Volume 3. November 2005

success line

...is our regular bulletin featuring news and developments that can assist your success.

Seasons Greetings

Some Fast Facts	
Established	1976
International Affiliation	Member firm of Grant Thornton International
Offices in	Gaborone,Francistown,Selebi-Phikwe.
Regional member firms	South Africa, Kenya, Mauritius, Mozambique, Uganda, Tanzania, Zambia, Namibia
Focusing on	Owner managed, entrepreneurial businesses
Employees	± 120
Partners,Directors	8
Committed to	Transformation in the profession
Services	Audit Assurance, Accounting, Taxation, Company Secretarial, Specialist Financial, Corporate Recovery and Reorganisation, Buisness Risk & Corporate governance and Business Centre
Research	International Business Owners Survey
Grant Thornton International	
Operating	Over 111 countries
Offices in	585 locations worldwide
Number of International business centers	26 including Botswana
Focussing on	Ownermanaged, entrepreneurial businesses
Employees	± 21000 staff in member and correspondent firms
Partners	Over 2000 partners in member and correspondent firms
Worldwide Chief Executive Officer	David McDonnell
Research	
Annual International Business Owners' Survey	6600 companies in 26 countries surveyed
PRIMA	Research from over 26 countries

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1. Compliance – The order of the day

By Jay Ramesh – Managing Partner

Jay Ramesh

The year 2005 has brought about massive changes in the way businesses operate in Botswana. This has been caused by various factors namely the reduction in government spending, inflationary pressures, devaluation, high interest rates, compliance drive by the department of revenue etc.

BURS (Botswana Unified Revenue Service)

A major change in the outlook of the regulators that is directly affecting business owners is relating to enforcing compliance with the Income Tax and VAT laws and regulations. The compliance rate in Botswana appears to be relatively low compared to many countries that are of Botswana's stature. The main reason for the additional pressure being felt now is because the regulators have started to use the various provisions made available to them by law to enforce the collection of revenue.

To increase the compliance rate, it has now been made mandatory for all tenderers for government contracts to enclose a "tax clearance certificate" (TCC) along with their tender documents. The procedure for obtaining the TCC is quite simple. However, you will be issued a TCC only if you have paid all your tax and intrest liabilities and if there is no arrears in the filing of tax returns. It is therefore very important for every business to ensure that they have a TCC even before they start to work on the tender document.

Penalties and interest are imposed strictly for non-compliance. You may be interested to note that if you have been granted an extension of time to file your tax returns from 4 months to 6 months and fail to file your returns before the end of the 6 month, penalties will be levied on you from the beginning of the 5th month. The penalty could be @ P 100 per day for every day of the delay.

BURS have strengthened their Withholding tax collection procedures by computerizing the entire process. The follow up and demand notices will now be more regular and Withholding tax audits will become a regular feature. You must also take note of the additional requirements of Withholding tax in the detailed article in this issue.

Financial institutions and investors

The importance of financial statements is not only relevant for tax compliance but also for gaining and maintaining credibility with financial institutions and potential investors.

The financial institutions insist on being provided with a copy of the annual financial statements along with your projections within 6 months of the end of the financial year when you avail borrowing facilities from them. Timely submission of the financial statements will enhance your ability to negotiate favourable terms and amount of borrowing.

Many business owners recently have been seeking additional investors into their business or looking for buyers for the entire business. One of the essential requirements to convince an interested investor about the status of your business is to provide them with the most recent financial statements and information. A healthy bottom line and trend of the bottom line assist in reaping a healthy value for the business.

You can therefore never over emphasise the need for timely preparation of financial statements for your organization. A fair presentation of the results and the status of the businesses adds more value in the long run.

Best practice for SMME's

1. Many of the small and medium businesses used to get their books of account written by their accountants after the end of the financial year. This practice may not be suitable to the current requirements. The books have to be written up on a regular basis either by a full time accountant or by engaging a part-time accountant or a firm. This will not only assist in having an uptodate set of books but also would assist in filing correct VAT returns.
2. It is advisable to have the books of account maintained using a software package ie.Pastel. This will enable you to extract management accounts on a timely basis to aid in your decision making. This will also assist in handing over the well written up books of accounts to your external accountant soon after your financial year end for finalizing your year-end accounts and file the income tax returns.
3. Arrange a time schedule with your external accountant prior to the financial year end. This schedule should indicate the date by which you will hand over your books of account along with the requested schedules, the date by which the accountant will have a draft for discussion with you and the date by which the accounts and tax returns will be signed off. You must also set aside dates on which you will be available for clarifying the queries that may arise during the process of finalizing.
4. If you foresee any difficulty in handing over the books in time, request your tax advisor to apply for extention

of time and arrange a time schedule for the completion of the year end routine.

