

Key IFRSs Affecting SACCOs

IAS 40: Investment property
IAS 24: Related Parties

Presented
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Investment Property

IAS 40

Introduction



- Investment property is land or a building—or part of a building—or both held to earn rentals or for capital appreciation or both.
- May be held by the owner or by the lessee under a finance lease
- Include property in the course of construction for future use as investment property
- Note
 - Must not be for use in the production or supply of goods or services or for administrative purposes (property plant and equipment)
 - Must not be for sale in the ordinary course of business (inventories).

Examples



- A SACCO hold a piece of land for future construction of SACCO offices
- A SACCO construct an office block use the ground floor as FOSA other floors are rented out.
- A SACCO through subsidiary acquire a parcel of land for subdivision and sale to members
- SACCO hold a piece of land with no defined future use
- SACCO is constructing a guest house for short-term rentals and conferencing facilities to diversify members income

Property held under operating lease



- A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:
 - the rest of the definition of investment property is met;
 - the operating lease is accounted for as if it were a finance lease in accordance with IAS 17 Leases; and
 - the lessee uses the fair value model set out in this Standard for the asset recognised.

Initial recognition



- Investment property shall be recognised as an asset when, and only when:
 - it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
 - the cost of the investment property can be measured reliably.

Initial measurement



- An investment property shall be measured initially at its cost.
- Include transaction costs in the initial measurement.
- The initial cost of a property interest held under a lease and classified as an investment property is recognised at the lower of the fair value of the property and the present value of the minimum lease payments with equivalent amount recognised as a liability

Example



- SACCO acquire property in an auction for Ksh 45 million, the open market valuation (fair value) of the property is Ksh 47.5 million. The property will be renovated at a cost of Ksh 1 million and rented out.
- Explain the initial measurement

Subsequent measurement at each reporting



- choose either (accounting policy):
- a fair value model, - measured, after initial measurement, at each reporting date at fair value with changes in fair value recognised in profit or loss; or
- a cost model.- initial cost depreciated over estimated useful life and evaluated for impairment losses.
- An entity that chooses the cost model must disclose the fair value.

Transfer and mixed-use



- Transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.
- Mixed use property shall be separated between investment property and property, plant and equipment using a reasonable criteria.

Mixed use



- its cost on initial recognition for both part
- If fair value can be measured reliably for the investment property part at each reporting date with changes in fair value recognized in profit or loss.
- Cost model no distinction is necessary for both parts

Disclosure



- ▶ methods and significant assumptions applied in determining the fair value
- ▶ the extent to which the fair value of investment property is based on a valuation by an independent valuer who has recent experience in the location and class of the investment property being valued.
- ▶ the existence and amounts of restrictions on the realisability or the remittance of income and proceeds of disposal.
- ▶ contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
- ▶ Fair value of investment property accounted using cost model

Disclosure



A reconciliation of carrying amounts showing separately:

- Additions, disclosing separate for acquisitions and business combinations.
- net gains or losses from fair value adjustments.
- transfers to and from inventories and owner-occupied property.

IAS 24

RELATED PARTIES

Introduction



- Identifying related party relationships and related party transactions,
- Identifying any outstanding balances between an entity and its related party,
- Determining the disclosures to be made in respect of the related parties

Introduction



- Related party relationships are a normal feature in business.
- A related party relationship could have an effect on financial position and operating results.
- Entering into transactions which unrelated parties would not.
- Transactions not at the same amounts as for unrelated parties.
- Even if related party transactions do not occur, mere existence of the relationship may affect transactions with other parties.

Examples



- A SACCO has a subsidiary partly owned by the chairman of the executive committee and the chairman of the supervisory committee
- A company owned by the treasurer competitively won the securities services and cleaning contract for the SACCO head offices
- A member of the executive committee sold a property to the SACCOs and the amount was converted into shares

Definition



- Any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
- Substance of relationship, not merely legal form, should be considered.
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- To evaluate related party involvement and explain the disclosure of related parties and transactions between them.

