THE INSTITUTE OF FINANCE MANAGEMENT

FACULTY OF ACCOUNTING, BANKING AND FINANCE

DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF ACCOUNTING WITH INFORMATION TECHNOLOGY

AFU 08205: ADVANCED CORPORATE REPORTING

GROUPS ASSIGNMENT (GROUP 26)

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STREAM B

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SECTION A
CASE AND READINGS

I) Objectives and importance of IFRS for SMEs

Objectives for IFRS for SMEs are:

Enhanced Transparency and Comparability: IFRS for SMEs aims to establish a standardized reporting framework, facilitating clear and consistent financial information for a broad range of users. This allows for easier comparison of SMEs across borders and industries.

Reduced Reporting Burden: Recognizing the limitations of SMEs in terms of resources and expertise, IFRS for SMEs offers a simplified version of full IFRS. This streamlined approach lessens the complexity and cost associated with financial reporting.

Improved Decision-Making: By presenting financial information in a clear and comparable manner, IFRS for SMEs empowers users – lenders, investors, creditors, and others – to make informed decisions regarding SMEs. This can potentially lead to increased access to capital and improved financial performance. **importance of IFRS for SMEs are:**

Global Harmonization: In today's interconnected business environment, IFRS for SMEs fosters a common language for financial reporting. This harmonization benefits SMEs with international operations or aspirations, streamlining compliance and communication.

Investor Confidence: IFRS for SMEs, with its focus on transparency and comparability, bolsters investor confidence in SMEs. This can translate into easier access to financing and potentially lower borrowing costs.

Reduced Risk of Errors: The standardized approach of IFRS for SMEs minimizes the likelihood of inconsistencies and errors in financial reporting, leading to more reliable information for decisionmaking.

Level Playing Field: By adopting a globally recognized framework, SMEs can compete more effectively on the international stage. They are judged based on standardized financial metrics, creating a fairer environment.

(ii) Significant differences on Objectives between IFRS for SMEs and full IFRS

IFRS (for SMEs)	IFRS (full)
Although the objective of financial statements are stated similarly, the focus is more on providing information regarding the financial position, performance, cash flows, and stewardship.	The main decision-useful orientation of financial information is applied more rigorously in full IFRS's Framework.
No underlying assumptions are provided, although the accrual basis is discussed separately and going concern is included under the overall presentation considerations in Chapter 2.	Underlying assumptions of accrual basis and going concern are provided.

Ten qualitative characteristics are identified without ranking. Qualitative characteristics are not divided between characteristics and constraints. Faithful representation and neutrality are not identified as qualitative characteristics.	Four principle qualitative characteristics are identified six secondary qualitative characteristics, and two constraints constraints.
The main features of the definition of assets, liabilities, equity, income and expenses are not discussed in the same detail, although the features are the same.	More detailed discussions of the definition are provided.
Concepts of capital and capital maintenance are not discussed.	Concepts of capital and capital maintenance are discussed.

(iii) Scope of IFRS for SMEs

The IFRS for Small and Medium-Sized Entities (IFRS for SMEs, "the Standard") is a standalone guideline that outlines financial reporting practices for small and medium-sized entities (SMEs). This Standard applies to SMEs that meet the following criteria:

- Lack public accountability
- Issue general purpose financial statements for external stakeholders

The Standard does not specify any quantitative thresholds, such as revenue, expenses, assets, or workforce size, to decide its applicability. It is up to each jurisdiction to determine which entities can adopt the IFRS for SMEs.

(iv) Objectives of Financial statements of IFRS for SMEs

The financial statements prepared according to IFRS for SMEs are geared towards providing a clear picture of a small or medium-sized business's financial health. This information is intended to be valuable for a broad range of users who rely on it to make informed financial decisions. Here's a breakdown of the key objectives:

Transparency for Decision-Making: The financial statements offer insights into the company's financial standing (what it owns and owes), its operating performance (how much revenue it generates and what its expenses are), and its cash flow (how cash moves in and out of the business). This information is crucial for various external parties to make sound economic decisions about the company.

Catering to Diverse Users: These financial statements are designed to address the general financial needs of a wide range of external users. This includes people who own the business but aren't directly involved in running it, entities that lend money to the business (creditors), those considering lending money in the future (potential creditors), and institutions that assess the business's creditworthiness (credit rating agencies).

Holding Management Accountable: The financial statements also serve as a tool to assess how well the company's management has overseen its financial resources. This promotes stewardship, which implies responsible management of the company's assets, and accountability, which means being answerable for the company's financial performance.

