



# REVIEW OF ILLUSTRATIVE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS FOR SMES

**Presentation by:**

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Uphold public interest

# Session Outlook



- ❖ Definitions
- ❖ Scope of IFRS for SMEs
- ❖ Objectives
- ❖ Comparison with Full IFRS
- ❖ Presentation
- ❖ Accounting Policies
- ❖ Disclosure Requirements
- ❖ Q&A

# Definition of SMEs



Small and medium-sized entities are entities that:

(a) do not have public accountability, and  
(b) publish general purpose financial statements for external users.

- ❖ The *IFRS for SMEs* is designed to meet the needs and capabilities of small and medium-sized entities (SMEs).
- ❖ SMEs account for over 95% of all companies around the world.
- ❖ Why would SMEs use IFRS?

# Scope of IFRS for SMEs



- ❖ The standard does not contain a limit on the size of an entity that may use the IFRS for SMEs provided that it does not have public accountability
- ❖ There is no restriction on its use by a public utility, not-for-profit entity, or public sector entity
- ❖ A subsidiary whose parent or group uses full IFRSs may use the IFRS for SMEs if the subsidiary itself does not have public accountability.
- ❖ Listed companies, no matter how small, may not use the IFRS for SMEs

# Objectives of IFRS for SMEs



## Objectives of SMEs financial statements:

- ❖ To provide information about the financial position, financial performance and cash flows of the entity that is useful for economic decision making by a broad range of users.
- ❖ To show the results of the stewardship of management

# Comparison with Full IFRS



IFRS for SMEs is less complex in a number of ways:

- Topics not relevant for SMEs are omitted eg EPS, Segment Acc
- Many principles for recognising and measuring assets, liabilities, income and expenses in full IFRS are simplified.
- Fewer disclosures are required (roughly a 90% reduction).
- The Standard has been written in clear, easily translatable language.
- Revisions are expected to be limited to once every three years. 2009, 2015,

# Concepts and Pervasive Principles



## Measurement

IFRS for SMEs specifies two common measurement bases, which are;

- ❖ amortized historical cost and
- ❖ fair value.

In most cases the standard specifies which measurement must be used in different sections.

# Concepts and Pervasive Principles...



## Accrual basis

An entity must prepare its financial statements, except for cash flow information, using the accrual basis of accounting.



# Concepts and Pervasive Principles...



## Offsetting

The standard specifically disallows offsetting of assets and liabilities, and income and expense, unless required or permitted in the relevant section.

# Presentation



## Fair Presentation

- ❖ IFRS for SMEs requires faithful representation and use of the definitions and recognition criteria.
- ❖ Furthermore, it concludes that application of the standard (with additional disclosures where necessary) would result in fair presentation if the entity does not have public accountability.

# Presentation...



## Compliance

- ❖ Entities that apply IFRS for SMEs must claim compliance with IFRS for SMEs.
- ❖ In extremely rare circumstances when management concludes that compliance with the standard would be so misleading that it would conflict with the objective of financial statements of SMEs, they must depart from the standard. Special disclosures are required.

# Presentation...



Complete set of financial statements

A complete set of financial statements includes:

- ❖ A statement of financial position
- ❖ A statement of comprehensive income (or a separate income statement and statement of comprehensive income)
- ❖ A statement of changes in equity
- ❖ A statement of cash flows
- ❖ Notes comprising significant accounting policies and other explanatory information.

# Statement of Comprehensive income...



	20XY	20XY-1
Revenue	x	x
Cost of sales	x	x
<b>Gross profit</b>	<b>x</b>	<b>x</b>
Other income	x	x
Distribution costs	x	x
Administrative expenses	x	x
Establishment expenses	x	x
Finance costs	x	x
<b>Profit before tax</b>	<b>x</b>	<b>x</b>
Income tax expense	x	x
<b>Profit for the year</b>	<b>x</b>	<b>x</b>
Retained earnings at start of year	x	x
Dividends (Indicate Interim or final)	x	x
<b>Retained earnings for the year</b>	<b>x</b>	<b>x</b>

# Statement of Financial Position



	20XY	20XY-1
<b>EQUITY</b>		
Share Capital	X	X
Share Premium	X	X
Retained Earnings	X	X
<b>Total Equity</b>	<b>X</b>	<b>X</b>
<b>Non-Current Liabilities</b>		
Longterm Borrowings	X	X
Post-employment benefit Obligation	X	X
<b>Non-current liabilities</b>	<b>X</b>	<b>X</b>
	<b><u>XX</u></b>	<b><u>XX</u></b>

