Zambia’s financial reporting framework
Breakfast briefing
2011
**Agenda**

- Welcome and introductions
- A brief background on the objectives and goals of having a tiered reporting framework
- Discussion around the framework with a focus on:
  - Accounting and reporting implications; and
  - Financial effectiveness and processes required to implement and sustain the revised framework
- Closing
Zambia’s financial reporting framework

Objectives of the framework

2011
Overview

- ZICA Adopted full International Financial Reporting Standards for all entities in 2005

- Zambian Accounting Standards in operation previously

- Capacity constraints within SMEs to ensure compliance
- Complexity of issues covered in IFRS
- Amount of implementation guidance
- Volume of disclosures and relevance to the users
- Generally low level of compliance
# Overview

Three Tier Financial Reporting framework and Audit for Zambia

<table>
<thead>
<tr>
<th>Type of entity</th>
<th>Financial Reporting Framework</th>
<th>Audit Assurance Requirement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed Companies, Public Interest entities and Government Owned Enterprises</td>
<td>Full IFRS</td>
<td>Full Audit Assurance Engagement</td>
</tr>
<tr>
<td>Economically Significant Companies – not PIE with turnover of K20 billion and above</td>
<td>IFRS for SMEs or Full IFRS if the Company opts to use it</td>
<td>Full Audit Assurance Engagement</td>
</tr>
<tr>
<td>Micro and Small Entities – With Turnover of less than K20 billion</td>
<td>Zambian Financial Reporting Standard for Micro and Small Entities</td>
<td>No Full Audit required. If needed full Audit can be done otherwise, Accountant’s Report will suffice subject to Companies Act amendment</td>
</tr>
</tbody>
</table>

* - recommended subject to amendment of the Zambia Companies Act
Overview

IFRS and IFRS for SMEs

- Standards adopted without modification as issued by IASB

Zambian Financial Reporting Standards for Micro and Small Entities

- Simplified version of the IFRS for SMEs
  - Fewer disclosures
  - Some topics deleted
Overview

Effective date

- The three tier financial reporting framework is effective for annual periods beginning on or after 1st January 2011.
Zambia’s financial reporting framework
Accounting and reporting implications

2011
Applying the standard

Standard addresses transaction, event or condition

Is the transaction addressed by IFRS or IFRS for SMEs?

Is the amount in question material?

Apply judgement and make use of those standards to develop policy

Entity not required to follow the Standard

Apply the requirements of the standard

YES

NO

YES

YES

NO

NO

UNLIKELY!!!
### Implications

**Presentation of financial statements**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced to three primary statements, plus accounting policies and</td>
<td>Whilst no requirement to present a Statement of changes in equity:</td>
</tr>
<tr>
<td>explanatory notes</td>
<td>• Dividends and other movements in retained earning will be on the P&amp;L;</td>
</tr>
<tr>
<td></td>
<td>• Any other changes in equity, will be in the notes</td>
</tr>
<tr>
<td></td>
<td>For first time adoption balances may not be comparable with prior year financial statements</td>
</tr>
<tr>
<td>No restatement of comparatives is required on first time adoption of</td>
<td></td>
</tr>
<tr>
<td>ZFRS for MSEs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in accounting policy and correction of misstatements done</td>
<td>Current and prior year amounts many not be comparable</td>
</tr>
<tr>
<td>prospectively</td>
<td></td>
</tr>
</tbody>
</table>
**Implications**

*Presentation of financial statements*

<table>
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<th><strong>Benefits</strong></th>
<th><strong>Challenges</strong></th>
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</thead>
<tbody>
<tr>
<td>Fewer disclosures will simplify financial statements;</td>
<td>Elimination of disclosures may affect usefulness of financial statements for stakeholders</td>
</tr>
<tr>
<td>1. Comparatives for fixed assets</td>
<td></td>
</tr>
<tr>
<td>2. Comparatives for intangible assets</td>
<td></td>
</tr>
<tr>
<td>3. Statement of changes in equity</td>
<td></td>
</tr>
<tr>
<td>4. Effective tax reconciliation</td>
<td></td>
</tr>
</tbody>
</table>
Implications
Statement of financial position - Assets

