

Illustration 1

The following was extracted from the 2015 financial statements of IPSASIFRSSME company established in 2013.

Statement of Comprehensive Income for the year ended 31 December 2015		
	2015	2014
	KES	KES
Revenue		
Sales	45,670,000	42,768,000
Less: Cost of sales	(39,878,000)	(35,670,000)
Gross Margin	5,792,000	7,098,000
Expenditure	4,023,000	3,453,000
Profit before Tax	1,769,000	3,645,000
Taxation Expense	530,700	1,093,500
Profit after Tax	1,238,300	2,551,500

The opening retained earnings for year 2014 were KES 3,204,690 and Share capital (paid) KES 500,000

All sales of IPSASIFRSSME for 2014 and 2015 are reported inclusive of VAT. Sales for 2013 were KES 39,005,250 net of VAT and a net profit before tax of KES 530,000.

Illustration 2

The following was extracted from the financial statements of SME ltd

Statement of Financial Position as at 31 December 2002		
	2002	2001
	KES	KES
Current Assets		
Cash and Bank	3,000,200	2,768,000
Investments	3,259,000	0
Inventory	456,000	124,000
Total Current Assets	6,715,200	2,892,000
Statement of Comprehensive Income for the year ended 31 December 2002		
Cost of Sales		
Opening Inventory	124,000	350,000
Purchases	1,530,700	993,500
Less: Closing Inventory	(456,000)	(124,000)
	1,198,700	1,219,500
Retained Earnings:		
Opening Reserves	405,000	301,000
Net Profit	302,000	104,000
Closing Reserve	707,000	405,000

SME Ltd valued its inventory on a LIFO basis and the inventory as at 31 December 2000 were 700 units, 2001 were 310 units and 2002 were 1,140.

FIFO basis of valuation

	2002	2001	2000
Inventory	470,000	132,000	370,000

Present financial statements for both companies in compliance with IFRS for SME

Illustration 1 Revised statements

Correction of Errors by restating prior period presented (IAS8 – 42).

Statement of Comprehensive Income for the year ended 31 December 2015

	2015	2014
	KES	Restated KES
Revenue		
Sales	39,370,690	36,868,966
Less: Cost of sales	(39,878,000)	(35,670,000)
Gross Margin	(507,310)	1,198,966
Expenditure	4,023,000	3,453,000
Profit before Tax	(4,530,310)	(2,254,034)
Taxation Expense	0	0
Profit after Tax	(4,530,310)	(2,254,034)

Statement of Financial Position as at 31 December 2015

Accounts Payable		
VAT Payable	12,198,345	5,899,034
Retained Earnings		
Balance as at 01 January	950,656	3,204,690
Loss for the year	(4,530,310)	(2,254,034)
Balance as at 31 December	(3,579,655)	950,656

Extracts from notes to the financial statements

The total sales for the year 2014 incorrectly included VAT. The financial statements have been restated to correct this error. The effects of the restatement on those financial statements is summarized below:-

Effect on the financial Statements

Decrease in Corporate Tax Payable	(1,093,500)
Decrease in Profits	(4,805,534)
	(5,899,034)
Increase in VAT Payable	5,899,034

Illustration 2 Revised statements

Change in accounting policy required by an IFRS (IAS8 – 14).

Statement of Financial Position as at 31 December 2002		
	2002	2001
		Restated
	KES	KES
Current Assets		
Cash and Bank	3,000,200	2,768,000
Investments	3,259,000	0
Inventory	470,000	132,000
Total Current Assets	6,729,200	2,900,000
Statement of Comprehensive Income for the year ended 31 December 2002		
Cost of Sales		
Opening Inventory	132,000	370,000
Purchases	1,530,700	993,500
Less: Closing Inventory	(470,000)	(132,000)
	1,192,700	1,231,500
Retained Earnings:		
Opening Reserves	413,000	321,000
Net Profit	308,000	92,000
Closing Reserve	721,000	413,000

Extracts from Notes to the Financial Statements

From the year 2002, SME Ltd has changed its accounting policy on valuation of inventory. The change in inventory valuation from LIFO to FIFO is applied to the current year and retrospectively to prior year's comparative amounts. The effect of the change in accounting policy on the prior year is an increase in net profit for year of KES 8,000. The effect of the change in accounting policy relating to the prior periods that are not presented (i.e. before 2001) of KES 20,000 is adjusted in the opening reserves of 2001.

Effect on Financial Statements

	2001
Increase in Current Assets - Inventory	28,000
Increase in Reserves	28,000