order.

Disclosures about equity instruments must include:

- Name of disclosing entity or subsidiary that issued the equity instruments
- Class of equity instrument, and
- For options – details of the class and number of equity instruments for which the options may be exercised.

## Next steps

If you had assumed that the previous AASB 124 disclosures had been transferred to Regulation 2M.3.03(1) without amendment, then your only action point is to transfer the KMP disclosures from the notes to the financial statements to the Audited Remuneration Report.

However, if you were adopting the requirements of Regulation 2M.3.03(1), we recommend that you adopt Class Order 14/632 to obtain the relief, and only disclose your investments in the disclosing entity and its subsidiaries.



# ASIC FOCUSES FOR 30 JUNE 2014 FINANCIAL REPORTS



**IN ACCOUNTING NEWS, JUNE 2014 WE LOOKED AT THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION'S (ASIC'S) PRELIMINARY ANNOUNCEMENT OF ITS SEVEN TOP FOCUS AREAS FOR 30 JUNE 2014 FINANCIAL REPORTS.**

On 27 June 2014, ASIC issued its final Media Release, [Findings from 31 December 2013 financial reports](#) which summarises the results of its recent surveillance programme and also identified a complete list of focus areas for 30 June 2014 financial reports.

#### **Who was reviewed?**

ASIC looked at the financial reports of 135 listed and other public interest entities for 31 December 2013 and **100 proprietary companies for 30 June 2013**.

#### **How many 'please explains' were issued?**

ASIC contacted 23 entities about their accounting treatment of certain items, with many enquiries relating to inadequate impairment of assets.

#### **Do enquiries always result in a material misstatement?**

“...our risk-based surveillance led to material changes to 4% of the financial reports previously reviewed for reporting periods ended 30 June 2010 to 30 June 2013.”

Enquiries do not necessarily require amendment of the financial statements. Six entities of the 23 entities contacted were not required to make any changes to their financial report, meaning that 17 of them did require a restatement.

The 31 December 2013 surveillance reviews have not all been completed but ASIC state that for financial reports for periods ending 30 June 2010 to 30 June 2013, approximately 4% of financial reports reviewed led to material changes.

#### **Naming and shaming**

To date, ASIC has not named (in any Media Releases) entities required to restate their financial reports as a result of the ASIC surveillance reviews. This is about to change.

ASIC Commissioner. John Price now states:

“As part of our surveillance of financial reporting from July 1 2014, ASIC will publicly announce when, following contact from ASIC, a company makes material changes to information previously provided to the market.”

#### **Focus areas for 30 June 2014**

Attachment 1 to the Media Release includes more information on ASIC's complete list of focus areas for 30 June 2014 financial reports:

- Impairment testing and asset valuations
- Amortisation of intangible assets
- Off-balance sheet arrangements and new standards
- Revenue recognition
- Expense deferral
- Tax accounting
- Disclosure of estimates and accounting policy judgements
- Disclosure in the operating and financial review (OFR)
- Segment reporting
- Non-IFRS financial information.

#### **Don't forget private companies are also reviewed**

Remember that large private companies also form part of the sample of financial reports reviewed by ASIC on a regular basis. This means that these entities are not immune from 'please explain' letters from ASIC and should pay particular attention to the focus areas listed above.

Of the 100 financial reports of large private companies reviewed, changes were required for:

- Failing to make impairment write-downs against materially impaired assets
- Misclassifying financial instruments as equity rather than debt
- Inappropriately deferring costs as an asset
- Misclassifying gains on available-for-sale financial assets in the income statement.

ASIC also identified cases where companies were relying on audit relief, even though they did not meet the financial or other conditions for that relief.

## IASB APPROVES AMENDMENTS TO ACCOUNTING FOR BEARER PLANTS



### THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) HAS APPROVED AMENDMENTS FOR THE ACCOUNTING FOR BEARER PLANTS.

For annual reporting periods beginning on or after 1 January 2016, bearer plants will be accounted for as property, plant and equipment under IAS 16 *Property, Plant and Equipment* rather than as biological assets under IAS 41 *Agriculture*.

This means that bearer plants, which are used to produce or supply agricultural produce over more than one period, will not be measured after initial recognition at fair value less costs to sell, but rather using either the cost or revaluation model in IAS 16.

If the revaluation model is used:

- Fair value movements will not be recognised in profit or loss unless impairment losses have been incurred which exceed revaluation increments for that asset, and
- Revaluations will not be required every year as long as the carrying amount is not materially different to fair value.

These changes should save time and costs for entities applying the cost model, and also for entities applying the revaluation model because fair value calculations are not required on an annual basis.

Entities with tea bushes, grape vines, oil palms and rubber trees will be able to account for these bearer plants under IAS 16, however the produce growing on these bearer plants, e.g. tea leaves, grapes, oil palm fruit and latex will remain within the scope of IAS 41.

