PSC/TR003/2014

KENYA SME LIMITED
GENERAL PURPOSE ILLUSTRATIVE FINANCIAL STATEMENTS
31 DECEMBER 2013

SPECIMEN FINANCIAL STATEMENTS

KENYA SME LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2013

Note 1: ***This specimen provides an illustrative set of financial statements prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the reporting requirements of the Kenyan Companies Act for accounting periods beginning 1st January 2013. The illustration is in respect of a company that was already complying with the IFRS for SMEs in the previous year.***

The IFRS for SMEs defines SMEs as entities that:

a) Do not have public accountability, and

b) Publish general purpose financial statements for external users,

and paragraph 1.5 of the standard states that if a publicly accountable entity uses the IFRS for SMEs, its financial statements shall not be described as conforming to the IFRS for SMEs.

The specimen is intended as guidance for members of ICPAK. The specimen is not an interpretation of IFRS, and where necessary, reference should be made to the specific standards. Also, the presentation format is not the only acceptable form of presentation and other forms of presentation may be acceptable provided that they comply with the disclosure requirements of the IFRS for SMEs.

The Institute acknowledges the key contribution by RSM Ashvir in preparing this specimen.

Note 2: ***The specimen does not cover the following Sections of the IFRS for SMEs:***

- ***9. Consolidated and separate financial statements***
- ***12. Other financial instruments issues***
- ***15. Investments in joint ventures***
- ***19. Business combinations and goodwill***
- ***24. Government grants***
- ***26. Share-based payment***
- ***31. Hyperinflation***
- ***34. Specialised activities***

Note 3: ***Each item in the specimen financial statements is referenced (on the left) to the applicable presentation and disclosure requirements of the IFRS for SMEs and the Kenyan Companies Act. The following reference format has been used in this specimen:***

9.26: refers to paragraph 9.26 of the IFRS for SMEs

CA: refers to the reporting requirements of the Kenyan Companies Act

BP: refers to best reporting practice adopted in Kenya

DV: disclosure voluntary

Note 4: ***Text within square brackets ([…]) represents guidance that does not form part of the Specimen Financial Statements.***

CONTENTS

Supplementary information:

3.23 *[If supplementary information, such as a detailed schedule of operating expenditure, is to be included, it should be made clear that it does not form part of the audited financial statements.]*

[Alternative presentation:]

3.22 **[In these specimen financial statements, the titles required by the Kenyan Companies Act have been used.]*

CA	**Board of directors**	………………………………..
		………………………………..
		………………………………..
		………………………………..
		………………………………..
BP	**Company secretary**	……………………………….
		……………………………….
		……………………………….
	Registered office	L.R. No. ……………………..
		…th Floor, …………. Building
		…………………. Street/Road
		P.O. Box ……………….
		Nairobi,
		Kenya.
	Independent auditor	………………………………..
		Certified Public Accountants
BP	**Principal bankers**	………………………………..
		………………………………..
BP	**Legal advisers**	………………………………..
		………………………………..

CA - 157(1) The directors submit their report together with the audited financial statements for the year ended 31st December 2013, which disclose the state of affairs of the company.

Principal activities

CA The principal activities of the company are …………………………………………………………..

Results and dividends

CA - 157(1) The net profit/(loss) for the year of Shs ………... (2012: Shs …...……) has been added to/deducted from retained earnings. During the year, an interim dividend of Shs ………… (2012: Shs …………) was paid. The directors recommend the approval of a final dividend of Shs .... (2012: Shs ....).

[Or]
The net profit/(loss) for the year of Shs ………… (2012: Shs …………) has been added to/deducted from retained earnings. The directors do not recommend the declaration of a dividend for the year.

Directorate

CA The directors who held office during the year and to the date of this report are set out on page 1.

Auditor

The company's auditor, ………..., has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act.

[Or]
During the year, …………. was appointed as the company's auditor and has expressed its willingness to continue in office in accordance with the Section 159 (2) of the Kenyan Companies Act.

By order of the board

…………………………………..
Director/Company Secretary

Nairobi …………..…………………... 2014

Kenya SME Limited
Statement of directors' responsibilities
For the year ended 31st December 2013

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31st December 2013 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on ………………………………….. 2014 and signed on its behalf by:

……………………………………
Director

……………………………………
Director

Report on the financial statements

We have audited the accompanying financial statements of Kenya SME Limited, set out on pages 5 to 20, which comprise the balance sheet as at 31st December 2013, the profit and loss account, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2013 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act.

