THE ANNUAL FINANCIAL REPORTING WEEK

Theme : Reliance on Enhanced Financial Reporting for Economic Growth and Development

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- IAS 8, IPSAS 3 / SECTION 10 OF IFRS FOR SMEs

  ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- IAS 10 : EVENTS AFTER THE REPORTING PERIOD

1. Objective of the Standard IAS 8

1. Prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies → are set out in IPSAS 1, IAS 1

2. Scope of the Standard IAS 8

Application

1. selecting and applying accounting policies,

2. accounting for changes in accounting policies, changes in accounting estimates, and

3. corrections of prior period errors.

3. Selections and Application of Accounting Policies

When an IPSAS / IFRS specifically <u>applies to a transaction</u>, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Implementation Guidance issued by the IPSASB for the Standard [IPSAS 3 IAS 8 para 9]

4. An example of an accounting policy of an entity based on IPSAS

Competition Authority of Kenya

https://www.cak.go.ke/images/docs/cak_annual_report%20_2014_15_final.pdf

4. An example of an accounting policy of an entity based on IPSAS

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c) Property,Plant and Equipment - IPSAS 17

All property, plant and equipment are stated at costless accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plantand equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as are placement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficitas incurred. Where an asset is acquired in an on-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. It is the policy of the Authority to charge full depreciation on all its non-current assets in the year of purchase and no depreciation in the year of disposal.

5. PPOA – Example of accounting Policy

http://www.ppoa.go.ke/images/downloads/ppoa-annual-reports/PPOA%20Annual%20Report%202014.pdf

(g) Property and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

(h) Depreciation

The Assets are depreciated as and when they are available for use by the Authority. Depreciation charge is calculated on a straight line basis for the various categories of assets as follows:

Motor vehicles	25.0%
Equipment and computers	33.3%
Furniture and fittings	12.5%
Office partitions	12.5%
Intangible assets	33.3%

Where no IPSAS / IFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results

- **in information that is relevant to the decision-making needs of users; and faithfully represents the financial position, financial performance and cash flows of the entity, neutral, prudent and complete [IPSAS 3 (12), IAS 8 (10) and IFRS SME 10.4]**

[redacted]

When making judgment management to observe: -

1. **requirements in IPSASs / IFRS in dealing with similar and related issues**

2. **definition, recognition and measurement criteria for assets, liabilities, income and expenses described in**

☞**IPSAS - Conceptual Framework for General Purpose Financial Reporting for Public Sector Entities**

When making judgment management to observe: -

- ☞ **IFRS for SMEs – Concepts and Pervasive principles in Section 2 or Full IFRS**

3. **most recent pronouncements of other standard setting bodies e.g. IASB, IFRIC, former SIC, IFRS**

4. **accepted public sector practices – IPSAS**

Consistency, Changes and Retrospective Application

- Accounting policies shall be applied consistently. Changes in accounting policy shall be applied retrospectively and to comparative information for prior periods as far back as practicable.

- Retrospective application requires adjustment of opening balance of each affected component of equity for the earliest period presented and comparative information.

- Impractical? Apply from the earliest date practicable

Disclosure Requirements

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Example

To test IAS 8 Paragraph 17

An entity shall disclose when:-

1. Initial application of an IPSAS / IFRS
2. Voluntary application of IPSAS / IFRS
3. Newly issued IPSAS / IFRS that is not yet effective and has not been applied

CHANGES IN ACCOUNTING ESTIMATES [IPSAS 37-45, IAS 8 32-40, SME 10.15-10.18]

a) **Estimates result from uncertainties in measuring items in financial statements with precision. Such items can only be estimated based on latest available and reliable information**

b) **Examples are warranty obligations, bad debts, inventory obsolescence etc.**

c) **An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.**

CHANGES IN ACCOUNTING ESTIMATES [IPSAS 37-45, IAS 8 32-40, SME 10.15-10.18]

d) A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

e) A change in an accounting estimate that gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, is recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.

CHANGES IN ACCOUNTING ESTIMATES [IPSAS 37-45, IAS 8 32-40, SME 10.15-10.18]

f) The effect of a change in an accounting estimate, other than a change to which (d) above applies, shall be **recognized prospectively by including it in surplus or deficit in the period of the change**, if the change affects the period only; or the period of the change and future periods, **if the change affects both**.

g) **Disclosure requirements - Disclose the nature and amount of a change in an accounting estimate or the fact if its impractical to estimate**

[Illustration – Change in useful life of assets PPOA]

ERRORS [IPSAS 3 46-58, IAS 8 41-53, SME 10.19-10.23]

a) An error is a discrepancy, mathematical mistake, mistake in applying GAAP, misrepresentation of an existing fact during recognition, measurement, presentation or disclosure of elements of financial statements.

b) Material errors or intentional immaterial errors when discovered must be corrected before authorization of financial statements for issue.

c) Material errors discovered in subsequent periods are corrected in comparative information in that subsequent period

ERRORS [IPSAS 3 46-58, IAS 8 41-53, SME 10.19-10.23]

d) **Retrospective correction** – Correction of comparative information presented, if earlier, restate the opening balances of assets and liabilities, net assets/equity of earliest period presented.

e) **Limitation to retrospective restatement** – if impractical to determine the period specific effects or cumulative effect of the error

f) **Correction of prior period error** is excluded from the surplus or deficit of the period in which the error is discovered

ERRORS [IPSAS 3 46-58, IAS 8 41-53, SME 10.19-10.23]

g) Disclosure Requirements

i. The nature of the prior period error;

ii. For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

iii. The amount of the correction at the beginning of the earliest prior period presented; and

iv. If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

DO NOT FORGET THE TAX ANGLE !