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| Principle of the lower of Cost or NRV applied to determining the carrying value of assets;  
  • Assets are not fair valued  
  • Property, plant and Equipment are not revalued | Cost does not always reflect the value of the assets held |
| Only straight line depreciation basis is allowable | Other bases such as Units of Production may be more appropriate in certain instances |
| Accounting for biological assets simplified, by narrowing it to the use of cost rather than fair value, less cost to complete | Gaps in required treatment for areas such as ‘offspring’ or ‘secondary crop’ may result in need to adopt full IFRS or IFRS for SME requirements |
**Implications**

Statement of financial position – Liabilities and equity

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<tr>
<td>No requirement to fair value financial instruments such as accounts payable and loans/ borrowings</td>
<td>• Intrinsic value of liabilities may not be captured</td>
</tr>
<tr>
<td></td>
<td>• Standard defines loans payable as amounts due after 12 months and excludes current liabilities</td>
</tr>
<tr>
<td></td>
<td>• Requirement to disclose accounts payable outside agreed credit terms as at the Balance Sheet date</td>
</tr>
</tbody>
</table>
**Implications**

*Statement of financial position - Profit*

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<th><strong>Benefits</strong></th>
<th><strong>Challenges</strong></th>
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</thead>
<tbody>
<tr>
<td>Under the new standards, there is no requirement to recognise deferred tax</td>
<td>Deferred tax meets the definition of a liability and so there is a challenge on completeness of liabilities</td>
</tr>
<tr>
<td>on temporary timing differences</td>
<td></td>
</tr>
<tr>
<td>Standard allows for exceptional items</td>
<td>The effective tax rate for entities will be volatile</td>
</tr>
<tr>
<td></td>
<td>Exceptional items allow for distortion of presentation of items</td>
</tr>
</tbody>
</table>
## Implications

**Statement of financial position – Cash flows**

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</thead>
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<td>Use of direct method for computing cash flows from operations provides more meaningful information</td>
<td>The direct method is tedious and usually complicated</td>
</tr>
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</table>
Zambia’s financial reporting framework
Financial effectiveness and processes
2011
**Finance & Accounting – a consulting mindset or business reality?**

To support CEO’s, CFO’s controllers and treasurers to:

- optimise the structure of their finance functions and improve their contribution to the business;
- to support the C-Suite in decision-making
- provide solutions around compliance & control and efficiency and flexibility, such as:
  - strategic planning
  - finance process improvement (gap analysis)
  - finance organisation reviews and process improvements
Finance & Accounting – a consulting mindset or business reality?

In simple terms a finance & accounting process review will ensure:

- accounting records are complete and accurate;
- transactions are valid;
- complies with legal requirements; and
- minimise the risk of fraud.

“Consequently the above results in accurate information which allows for timely and effective value adding and strategic decision making in the most cost efficient manner”
Management accounts versus external financial reporting

Management Accounts

- Compiled regularly: quarterly / monthly / weekly / daily
- More detailed: users (usually management and banks) need to know what action to take
- More prompt to enable timely action by recipients
- Could be less precise because of the speed of compilation
- No legal obligation to produce management accounts

Financial Reporting

- Compiled less frequently – usually annually
- Only overview of organisation as a whole is required
- May only be finalised months after the period end
- Time lag between period end and compilation of external reports allows detailed checking to eliminate errors
- Required by law
Finance & Accounting – SME’s in the economic limelight

• Today’s SME’s are the engine of growth and ultimately tomorrows multinationals
• The entrepreneurial flair together with sound financials and systems in place allows for easy access to capital through the preparation of robust and bankable business plans.
• However with external financial support comes the need for accountability and governance – the creation of trust and openess.
• The need for SME’s to engage professionals and consultants at the various stages of the business life cycle become more pertinent in dealing with changing macro economic conditions.