(v) Presentation of Financial statements

IFRS for SMEs dictates a specific format for presenting a company's financial health. This ensures transparency and facilitates informed decision-making by external parties. Here's a breakdown of the key presentation elements:

1. Financial statements comprise five core components:

- Statement of Financial Position (SFP): Imagine this as a photograph of the company's financial standing at a specific point in time. It captures everything the company owns (assets), owes (liabilities), and the remaining value owned by its shareholders (equity). Think of it as a financial balance sheet, providing a snapshot of the company's net worth.

- Statement of Comprehensive Income (SCI) or Income Statement and Statement of Comprehensive Income (combined): This statement focuses on the company's operational performance over a specific period. It details the company's revenue earned from its core activities, the expenses incurred to generate that revenue, and ultimately, the resulting profit or loss. In some cases, a combined statement is used, incorporating both the SCI and a separate Statement of Comprehensive Income, which captures additional income or expenses that may not be directly related to operations.

- Statement of Changes in Equity (SCE) or Statement of Income and Retained Earnings (SIRE): This statement tracks the changes in the company's owners' equity over a period. It includes the profit or loss from the Income Statement, any dividends paid out to shareholders, corrections made to past financial statements due to errors, and adjustments arising from changes in accounting policies. In simpler scenarios, a Statement of Income and Retained Earnings (SIRE) can be used, focusing solely on the core equity movements.

- Statement of Cash Flows (SCF): Unlike the other statements which focus on a specific point in time or a period of time, the SCF unveils the movement of cash within the business. It categorizes cash inflows and outflows based on the company's operating, investing, and financing activities. This provides valuable insights into the company's cash flow generation and how it's being used.

Additional Considerations for IFRS for SMEs Presentation

2. Combining Statements for Simplicity:

IFRS for SMEs allows for some flexibility. In cases where changes to a company's owner's equity are limited to fundamental events, a single Statement of Income and Retained Earnings (SIRE) can be used. This combines the information typically found in the separate Statement of Comprehensive Income (SCI) and Statement of Changes in Equity (SCE). This streamlined approach is applicable when equity movements are restricted to:

- Profit or loss for the period
- Distribution of dividends to shareholders
- Corrections of errors identified in prior financial statements
- Adjustments resulting from changes in accounting policies

3. Titles with Transparency:

While IFRS for SMEs dictates the core financial statements, it allows some leeway with titles. Companies can use alternative titles for these statements as long as they accurately reflect the content and aren't misleading. This flexibility allows companies to tailor the presentation to their specific needs while maintaining clarity for users.

4. Cornerstones of Reliable Presentation:

Financial statements prepared under IFRS for SMEs must adhere to specific principles to ensure they are reliable and informative for users. These principles act as the foundation for transparent financial reporting:

i. **Truthful Reflection:** The financial statements should provide an accurate and unbiased picture of the company's financial health. This includes a faithful representation of its financial position (assets and liabilities), operational performance (revenues and expenses), and cash flow generation and usage. Imagine the financial statements as a clear window into the company's financial reality.

ii. **Compliance Assurance:** The notes to the financial statements must explicitly declare that the company has followed the IFRS for SMEs standards. This transparency assures users that the information presented adheres to established accounting principles, allowing for trust in the reported figures.

iii. **Consistent Approach Over Time:** The format and classification of items within the financial statements should remain consistent across reporting periods. This consistency allows users to easily compare the company's financial performance year-over-year and identify trends. However, changes are justified if mandated by updates to the IFRS for SMEs standard or if there are significant shifts in the company's operations.

iv. **Comparative Perspective for Informed Decisions:** Financial statements should present both current and historical data (typically from the previous year) side-by-side. This comparative view empowers users to track the company's financial progress over time and make informed decisions. If necessary, adjustments should be made to ensure consistency between the current and historical figures presented for accurate comparison.

5. Materiality Matters:

The level of detail presented in the financial statements is guided by the concept of materiality. Information is grouped based on its significance. Material items with similar characteristics are presented separately for clear understanding. Dissimilar items are generally presented separately as well, unless they are considered immaterial. This principle ensures that users are presented with the most relevant and impactful financial information.

6. Transparency Beyond the Standard:

The IFRS for SMEs standard sets a baseline for disclosures. However, if these disclosures are insufficient to provide a clear understanding of specific transactions, events, or conditions that have a material impact on the company's financial performance, additional explanations must be provided in the notes to the financial statements. This ensures comprehensive transparency and empowers users to make informed decisions.