5. Insist that your external accountant provides you with a print out of your Cash Book, General Ledger and journals since as a director of your company; you have the responsibility to retain the records for atleast 7 years. Moreover these books will be demanded by the Tax Audit team if BURS decide to perform an audit on your company.
6. Request your tax advisor to regularly review your VAT submissions to ensure that your claims for input and output VAT adhere to the allowable items. You should consider this as an essential procedure since you could get penalized if any irregularity is revealed during a VAT audit by BURS.
7. Ensure that you are aware and have complete understanding of all the figures in YOUR set of annual financial statements. This is essential in the event you are called by BURS during a tax audit. The banks also expect you to have a complete understanding of your annual financial statements for them to be convinced that you are in control of the state of affairs of your business.
8. To maintain credibility with bankers, creditors, BURS, prospective buyers of the business and many other users of financial statements, it is important that the annual financial statements of every business is prepared with only one set of figures. Some entrepreneurs make the grave mistake of having different results for different users. This has to be avoided as a matter of principle and financial discipline. Some examples of how this can work against that business are given below:
   - If there is an occurrence of a fire and the business makes a claim to the insurance for loss of stock, profits etc., they will assess the claim based on the figures reflected in the financials. Incorrect figures could have an adverse effect on claim receipts and future premiums.
   - If one set of financials show high profits and resultant high retained profits and the bank instructs the business to convert the retained earnings to share capital, the required action cannot be taken. The reason for it is because the other set of financials will not have adequate retained earnings. The only way to execute the instruction of the bank will be to introduce capital into the business to issue the share capital. If further capital is introduced, the shareholder will have the burden to explain to BURS regarding the source of that additional funds introduced.

Our office will continue to send various communications to alert you regarding the annual financial statements, income tax, VAT and withholding tax procedures. You must ensure that you make best use of the alerts to provide you with peace of mind regarding Compliance – the order of the day.

I thank all our clients, well wishers and friends for the continued support that you have provided us throughout the year. Wish you all an excellent and safe festive season and a very happy, healthy and prosperous 2006. ■

2. Selling Your Business

Extracts from "The complete guide to selling your business", edited by Andrew Roberts, Corporate Finance Partner, Grant Thornton UK.

Getting the best value for your business

Do you really know the value of your business?

If a potential purchaser offered you a figure, how would you know it was the 'right' amount and that you could not get substantially more?

The data gathered over the last 20 years from actual sales shows that a number of offers, for the same businesses, frequently vary by a factor of 3.

Yes, someone will offer P4m and someone else will offer P12m for the same company.
Why?

And how do you make sure you get the best deal for you and your business?

A reason to sell

Sooner or later all business owners must think about how and when to sell their business. The reasons can be varied. Though each owner probably considers his circumstances to be unique, most actually share similar concerns and motivations.
If you are like most business owners, you will probably consider selling your company for one, or a combination of, the following reasons:

Retirement; you want to retire or reduce the time you spend working and worrying about your business.
Succession; there exists no family member or logical second-tier manager to take over your company.
Diversity of assets; as most of your net worth is tied up in your company you want to diversify your assets, as well as gain some liquidity/cash.

Capital for growth; you see a need for additional external capital to continue to grow your company.

WHEN TO SELL

Timing is a subject not often addressed or discussed by owners, but it is perhaps one of the most important factors in terms of successfully selling a business.
These are three major elements to consider in the timing of a sale:

1. the macro or general economic environment
2. the outlook of your company's industry, and
3. the relative prospects and performance of your company in particular.

The ideal time to consider a sale is when the prospects of all three are rising and the outlook remains healthy. However, it is rare that one can find a perfect time when all three indicators are about to reach their summit. Timing becomes an educated guess, anticipating which of the three factors will matter most to potential acquirers.

A question of value

Just as beauty is in the eye of the beholder, a company's value is determined by the interest it generates in the market.

While there are numerous quantitative methods of valuation, the only true value can be determined by the market. Valuations are done in the abstract, transaction in the concrete.

There is no single factor on which value hinges. Value is ultimately determined by a combination of numerous elements, including a company's assets, its past performance, its future prospects, the outlook of its industry and geographic market, and the strength of its intangibles such as management, products and intellectual property.

