FINANCIAL REPORTING WORKSHOP FOR SACCOs (MT. KENYA BRANCH)

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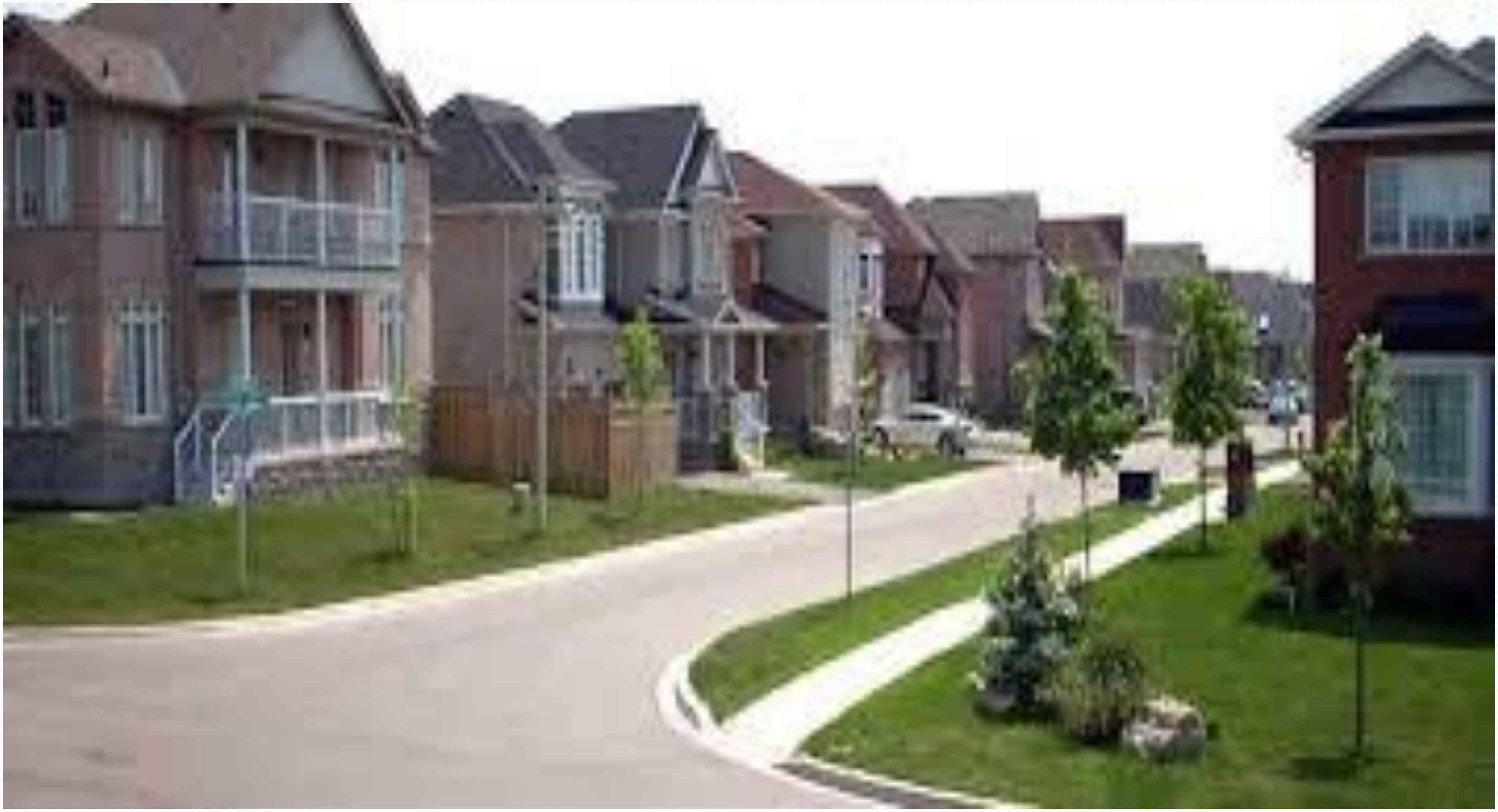
Key IFRSs for SACCOs

- IAS 40 Investment Property
- IFRS 9 Impairment and Loan Loss Provisions
- IFRS 7 Disclosures
- IAS 24 Related Party Transactions

IAS 40: Content

1. Definition and Examples
2. Recognition
3. Initial Cost (Measurement)
4. Subsequent Measurement
5. Transfers
6. De-recognition and Disclosures

1. Definition



1. Definition

Investment property is property (land or building – or part of a building – or both) held (by the owner or by a lessee under a finance lease) to **earn rentals** or for **capital appreciation** or both, rather than for (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

1. Examples

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

2. Recognition

Investment property shall be included in financials if:

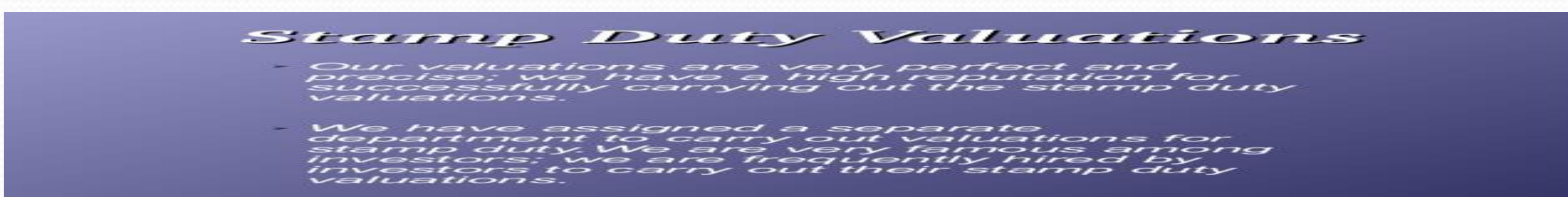
(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost can be measured reliably.

3. Initial Measurement

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

Examples of directly attributable expenditure includes, professional fees for legal services, property transfer taxes and other transaction costs.



4. Subsequent Measurement

(a) Fair value model

Revalued at market value, with changes reported in the profit or loss for the period in which it arises.

(b) Cost model

Initial Cost less accumulated depreciation and impairment losses.

5. Transfers

Evidenced by:

1. Commencement of owner occupation.
2. Change with view to sale
3. End of owner occupation

Use Fair value as deemed cost and apply various standards accordingly.

6. De-recognition

Investment property, should be De-recognized (removed from financial statements) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gain or loss should be reported in the P or L.

Gain/Loss = Cash proceeds – carrying amount on date of de-recognition

6. De-recognition

7. Disclosures

1. Disclose the policy used on valuation of Investment properties.
2. Details of changes in the items appearing in the financial statements.

IFRS 9 : Impairment

IFRS 9 for Financial Instruments, the key one is loan issued to members by SACCOs. The loans are called Financial Assets.

For financial assets consider reducing them further and expense if they are impaired*. A financial asset is impaired if:

IFRS 9 - Impairment

Currently we use the concept of expected credit losses. This is done at three stages:

Stage 1

Stage 2

Stage 3

IFRS 9 - Impairment

Stage 1:

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

IFRS 9 - Impairment

Stage 2:

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

IFRS 9 - Impairment

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

IFRS 7 - Disclosures

Refer to summary Handout

IAS 24 – Related Parties

Refer to summary Handout

SACCOs Way forward

1.Regulation (FSA)

2.Financial Reports:

-Compliance with IFRS

-Sustainability Reporting

-Corporate Governance

-Risk Management Reporting