(vi) Significant differences on Presentation of Financial statements between IFRS forSMEs and full IFRS

Significant Differences in the Presentation of Financial Statements Between IFRS for SMEs and Full IFRS

Feature	IFRS for SMEs	Full IFRS
Statement of Income and Retained Earnings	Option to combine Income Statement and SCE under specific conditions	No option to combine Income Statement and SCE
Accrual Basis & Offsetting	Not explicitly mentioned as overall considerations	Explicitly mentioned as overall considerations
Assets Held for Sale and Disposal Groups	No separate presentation required in SFP Disclosure of binding sale agreements for major disposals	Separate presentation required in SFP (IFRS 5)
Feature	**IFRS for SMEs**	**Full IFRS**
Other Comprehensive Income	Fewer items included	More items included
Comparative Periods in SFP	Requires one comparative period (current & previous)	May require two comparative periods (retrospective changes)
Presentation of NonControlling Interests	Uses "non-controlling interest" term	Consistently uses "noncontrolling interests"

(vii) Consolidated and Separate Financial Statements

Consolidated Financial Statements: IFRS for SMEs requires parent entities, which control subsidiaries (companies with more than 50% voting power or significant influence), to prepare consolidated financial statements. These statements combine the financial results and position of the parent company and all its subsidiaries as if they were a single economic entity.

For users to clearly understand the consolidated statements, several key disclosures are required. These include:

- Explicitly stating they are consolidated statements
- The basis for establishing control over subsidiaries
- Any limitations on subsidiaries' ability to transfer funds to the parent company
- Any differences in reporting dates between the parent and its subsidiaries

Separate Financial Statements: While not mandatory, companies can choose to prepare separate financial statements alongside consolidated statements. These statements present the financial position and performance of a single entity, typically the parent company.

Separate financial statements are relevant when a parent company invests in associates or jointly controlled entities. Associates and jointly controlled entities are different from subsidiaries, and separate statements present the parent's investment based on its direct equity interest in these entities.

IFRS for SMEs provides some flexibility for how investments are recorded in separate financial statements. Companies can choose to record their investments at either cost less impairment or fair value with changes recognized in profit or loss. However, consistency is required, with the same policy applied to all investments within a specific category (e.g., all associates or all jointly controlled entities).

Similar to consolidated statements, separate financial statements need to disclose key information for user clarity. This includes:

- Explicitly stating they are separate statements
- The chosen accounting policy for investments
- A reference to the consolidated financial statements if applicable

By providing these disclosures, users can understand the parent company's financial performance on a standalone basis and how its investments contribute to its overall financial health.

(viii) Inventories

Inventories under IFRS for SMEs

Under IFRS for SMEs, inventories encompass assets held for various purposes: those held for sale in the ordinary course of business (finished goods), those in the process of production for such sale (workin-progress), and materials or supplies consumed during production or service provision.

IFRS for SMEs classifies inventories into three main categories based on their stage in the production or sales cycle:

1. **Finished Goods:** These are complete products ready for sale to customers.

2. **Work-in-Progress (WIP):** These are partially completed goods undergoing the production process before becoming finished goods.

3. **Consumables:** This category includes raw materials and supplies used during production or service delivery.

Measurement

IFRS for SMEs generally requires valuing inventories at the lower of their cost or estimated selling price, minus any costs to complete and sell them. However, there are exceptions for specific items like certain agricultural produce, minerals and mineral products, and financial assets held by commodity brokers and dealers. These exceptions are measured at fair value, less costs to sell, and recognized directly in profit or loss.

Cost of Inventories

The cost of inventories under IFRS for SMEs encompasses all expenses incurred to bring them to their current state. This includes the purchase price, import duties, non-refundable taxes, and any costs directly involved in getting the inventory to its location (minus trade discounts and rebates). Additionally, it incorporates direct production costs like labor and a share of fixed and variable production overheads allocated to the units produced. However, only other essential costs incurred to bring the inventory to its current condition are included, excluding abnormal waste, storage costs (unless necessary during production), administrative overheads, and selling costs.

Exclusions from Inventory Costs

IFRS for SMEs applies a specific lens to inventory costs, excluding certain expenses from the valuation. This ensures the focus remains on essential costs directly tied to getting the inventory to its current state. These exclusions encompass:

- Abnormal Waste: Excessive amounts of wasted materials, labor, or other production inefficiencies are not included in the inventory cost.
- Storage Costs: Generally, storage costs are excluded unless they're necessary during a specific production stage before further processing.
- Administrative Overheads: These don't contribute to bringing the inventory to its usable state and are therefore excluded from the cost.
- Selling Costs: Selling costs are recognized as separate expenses incurred to market and sell the finished inventory.