Remember that for tax purposes, the tax effect must be given by a note to the accounts. You may also have to visit the KRA i-Tax System to make adjustments !!

IAS 8, IPSAS 3 / SECTION 10 OF IFRS FOR SMEs

- **IAS 10; EVENTS AFTER THE REPORTING PERIOD**

OBJECTIVE : IAS 10

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Effective date – annual periods beginning 1 January, 2005.

Give guidance on

1. **When financial statements should be adjusted for events after the reporting period**

2. **Disclosures to be given about the date FS were authorized for issue and events after the reporting period.**

SCOPE : IAS 10

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Accounting for and disclosure of events after the reporting period.

KEY TERMS: IAS 10

- **Reporting period – span of time covered by a set of financial statements.**

- **Events after period end – matters which occur after the reporting period but before the financial statements are authorized for issue. The events may be favorable or unfavorable.**

KEY TERMS : IAS 10

Events after period end are classified as:

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after period end)

- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

KEY TERMS : IAS 10

Date of authorization of issue of financial statements may vary from one entity to the other depending on the management structure or statutory requirements.

In most instances it is the date the FS are issued either by the management or the board for approval by a supervisory board or shareholders.

RECOGNITION AND MEASUREMENT – IAS 10

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ADJUSTING EVENTS

Financial statements are adjusted to recognize adjusting events after the period end.

Examples include:

- **A liability arising from the settlement of a court case after the period end – the provisions are adjusted to include the liability.**
- **Discovery of fraud or error indicating that the financial statements are incorrect.**

RECOGNITION AND MEASUREMENT – IAS 10

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NON-ADJUSTING EVENTS

Financial statements are not adjusted to reflect non-adjusting events after the period end.

Examples include:

Decline of the fair value of investments after year end before the financial statements are authorized for issue – quoted equity. The decline is not related to the condition of the investments at the reporting period end but indicate circumstances that arose after the period end.

RECOGNITION AND MEASUREMENT – IAS 10

DIVIDENDS

Dividends declared to equity holders after the reporting period are not recognized as a liability at the end of the reporting period. They are discosed in the notes indicating the total amount of dividends proposed and the related amount per share.

NON-ADJUSTING EVENTS THAT NEED DISCLOSURE

Material events that if not disclosed would affect the economic decisions that users make on the basis of the financial statements.

Disclose:

Nature of the event.

An estimate of its financial effect or a statement that such an estimate cannot be made.

NON-ADJUSTING EVENTS THAT NEED DISCLOSURE

Examples:

- **Announcing a plan to discontinue an operation.**
- **Major purchase of assets or destruction of a major production plant by fire after the reporting period.**
- **Major share transactions**
- **Abnormally large changes in asset prices or foreign exchange rates.**

NON-ADJUSTING EVENTS THAT NEED DISCLOSURE

Examples:

- **Changes in tax rates or tax laws that have a major impact on an operation from a tax point of view**
- **Entering into significant commitments or contingent liabilities.**
- **Commencing major litigation arising out of events that occurred solely after the reporting period**

GOING CONCERN

If management determines after year end before FS are authorized for issue its intention to liquidate the entity or to cease trading, the financial statements shall not be prepared on a going concern basis.

In this case the amounts recognized may not require adjusting but the basis of accounting (going concern) shall change.

DISCLOSURE

- **Date of authorization for issue.**
- **Who gave the authorization.**
- **Conditions relating to events that existed at the end of the reporting period which are brought to the attention of Management after the reporting period end.**
- **Update disclosures previously reported with details of new information received after the reporting period end e.g. contingent liabilities.**

Answers

Solution Case 1

Per paragraph 9 (a) of IAS 10, this is an adjusting event. The event took place during the reporting period and the settlement after the reporting period of the court case confirms that Maisha Limited had a present obligation at the end of the reporting period. The entity adjusts any previously recognized provision related to this court case in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets or recognises a new provision.

Answers

Solution Case 2

Per paragraph 11 of IAS 10, this is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure.

Answers

Solution Case 3

Per paragraph 9 (b ii) of IAS 10, this is an adjusting event. The sale of inventories after the reporting period can give evidence about the net realizable value of the inventory at the end of the reporting period. The inventory's net realizable value in early January 2018 is Kshs 120,000/= whereas the cost of the inventories at 31 December 2017 was Kshs 500,000/=. Using the IAS 2 Inventories rule that inventory is to be valued at the lower of cost and net realizable value, the inventory at the year-end should be included at Kshs 120,000 in the financial statements and therefore, the financial statements have to be adjusted to reflect this change.

Answers

Solution Case 4

Per paragraph 12 of IAS 10 if an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. Therefore, the accounting treatment is incorrect and the accountant should reverse the transaction and include the dividend in the financial statements for the year-ended 31 December 2018.

For 2017 it should be disclosed in a note and shown as a distribution in the statement of changes in equity.

Questions

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