Financial Reporting Workshop
For SACCOs and Cooperatives

By
CPA Nebart Avutswa
Chief Manager Professional Services, ICPAK

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Presentation Overview

Meaning and Importance of International Financial Reporting Standards with emphasis to IAS 1, IAS 19, IFRS 9 and IFRS 10

PRESENTATION OUTLINE

- Standards Development
- Registration and Licensing
- IAS 1
- IAS 19
- IFRS 9
- IFRS 10

Background Information

Background Information

The Institute of Certified Public Accountants of Kenya (ICPAK) was established in 1978. The Institute is a member of the Pan-African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC) since 1980, the global umbrella body for the accountancy profession.

Vision & Mission

- Vision - A world class professional accountancy Institute
- Mission - Develop and promote internationally recognized accountancy profession that upholds public interest through effective regulation, research and innovation”
- CREDO - Uphold public interest

CORE VALUES

The Institute is guided by the following core values:

1. Credibility,
2. Professionalism and
3. Accountability

ICPAK Mandate

The Institute draws its mandate from the Accountants Act (no 15 of 2008).

The Act prescribes the following as the functions of the Institute:

Mandate

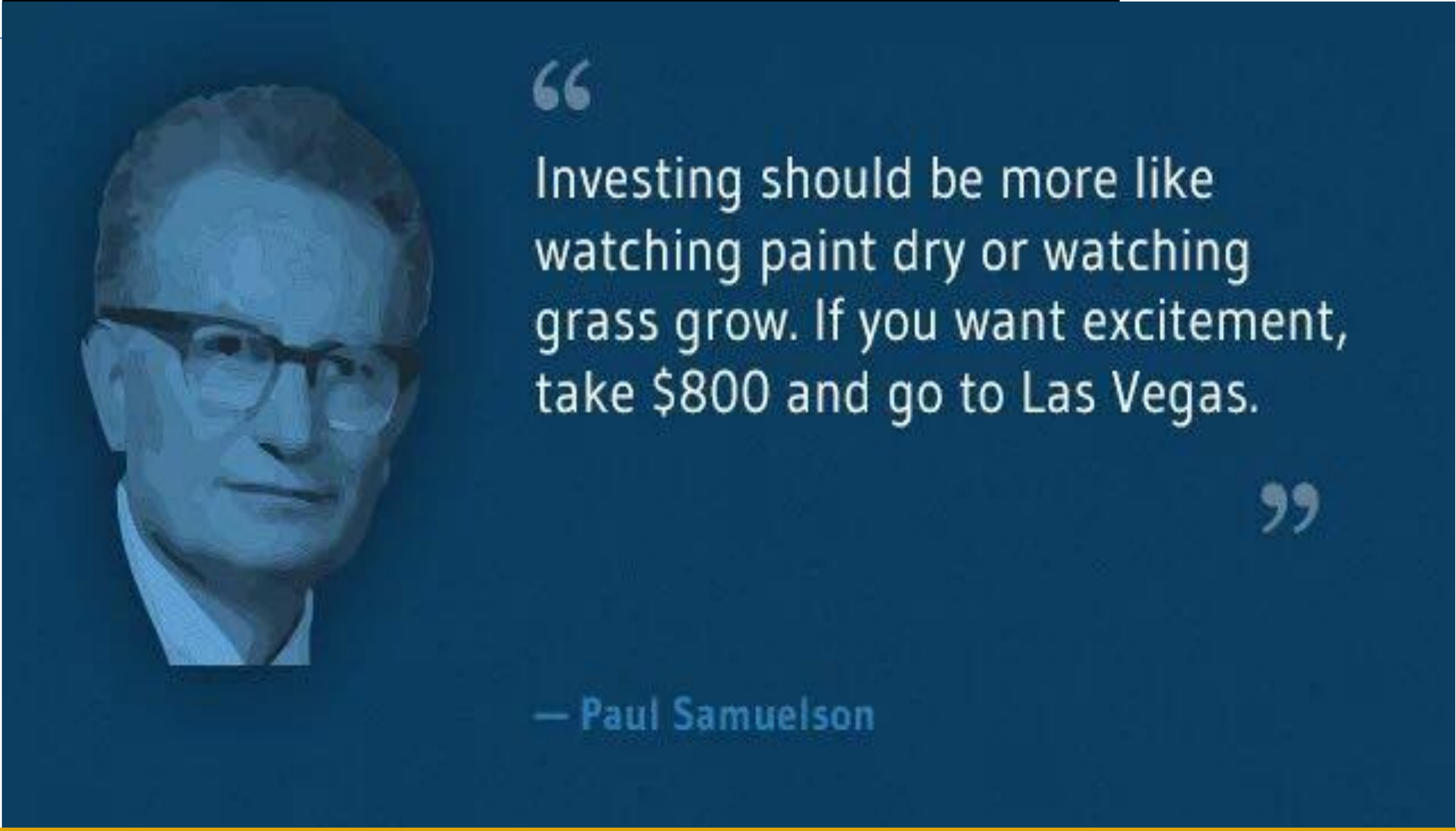
1. To promote standards of professional competence and practice amongst members of the Institute
2. To promote research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith;
3. To promote the international recognition of the Institute.
4. To advise the Examination Board on matters relating to examinations standards and policies;

