Steps to a successful career

IAS 38 Intangible Assets Part 2

Managing expectations after writing ICPAU examinations

CPA CONNECT

Promoting Professionalism in Accountancy

The Student's Magazine for The Institute of Certified Public Accountants of Uganda (ICPAU)

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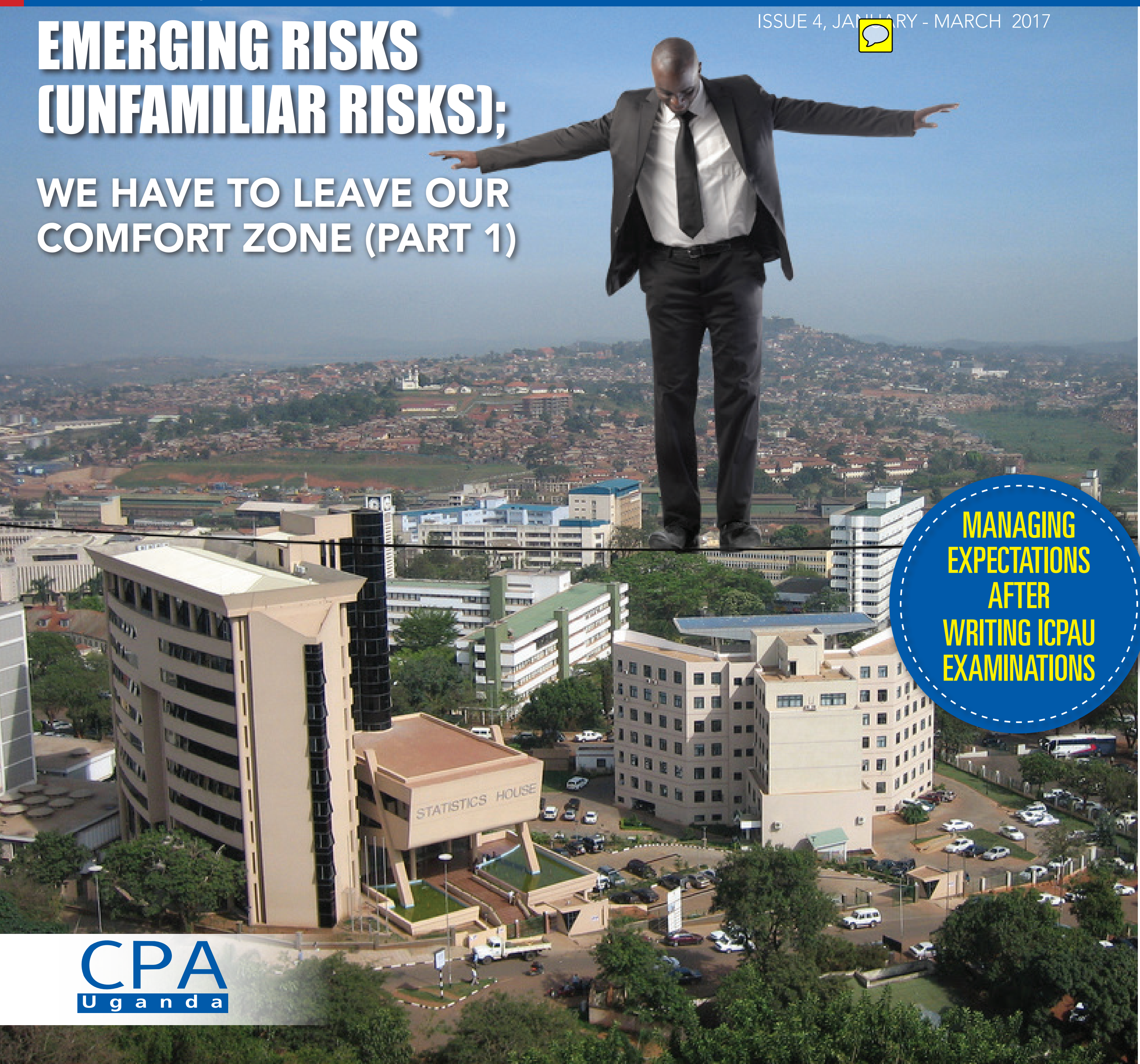
EMERGING RISKS (UNFAMILIAR RISKS);