Impairment of Inventories

At each reporting date, an entity must assess whether any inventories are impaired by comparing the carrying amount of each item with its selling price less costs to complete and sell. If impaired, the carrying amount is reduced to the selling price less costs to complete and sell, and the impairment loss is recognized in profit or loss. Impairment losses can be reversed if the conditions that caused the impairment no longer exist or if there is clear evidence of an increase in selling price.

Recognition as an Expense

When inventories are sold, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. If inventories are used in the construction of other assets, their carrying amount is included in the cost of those assets and expensed through depreciation or disposal of the asset.

Disclosure Requirements

IFRS for SMEs requires companies to disclose specific details about their inventories within the financial statements. This transparency ensures users understand how inventories are valued and their impact on the company's financial performance. Disclosures include:

- The chosen accounting policies for measuring inventories, along with the cost calculation methods used.
- The total carrying amount (recorded value) of inventories, with a breakdown by category relevant to the company's operations.
- The amount of inventory recognized as an expense during the reporting period.

- Any impairment losses recognized or reversed in the profit or loss statement, reflecting value decreases or increases in the inventory.

- The total carrying amount of inventories used as collateral (security) for loans or other financial obligations.

(ix) Financial Instruments

Financial Instruments under IFRS for SMEs

Financial instruments, as defined under the IFRS for SMEs, encompass a wide range of assets and liabilities. A financial asset includes cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset, or to exchange financial assets or liabilities under potentially favorable conditions. Conversely, a financial liability entails a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or liabilities under potentially unfavorable conditions.

Recognition and Measurement: Financial instruments are recognized when the entity becomes a party to the contractual provisions of the instrument. The measurement of financial instruments under the IFRS for SMEs is categorized into basic financial instruments and other financial instruments. Basic financial instruments are measured at amortized cost using the effective interest method. Examples include cash, debt instruments that meet specific conditions, non-convertible preference shares, and certain loan commitments. Other financial instruments are measured at fair value through profit or loss. Examples include derivative instruments such as options and interest rate swaps, and investments in convertible preference shares.

Disclosure Requirements: Entities must disclose the measurement basis used for financial instruments and any other relevant accounting policies. Specific disclosures include the carrying amounts of financial assets and liabilities, information on fair value determination, and details about risks and conditions related to financial instruments.

Differences between IFRS for SMEs and Full IFRS: There are several significant differences between IFRS for SMEs and full IFRS. Full IFRS is more comprehensive and includes more detailed guidance and requirements, whereas IFRS for SMEs simplifies many of these aspects to reduce the reporting burden on smaller entities. Full IFRS allows for a broader range of measurement options (e.g., fair value, amortized cost) depending on the type and classification of financial instruments, while IFRS for SMEs primarily focuses on amortized cost for basic instruments and fair value for others. Additionally, the requirements for hedge accounting under full IFRS are more stringent and detailed compared to IFRS for SMEs, which provides simplified approaches.

(x) Employees benefits and read EXAMPLE 20.6 and 20.8

Employee benefits encompass all forms of consideration given by an entity in exchange for services rendered by employees. This includes short-term benefits, post-employment benefits, other long-term benefits, and termination benefits.

Short-Term Employee Benefits: These are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. Examples include wages, salaries, paid annual leave, and non-monetary benefits (such as medical care, housing, and cars) for current employees.

Post-Employment Benefits: These include pensions, other retirement benefits, post-employment life insurance, and post-employment medical care. They are typically provided under a defined contribution plan or a defined benefit plan.

Other Long-Term Employee Benefits: These benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. Examples include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits, and, if they are not expected to be settled within twelve months after the end of the period, profit-sharing, bonuses, and deferred compensation.

Termination Benefits: These are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

Recognition and Measurement: Employee benefits are recognized as an expense when the entity consumes the economic benefits arising from the service provided by an employee in exchange for employee benefits. For short-term employee benefits, an entity recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability. Postemployment benefits under defined contribution plans are recognized as an expense when the employee has rendered service. For defined benefit plans, the liability recognized is the present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

Example 20.6 and Example 20.8

Example 20.6: The example illustrates the accounting treatment for short-term employee benefits. If an employee is entitled to paid leave, the cost of the paid leave is recognized as an expense as the employee renders the service that entitles them to the leave. If the paid leave is not wholly used by the end of the reporting period, the unused entitlement is carried forward and recognized as a liability.

Example 20.8: This example explains the accounting for defined benefit plans. The example demonstrates the calculation of the present value of the defined benefit obligation and the subsequent recognition of service costs, interest costs, and remeasurements in the financial statements. The defined benefit obligation is measured using the projected unit credit method, considering factors like the length of service and salary levels.
The detailed accounting treatment ensures that entities appropriately reflect the cost of employee benefits and the associated liabilities in their financial statements, providing a clear and accurate financial position and performance overview.