However, each potential acquirer will look at your business from a different vantage point, with differing motivations as to why they want to buy your company. It is the different perspective of each potential acquirer that significantly alters the valuation basis.

A competitor already in the market may be looking for market share and synergies. The benefits to be obtained will include less competition, and therefore possibly higher margins over all sales, better volumes and lower production costs, savings in staff numbers, advertising, distribution etc. A competitor purchaser will consider all these. Initially the acquirer will want all these benefits for himself, but in a competitive situation where he is up against other potential purchasers he will pass some of the benefit of the potential to the vendor by way of increasing the price offered.

An overseas player may be looking to set up and expand into new markets. The cost of set up, and then winning market share is significant, and frequently it is more cost effective to acquire an established player in the market, even if the price paid is greater than the current results of that company would justify.

By creating a competitive situation between various potential buyers we are able to negotiate up the value to the maximum each is prepared to pay.

Preparing for sale

Once you have decided to sell, there are a number of preparatory actions you should take in order to make your company more attractive to potential buyers.
Initial impressions are very important in attracting and retaining the interest of potential suitors. You must be able to satisfy prospective buyers initial concerns at an early stage, to make them comfortable enough to take a closer look.
The areas to cover include:

1. Review your accounting policies. Ensure they are up to date and meet the industry norms. Have details available of all exceptional or unnecessary expenditure, e.g. excessive remuneration, stock/ inventory provisioning etc.
2. Get your tax affairs up to date with no outstanding issues.
3. Clean up your stock holding, and sell any old or obsolete stock. A buyer will give you nothing for it.
4. Collect all slow paying debtors.
5. Keep your premises clean and tidy and in good repair.
6. Review your legal contracts and check they are up to date and reflect current terms.
7. Address environmental problems.
8. Check the company's liability to any Pension Schemes.

> ***The key to preparing your business for sale is to look at your company from the perspective of a buyer and ask yourself "If I was buying this company, what would worry me?"***

The sale process

You are only going to sell your business once; it certainly makes sense that you do it right first time!!

There is a well-defined set of steps you can take to improve the chance of arranging a successful sale:

1. Appoint experienced and professional advisers, not agents.
2. Establish your goals and strategies.
3. Prepare presentation materials.
4. Identify prospective buyers.
5. Create a market.
6. Be open and honest with potential buyers
7. Keep the business going.

Too many owners take their eyes off the running of their company in anticipation of the sale. This is a grave mistake. Nothing can impair your chance of maximising value more than showing disappointing operating results in the middle of negotiations. Interest and value are often based primarily on perception. If your profits or prospects drop, so too will your company's value and your negotiating strength.

Advisers

In building your company, you have undoubtedly made invaluable contacts within your industry. Most probably you have also had numerous occasions to develop your negotiating skills. Thus, you would probably not be surprised that many business owners decide to sell their businesses by themselves. Yet, as the old saying goes, "a doctor who performs surgery on himself has a fool for a patient". Our experience shows that the same can be said about a business owner who attempts to sell his own business.

The sale of your business could well be the most important economic decision you ever make. You should use a qualified professional corporate finance adviser to guide and project manage the process. After all, the cost of good advice is cheap compared to the cost of a serious error of judgement.

You should look for the following:

- Experience
- Objectivity
- Knowledge of buyers
- Confidentiality
- Skill at negotiations
- Preparedness to act as a buffer
- Professionalism
- Focussed effort
- Senior level attention
- Sensitivity to your objectives
- Representing only sellers
- Personal compatibility

You should also agree a fee basis that has a significant element based on the success of the transaction. In this way, what is good for you is good for your adviser and vice versa.

You also need strong tax advice and a well-experienced legal team.

Conclusion

A typical timescale from start to finish, excluding the pre-sale grooming, is about six months. Be ready for both 'highs' and 'lows' as matters proceed. Many times a deal will be off and then back on again as issues arise and are then dealt with.

With the right assistance, adequate planning and a bit of luck, the chances of a great result are greatly enhanced. Be ready for a stressful time, anything that is important causes concerns. ■

Copies of The complete guide to selling your business are available from us. Please contact Pushpa – Marketing

3. More on our new service lines...

Business Centre and Consulting Division

The Business Centre and Consulting Division was established to service the requirements of our clients in the provision of Work and Residence Permits, Manufacturing and Trade Licences, and Company Administration, providing consultancy services to Government agencies, non-government organisations, small and medium – sized private sector enterprises.

Our Services

Whether you have an existing company or are incorporating a new one, we can assist you in:-

(i) Obtaining Work and Residence Permits for your expatriate employees.