CA **Report on other legal requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

ICPAK The engagement partner responsible for the audit resulting in this independent auditor's report was CPA ***[name of partner]*** , Practising Certificate No. ....

Certified Public Accountants
Nairobi

……………………………….. 2014

3.23(a) ***Kenya SME Limited***
3.23(b) ***Financial statements***
3.23(c) ***For the year ended 31st December 2013***

3.17(b)(i) **PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2013**
5.2(a)

		Note	2013 Shs'000	2012 Shs'000
3.23(d)				
5.5(a)	Revenue	4		
5.9	Cost of sales			
5.9	**Gross profit**			
5.9	Other income	5		
5.9	Selling and distribution expenses			
5.9	Administrative expenses			
5.5(b)	Finance costs	6		
5.9	**Profit/(loss) before tax**	7		
5.5(d)	Tax (expense)/income	8		
3.19	**Profit/(loss) for the year**			
CA	**Dividends:**			
	Interim - paid in year	9		
	Final - proposed	9		

5.11

[Note 1: The format illustrated above aggregates expenses according to their function (cost of sales, distribution, administrative, etc). Alternatively, expenses may be aggregated according to their nature (raw materials and consumables, employee salaries and other benefits, depreciation and amortisation, impairment, etc).]

[Note 2: The format illustrated is appropriate only for entities with no 'other comprehensive income'. The IFRS for SMEs requires only three types of 'other comprehensive income':

- some gains or losses arising on translating the financial statements of foreign operations
- some actuarial gains and losses
- some changes in fair values of hedging instruments.

If any of the above are applicable, the entity should present either a single 'statement of comprehensive income' or an 'income statement' and a 'statement of comprehensive income'.]

3.23(a) ***Kenya SME Limited***
3.23(b) ***Financial statements***
3.23(c) ***For the year ended 31st December 2013***

4.1 **BALANCE SHEET AT 31ST DECEMBER 2013**

		Note	2013 Shs'000	2012 Shs'000
	EQUITY			
4.11(f)	Share capital	10		
4.3, CA	Share premium	10		
4.11(f)	Retained earnings			
4.2(r)	**Total equity**			
4.4	**Non-current liabilities**			
4.2(m)	Borrowings	11		
4.2(p)	Post-employment benefit obligation	12		
	Total non-current liabilities			
	REPRESENTED BY			
4.4	**Non-current assets**			
4.2(e)	Property, plant and equipment	13		
4.2(g)	Intangible assets	14		
4.2(j)	Investment in associate	15		
4.2(c)	Investment in quoted shares	16		
4.2(o)	Deferred tax asset	17		
4.4	**Current assets**			
4.2(d)	Inventories	18		
4.2(b)	Trade and other receivables	19		
4.2(n)	Current tax recoverable			
4.2(a)	Cash at bank and in hand			
4.4	**Current liabilities**			
4.2(l)	Trade and other payables	20		
4.2(n)	Current tax payable			
4.2(p)	Provision for warranty obligations	21		
4.2(a)	Borrowings	11		
4.2(p)	Current portion of post-employment benefit obligation	12		
4.3	**Net current assets/(liabilities)**			

32.9 The financial statements on pages 5 to 20 were approved for issue by the board of directors on …………………... 2014 and were signed on their behalf by:

……………………
Director

……………………
Director

6.3 **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2013**

		Note	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends* Shs'000	Total Shs'000
	At 1st January 2012						
6.3(c)(i)	Profit/(loss) for the year						
6.3(c)(iii)	Dividends:						
	- Final for 2011						
	- Interim for 2012	9					
32.8	- Proposed final for 2012*	9					
	At 31st December 2012						
	At 1st January 2013						
6.3(c)(i)	Profit/(loss) for the year						
6.3(c)(iii)	Shares issued for cash	10					
6.3(c)(iii)	Dividends:						
	- Final for 2012	9					
	- Interim for 2013						
32.8	- Proposed final for 2013*	9					
	At 31st December 2013						

32.8 ** [Presenting proposed dividends as a segregated component of retained earnings (as illustrated above) is optional.]*

3.18 *[Note: if the only changes to equity during the periods presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies, an entity may present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity (see Appendix I).]*