(xi) Significant differences on Employees benefits between IFRS for SMEs and full IFRS

IFRS for SMEs and full IFRS both provide guidelines for recognizing and measuring employee benefits, but they differ in terms of complexity, detailed requirements, and specific treatments.

Defined Benefit Plans:

IFRS for SMEs: The treatment of defined benefit plans under IFRS for SMEs is simplified compared to full IFRS. IFRS for SMEs requires entities to recognize a liability for defined benefit plans based on the present value of the defined benefit obligation at the reporting date, minus the fair value of plan assets. The standard simplifies the measurement and does not require a detailed actuarial valuation annually.	Full IFRS (IAS 19): Full IFRS, specifically IAS 19 Employee Benefits, mandates a more complex and detailed approach. It requires entities to use the projected unit credit method to measure the present value of the defined benefit obligation. Entities must perform detailed actuarial valuations and recognize service costs, net interest on the net defined benefit liability (asset), and remeasurements (actuarial gains and losses) in other comprehensive income.

Actuarial Assumptions:

IFRS for SMEs: Allows simplifications in determining actuarial assumptions and does not require all the detailed disclosures mandated by full IFRS.	Full IFRS (IAS 19): Requires a comprehensive set of actuarial assumptions, including demographic assumptions (e.g., employee turnover and mortality rates) and financial assumptions (e.g., discount rates, expected rates of salary increases).

Disclosure Requirements:

IFRS for SMEs: Disclosure requirements are less extensive. The standard focuses on the present value of defined benefit obligations, the fair value of plan assets, and the total expense recognized in profit or loss.	Full IFRS (IAS 19): Requires extensive disclosures, including detailed reconciliations of the opening and closing balances of the defined benefit obligation and plan assets, sensitivity analyses for each significant actuarial assumption, and descriptions of the risks associated with defined benefit plans.

Recognition of Actuarial Gains and Losses:

IFRS for SMEs: Recognizes all changes in the net defined benefit liability (asset) in profit or loss.

Full IFRS (IAS 19): Requires remeasurements, which include actuarial gains and losses, to be recognized in other comprehensive income and not reclassified to profit or loss in subsequent periods.

Short-Term Employee Benefits:

Both standards have similar requirements for short-term employee benefits, such as wages and salaries, paid annual leave, and bonuses. These benefits are recognized as an expense when the employee renders the service.

These differences highlight the simplifications in IFRS for SMEs, aimed at reducing the reporting burden for smaller entities while ensuring that the financial statements still provide a true and fair view of the entity's obligations related to employee benefits.

(xii) Revenue and read EXAMPLE 22.1 and 22.2

Definition: Revenue is defined as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Revenue can arise from the sale of goods, the rendering of services, and the use by others of entity assets yielding interest, royalties, and dividends.

Recognition and Measurement:

Sale of Goods: Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of Services: Revenue from rendering services is recognized by reference to the stage of completion of the transaction at the reporting date, provided that the outcome of the transaction can be estimated reliably. The outcome can be estimated reliably when the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the entity, the stage of completion can be measured reliably, and the costs incurred and the costs to complete the transaction can be measured reliably.

Interest, Royalties, and Dividends: Revenue arising from the use by others of entity assets yielding interest, royalties, and dividends is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Interest is recognized using the effective interest method. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognized when the shareholder's right to receive payment is established.

Example 22.1 and Example 22.2

Example 22.1: This example illustrates the recognition of revenue from the sale of goods. An entity sells goods and transfers the significant risks and rewards of ownership to the buyer. The amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. The costs incurred or to be incurred in respect of the transaction can also be measured reliably. Therefore, the revenue is recognized at the point when the risks and rewards of ownership are transferred.

Example 22.2: This example deals with revenue recognition from the rendering of services. An entity provides a service over a period, and revenue is recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of the transaction can be estimated reliably when the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the entity, the stage of completion can be measured reliably, and the costs incurred and the costs to complete the transaction can be measured reliably. For instance, if an entity has completed 60% of a service contract by the end of the reporting period, it recognizes 60% of the total contract revenue as revenue for that period.

(xiii) Related Party Disclosures under IFRS for SMEs

Related party disclosures under IFRS for SMEs require entities to provide information about their transactions with related parties to ensure that financial statements contain the necessary details for users to understand the potential effect of those transactions on the financial position and performance of the entity.

Key Requirements:

Identification of Related Parties: Related parties include individuals or entities that have control or significant influence over the reporting entity, or are significantly influenced by the reporting entity. This includes parent companies, subsidiaries, associates, joint ventures, key management personnel, and close family members of such individuals.