(ii) Applications for Trade Licences

(iii) Complying with the Labour regulations in the setting up basic conditions of employment and maintenance of your personnel records

(iv) Attend to your other statutory obligations such as Workmen's Compensation and other related legislation

(v) Drawing up Contracts of Employment within the terms of our Labour Legislation.

(vi) Preparing the traning and localisation Manual.

We can offer full or part time company administration and tailor our services to accommodate your exact requirements doing as little or as much as you wish. You will find our fees competitive and we always agree an estimate of fees with a client before commencing work.

We will always provide you with a courteous service with the strictest confidentiality and with high ethical standards.

Joseph Makwinja, our Director, who heads the division, has many years experience in the field of administration and will always be pleased to advise and assist with your requirements.

For further information on our services and how we may assist you, please contact us. ■

4. Are you geared for the new withholding tax developments?

By Samba Nkalolang - Senior officer – Taxation services

Withholding Taxes

The Botswana Unified revenue Services (BURS) has recently embarked on the computerization of Pay As You Earn (PAYE) and Other Withholding Taxes (OWHT) with an aim of increasing the efficiency of the system. As a result a number of changes have been made to certain forms and procedure of the PAYE and OWHT systems. However no changes have been made to withholding tax provisions as per income tax act.

The major changes are produced hereby in a nutshell. All these changes came into effect from 01 July 2005 pertaining to tax year 2006.

1. Registration

Currently taxpayers have only been allocated TIN number under two tax types – Income tax (01) and withholding tax (02).

Under the new procedure there will be 3 tax types;

- Income tax (01)- for Income tax returns
- Withholding tax (02) – for withholding tax returns pertaining to PAYE only
- Other Withholding tax (OWHT) (04) – for all other withholding tax i.e.dividends, management/ consultancy fees, construction contracts, royalties, interest, entertainment fees etc.

All existing taxpayers who have already been registered for Tax and allocated a TIN number under the two type system and have made payments for OWHT will be automatically allocated a new tax type (04) for such payments.

New taxpayers and those who are required to deduct and pay other withholding taxes e.g interest etc. from now onwards have to register for the TIN number using ITRG1 form.

2. Monthly remittance returns

Until 30 June 2005 the form prescribed for monthly remittances of withholding tax deducted was a green card (ITW7). This form has been replaced by two new forms namely

- Monthly remittance return for PAYE (ITW7A) for tax deducted from employee's remuneration
- Monthly remittance return for Other Withholding Taxes (ITW7B)

Each month while making payments the monthly remittance returns should be submitted along with a completed remittance slip with cheque/cash. An acknowledgement letter will be issued as confirmation receipt with a copy of the return and computerized payment receipt.

A Nil return must be submitted if there is no tax deductible for the month in case of ITW7A. This is not mandatory in case of ITW7B.

It is now mandatory to write Tin numbers of the Principal and Contractor in case of construction related contracts (ITW9) and the TIN number in case of a declared dividend (ITW17)

3. Annual Returns

Withholding Taxes (PAYE) – ITW10 and ITW10A

No changes have been proposed to the current forms used except that the furnishing of employee ID is made mandatory as follows:

- Identity Numbers (Omang) for citizens.
- Work Permit No./ Work Waiver No./ Exemption Certificate No. for non-citizen are required when completing the annual withholding tax return for PAYE.

Annual Withholding tax return for OWHT – ITW10 O

This will be used for Other Withholding Tax and will be accompanied by the schedules A and B

Schedule A to ITW10 O – for construction Contract payments
Schedule B to ITW10 O – for payments of Dividends, Management and Consultancy fee, royalties, Interest, Entertainment fees.

Tax Clearance Certificates (TCC)

You may be aware that Public Procurement Asset Disposal Board (PPADB) and certain local government tender boards are making it mandatory for any person who bids for tenders to obtain a TCC.

TCC application must be filed with BURS at least 5 working days prior to the date on which the certificate is required. One must ensure they are up-to-date with all BURS requirements in terms of compliance with provisions of all taxes including income tax, withholding tax, value added tax and customs.

The application form for TCC has been changed to incorporate adherence to all BURS requirements.