7.3 3.17(d) STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2013

		Note	**2013 Shs'000**	**2012 Shs'000**
7.1	**Cash flows from operating activities**			
7.7(a)	Profit for the year			
7.8(b)	Adjustments for:			
	Tax expense			
	Depreciation of property, plant and equipment	13		
	Impairment of property, plant and equipment	13		
	Amortisation of intangible assets	14		
	Fair value (gain)/loss on quoted shares	16		
7.13	Unrealised exchange (gain)/loss			
	Provision for post-employment benefit obligations	12		
	Gain on sale of equipment			
	Dividend income	5		
	Interest expense	6		
7.8(a)	Changes in operating assets and liabilities:			
	Decrease (increase) in trade and other receivables			
	Decrease (increase) in inventories			
	Increase (decrease) in trade payables			
	Cash generated from operations			
7.15	Interest paid			
7.17	Income tax paid			
7.3	*Net cash from operating activities*			
7.1	**Cash flows from investing activities**			
7.5(c)	Purchase of quoted shares	16		
7.15	Dividends received on quoted shares			
7.15	Dividend received from associate			
7.5(b)	Proceeds from sale of equipment			
7.5(a)	Purchases of equipment	13		
7.3	*Net cash used in investing activities*			
7.1	**Cash flows from financing activities**			
7.6(e)	Payment of finance lease liabilities	11		
7.6(d)	Repayment of borrowings			
7.16	Dividends paid			
7.3	*Net cash used in financing activities*			
	Net increase (decrease) in cash and cash equivalents			
	Cash and cash equivalents at start of year			
7.13	Exchange gain/(loss) on cash and cash equivalents			
	Cash and cash equivalents at end of year	22		

3.17(e) **NOTES**

1. General information

3.24(a) 3.24(b) Kenya SME Limited (the Company) is domiciled in Kenya where it is incorporated under the Kenyan Companies Act as a private company limited by shares. The address of its registered office and principal place of business is .... The principal activities of the company are ....

8.5 **2. Basis of preparation and summary of significant accounting policies**

3.3 3.23(d) 3.23(e) 8.5(a) These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Kenya Shillings (Shs), rounded to the nearest thousand. The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

23.30(a) *Revenue recognition*

23.4 23.10 23.14 Revenue from sales of goods is recognised when the goods are delivered and title has passed. Revenue from sale of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of Kenya.

20.25 Rental income from investment properties is recognised on a straight-line basis over the respective lease term and is included in 'other income'.

23.29(c) Dividend income from investments, including associates, is recognised in the period in which the right to receive payment has been established, and is included in 'other income'.

Borrowing costs

25.2 All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Glossary Tax expense represents the aggregate amount included in profit or loss for the period in respect of current tax and deferred tax.

Glossary Current tax is the amount of income tax payable or refundable in respect of the taxable profit or loss for the current and prior periods, determined in accordance with the Kenyan Income Tax Act.

29.9 29.3(c)(i) A deferred tax asset or liability is recognised for tax recoverable or payable as a result of past transactions or events. Deferred tax arises from differences (known as temporary differences) between the carrying amounts of assets and liabilities in the balance sheet and their corresponding tax bases, and the carry forward of unused tax losses. The tax bases of assets are determined by the consequences of sale of the assets.

29.19 Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which the directors expect the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

29.21 29.22 At each reporting date, deferred tax assets are reviewed and adjusted, if necessary, by a valuation allowance, so that the net carrying amount equals the highest amount that is more likely than not to be recovered, based on current or estimated future taxable profit. Any changes to the valuation allowance are recognised in 'tax expense'.

Translation of foreign currencies

All transactions in foreign currencies are initially recorded in Kenya Shillings, using the spot rate at the date of the transaction. Foreign currency monetary items at the reporting date are translated using the closing rate. All exchange differences arising on settlement or translation are recognised in profit or loss.

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Share capital, share premium, and dividends

22.10 32.8 Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of the par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting*.

** [This is optional.]*

14.12(a) *Investments in associates*

14.2 An associate is an entity that is not a subsidiary, over which the company has significant influence.

14.5 Investments in associates are accounted for at cost less any accumulated impairment losses.

Financial assets

11.13 11.14 11.21 Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately

11.14(c) Investments in quoted shares are initially recognised at the transaction price and subsequently measured at fair value with changes in fair value being recognised in profit or loss. Fair value is determined using the quoted bid price at the reporting date.

