

# Technical Accounting Alert

## Section 258F: Reductions in share capital because of lost capital

### Introduction

s258F represents one of various amendments made to the *Corporations Act 2001* in 2010, and its application relates to where a company may reduce its share capital by cancelling any paid-up share capital that is lost or is not represented by available assets.

### Example of Equity Section in financial statements before and after applying s258F

	Before \$000	After s258F \$000
Issued capital	250,000	45,000
Reserves	5,000	5,000
Accumulated losses	(220,000)	(15,000)
<b>Total equity / net assets</b>	<b>35,000</b>	<b>35,000</b>

**Disclosure in notes to the accounts:** *On 31 August 2014, XYZ Limited reduced its share capital by \$205m in accordance with section 258F of the Corporations Act 2001, reducing accumulated losses deemed to be of a permanent nature by the same amount.*

*There is no impact on shareholders from the capital reduction as no shares have been cancelled or rights varied, and there is no change in the net asset position of the Company. There is also no impact on the availability of the Company's tax losses from this capital reduction.*

### What Boards need to consider

- Resolution / procedural steps
- Consideration of the company's constitution
- Appropriate disclosure in the financials

### **Why do Companies reduce their share capital applying s258F?**

- Paid-up capital is not supported by available assets.
- Certain historical losses are essentially permanent, and the earning of future profits will result from a business which no longer resembles its trading history, an example being losses associated with discontinued operations.
- Accounting for certain equity-based transactions which resulted in inflated issued capital and immediate impairment losses, which arguably never fairly reflected the issued capital and loss position to begin with.
- Removes any doubt about a company's ability to pay franked dividends where more recent profits were applied against prior year losses (refer Taxation Ruling TR 2012/5).

Essentially the applicable of s258F only results in an accounting entry where accumulated losses are applied against issued capital.

There are also benefits where doubt exists about a company's ability to declare a franked dividend.

### **Section reference (Corporations Act 2001)**

#### *Division 3—Other share capital reductions. 258F Reductions because of lost capital*

(1) A company may reduce its share capital by cancelling any paid-up share capital that is lost or is not represented by available assets.

(2) This power does not apply if:

(a) the company also cancels shares; or

(b) the cancellation of paid-up share capital is inconsistent with the requirements of any accounting standard.

### **Requirements of accounting standards**

On the basis the disclosure and presentation of the share capital reduction / offsetting against accumulated losses is fairly presented, applying s258F is not inconsistent with the requirements of any accounting standard.

There may be some circumstances where it is inappropriate to apply s258F.

### Further information

For further information on any of the information included in this TA alert, please contact the author of this alert, Michael Climpson, your local Grant Thornton Australia contact or a member of the National Audit Support team at [nationalaudit.support@au.gt.com](mailto:nationalaudit.support@au.gt.com).

### Michael Climpson

#### Partner - Audit & Assurance

Grant Thornton Australia

The Rialto | Level 30 | 525 Collins Street | Melbourne | VIC 3000 | Australia

**T (direct)** +61 3 8320 2158 | **T (office)** +61 3 8320 2222 | **F** +61 3 8320 2200

**E** [michael.climpson@au.gt.com](mailto:michael.climpson@au.gt.com) | **W** [www.grantthornton.com.au](http://www.grantthornton.com.au)