WE HAVE TO LEAVE OUR COMFORT ZONE (PART 1)



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ISSUE 2: AUGUST-OCTOBER 2015

READERS COMMENTS

Dear Editor,

I would like to thank the Secretariat for their effort in producing students study materials for the CPA (U) course. This will help supplement on the available course literature.
Samuel Moro.

Dear Editor,

Thank you for Issue 4 of CPA Connect Magazine.
I liked the advice from the former ICPAU President, CPA Ben Patrick Kagoro "desist from accumulation of wealth through unethical means, the knowledge, skills and values acquired from the CPA course should be put into good use."
Baker Nambaale.

Dear Editor,

Thank you for the articulation of technical topics like IAS 38: Intangible Assets and Domestic VAT on Imports. The topics were relevant to my course of study.
Keith Constant.

Dear Editor,
Issue 4 of the CPA Connect magazine contains rich, reliable and educative information regarding CPA, Business and career guidance. Thank you for the edition.
Fortunate Emanzi.

Dear Esteemed readers,

Thank you for the views and comments; they will enable us improve on our subsequent editions. For further comments please write to the editor cpaconnect@icpau.co.ug
Editor.


There are many ways to embrace success.
But in business, there's one sure step you can take to be a winner.
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MESSAGE FROM THE PRESIDENT

EXPERTS

TINDYEBWA OBED BAMPE Is a Managing Partner Grand & Noble Certified Public Accountants, he is a Principal and Lecturer of Taxation at Grand & Noble Business School (GNBS), a Member, Education Committee and Taxation and Economy Sub Committee of ICPAU. Obed holds a Bachelors Degree in Economics and he is a member of ICPAU.

ANDREW KAWERE is an Assistant Director in the Supervision Directorate of Bank of Uganda, with a responsibility to oversee Non-Bank Financial Institutions such as Forex Bureaus. He has extensive experience in internal and external audit and management advisory services. Previously, He worked with KPMG and the East African Development Bank under Audit and Finance roles. He also lectured on a part time basis at Makerere University Business School and the Management and Accountancy Training Centre (MAT), with interests in audit, accounting and strategy. Andrew is a Certified Information Systems Auditor (CISA). He holds a Bachelors Degree in Commerce and a Master of Business Administration from Makerere University. He is a member and resource to the ICPAU and also serves on the Technical Sub-committee of the Council.

Levi Leku works with SUCCESS AFRICA, He is an upcoming writer, motivational speaker, and founding member of 'the iPedlars'. He holds a Bachelor of Engineering in Civil and Building Engineering From Kyambogo University.

CPA NOAH MATOVU is an accountant in the Office of the Inspectorate of Government. Previously, Noah worked with the UVRI – IAVI HIV Vaccine Programme, as an accountant. He has performed the same role at MEDAIR Emegency & Relief and Cornerstone Development Uganda. He is a lecturer at Grand & Noble Business School. He has a B. Com (Accounting) and a MBA in Project Management. He has done extensive training in Grants management. He is a member of ICPAU.

Ms. Rhoda Musiima is a Second year Journalism and Communications Student at Makerere University. She is so keen on writing and perfecting her abilities in communications, in order to fulfil her dream of becoming a communications professional.

Lilian Bagambe is an HR expert focusing on Recruitment and Training. She currently runs a Recruitment Agency called Zoe Recruitment. Lilian is the Board Treasurer and resource person/facilitator MEMPRO, an NGO focusing on mentoring and empowering young women ages 13-25. Previously she served as Head of HR Barclays Bank, HR & Organisation Manager Hima Cement and as an Auditor PWC. Lilian holds a Bachelors degree in Civil Engineering from Leeds University (UK) and CPAK she has done several certified strategic HR Management courses with the Cornell University (US).She is a Member of Rotary Club of Kampala South and a member of Worship Harvest Ministries.

