Best Practice in Accounting Standards KCPI’s and CESPI’s

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What we will cover…..

- Introduction
- Why are Accounting Standards Important?
- Accounting Standard Setters and Co-operative and Mutual organisations
- Future of UK GAAP
- Why KCPI's and CESPI's
- Conclusions

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Years from now we will look back on 2011 as a year when the future path of financial reporting was determined

Sir David Tweedie
Chair International Accounting Standards Board

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Accounting Standards important??

Accounting treatments directly affect

- Your credit
- Your borrowing
- Your tax
- Your communication to members

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The Problem

- Accounting Standards are designed for Companies
- Accounting Standards are designed by people who do not understand Co-operatives and Mutual's
- Accounts can only be understood by analysts
- UK has currently 2 different systems of accounting UK GAAP and IAS

- Accounting Standards drive most of the Financial Reporting for Co-operatives and Mutual's
- Accounting Standards need to be complied with for an organisation to be Credible

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The Solution

- **Engage**
  - Respond to consultation
  - ASB now engages with CPC
  - Recent literature makes reference to the sector
  - Even the IASB is now starting to recognise the issues
- **Interpret**
  - Most Standards are still principles based
  - CPC interprets Standards for Co-operatives
  - Other trade bodies interpret for other sectors
- **Case Study**
  - Co-operative Share Capital Equity or Debt?

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The Future

- UK GAAP will be no more!!!

- What else?

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Exposure Draft – Future of financial reporting

- Proposals for a three tier framework
- Includes two draft FRSs:
  - Application of Financial Reporting Requirements
  - Financial Reporting Standard for Medium Sized Entities
- Includes explanation of proposals, impact assessment and two new standards
- Comment deadline is 30 April 2011
- Effective for accounting periods beginning on or after 1 July 2013
- Early adoption permitted

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Proposed regime

Tier	Accounting regime	Type of entity	Example
Tier 1	EU-IFRS*	• EU-listed entities • AIM entities • Other publicly accountable entities	• Parent company in a listed group
Tier 2	FRSME*	• Large and medium non-publicly accountable entities • Small publicly accountable entities that are prudentially regulated	• Subsidiaries in a listed group (not publicly accountable)
Tier 3	FRSSE	• Small non-publicly accountable entities	• Small private companies

*Certain disclosure exemptions proposed for non-publicly accountable subsidiaries

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Future Standards- IASB

- Leasing
- Revenue Recognition
- Liabilities

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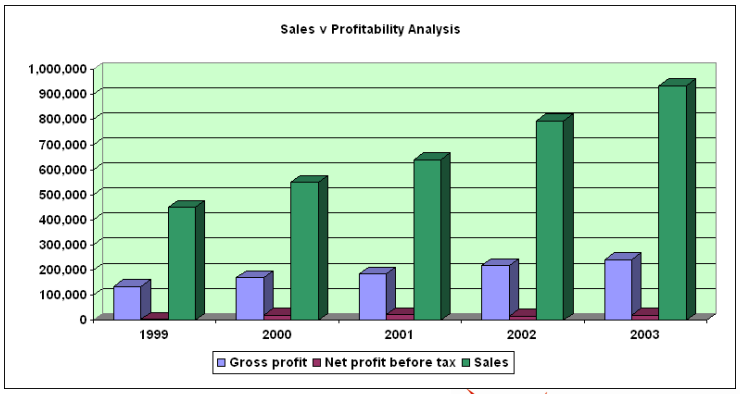
Why KCPI's and CESPI's

- KCPI's – Key Co-operative Performance Indicators
- CESPI's - Co-operative Environmental and Social Performance Indicators

- Relevant performance indicators for the Co-operative sector and used for
  - Managing performance
  - Monitoring performance
  - Reporting to stakeholders



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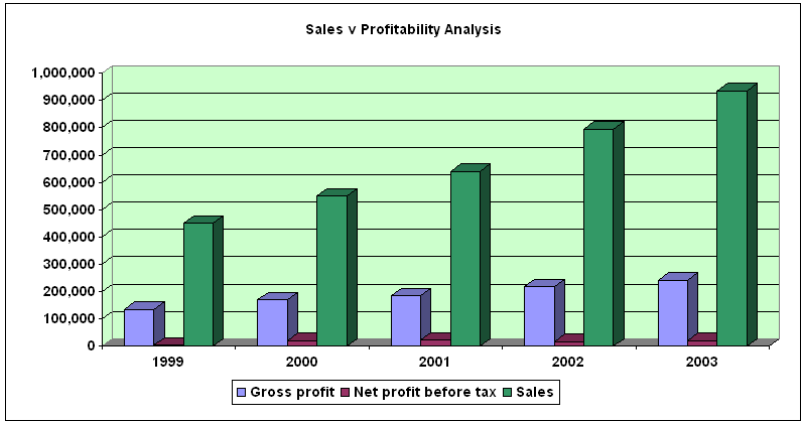
KCPI's

- Profitability measures
  - Return on Capital Employed
  - Trading Profit before Depreciation as a % of sales
- Financial Stability
  - Gearing
  - Net Debt/EBITDA
  - Interest Cover
- Growth
  - Like for like Turnover
  - Volume Turnover Growth
  - Capital Expenditure as a % of net Cash Flow



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CESPI's

- **Indicators seek to give information in 10 areas**
  - Member economic involvement
  - Member democratic participation
  - Participation of employees and members in training
  - Staff injury and absentee rates
  - Staff profile-gender and ethnicity
  - Customer Satisfaction
  - Consideration of ethical issues in procurement and investment decisions
  - Investment in Community and Co-operative initiatives
  - Net Carbon Dioxide emissions arising from operations
  - Proportion of waste recycled re-used

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Conclusions

- To get the best possible Financial Reporting we need to
  - Engage
  - Interpret
- We need to develop relevant financial and non-financial performance indicators which enable
  - Management to understand and run the organisation
  - Management and members to monitor the organisation
  - That are suitable and appropriate to report on to members

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The fastest way to succeed

is to look as if you are

playing by somebody else's rules,

while quietly playing

by your own

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