It should be noted that failure to comply with the above may result in a Tax Clearance certificate being revoked at any time during its period of validity. ■

Our tax team are always willing to assist you on any tax matters, please contact –

Hariharan – Manager Taxation services.
T: 3952313
F: 3972357
E:harib@grantthronton.co.bw

5. Key changes in the International Financial Reporting Standards

By Biju Vikraman – Manager Audit Assurance

No	Key Changes in the standard	Business implications.
1	IAS 1 Presentation of financial statements • IAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for content. • The financial statements should state the name of the entity, the period covered by the statements, and whether the financial statements comply with IFRS. IAS 1 specifies items to be presented on the face of the financial statements.	• Compliance with IFRSs is presumed to result in financial statements that achieve a fair presentation. Non-compliance with any IFRS requires detailed explanation in the financial statements. • IAS 1 prohibits presentation of items of income or expenses as "extraordinary". • Assets and liabilities are classified as current or non-current or presented in order of their liquidity. • Management's judgements and estimations will be subject to review.
2	IAS 2 Inventories • Inventories are measured at cost. Certain inventories are excluded from this requirement, such as agricultural products (after harvest), mineral products and the inventories of commodity broker-trader. • The cost of inventory includes costs of purchase and production or conversion. Cost does not include wastage, administrative overheads that are not production costs, and selling costs. Borrowing costs are not usually included.	• With effect from 2005, use of the last in first out (LIFO) cost formula is no longer permitted. • The same cost formula must be used for all inventories having a similar nature and use. A difference in geographical location or in tax rules does not justify use of a different formula for similar inventories. • A write down to NRV may be required when inventory is damaged, or become wholly or partially obsolete, or when selling price reduces or costs to complete the product and get it ready for sale increase.
3	IAS 7 Cash flow statements • Cash equivalents are short term highly liquid investments that are readily convertible to a known amount of cash. There must be little risk of changes in their value. • Cash flows are generally reported as gross flows. There are limited exceptions. • There is a choice of ways of presenting cash flows from operating activities ie. Either the direct method or the indirect method. • Entities are encouraged to use the direct method.	• Cash flow information is important for users of financial statements. There should be an explanation of cash flows in any management discussion and analysis report issued with the annual financial statements.
4	IAS 8 Accounting policies, changes in accounting estimates and errors • Accounting policies used must comply with IFRS, and must be applied consistently to similar transactions and events. • A standard or interpretation may require a change in an accounting policy and may include specific transitional provision. In other cases, changes in accounting policies are applied retrospectively. Prior period amounts are adjusted. • A change in accounting estimates is recognised in the current and any future periods affected. Prior period amounts are not adjusted. • Errors are corrected in the first set of financial statements issued after discovery. Prior period amounts are restated as if the error had never occurred.	• Profit or loss for the current period does not include the effects of changes in accounting polices and correction of errors. Prior periods are adjusted so that they are comparable with the current period. • The effect of the new standards must be considered early. An entity must disclose the impact of standards that have been issued but are not yet effective.
5	IAS 10 Events after the balance sheet date • Financial statements are adjusted for certain events that occur between the balance sheet date and the date the financial statements are authorized for issue. Adjusting events provide evidence of conditions that existed at the balance sheet date.	• Dividends declared after the balance sheet dates are not recognised as a liability at the balance sheet date. They were not a present obligation at that date. • Disclosures in the notes to the financial statements are required of material non-adjusting events.

