

INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS OF KENYA

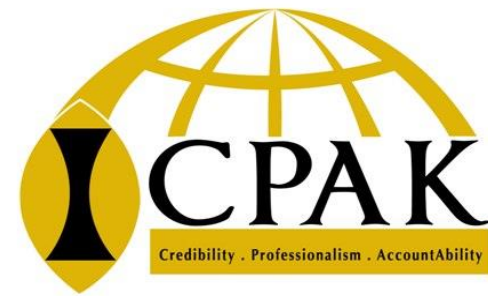


FINANCIAL REPORTING FOR SACCOS

“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



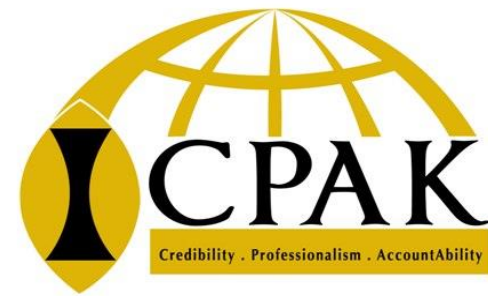
- ✓ The Accounting period generally runs from January to December each year
- ✓ The Financial statements are audited and approved by the ADM
- ✓ The ADM decides on what to do with the surplus

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.



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