# Statement of Financial Position



## PRESENTED BY

### Non-Current Assets

Investment in quoted shares

x

x

Investment in associate

x

x

Property, plant and equipment

x

x

Investment property

x

x

Intangible assets

x

x

Deferred tax asset

x

x

**Total Non-Current Assets**

x

x

### Current Assets

Cash in bank & at hand

x

x

Cash and cash equivalents

x

x

Trade and other receivables

x

x

Inventories

x

x

Current tax recoverable

x

x

x

x

### Current Liabilities

Short term borrowings

x

x

Trade payables and other payables

x

x

Current tax payable

x

x

Provision for warranty obligations

x

x

Current portion of post employment benefit obligations

x

x

x

x

**Net current assets/(Liabilities)**

x

x

**xx**

**xx**

# Statement of changes in Equity



	Share Capital	Share Premium	Retained Earnings	Proposed Dividends	Total
	Kes	Kes	Kes	Kes	Kes
Bal B/f	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	-	-
<b>Balance C/F</b>	-	-	-	-	-



# Statement of Cashflows



	20XY	20XY-1
<b>Cash flows from operating activities</b>		
Profit for the year	x	x
Adjustments for non-cash income and expenses	x	x
Non-cash finance costs	x	x
Non-cash income tax expense	x	x
Depreciation of property, plant and equipment	x	x
Impairment loss	x	x
Amortization of intangibles	x	x
Cash flow included in investing activities	x	x
Gain on sale of equipment	x	x
Changes in operating assets and liabilities	x	x
Increase in trade and other receivables	x	x
Increase in inventories	x	x
Increase in trade payables	x	x
<b>Net cash from operating activities</b>	<b>x</b>	<b>x</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of equipment	x	x
Purchases of equipment	x	x
<b>Net cash used in investing activities</b>	<b>x</b>	<b>x</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	x	x
Repayment of borrowings	x	x
Dividends paid	x	x
<b>Net cash used in financing activities</b>	<b>x</b>	<b>x</b>
Net increase (decrease) in cash and cash equivalents	x	x
<b>Cash and cash equivalents at beginning of year</b>	<b>x</b>	<b>x</b>

# Illustration I



The following data is available from the records of Salimia Watu Ltd for the year ended 31 December 2016.

Items	Kes	Items	Kes
Accumulated profit	1,135,088	Inventories	1,684,463
Bank loan long term loan	2,052,837	Investment property	941,333
Bank short term loan	181,399	Operating Expenses	3,664,368
Cash at bank	309,732	Other finanacial assets	62,553
Deferred Tax asset	97,945	Other Income	6,399
Fair Value Gain Adjustments	13,213	Property, plant and equipment	2,599,389
Finance Costs	190,487	Provisions	417,783
Intangible assets	40,881	Revenue	14,169,185
Interest Income	281,357	Share Capital	480,000
Shareholders longterm loan	1,769,817	Trade and Other receivables	1,700,242
Trade and other payables	1,525,227		

# Illustration I...



*Additional Information;*

- 1. Salimia Watu Ltd had stocks valued at Kes 2,144,989 on 1 January 2016*
- 2. Taxation charge for the year was Kes 15,965*
- 3. Salimia Watu Ltd had an bank overdraft of Kes 260,761 at 1 January 2016*
- 4. Purchases for the year amounted to Kes 10,264,421.*
- 5. There was no depreciation for the year.*

*Required;*

- i. Statement of Income statement*
- ii. Statement of financial position*

**Salimia Watu Ltd**  
**Statement of Comprehensive Income**  
**For the period ended 31 December 2016**



Revenue	14,169,185
Cost of Sales	10,724,947
<b>GP</b>	<b>3,444,238</b>
Othe Income	6,399
Fair Value Gain	13,213
Operating expenses	(3,664,368)
Operating Loss	(200,518)
Interest Income	281,357
Finance Costs	(190,487)
<b>Loss before tax</b>	<b>(109,648)</b>
Taxation	(15,965)
<b>Loss after tax</b>	<b>(125,612)</b>

**Salimia Watu Ltd**  
**Statement of Financial Position**  
**As At 31 December 2016**



<b>Equity</b>	
Share Capital	480,000
Accumulated profit	<u>1,009,475</u>
	<b>1,489,475</b>
<b>Non-Current Liabilities</b>	
Bank loan long term loan	2,052,837
Shareholders longterm loan	<u>1,769,817</u>
	<b>3,822,654</b>
	<b><u>5,312,129</u></b>

**Salimia Watu Ltd**  
**Statement of Financial Position**  
**As At 31 December 2016....**



<b>Presented by</b>	
<b>Non-Current Assets</b>	
Property, plant and equipment	2,599,389
Investment property	941,333
Intangible assets	40,881
other finanacial assets	62,553
Deferred Tax asset	97,945
	<b>3,742,101</b>

**Salimia Watu Ltd**  
**Statement of Financial Position**  
**As At 31 December 2016....**



<b>Current Assets</b>	
Inventories	1,684,463
Trade and Other receivables	1,700,242
Cash at bank	<u>309,732</u>
	<b>3,694,437</b>
<b>Current Liabilities</b>	
Trade and other payables	1,525,227
bank short term loan	181,399
Provisions	<u>417,783</u>
	<b><u>2,124,409</u></b>
<b>Net Current Assets</b>	<b><u>1,570,029</u></b>
	<b><u><u>5,312,129</u></u></b>

# Presentation...



## General Information

Highlight;

- ❖ Name of Company
- ❖ Where its domiciled
- ❖ Incorporated under which Act
- ❖ Private or public Company?
- ❖ Address of the registered office
- ❖ Principle activity

Example;

Fisi Mnono Ltd is domiciled in Kenya where it is incorporated under the Kenyan Companies Act as a private company limited by shares. The address of the registered office is P.O. Box 123 Kitengela. The principle activities of the company are supplying meat products.



