

INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS OF KENYA



## FINANCIAL REPORTING FOR SACCOS

### “DIVIDEND DISTRIBUTION AND ITS IMPACT ON CAPITAL OF SACCOS”

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# INTRODUCTION



- ✓ Dividends is a distribution of surplus among shareholders (members) in proportion to the ownership (shares)
- ✓ Once a society makes surplus it decides on what to do with it
- ✓ In various SACCO's in addition to dividends, there is interest on member deposits.

# INTRODUCTION



- ✓ Issues of dividends/interest on deposits are of concern to all SACCOs
- ✓ When dividend/interest on deposits has been declared it becomes a debt of the society and cannot be reversed
- ✓ Dividend is paid on prorata based on shares held while (accrual concept)
- ✓ Interest on deposits is paid on prorata basis on Non-withdrawable deposits

# DIVIDEND/CAPITAL



*Payment of Dividend/Interest on deposit HAS DIRECT IMPACT ON SOCIETY'S CAPITAL GROWTH (INSTITUTIONAL CAPITAL)*



# RATIONALE FOR CAPITAL



## RESEARCHED FINDINGS;

Change in growth of Sacco's  
wealth is influenced 77.8% by  
capital structure

# THE NEED FOR CAPITAL



- ✓ Ensure a sustainable financial profile
- ✓ Achieve the legal requirement for core capital of 10% of the total assets & institutional Capital 8% of assets.
- ✓ Enhance liquidity position of the society (15%)
- ✓ Finance the Society's major projects i.e. Office projects & otherwise.
- ✓ Enable members to earn more returns
- ✓ Long-term loans i.e. Mortgages
- ✓ The society can consider reviewing the multiplier effect.

# WHEN TO PAY DIVIDEND



1. The Accounts have been audited
2. Provision for the Capital adequacy levels (10%)
3. Provision for allowances for impaired assets/loan losses
4. Writing off all prior-year losses
5. Realized a true surplus
6. Dividend declared & approved by the ADM



# ACCOUNTING PERIOD



- ✓ The Accounting period generally runs from January to December each year
- ✓ The Financial statements are audited and approved by the ADM
- ✓ The ADM decides on what to do with the surplus



# DECLARATION DATE



- ✓ The declaration date is the AGM/ADM to approve the dividend as proposed by the Board
- ✓ After declaration it may be paid immediately or within a particular period agreed at the ADM

# CONSIDERATIONS



1. Regulatory issues- Capital adequacy (Core Capital 10%)
2. Investment opportunities
3. How future surplus will vary
4. Financial capability
5. Tax position of SACCO and members

# CONSIDERATIONS



6. Members preferences (Now or later)
7. Capital Structure (Dividends reduce surplus hence weak financial base)
8. Industry practice



# JUSTIFICATION



1. Residual profits –  
If there is no Capital adequacy/investment opportunities that can be carried out by the SACCO then give members the cash for them to do the investment.

# JUSTIFICATION



2. Bird in Hand Theory—  
Members would rather have  
the dividends paid now than in  
the future because of  
uncertainties regarding the  
future.

# JUSTIFICATION



3. Information to members –  
Members judge the performance of the SACCO Board by the dividends paid. But this information may have several meanings to different investors.



# JUSTIFICATION



4. Members situation –  
Some members prefer dividend now, others will want it ploughed back as part of their deposits and this is highly affected by both personality and external environment.

# JUSTIFICATION



5. Solution to agency problem –  
The SACCO Board is acting as an agent to the membership. The payment of dividends is justified as the agents pay back the principal (members want what belongs to them).

# METHODS OF PAYMENT



1. Cash dividend
2. Bonus share dividend
3. Bonus deposit dividend



# EMERGING ISSUES



1. Need for dividend policy
2. Dividend advance product
3. Muslim products that does not attract dividend payments
- 4.

# TREATMENT



- ✓ Dividend is appropriated in the Appropriation A/c
- ✓ Interest on deposits is expensed in the Surplus & Loss account

# DISCLOSURES



Generally, IFRs require that dividends paid be deducted from the surplus, but those proposed to be disclosed in the notes to financial statements.





# LONG LIVE THE CO-OPERTAIVE MOVEMENT IN KENYA

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