<table>
<tr><td>6</td><td>IAS 16 Property, plant and equipment
An entity must record its property, plant and equipment in sufficient detail to recognize separately components with different useful lives. The replacement of a component of property, plant and equipment is recognized as an asset.
After acquisition an entity may choose to measure property, plant and equipment either at cost less accumulated depreciation and any accumulated impairment losses or at fair value.
If it chooses revaluation, all assets within a class of property, plant and equipment must be revalued, and the valuation must be updated regularly. Revaluation increases are usually credited direct to equity.
The depreciable amount needs to take in to account, the expected residual value at the end of the assets useful life. The depreciation method and rate is reviewed annually.</td><td>Professional judgement will determine the periods in which expenditure on property, plant and equipment is recognized as an expense. Judgement will be required about the following
The cost of an item of property, plant and equipment recognized as an asset includes cost of its dismantlement, removal and restoration.
Parts of some items of property, plant and equipment may require replacement at regular intervals. Significant component are separately recorded, depreciated and derecognized when replaced by the new component.
An annual depreciation expense depends on the estimate of useful life.
Property, plant and equipment are reviewed annually for impairment.</td></tr>
<tr><td>7</td><td>IAS 17 Leases
When classifying a lease of land and buildings, the land and building elements are considered separately.
The land element is normally classified as an operating lease unless title passes to the lessee at the end of the lease term.
There are special rules for sale and leaseback transactions.
Operating leases are accounted for as rentals. The lessee accounts for rental payments as an expense on a straght line basis over the period of the lease. The leased asset remains in the balance sheet of the lessor, who receives rental and depreciates the asset.
Finance leases are treated by lessee as borrowings to acquire an asset. The lessee recognizes a finance lease as an asset and liability in the balance sheet. The asset is depreciated. Lease payments are apportioned between a reduction in the lease liability and interest expenses.</td><td>Judgement is required to distinguish between a finance lease and operating leases.
Recognition of a finance leases on balances sheet affects gearing and return on total assets.
Certain arrangements that convey a right to use specific assets, but are not traditionally regarded as lease agreements may contain a lease to be accounted for in accordance with IAS 17.
All oparating lease payments will have to be accounted on a straight line bases over the period of the oparating lease.</td></tr>
<tr><td>8</td><td>IAS 19 Employee Benefits
Employee benefits are all forms of considerations paid for services rendered by employees.
A liability is recognized when an employee has provided service in return for benefit to be paid in the future. An expense is recognized as the entity benefits from services provided by the employees.
Short term benefits are recognized as an expense as the employee provides services. Leave that does not accumulate is recognized only when the leave is taken. Profit sharing and bonus payments are recognized when the entity has an obligation to pay. A liability is recognized for unpaid short term benefits.
Post employment benefit plans are categorized as either defined contribution plan or defined benefit plans.
Under defined contribution plans, expenses are recognized in the period the contribution is payable, where as under defined benefit plans, a liability is recognized in the balance sheet equal to the net of: the present value of the defined benefit obligation, deferred acturial gains and losses and deferred past service cost; and the fair value of any plan assets at the balance sheet date.</td><td>There are risks associated with the provision of employee benefits. The employer's obligation under a defined benefit plan are affected by the way in which benefits are calculated and by the performance of the assets set aside to meet the benefit payments.
Judgement is required to determine whether benefits are defined contributions or defined benefit plans.
A requirement of IAS 19 is the requirement to recognize, as a liability, the obligation to provide post-employment or long term employee benefits under a defined benefit plan, as a result of service already provided by employees to the entity.
Judgement is also required in determining the amount of the entities obligation for profit sharing, bonuses, and termination benefits, and other obligations arising from the entity's informal practices.</td></tr>
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<table>
<tr><td>9</td><td>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

• Government grants are recognized once it is clear that the entity will comply with any specified conditions and that grants will be received.
• Non monetary grants are recognized at fair value.
• Government grants are recognized as income and are not credited directly to equity. They are matched to the cost they are intended to compensate.
• Government grants that relate to assets are initially recognized as deferred income or as a deduction from the related asset. A grant is then recognized as income over the life of the asset, by reducing deferred income over that period or by way of reduced depreciation.
• Government granted that are repayable are accounted for by revising any remaining deferred income or increasing any related asset and its accumulated depreciation. Otherwise the repayment is recognized as an expense.</td><td>• Disclosure of government grants is designed to enhance comparison of the entity's financial statements with prior periods and with other entities.
• Judgement is required whether the entity has to comply with conditions attached to a government grant.</td></tr>
<tr><td>10</td><td>IAS 21 The Effects of Changes in Foreign Exchange Rates

• The entity needs to first determine its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.
• An entity must then translate all foreign currency items in to the functional currency
    • At date of transaction, record using the transaction date exchange rate for initial recognition and measurement.
    • At subsequent balance sheet dates:
        Use closing rate for monetary items
        Use transaction date exchange rates for non-monetary items carried at historical cost and
        Use valuation date exchange rates for non-monetary items that are carried at fair value.
• Exchange differences arising on monetary items are recognized in profit or loss for the period in which they arise. In consolidated financial statements exchange differences on monetary items forming part of the net investment in a foreign operation are reclassified to equity. They will be recognized in the profit and loss account on disposal of the net investment.</td><td>• Judgement is required to determine the functional currency of an entity.
• The functional currency of individual entities in a group may differ. Therefore, the financial statements of individual entities will be translated into a common presentation currency.
• If the functional currency is a currency of a hyperinflationary economy, the entity must restate its financial statements in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies.</td></tr>
<tr><td>11</td><td>IAS 24 Related Party Disclosures