*Property, plant and equipment, including investment property**

17.31(a) Items of property, plant and equipment, including investment property, are measured at cost less accumulated depreciation and any accumulated impairment losses.

17.31(b) Freehold land is not depreciated. For all other assets, depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

17.31(c)	Buildings	2 per cent
	Fixtures and equipment	10-30 per cent

17.23 If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

17.30 17.28 On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in profit or loss.

** [This specimen illustrates investment property being accounted for using the cost model. Investment property whose fair value can be measured reliably without undue cost or effort must be measured at fair value at each reporting date.]*

Intangible assets

18.27 (a) & (b) Intangible assets comprise purchased computer software and are stated at cost less accumulated amortisation and any accumulated impairment losses. They are amortised over their estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Leases

20.4 Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the company. All other leases are classified as operating leases.

20.9 20.11 20.12 Rights to assets held under finance leases are recognised as assets of the company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

20.15 Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

13.22(a) *Inventories*

13.4 13.5 Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

Impairment of non-financial assets

27.7 27.6 At each reporting date, property, plant and equipment, investment property, intangible assets, and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

27.2 Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

27.29 If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial liabilities

11.13 11.14 Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

Employee benefits - post-employment benefit obligations

28.19 28.41(a) The liability for post-employment benefit obligations relates to terminal gratuities. All full-time staff, excluding directors, are covered by the programme. Employees who resign or retire after completing at least ..... years of service are entitled to ..... days pay for each completed year of service. The company does not fund this obligation in advance.

28.41(c) 28.24 The company's obligations, both vested and unvested, to pay terminal gratuities to employees are recognised based on employees' service up to the reporting date and their salaries at that date. The net change in the obligation is recognised in profit or loss.

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Employee benefits - post-employment benefits (continued)

The company and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to profit or loss in the year to which they relate.

Provision for warranty obligations

All goods sold by the company are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the company's option. When revenue is recognised, a provision is made for the estiamted cost of the warranty obligation.

3. Judgements and key sources of estimation uncertainty

8.6 No significant judgements have had to be made by the directors in preparing these financial statements.*

8.7 The directors have, however, had to make key assumptions regarding the recoverable amount of impaired trade receivables. The recoverable amount of such receivables at the end of the reporting period has been estimated at Shs .....*

8.7 Estimates made in determining the warranty provision are based on past experience and may change based on the actual cost of fulfilling the warranties.*

**[This is illustrative and must be tailored to reflect the significant judgements made by the directors and the key sources of estimation uncertainty.]*

		2013 Shs'000	2012 Shs'000
23.30(b)	**4. Revenue**		
	Sale of goods		
	Sale of services		
	5. Other income		
	Rental income from investment property		
11.48(a)(i)	Dividends received from investments in quoted shares		
14.13	Dividend received from associate		
11.48(a)(i)	Fair value gain - quoted shares		
	Gain on disposal of property, plant and equipment		
11.48(b)	**6. Finance costs**		
11.48(a)(iv	Interest on bank loan and overdraft		
	Interest on finance leases		
	Exchange loss/(gain) on foreign currency borrowings*		

25.1(c) ** [Such exchange losses/gains should be classified as finance costs only if they can be regarded as an adjustment to interest costs.]*

NOTES (CONTINUED)

7. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

Ref		2013 Shs'000	2012 Shs'000
13.22(c)	Cost of inventories recognised as expense		
CA	Depreciation of property, plant and equipment		
27.33(b)	Impairment loss on property, plant and equipment (included in cost of sales)		
11.48(c)	Impairment loss on trade receivables		
20.16(b)	Operating lease rentals		
30.25(a)	Foreign exchange loss on trade payables (included in cost of sales)		
28.41(g)(i)	Net increase in provision for post-employment benefit obligation		
28.40	Post-employment benefits - contribution to NSSF		
CA	Auditor's remuneration		

8. Tax expense

Ref		2013 Shs'000	2012 Shs'000
29.31(a)	Current tax		
29.31(c)	Deferred tax (Note 19)		
29.31(b)	Under-provision in prior year		
29.31(g)	Change in the valuation allowance		
	Tax expense/(credit)		

29.32(c) The tax expense for the year differs from the theoretical amount that would result from applying the statutory tax rate of 30% (2012: 30%) to profit before tax as follows:.