## AASB 2014-1 - AASB APPROVES ANNUAL IMPROVEMENTS AND OTHER INTERNATIONAL CHANGES

### IN JUNE 2014 THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB) APPROVED VARIOUS CHANGES TO AUSTRALIAN ACCOUNTING STANDARDS AS A RESULT OF A HOST OF CHANGES MADE BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD OVER THE PAST SIX MONTHS.

AASB 2014-1 *Amendments to Australian Accounting Standards* includes changes for:

- [Annual improvements cycle 2010-2012](#)
- [Annual improvements cycle 2011-2103](#)
- [Deferral of mandatory effective date of AASB 9 \*Financial Instruments\* to 1 January 2018.](#)

The AASB also issued AASB 14 *Regulatory Deferral Accounts* which provides interim guidance on rate regulated activities. This is primarily a standard for Canadian rate regulated entities transitioning to IFRS, which were allowed to recognise rate regulated assets and liabilities under Canadian GAAP. AASB 14 will have no impact on Australian entities.

Please refer to AASB 2014-1 when disclosing information about standards not yet effective as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## NEW BDO PUBLICATIONS

The [Audit](#) section of our website includes a range of publications on IFRS issues. Look for the 'Global IFRS Resources' link which includes resources such as:

- [IFRS at a Glance](#) – 'one page' and short summaries of all IFRS standards.
- [IFRS News at a Glance](#) – provides high-level headlines of newly released documents by the IASB and IFRS related announcements by securities regulators.
- [Need to Knows](#) – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Recent Need to Knows include [IFRS 9 \*Financial Instruments\* \(May 2014\)](#), [Hedge Accounting \(IFRS 9 \*Financial Instruments\*\) \(Jan 2014\)](#), [IFRS 11 \*Joint Arrangements\* \(Dec 2013\)](#) and [IFRS 13 \*Fair Value Measurement\* \(Dec 2013\)](#).
- [IFRS in Practice](#) – practical information about the application of key aspects of IFRS, including industry specific guidance. Recent IFRS in Practice include [IAS 7 \*Statement of Cash Flows, Distinguishing between a business combination and an asset purchase in the extractives industry\* \(March 2014\)](#), [IAS 36 \*Impairment of Assets\* \(Dec 2013\)](#) and [Common Errors in Financial Statements – Share-based Payment \(Dec 2013\)](#).
- [Comment letters on IFRS standard setting](#) – includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients. Latest comment letters include [Request for information – Post-implementation Review: IFRS 3 \*Business Combinations\*, IASB ED 2013 11 \*Annual Improvements to IFRSs \(2012-2014 Cycle\)\*, IASB ED 2013-10 \*Equity Method in Separate Financial Statements\* and IASB ED 2013-9 \*IFRS for SMEs Review\*.](#)



# COMMENTS SOUGHT ON EXPOSURE DRAFTS

At BDO, we provide comments locally to the Australian Accounting Standards Board (AASB) and internationally to the International Accounting Standards Board (IASB). We welcome any client comments on exposure drafts that are currently available for comment. If you would like to provide any comments please contact Wayne Basford at [wayne.basford@bdo.com.au](mailto:wayne.basford@bdo.com.au).

DOCUMENT	PROPOSALS	COMMENTS DUE TO AASB BY	COMMENTS DUE TO IASB BY
ED 249 <i>Disclosure Initiative (Proposed amendments to AASB 101)</i>	<p>Issued as a result of the IASB's Disclosure Initiative, which was started in response to concerns raised by respondents to the IASB's <i>Agenda Consultation</i> in 2011.</p> <p>The ED proposes changes to AASB 101 <i>Presentation of Financial Statements</i> relating to materiality, line items in financial statements, notes to the financial statements and accounting policies.</p> <p>Also proposes changes as a result of a recommendation by the IFRS Interpretations Committee relating to disclosure of items of other comprehensive income relating to equity accounted investments.</p>	30 June 2014	23 July 2014
ED 250 <i>Investment Entities: Applying the Consolidation Exemption (Proposed amendments to AASB 10 and AASB 128)</i>	<p>Proposes to:</p> <ul style="list-style-type: none"> <li>Extend the intermediate parent entity consolidation exemption to investment entities</li> <li>Clarify that service subsidiaries only need to be consolidated if they act as an extension of the parent entity's investment operations, and are not investment entities themselves</li> <li>Clarify that for investments in investment entities that are associates, fair values can be retained when equity accounting</li> <li>Clarify that for investments in investment entities that are joint ventures, fair values cannot be retained when equity accounting.</li> </ul>	15 August 2014	15 September 2014
ITC 31 <i>Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging</i>	<p>Invites comments on the approach to macro hedge accounting put forward in the IASB's Discussion Paper (DP). The DP assesses whether an accounting approach that reflects how entities manage risk dynamically is necessary to help users of financial statements to understand risk management activities. Specifically the DP considers whether the portfolio revaluation approach (PRA) would provide useful information. In the PRA, for accounting purposes, the net open risk position(s) of dynamically managed portfolio(s) is identified and revalued for changes in the managed risk (for example, interest rate risk) with any gains/losses recognised in profit or loss.</p>	19 September 2014	17 October 2014

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