Mandate Con't…

5. To advise the Minister on matters relating to financial accountability in all sectors of the economy; To carry out any other functions prescribed for it under any of the other provisions of this Act or any other written law and

6. To do anything incidental or conducive to the performance of any of the preceding functions

MEMORABLE QUOTE



The dawn of standards

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1. Some of Management Staff

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IAS 1 Presentation of Financial Statements

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A complete set of financial statements comprises:

- Statement of financial position (balance sheet)
- Statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes, including a summary of significant accounting policies and other disclosures

And:

- Opening statement of financial position when there has been a prior year adjustment or reclassification

Titles are not mandatory.

General Features

- Fair presentation
- Explicit statement of compliance with IFRS
- Inappropriate accounting cannot be rectified by disclosure
- Going concern
- Accrual basis
- Materiality and aggregation
- Offsetting
- Frequency of reporting
- Comparative information
- Consistency.

Identification

- Distinguish financial statements from other information in the same document
- Clearly identify each financial statement and the notes
- Display prominently:

– Name of the entity
– Whether a single entity or a group
– The period covered
– The presentation currency
– The level of rounding

Statement of financial position

line items - Assets:

- Property, plant and equipment
- Investment property
- Intangible assets
- Other financial assets
- Investments accounted for using the equity method
- Biological assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Non-current assets and liabilities held for sale

Statement of financial position

line items - Liabilities and equity:

- Trade and other payables
- Provisions
- Other financial liabilities
- Current tax assets and liabilities
- Deferred tax assets and liabilities
- Non-controlling interests
- Issued capital and reserves attributable to the owners

Statement of Comprehensive Income

- *The income statement – presents income and expenses other* than "other comprehensive income", including reclassification adjustments
- *Other comprehensive income – income and expenses that are* not recognised in profit or loss (the income statement) as required or permitted by IFRS, including reclassification adjustments
- *Reclassification adjustments – amounts previously recognised* in other comprehensive income that are reclassified to the profit and loss account.

Statement of Comprehensive Income cont'd

- Include other line items, headings and sub-totals when such presentation is relevant to an understanding of the entity's performance.
- When items of income or expense are material, disclose their nature and amount separately.
- But no 'extraordinary items'.

Statement of changes in equity

Show (in the statement):

- Total comprehensive income (split between attributable to 'owners of the parent' and to 'non-controlling interests')
- For each component, the effect of prior period adjustments in accordance with IAS 8
- For each component, a reconciliation between opening or closing balance disclosing:

– Profit or loss, Other comprehensive income

– Transactions with owners in their capacity as owners

Con;t …

Show (in the statement or in the notes):

- The amount of dividends recognised as distributions to owners, and the related amount per share(proposed dividends are disclosed, not recognised – IAS 10 – but can be shown as an appropriation within reserves)

Notes

Notes (not Notes to the Financial Statements!)

Include:

- Basis of preparation and significant accounting policies (including measurement basis or bases)
- Information required by IFRS not presented elsewhere
- Further sub classifications of line items presented in the primary statements, classified in a manner appropriate to the entity's operations
- Information relevant to an understanding of the financial statements (judgement required)

Con't …

- Judgements that management has made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements
- Information about the assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in
a material adjustment within the next financial year (include nature and carrying amount of those assets and liabilities)

Con't …

- Information that enables users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital:

– Qualitative information including: what it manages as capital; nature of externally imposed capital requirements (if applicable); and how it is meeting its **objectives**
– Quantitative data about what it manages as capital
– Changes in the above from prior period
– Whether it complied with externally imposed capital requirements and, if not, the consequences