	2013 Shs'000	2012 Shs'000
Profit/(loss) before tax		
Tax calculated at the statutory rate of 30%		
Tax effect of:		
Income not subject to tax		
Expenses not deductible for tax purposes		
Under-provison in prior year		
Change in the valuation allowance		
Tax expense/(credit)		

9. Dividends

DV At the forthcoming annual general meeting, a final dividend in respect of the year ended 31st December 2013 of Shs ………… per share amounting to Shs ………… (2012: Shs ……….. per share amounting to Shs ……………) is to be proposed. During the year, an interim dividend of Shs ………... per share amounting to Shs ………….. (2012: Shs ………. per share amounting to Shs ……………) was paid. The total amount of dividend paid and proposed per share for the year is Shs .... (2012: Shs ....) amounting to Shs .... (2012: Shs ....).

10. Share capital

4.12(a)

Ref		No. of ordinary shares issued	Issued and fully paid up capital Shs'000	Share premium Shs'000
	At 1st January 2012 and 31st December 2012			
4.12(a)(iv)	Issued for cash in 2013			
	At 31st December 2013			

NOTES (CONTINUED)

10. Share capital (continued)

4.12(a)(i) 4.2(a)(iii) The total number of authorised ordinary shares is ……………… (2012: …...………..) with a par value of Shs …………… each.

4.12(a)(iii) On ………………….., the issued and paid up capital was increased from Shs ……….. to Shs ……….. by an issue for cash of ………… ordinary shares at a price of Shs ……….. per share.

4.12(b) The share premium account, which represents the excess of the price paid for shares over the par value, is not distributable.

11. Borrowings

		2013 Shs'000	2012 Shs'000
	Non-current		
11.42	Bank loan - fully repayable in 201_, prepayable without penalty		
	Obligations under finance leases		
	Current		
	Bank overdraft		
	Bank loan		
	Obligations under finance leases		
CA	Total borrowings		

11.46 The bank overdraft and loan are secured by a floating lien over land and buildings owned by the company with a carrying amount of Shs …………. at 31st December 2013 (2012: Shs …………..).

11.42 The bank loan is denominated in US dollars.

11.42 Interest is payable on the bank overdraft at 200 points above the London Interbank Borrowing Rate (LIBOR). Interest is payable on the seven-year bank loan at a fixed rate of 5 per cent of the principal amount.

11.47 The company defaulted in making payments of principal on the bank loan during the year. The amounts have been paid, together with penalty interest, subsequent to the year-end.

Obligations under finance leases

20.13(c) 20.13(b) The company holds one piece of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are as follows:

	2013 Shs'000	2012 Shs'000
Not later than one year		
Later than one year but not later than five years		
Later than five years		
Less: future finance costs inherent in the lease		
Present value of minimum lease payments, as above		

NOTES (CONTINUED)

11. Borrowings (continued)

	2013 Shs'000	2012 Shs'000
7.6(e) In the statement of cash flows, payments of finance lease liabilities represents:		
Payments of principal		
Payments of interest		

12. Post-employment benefit obligation

28.41(e) The company's obligation to pay terminal gratuities, based on employees' years of service and salaries at the balance sheet date is as follows:

	2013 Shs'000	2012* Shs'000
At start of year		
28.41(g) Additional provision made during the year, charged to profit or loss		
28.41(e) Benefits paid during the year		
At end of year		
The obligation is classified as:		
Current liability		
Non-current liability		
Total		

28.41 *[Disclosure of comparative figures is voluntary.]

17.31
4.11(a) **13. Property, plant and equipment**

	Land* and buildings Shs'000	Investment property Shs'000	Fixtures and equipment Shs'000	Total Shs'000
Cost				
17.31(d) At start of year				
17.31(e)(i) Additions				
17.31(e)(ii) Disposals				
17.31(d) At end of year				
Accumulated depreciation and impairment				
17.31(d) At start of year				
17.31(e)(iv) Annual depreciation				
17.31(e)(v) Impairment				
17.31(e)(ii) Less accumulated depreciation on assets disposed of				
17.31(d) At end of year				
Carrying amount				
At end of year				

20.5 *[Leasehold land that meets the criteria for classification as a finance lease, may be included in property, plant and equipment.]

NOTES (CONTINUED)

13. Property, plant and equipment (continued)

17.24 During 2013, the company noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of Shs ………….

20.13(a) The carrying amount of the company's fixtures and equipment includes an amount of Shs …………. (2012: Shs ………….) in respect of assets held under finance leases.