Disclosure of Transactions: Entities must disclose the nature of the relationship, the amount of transactions, outstanding balances, and provisions for doubtful debts related to the amount of outstanding balances. Significant transactions include purchases and sales of goods and services, loans, guarantees, and other transfers of resources or obligations.

Compensation of Key Management Personnel: Disclosure of key management personnel compensation, including short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, and share-based payments.

(xiv) Specialized Activities under IFRS for SMEs

IFRS for SMEs provides guidance on accounting for specialized activities such as agriculture, extractive industries, and service concessions.

Agriculture:

- **Biological Assets:** Biological assets, such as livestock and crops, are measured at fair value less costs to sell, with changes in fair value recognized in profit or loss.

- **Agricultural Produce:** Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest. This value becomes the cost for subsequent accounting.

Extractive Industries:

- **Exploration and Evaluation Assets:** Costs incurred in the exploration and evaluation of mineral resources are accounted for in accordance with the entity's accounting policy, which might include expensing them as incurred or capitalizing them as exploration and evaluation assets.

- **Development Costs:** Costs incurred to develop a mineral resource are capitalized as tangible or intangible assets, depending on their nature, and are amortized over the useful life of the resource.

Service Concessions:

Recognition and Measurement: When an entity acts as an operator in a service concession arrangement, it recognizes a financial asset or an intangible asset, depending on the nature of the payment it receives. A financial asset is recognized when the operator has an unconditional contractual right to receive cash or another financial asset. An intangible asset is recognized when the operator has a right to charge for the use of the infrastructure.

SECTION B
PROBLEM SOLVING

QUESTION 1:

REQUIRED:

(a) State the provisions of IAS 41: Agriculture, regarding recognition and measurement of biological assets and agricultural produce in the preparation and presentation of financial statements **Recognition**

IAS 41 outlines specific criteria for recognizing biological assets and agricultural produce.

Biological Assets: An entity shall recognize a biological asset when the entity controls the asset as a result of past events. It must be probable that future economic benefits associated with the asset will flow to the entity, and the fair value or cost of the asset can be measured reliably.

Agricultural Produce: Agricultural produce harvested from an entity's biological assets should be recognized at the point of harvest. The recognition criteria are similar to those for biological assets: the entity must control the produce as a result of past events, it is probable that future economic benefits associated with the produce will flow to the entity, and the fair value or cost of the produce can be measured reliably.

Measurement

IAS 41 requires biological assets and agricultural produce to be measured at fair value less costs to sell.

Biological Assets: On initial recognition and at each reporting date, biological assets are measured at their fair value less costs to sell. Any changes in fair value less costs to sell are recognized in profit or loss in the period in which they arise.

Agricultural Produce: Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest. This fair value less costs to sell becomes the cost for subsequent accounting, such as inventory accounting.

Fair Value Determination: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of biological assets and agricultural produce should reflect the current market conditions in the principal market for the asset or liability.

Costs to Sell: Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. These may include commissions to brokers and dealers, levies by regulatory agencies, and transfer taxes and duties.

Practical Application

Entities should consistently apply the measurement and recognition criteria to all biological assets and agricultural produce. Adequate disclosure is required to provide users of financial statements with sufficient information about the nature, amount, and valuation of biological assets and agricultural produce. Disclosures should include the methods and assumptions used to determine fair value, the types of assets held, and the impact of changes in fair value on profit or loss.

By adhering to these provisions, entities engaged in agricultural activities can ensure that their financial statements accurately reflect the economic reality of their operations and provide relevant and reliable information to users.

(b) Prepare extracts of the statement of comprehensive income and the statement of Financial Position that show how transactions entered into by Kayumba in respect of purchase and maintenance of dairy herd would be reflected in the financial statements of the year ended 30th September 2023.

Data Given:

Purchases and Grants on 1st October 2022:

- Purchased land in Mkuki farming block: TZS 1 billion
- Purchased 100 dairy cows (average age of two years): TZS 50 million
- Received a non-refundable grant towards the acquisition of cows: TZS 20 million **Costs Incurred during the Year Ended 30th September 2023:**
- Maintenance of animals (food and disease protection): TZS 25 million
- Breeding fees: TZS 15 million **Births and Mortality:**
- 50 calves born on 1st April 2023
- Mortality rate: 10% per annum of every birth or purchase **Fair Values at 30th September 2023:**
- Land: TZS 1.2 billion
- Six-month-old calves (per calf): TZS 125,000
- Three-year-old cows (per cow): TZS 685,000
- Milk (per litre): TZS 3,000 **Inventory:**
- Unsold milk at year-end: 100 litres