Other disclosures

• Amount of dividends (and amount per share) proposed or declared before the financial statements were authorised for issue, but not recognised as a distribution
• Amount of any cumulative preference dividends not recognised
Other disclosures (if not disclosed elsewhere in information published with the financial statements):
• Domicile and legal form of the entity, its country of incorporation and the address of its registered office
• A description of the nature of the entity's operations and its principal activities
• The name of the parent and the ultimate parent

Chair RQAC FCPA Dr. Jim with FCPA Lugalia, CEO CPA Makori and CPA Gichuhi

IAS 19 Employee Benefits

Introduction

IAS 19 *Employee Benefits* (amended 2011) outlines the accounting requirements for employee benefits, including: short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits

Effective Date

- IAS 19 (2011) was issued in 2011, supersedes IAS 19 Employee Benefits (1998), and is applicable to annual periods beginning on or after 1 January 2013.

- Employee benefits are all forms of consideration given in exchange for service rendered by employees.

Types of Employee Benefits

a) Short-term benefits
b) post-employment benefits eg pensions, post-employment medical care & post-employment insurance
c) Other long-term benefits e.g profit shares, bonuses , sabbatical leave, long-service benefits & long-term disability benefits.
d) Termination benefits e.g early retirement payments & redundancy payments.

Underlying principle

Cost of providing employee benefits shall be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Accounting Treatment – Short Term Benefits

Short-term employee benefits (payable within 12 months) shall be recognized as an expense in the period in which the employee renders the service.

Note:

Bonus payments and profit-sharing payments are to be recognized only when the entity has a legal or constructive obligation to pay them and the obligation can be reliably estimated

Accounting For Termination Benefits

A termination benefit liability is recognized at the ealier of:

1. Date when the entity can no longer withdraw the offer of the benefit
2. Date when the entity recognizes costs of a restructuring incorporating the retirement benefits

Post employment benefits

The accounting treatment for a post-employment benefit plan depends on the economic substance of the plan and results in the plan being classified as either

- a defined contribution plan or
- a defined benefit plan

Defined contribution plans

The entity pays fixed contributions into a fund but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits

The entity's obligation is therefore effectively limited to the amount it agrees to contribute to the fund and effectively place actuarial and investment risk on the employee

Accounting For A Defined Contribution Scheme

The amount recognized in the period is the contribution payable in exchange for service rendered by employees during the period

Defined benefit plans

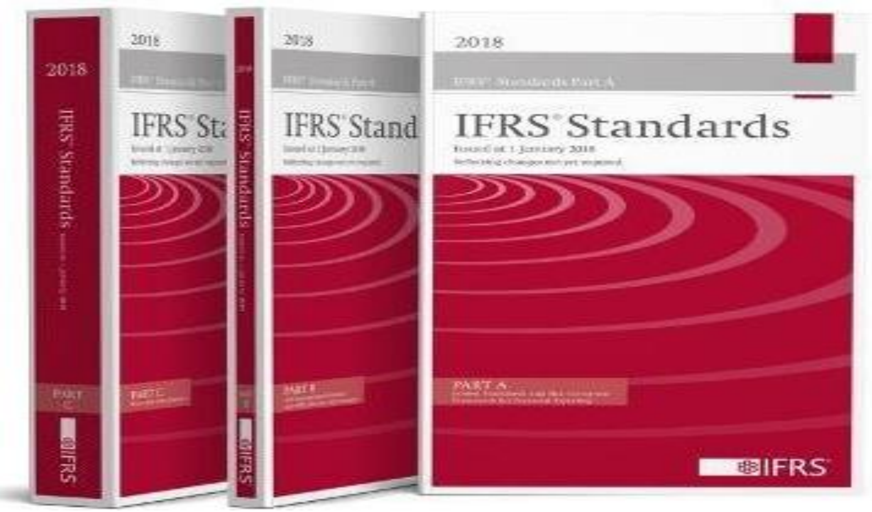
These are post-employment benefit plans other than a defined contribution plans.