# Accounting Policies and Disclosures Requirements



- ❖ Accounting Policies are specific accounting principles, rule and procedures an SME employs and considers to be the most appropriate to use in current circumstances in order to fairly present its financial statements.
- ❖ Accounting policies shall be disclosed for all material components.
- ❖ Disclosure of accounting policies is particularly useful to users when there are alternatives allowed in Standards and Interpretations.
- ❖ Omission or misstatement of items are material if they can, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements.

# Accounting Policies and Disclosures Requirements...



## Accounting Principles

- ❖ Separate entity
- ❖ Going concern
- ❖ Monetary Unit
- ❖ Historical cost
- ❖ Matching
- ❖ Accounting Period
- ❖ Conservatism
- ❖ Consistency
- ❖ Materiality
- ❖ Objectivity
- ❖ Accrual

# Accounting Policies and Disclosures Requirements...



## Basis of Preparation

- ❖ The financial statements should be in compliance with IFRS for SMEs.
- ❖ The measurement used should be the historical cost basis except where the standard says otherwise like in the circumstances below;

# Accounting Policies and Disclosures Requirements...



## Revenue Recognition – Sec 23

- ❖ Revenue from sale of goods is recognized when goods are delivered and title passed.
- ❖ Revenue from sale of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period.
- ❖ Rental income from investment income is recognized on a straight line basis over the respective lease term
- ❖ Dividend income from investments, including associates is recognized in the period in which the right to receive payment has been established.

# Accounting Policies and Disclosures Requirements...



## Borrowing Costs – Sec 25

- ❖ All borrowing costs are recognized in the profit and loss in the period in which they are incurred
- ❖ Disclosure requirement; total interest expense (using the effective interest method) for financial liabilities that are not at fair value through profit or loss.

Eg. If interest rate charges are;

Year1- 160,000

Year2- 112,000

Year3- 52,000

Then record 108,000 every year and pass the difference through the statement of financial position.

# Accounting Policies and Disclosures Requirements...



## Income Tax - Sec 29

### ❖ Current tax:

- Recognise a current tax liability for tax payable on taxable profit for the current and past period.
- Recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.
- Measure the current tax liability (asset) at the amount expected to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.
- Current tax assets and liabilities are not discounted.

# Accounting Policies and Disclosures Requirements...



## Income Tax - Sec 29

### ❖ Deferred tax:

- Recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Measure deferred tax liabilities and assets using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date

# Accounting Policies and Disclosures Requirements...



## Foreign Currency Transactions- Sec 30

- On initial recognition, record the transaction by applying the spot rate at the date of the transaction. An average rate may be used, unless there are significant fluctuations in the rate.
- At reporting date, translate foreign currency monetary items using the closing rate.



# Accounting Policies and Disclosures Requirements...



## Hyperinflation - Sec 31

- An entity must prepare general price-level adjusted financial statements when its functional currency is hyperinflationary
- IFRS for SMEs provides indicators of hyperinflation but not an absolute rate. One indicator is where cumulative inflation approaches or exceeds 100% over a 3 year period.
- In price-level adjusted financial statements, all amounts are stated in terms of the (hyperinflationary) presentation currency at the end of the reporting period.
- Comparative information and any information presented in respect of earlier periods must also be restated in the presentation currency.

# Accounting Policies and Disclosures Requirements...



## Events after end of the reporting period - Sec 32

- Adjust financial statements to reflect adjusting events – events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period.

# Accounting Policies and Disclosures Requirements...



## Related Party Disclosures - Sec 33

- Disclose parent-subsidary relationships, including the name of the parent and (if any) the ultimate controlling party.
- Disclose key management personnel compensation in total for all key management i.e. executive and non executive directors
- Government departments and agencies are not related parties simply by virtue of their normal dealings with an entity

# Accounting Policies and Disclosures Requirements...



## PPEs- Sec 17 & Investment Property – Sec 16

- Measured at cost less accumulated depreciation and any accumulated impairment losses.
- For investment property, if fair value can be measured reliably without undue cost or effort, use the fair value through profit or loss. Else measure as PPEs
- Freehold land is not depreciated.

# Accounting Policies and Disclosures Requirements...



## Investments in Associates – Sec 14

- Accounted for at cost less any accumulated impairment losses

# Accounting Policies and Disclosures Requirements...



## Inventory– Sec 13

- Stated at the lower of cost and selling price less costs to complete and sell.
- Cost is calculated using FIFO

# End!



## Q & A