• Related parties are parties that control or have significant influence on the reporting entity, including parent companies, subsidiaries, joint venture, owners and their families, key management personnel and post employment benefit plans.
• The standard requires disclosure of
    • Relationships involving control, even when there has been no transactions
    • Related party transactions
    • Management compensation</td><td>Examples of related party transactions that should be disclosed in the financial statements include;
• Purchases and sale of goods, services and assets
• Leases
• Provision of guarantees or collateral
• Settlement of liabilities on behalf of the entity or by the entity on behalf of another party
• Transfers under finance arrangements including loans and equity contributions.</td></tr>
<tr><td>12</td><td>IAS 27 Consolidated and separate financial statements

• A parent must present consolidated financial statements. The consolidated financial statements include all entities under the parents control and are presented as financial statements of a single economic entity. However there are very few exceptions to this rule.
• The minority interests in a partially-owned subsidiary are presented in the consolidated balance sheet within equity separately from the parent's shareholders equity. Minority interests in profit or loss are also separately disclosed.</td><td>• IAS 27 applies to all entities.
• A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities in the group.
• When reporting dates of the subsidiary and parent differ, the subsidiary usually prepares additional financial statements of the same reporting date as the parent, for consolidation purposes.</td></tr>
</table>

13	IAS 28 Investments in Associates • IAS 28 applies to all investments in which investor has significant influence unless investor is a venture capital firm, mutual fund, or unit trust, in which case IAS 39 must be followed. • IAS 28 requires that all investments in associates must be accounted for using the equity method. This involves initially recognizing the investment at cost, then adjusting for the post-acquisition change in the investor's share of net assets of the associates.	• There is no longer an exemption from equity accounting when severe long term restrictions impair the associates ability to transfer funds to the investor. • If the associates making losses, equity accounting will reduce the investor's investment. Equity accounting continues until the investment is reduced to zero. The investment is not only shares in the associate, but also non-equity interests such as long-term receivables.
14	IAS 31 Interest in Joint Ventures • IAS 31 applies to all investments in which investor has joint control unless investor is venture capital firm, mutual fund, or unit trust, in which case IAS 39 must be followed. • In a jointly controlled operation, a venturer recognizes in its financial statements the assets it controls, the liabilities and expenses it incurs and its share of income from sales by the joint venture. • A venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method. • IAS 31 requires the disclosure of the method used to account for joint ventures- either proportionate consolidation or the equity method, with certain exceptions.	• There is no longer an exemption from proportionate consolidation or equity method when severe long term restrictions impair the joint ventures ability to transfer funds to the venture.
15	IAS 32 Financial Instruments: Presentation and Disclosure • IAS 32 deals with the presentation and disclosure of financial instruments, including debt and equity securities, receivable and payables, bonds, borrowings, shares and derivatives. Recognition and measurement of financial assets and liabilities are dealt with IAS 39. • As per IAS 32, disclosure is required of the nature and extent of an entity's use of financial instruments, the business purpose they serve, the risk associated with them, and management policies for controlling those risks. • Disclosure is also required of the accounting policies applied and the fair value of most financial instruments.	• Some financial instruments take the legal form of equity, but are liabilities in substance and under IAS 32. • Classification of financial instruments as a liability or equity determines the treatment of interest, dividend, losses or gains on the financial instrument as items of income or expense, or as changes in equity. Dividends on shares recognized as liabilities are recognized as expenses, and affect profit or loss.

16	IAS 36 Impairment of Assets
	
	• As per the standard, an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the assets is described as impaired. The entity must reduce the carrying value of its recoverable amount and recognize an impairment loss.
	• The recoverable amounts of the following assets must be assessed each year
	    • intangibles with indefinite useful lives
	    • intangible assets not yet available for use
	    • goodwill acquired in a business combination.
	    • The recoverable amount of other asset is assessed only when there is an indication that the asset may be impaired.
	• Reversal of prior years impairment losses allowed in certain instances, where as it is prohibited for goodwill.
		• Impairment might be indicated by: decline in an asset's market value; adverse changes in the technological, market, economic or legal environment; increases in interest rates; market capitalization of the entity being less than net asset value; obsolescence or damage of an asset; plans to discontinue or restructure operations; assets under performance compared to expected return.
		• Estimating the value in use involves professional judgement.
		• Disclosure is required of key assumptions and estimates used to measure the recoverable amount of cash generating units containing goodwill or intangible assets with indefinite useful lives. Disclosure is also required of the adverse effect of reasonably possible changes of those key assumptions.