In the statement of cash flows, purchases of property, plant and equipment represent:

		2013 Shs'000	2012 Shs'000
	Additions, as above		
7.19(a)	Less: amounts financed through finance leases		

4.14 17.26 On 10th December 2013, the directors resolved to dispose of a machine. The machine's carrying amount of Shs ……….. is included in fixtures and equipment at 31st December 2013, and trade payables includes the company's remaining obligation of Shs ………. on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.

17.32(b) Contractual commitments for the acquisition of property, plant and equipment amounted to Shs ……... at 31st December 2013 (2012: Shs ……...).

18.27 **14. Intangible assets - software**

		2013 Shs'000	2012 Shs'000
	Cost		
18.27(c)	At start of year		
18.27(e)(i)	Additions		
18.27(e)(ii)	Disposals		
18.27(c)	At end of year		
	Accumulated amortisation and impairment		
18.27(c)	At start of year		
18.27(d)	Annual amortisation (included in administrative expenses*)		
18.27(c)	At end of year		
	Carrying amount		
	At end of year		

18.28 The intangible asset comprises two items of application software: general ledger, with a carrying amount of Shs ……..... and remaining amortisation period of 2 years; and payroll with a carrying amount of Shs …....... and remaining amortisation period of 4 years.

** [If the entity classifies its expenses by nature in its income statement, this would say 'included in depreciation and amortisable expense'.]*

15. Investment in associate

DV The company owns 35% of an associate, whose shares are not publicly traded.

NOTES (CONTINUED)

DV **16. Investment in quoted shares**

	2013 Shs'000	2012 Shs'000
At start of year		
Purchase of shares		
Fair value gain/(loss)		
At end of year		

17. Deferred tax

DV The deferred tax assets and liabilities relate to:

(a) differences between the carrying amounts and tax written down values of property, plant and equipment;
(b) the post-employment benefit obligation (Note 12), which will not be tax-deductible until the benefit is actually paid but has already been recognised as an expense in measuring the company's profit for the year;
(c) the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled but has already been recognised as an expense in measuring the company's profit for the year.

29.32(d) The following are the deferred tax assets (liabilities) recognised by the company:

Year ended 31st December 2013	**At start of year Shs'000**	**Credited /(charged) to profit or loss Shs'000**	**At end of year Shs'000**
Deferred tax asset			
Post-employment benefit obligation			
Unrealised exchange loss			
Tax losses carried forward			
Deferred tax liability			
Property, plant and equipment			
Net deferred tax asset before allowance			
Valuation allowance			
Net deferred tax asset			
Year ended 31st December 2012			
Deferred tax asset			
Post-employment benefit obligation			
Unrealised exchange loss			
Tax losses carried forward			
Deferred tax liability			
Property, plant and equipment			
Net deferred tax asset before allowance			
Valuation allowance			
Net deferred tax asset			

NOTES (CONTINUED)

17. Deferred tax (continued)

29.29 The deferred tax assets and liabilities relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the balance sheet.

29.32(e) Under the Kenyan Income Tax Act, with effect from 1st January 2010, tax losses are allowable as a deduction only in the four years succeeding the year in which they occurred. The tax losses of Shs _____ carried forward will expire as follows:

Arising in:	Tax losses	Expiring:
2010 and earlier		31st December 2014
2011		31st December 2015
2012		31st December 2016
2013		31st December 2017
Tax losses carried forward		

A valuation allowance has been recognised so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current and estimated future taxable profits.

29.32(f)
29.25 If the whole of the retained earnings as at the reporting date were to be distributed, a further Shs ….. (2012: Shs …..) of tax would be payable. This liability has not been recognised.

4.11(c)
13.22(b)

18. Inventories	**2013 Shs'000**	**2012 Shs'000**
4.11(c)(iii) Raw materials		
4.11(c)(ii) Work in progress		
4.11(c)(i) Finished goods		

4.11(b)

19. Trade and other receivables		
Trade receivables, net of provision for impairment		
Amounts due from related parties		
Value Added Tax recoverable		
Prepayments		

4.11(d)

20. Trade and other payables		
Trade payables		
Amounts due to related parties		
Accrued expenses		

11.42 Trade payables at 31st December 2013 include Shs ………… denominated in foreign currencies (2012: nil).

NOTES (CONTINUED)

21.14 **21. Provision for warranty obligations**

		2013 Shs'000	2012* Shs'000
	Changes in the provision for warranty obligations during 2013 were:		
21.14(a)(i)	At start of year		
21.14(a)(ii)	Additional accrual during the year		
21.14(a)(iii)	Cost of warranty repairs and replacement during the year		
21.14(a)(i)	At end of year		

The obligation is classified as a current liability because the warranty is limited to twelve months.