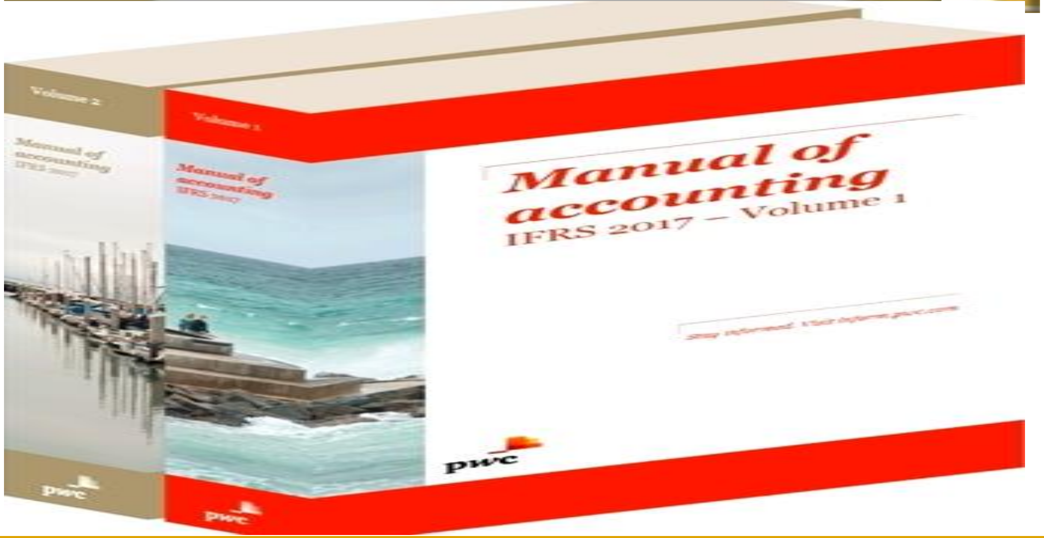
These plans create an obligation on the entity to provide agreed benefits to current and past employees and effectively places actuarial and investment risk on the entity.

Insurance Premiums For Future Benefits

An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation

. Technical Services





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IFRS 9

Financial Instruments

Overview Of IFRS 9

- The dynamic nature of the financial reporting standards environment calls for close attention to the evolving trends in the standard setting arena. New standards are coming up all the time,
- With revisions and amendments being undertaken to the existing standards every time. This means that the modern day professional accountant needs to keep abreast with all these key developments.

Overview Of IFRS 9

- One such change is the new International Financial Reporting Standard (IFRS) 9 which replaces International Accounting Standard (IAS) 39.
- This is in respect to the methodology used in providing for uncertainties in economic benefits of financial assets, loans or debts issued by financial institutions (impairment provisions on financial instruments).

- The new standard is effective from 1 January 2018 and affects any financial statements prepared after the date.

Overview Of IFRS 9

- The new impairment requirements in IFRS 9 are based on an Expected Credit Loss (ECL) model and replaces the IAS 39 Incurred Loss (IL) model.
- Entities will have to recognize not only incurred credit losses but also losses that are expected to be incurred in future.

Professional Standards Committee (PSC) in session

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IFRS 10

Consolidated Financial Statements

Scope of IFRS 10

- An entity that is a **parent** shall present **consolidated financial statements** (IFRS 10.4).
  - A **parent** is an entity that controls one or more entities
  - A **subsidiary** is an entity that is controlled by another entity (ie the parent)
  - A **group** is a parent and its subsidiaries
- **Consolidated financial statements** are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the **parent** and its **subsidiaries** are presented as those of a single economic entity.

Scope of IFRS 10;Exceptions

A parent need not present consolidated financial statements if:

- it is itself a wholly-owned subsidiary;
- its securities are not publicly traded or in the process of becoming publicly traded; and
- its parent publishes IFRS-compliant financial statements that are available to the public.

This is also the case for a partly-owned subsidiary if its other owners have been informed about, and do not object to, it not presenting consolidated financial statements.

Scope of IFRS 10;Exceptions…cont.ed

- IFRS 10 does not apply to post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.
- IFRS 10 provides an exception from the requirements of consolidation for an investment entity which is instead required to measure its subsidiaries at fair value through profit or loss (annual periods beginning on or after 1 January 2014).

Overview

- IFRS 10 *Consolidated Financial Statements* outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls
- Control requires **exposure or rights to variable returns** and the **ability to affect those returns** through **power over an investee**.
- IFRS 10 was issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

Entities affected By IFRS 10

- Owners with less than 50% ownership
- Owners with less than 50% voting rights
- Holders of potential voting rights
- Entities To which power has been delegated-IFRS 10 provides guidance
- Special purpose entities-SPE(Structured entities)
- Agent versus principle relationships.

Requirement For Consolidation

An investor will be required to consolidate an investee if it has all of the following;(control)

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power to affect the amount of the investor's returns.

Technical Services – What we have done

FiRe Award 2018 Gala Dinner and Award Ceremony

The End

Thank you
and
May God Bless you.
Q & A