<table>
<tr>
<td>17</td>
<td>IAS 37 Provisions, Contingent Liabilities and Contingent Assets

• The amount of the provision is a current best estimate of expenditure required to settle the obligation at the balance sheet date. Risks and uncertainties are taken into account and the provision is discounted to present value.
• IAS 37 discusses three specific cases:
    • Future operating losses - a provision can not be recognized as there is no obligation at the balance sheet date;
    • An onerous contract gives rise to a provision;
    • A provision for restructuring costs is recognized only when the entity has a constructive obligation and the detailed restructuring plan has been made public.
• Contingent liabilities are not recognized on the balance sheet. They are disclosed in the notes to the financial statements.
• Contingent asset are not recognized on the balance sheet. They are disclosed only when the inflow of benefits is probable.</td>
<td>• IAS 37 does not allow a provision to be created for the possibility of something occurring in future. There must be an actual obligation (a liability) and future settlement must be probable.
• Care is required when describing a dispute that gives rise to a contingent liability or a provision. The need for information to be disclosed in the financial statements must be balanced against the need not to prejudice the entity's position in the dispute.</td>
</tr>
<tr>
<td>18</td>
<td>IAS 39 Financial Instruments

• IAS 39 establishes the principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets.
• Financial assets or liabilities are measured initially at fair value. Usually this is the same as cost, but sometimes an adjustment is required. Subsequent measurement depends on the category of financial instrument. Some categories are measured at amortised cost and some at fair value.
• Hedge accounting recognizes the offsetting effects of changes in the fair value or the cash flows of the hedging instrument and the hedge item.</td>
<td>• An entity must recognize all financial instruments, including all derivatives. Derivatives are always measured at fair value and their values are subject to changes in variables such as interest rates, foreign exchange rates, financial instruments and commodity prices, or an index.
• The mixed measurement model makes IAS 39 a complicated standard to apply and gives rise to the need for hedge accounting.
• Hedge accounting can only be used if the hedge is documented and designated up front, and is demonstrated to be highly effective.</td>
</tr>
<tr>
<td>19</td>
<td>IAS 40 Investment Property

• Investment property measured under the fair value model is revalued every year. Changes in fair value are recognized in the income statement as they occur.</td>
<td>• Where property interest held by a lessee under an operating lease is treated as an investment property, the fair value model must be used. This means that all the entities investment property must be revalued to fair value.
• IAS 40 encourages but does not require fair value to be determined on the basis of valuation by an independent valuer who has a relevant professional qualification and experience.
• The entities choice of fair value will affect profit or loss.
• Entities may change accounting policies if this may result in a more appropriate presentation. IAS 40 indicates that changing from fair value model to the cost model is unlikely to be appropriate.</td>
</tr>
</table>

The Chat line

… features exciting developments at our firm

New developments

Our firm will be participating in the International Business Owners Survey IBOS 2006.This survey conducted by Grant Thornton on a world wide basis survey's the opinion of over 6000 business owners in 24 countries, including 250 in Botswana. IBOS is in a league of its own. This years's survey highlights include, overall business trend, operating in foreign markets, profit margin pressure, stress, effect of Pula devaluation, etc. Watch out for our news release on IBOS 2006 !

Website Our website has gone live since July 2005.We are in the process of updating this to include more information for our clients. Visit us at www.gta.co.bw

Acheivements

Our January issue of successline won the Grant Thornton International Communications Award for 2005.This was handed over at the Grant Thornton International Partners conference held at Chicago recently. Congratulations to our Marketing team !

Our team spirit in the sports arena still keeps us flying high. We won the Trophy (for the third time) for the Upkgale challenge. Our team won the Volley ball championship this year. Our annual sponsored Six-a-side cricket tournament went on with its usual pomp in October. These events were held under the auspicious of BIA and sponsored by various accounting firms. Well done to all the participants and winners of these sports events!

Congratulations to all the achievers in their ACCA and other professionally qualifiying exams

Our tax guru Mr.Varma and Tax Manager Mr. Hari Haran were part of the Tax Act Review Committee of the Botswana Institute of Accountants, invited by the Ministry of Finance to review the Income Tax Act 1995.

Botswana Telecommunications Authority our audit client, once again won the award for the best presented annual report 2005 adjudged by BOCCIM and another audit firm.

New Arrivals

Welcome and Best wishes to all new recruits to the Acumen family.

Our partner Vijay, and Aparna were blessed with a baby girl in July this year. Audit manager Sumesh and Sangeetha had a baby girl added to their family.

Training

Our training division has been quite active and constantly sharpening the professional skills in various fields. We have had extensive internal training on Internal Audit, IDEA, Audit CARE and Risk Management.

Our staff also underwent a training on advanced Microsoft word and Excel programmes.

You are always welcome to **contact us...**

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