Related party include



- Parties that directly or indirectly, control; are controlled by; are under common control; have significant influence over; or have joint control over, the entity.
- Associates of the entity.
- Joint venturers in which the entity is a venturer
- Key management personnel (i.e. persons having authority and responsibility for planning, directing and controlling activities of the reporting entity) including directors.
- Non-executive directors are included within key management personnel (include the executive and supervisory committee members).

- Close family members of key management personnel or parties that directly or indirectly control the entity
- Entities that are controlled by, jointly controlled by, or under significant influence of, or in which a significant voting power is held by any person described in key management personnel or close family members .
- the party is a post-employment benefit plan for the benefit of the employees or related parties of the entity.

Parties deemed not to be related



- The following parties are deemed not to be related:
- Two companies simply because they have a director or other member of key management personnel in common not within the definition of related parties
- Providers of finance, trade unions, public utilities, government departments and agencies, in the course of their normal dealings with an entity (even though they may restrict business activities).
- A customer, supplier, franchisor, distributor, etc with whom a significant volume of business is transacted as a result of economic dependence.

related parties defined continued

		Family X's influence over Entity B				
		Control	JC	SPV	KMP	SI
Family X's influence over Entity A	Control	Yes – 33.2(b)(vi)	Yes – 33.2(b)(vi)	Yes – 33.2(b)(viii)	Yes – 33.2(b)(x)	Yes – 33.2(b)(viii)
	JC	Yes – 33.2(b)(vi)	Yes – 33.2(b)(vi)	Yes – 33.2(b)(ix)	Yes – 33.2(b)(x)	Yes – 33.2(b)(ix)
	SPV	Yes – 33.2(b)(viii)	Yes – 33.2(b)(ix)	Not related	Yes – 33.2(b)(vii and x)	Not related
	KMP	Yes – 33.2(b)(x)	Yes – 33.2(b)(x)	Yes – 33.2(b)(vii and x)	Not related	Not related
	SI	Yes – 33.2(b)(viii)	Yes – 33.2(b)(ix)	Not related	Not related	Not related

SI: Significant influence

KMP: Key Management Personnel

Related party transactions



- Related party transactions – a transfer of resources or obligations between related parties, regardless of whether a price is charged.

Example of RPT



- Purchases or sales of goods, property and other assets.
- Rendering or receiving of services.
- Agency arrangements.
- Leasing arrangements.
- Transfer of research and development.
- Licence agreements.
- Finance (including loans and equity contributions).
- Guarantees and collaterals.
- Management contracts.

Possible term of transaction



- Comparable uncontrolled price – price of comparable goods sold in an economically comparable market to a buyer unrelated to the seller.
- Resale price reduced by a margin to arrive at a transfer price.
- Cost-plus method – supplier's cost plus an appropriate mark-up
- No price – e.g. free provision of management services and interest free credit.

- Key management compensation must be disclosed in total and for each of the following headings:
- Short term employee benefits
- Post employment benefits
- Other long term benefits
- Termination benefits and
- Equity compensation benefits

- If there have been transactions between related parties, disclose
- the nature of the related party relationships
- the types of transactions and
- the “elements” of the transactions necessary for an understanding of the financial statements which include:
 - an indication of the volume (amount or proportion),
 - amounts or proportions of outstanding items,
 - pricing policies.

- disclosures must be made separately for each of the following classifications of related parties:
 - parent;
 - subsidiaries;
 - associates;
 - joint ventures;
 - key management personnel;
 - parties with joint control or significant influence over the entity;
 - other.

Exemption from RPT discl.



- **Exemption applies to transaction disclosures only (ie the nature of the relationship must be disclosed).**
 - a state (a national, regional or local government) that has control, joint control or significant influence over the reporting entity, and
 - another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.

Schedule for related parties

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END



Thank You

Interactive Session

Contacts

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