STATEMENT OF COMPREHENSIVE INCOME (FOR THE YEAR ENDED 30TH SEPTEMBER 2023)

Description	TZS
Revenue:	
Grant received for cows	20,000,000
Cost of Sales:	
Maintenance of animals	(25,000,000)
Breeding fees	(15,000,000)
Fair Value Adjustments:	
Gain on land revaluation	200,000,000
Gain on revaluation of cows (100 cows * TZS 635,000)	63,500,000
Gain on calves (45 calves * TZS 125,000)	5,625,000
Total Comprehensive Income:	
Revenue	20,000,000
Cost of sales	(40,000,000)
Fair value adjustments	269,125,000
Net Income:	**249,125,000**

STATEMENT OF FINANCIAL POSITION (AS OF 30TH SEPTEMBER 2023)

Description Non-	TZS
Current Assets:	
Land	1,200,000,000
Cows (100 cows * TZS 685,000)	68,500,000
Calves (45 calves * TZS 125,000) **Current Assets:**	5,625,000
Unsold milk (100 litres * TZS 3,000)	300,000
Total Assets:	**1,274,425,000**
Equity:	
Capital	1,000,000,000
Retained earnings	249,125,000
Total Equity:	**1,249,125,000**
Liabilities:	
None	-
Total Liabilities and Equity:	**1,249,125,000**

NOTE:

1. **Grant received for cows:** Directly recorded as revenue.
2. **Maintenance and breeding fees:** Treated as cost of sales.
3. **Fair Value Adjustments:**
    - Gain on land revaluation: Difference between fair value at 30th September 2023 (TZS 1.2 billion) and purchase cost (TZS 1 billion).

- Gain on revaluation of cows: (100 cows * TZS 685,000) - Initial cost (TZS 50 million).
- Gain on calves: 50 calves born – 5 calves mortality (10% mortality rate), resulting in 45 calves. Each valued at TZS 125,000.

4. **Unsold milk:** 100 litres valued at TZS 3,000 per litre, sold shortly after year-end, recorded as inventory.

QUESTION TWO:

To calculate the amount that will be taken to the statement of profit or loss for the year ended 31 December 20X3, we need to consider the fair value adjustments of the herd.

2. **Initial Herd on 1 January 20X3:**
   - Number of 4-year-old sheep: 5
   - Fair value per sheep: TZS 200,000
   - Total fair value on 1 January 20X3: 5×200,000=1,000,000 TZS
3. **Purchase of Sheep on 1 July 20X3:**
   - Number of sheep purchased: 1
   - Fair value of purchased sheep: TZS 212,000
   - Total cost of purchase: TZS 212,000
4. **Fair Value at 31 December 20X3:**
   - Fair value of a 5-year-old sheep: TZS 230,000
   - Number of sheep at 31 December 20X3: 6 (5 initial + 1 purchased)
   - Total fair value at 31 December 20X3: 6×230,000=1,380,000 TZS
5. **Calculating Fair Value Gains:**
   - Initial fair value of the herd on 1 January 20X3: TZS 1,000,000
   - Purchase cost of new sheep on 1 July 20X3: TZS 212,000

- Fair value of herd on 31 December 20X3: TZS 1,380,000 **Fair Value Gain Calculation:**

Value Gain Value at 31 December 20X3 Fair Value CostFair Value Gain=Fair Value at 31 December 20X3−(Initial Fair Value+Purchase Cost)

Value Gain TZSFair Value Gain=1,380,000−(1,000,000+212,000)=1,380,000−1,212,000=168,000 TZS

STATEMENT OF PROFIT OR LOSS EXTRACT

Fair Value Gain:

• Gain from fair value adjustment: TZS 168,000

TABLE FORMAT

Description	Amount (TZS)
Initial fair value of herd (1 Jan 20X3)	1,000,000
Purchase cost of new sheep (1 Jul 20X3)	212,000
Fair value of herd at 31 Dec 20X3	1,380,000
Fair Value Gain	**168,000**

Therefore, the amount that will be taken to the statement of profit or loss for the year ended 31 December 20X3 is TZS 168,000.