** [Voluntary disclosure of comparative figures.]*

7.2
7.20 **22. Cash and cash equivalents**

	2013 Shs'000	2012 Shs'000
Cash at bank and in hand		
Less: bank overdraft		

23. Commitments under operating leases

20.16 (c) The company rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

20.16 (a) At year-end, the company has outstanding commitments for minimum lease payments under non-cancellable operating leases that fall due as follows:

	2013 Shs'000	2012 Shs'000
Within one year		
Later than one year but within five years		
Later than five years		

24. Related party transactions

33.5
33.9 The company's parent, which is also its ultimate controlling party, is ….. Limited. ….. Limited does not produce financial statements available for public use. The company sells goods and services to, and buys goods and services from, its associate and other companies that are related to it through common shareholding or common directorships, as follows:

		2013 Shs'000	2012 Shs'000
	i) Purchase of goods and services		
33.10(a)	- Parent		
33.10(b)	- Associate		
33.10(d)	- Other related parties		
	ii) Sale of goods and services		
33.10(a)	- Parent company		
33.10(b)	- Associate		
33.10(d)	- Other related parties		

NOTES (CONTINUED)

24. Related party transactions (continued)

iii) Outstanding balances arising from sale and purchase of goods/services

	Amounts due from related parties (Note 19)		
33.10(a)	- Parent company		
33.10(b)	- Associate		
33.10(d)	- Other related parties		
	Amounts due to related parties (Note 20)		
33.10(a)	- Parent company		
33.10(b)	- Associate		
33.10(d)	- Other related parties		

33.9(c) There are no impairment provisions held against any related party balances.

33.9(b)(ii) The payments under the finance lease (see Note 11) are personally guaranteed by a principal shareholder of the company. No charge has been requested for this guarantee.

33.7 CA The total remuneration of directors and other members of key management in 2013 (including salaries and benefits) was Shs ………… (2012: Shs …………). Of this amount, directors' remuneration amounted to:

	2013 Shs'000	2012 Shs'000
As executives		
Fees		
Total		

21.15 **25. Contingent liabilities**

During 2013, a customer initiated proceedings against Kenya SME Limited for a fire caused by a faulty product supplied by the company. The customer asserts that its total losses are Shs …………. and has initiated litigation claiming this amount.

The company's legal counsel do not consider that the claim has merit, and the company intends to contest it. No provision has been recognised in these financial statements as the directors do not consider it probable that a loss will arise.

32.10 **26. Events after the end of the reporting period**

On ………………. 2014, there was a flood in one of the company's warehouses. The cost of refurbishment is expected to be Shs ………….. The reimbursements from insurance are estimated to be Shs …………..

3.23(a) ***Kenya SME Limited***

3.23(b) ***Financial statements***

3.23(c) ***For the year ended 31st December 2013***

3.18 **STATEMENT OF INCOME AND RETAINED EARNINGS***

5.2(a)

Ref		Note	2013 Shs'000	2012 Shs'000
3.23(d)				
5.5(a)	Revenue	4		
5.9	Cost of sales			
5.9	**Gross profit**			
5.9	Other income	5		
5.9	Selling and distribution expenses			
5.9	Administrative expenses			
5.5(b)	Finance costs	6		
5.9	**Profit/(loss) before tax**	7		
5.5(d)	Tax (expense)/income	8		
3.19	**Profit/(loss) for the year**			
6.5(a)	Retained earnings at start of year			
6.5(b)	Dividends paid			
6.5(e)	Retained earnings at end of year			
CA	**Dividends:**			
	Interim - paid in year	9		
	Final - proposed	9		

[Note: in this illustration there are no changes in share capital.]

** [Paragraph 3.18 allows presentation of a single 'statement of income and retained earnings' in place of the profit and loss account and 'statement of changes in equity' if the only changes in equity during the periods for which the financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.]*