QUESTION THREE

FITZROY LTD PENSION PLAN CALCULATIONS (YEAR ENDED DECEMBER 31, 2020)

1. Total Pension Expense Calculation:

Description	Amount (TZS Millions)
Opening Net Pension Asset (10 – unrecognized actuarial gains 40)	-30
Contributions Paid	20
Service Cost	(23)
Benefits Paid	(5)
Actuarial Gains Recognized (40 / 10)	4
Expected Return on Assets (300×7.2%)	21.6
Interest on Pension Liabilities (250×5.5%)	(13.75)
Past Service Cost (improvement in benefits)	12
Curtailment Gain (reduction in liabilities due to redundancies)	6
Total Pension Expense	18.85

2. Journal Entries:

Description	Debit (TZS Millions)	Credit (TZS Millions)
Pension Expense	18.85	
Contributions Payable		20
Past Service Cost	12	
Curtailment Gain		6
Actuarial Gains		4
Pension Asset	23	
Expected Return on Assets		21.6
Interest on Pension Liabilities	13.75	

3. Statement of Financial Position Extract (as at December 31, 2020):

Description	Amount (TZS Millions)
Pension Asset	395
Pension Liability	355
Net Pension Asset	40

- **Pension Asset**: Reflects the market value of assets as of December 31, 2020.
- **Pension Liability**: Represents the actuarial value of liabilities as of December 31, 2020.
- **Net Pension Asset**: The difference between pension assets and liabilities indicating the net position of the pension plan.

QUESTION 4

Given that;

Pension Scheme Details:

- Fuller Ltd operates a defined contribution pension scheme.
- Employees contribute 3% of pensionable salary.
- Employer contributes 12% of pensionable salary.
- Pensionable salaries totalled 36,000,000 for the year ended 31 December 2022, payable in equal monthly instalments.

Payment Schedule:

- Fuller Ltd pays the monthly pension contribution on the 19th of the following month. a) ***solution***
  Employee Contributions:
  Employee Contributions=3% × 36,000,000= 1,080,000

  Employer Contributions:
  Employer Contributions=12% × 36,000,000= 4,320,000
  Total Employer's Pension Cost:
  Total Employer's Pension Cost=Employee Contributions + Employer Contributions
  Total Employer's Pension Cost=1,080,000 + 4,320,000= 5,400,000

Therefore, the employer's contribution for the year to 31 December 2022 is 4,320,000.

b) To determine the balance relating to the pension scheme in the balance sheet as at 31 December 2022.

***Given*:**

- Fuller Ltd pays the monthly pension contribution on the 19th of the following month. Pensionable salaries are 36,000,000 per year, paid monthly.

To calculate the employer's accrued pension liability as at 31 December 2022:

1. **Monthly Pensionable Salary on monthly basis:**

   =36,000,000/12monthes × =3,000,000

   3,000,000 ×15%=450,000 this is treated as the current liability

Dr	Cr
employment cost 450,000	cash/bank 450,000

Therefore, the balance relating to the pension scheme in the balance sheet as at 31 December 2022, specifically the accrued liability for the December 2022 contribution, is 450,000. This amount represents the unpaid contribution for December 2022 that will be paid in January 2023 ***c) Disclosure***

- Pension Scheme Details:

  - Fuller Ltd operates a defined contribution pension scheme.

  - Employees contribute 3% of their pensionable salaries.

  - Employer contributes 12% of employees' pensionable salaries.

  - Total pensionable salaries for the year: 36,000,000.

- Employer's Pension Cost: The employer's contribution for the year is calculated as:

  = 12% *36,000,000 = 4,320,000

- Balance Sheet Disclosure: Contributions are paid monthly on the 19th of the following month.

  - As at 31 December 2022, the accrued liability for the December 2022 contribution is 450,000.

- Nature of the Plan:
  Defined Contribution Plan: The benefits received by employees depend on the contributions made into their individual pension accounts.

QUESTION FIVE

FINANCIAL POSITION RESTATED AS AT DECEMBER 31 ST 2023

PARTICULAR	R.RATE	CF	RESTATED
Asset	-		
Cash	110,000		110,000
Account receivable	210,000		210,000
Merchandize investment	500,000	290/255=1.14	570,000
Store equipment	400,000	290/250=1.16	464,000
Acc. Depreciation	(80,000)	290/250=1.16	(92,800)
Total asset			1,261,200
Liability and equity			
Account payables	490,000	-	490,000
Common stock	250,000	290/250=1.16	290,000
Additional paid in cash	50,000	290/250=1.16	58,000
Retained earnings			423,200
			1,261,200

RESTATED INCOME STATEMENT AT DECEMBER 31 ST 2023

PARTICULAR	R.RATE	CF	RESTATED
Sales revenue	1,000,000	290/270=1.07	1,070,000
Less: expenses			
Cost of goods sold	550,000	290/270=1.07	588,500

Depreciation expenses	40,000	290/250=1.16	46,400
Selling and add.	150,000	290/265=1.09	163,500
Total expenses			798,400
Net income			**271,600**

NOTES: Conversion Factor (FC) = GPI on Reporting date / GPI when non-monetary items were acquired

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