Want to share your views, comments or write an article please contact us on cpaconnect@icpau.co.ug

TIMELINE OF EVENTS

DATE	ACTIVITY
	Students' Engagement
	7th Graduation Ceremony
	August Examinations Diet (CPA Only)
	Release of the August Examinations Results
	Closure of registration for the November 2015 Examinations
	November 2015 Examination Diet
	Release of the November 2015 Examination Results

Welcome to Issue 5 of the CPA Connect Magazine. This issue covers topics on Persistence, Career Guidance and Managing inventory among others. I would like to thank all the people who have contributed to the success of this Issue.

Acquiring professional accountancy qualifications is the benchmark of a successful accountancy career. Every accountant has had to launch out as a student in the early years of their career. The building blocks to a successful accounting foundation are laid so that, the level of one's career ought not to be taken lightly.

The Institute of Certified Public Accountants (ICPAU) has maintained a high standard in its practice through benchmarking the International Education Standards for Professional Accountants that are issued by the International Federation of Accountants. This has gone a long way in providing a firm foundation for CPA/ATD graduates and students. In order to achieve success you need to have an open mindset towards change in the profession and acknowledge its contribution to growth and development. Drawing emphasis from the academia, skill acquisition and getting a mentor (someone to look up to) for your professional success could be some of the ways of implementing the above.

I wish to emphasise the significance of practical training. The training will enhance your understanding of how organisations operate and professional work relationships. In addition you will be able to relate accountancy work to other business functions and activities, develop the appropriate professional values, ethics and attitudes, real-life situations and to have an opportunity to develop at progressive levels of responsibility. I encourage CPA and ATD students to take on practical training early in order to improve on your work experience and also keep up to date with technological advancements and dynamic trends of the profession.

I wish you success in your professional accountancy path. I implore you to remain hardworking and dedicated to your professional duties for you are the backbone of this country's budding economy.

CPA Derick Nkajja
Secretary/CEO

CPA Uganda

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CPA CONNECT is a quarterly magazine designed for students of the accountancy profession in Uganda. The magazine is distributed to more than 9,000 readers, including students at Colleges, Universities and tertiary institutions.

By CPA Obed Bampe T[illegible]ebwa,
Managing Partner Grand & Noble [illegible]fied
Public Accountants.

EMERGING RISKS (UNFAMILIAR RISKS); WE HAVE TO LEAVE OUR COMFORT ZONE (PART 1)

From outset of our careers in Internal Auditing, most of us are trained to audit a handful of "core" risks. It is not uncommon to rapidly become comfortable with traditional financial audits, regulatory compliance audits, and various common operational audits. We look at what was done in the past, and often we decide to audit the same things again in the same way – sometimes without even updating the annual plan.

Occasionally, the repetition is justified. After all, some risks are inherently worthy of audit coverage. Unfortunately, today risks have become increasingly dynamic. It is unlikely that all of last year's risks should drive this year's audit plan. New risks surface every day and one needs to keep in mind that auditing at the speed of risk often means tackling areas where one may have little experience.

Traditionally, routine risks are easily identified, well known, and readily assessed; but they are not necessarily the risks that will endanger shareholder value today or tomorrow. Emerging risks, such as cyber security, social media, calamites etc, can be more difficult to identify and assess.

Our propensity to stick to traditional financial operational and compliance audits may mean that we are overlooking the most significant risks facing our organizations. Research has indicated that significant risks are a result of strategic risk, then a peanut due to operational risks, legal/compliance and financial reporting risks.

It seems devastatingly obvious that, if we are truly risk-based in our approach to auditing, we cannot continue to focus our resources on the peanut while leaving out the risks significant to our organisations and where it resides.

Emerging risks are triggered by unanticipated changes in the business environment and could include potentially disruptive events of varying velocity ranging from catastrophic events to realisation of existing risks accelerated by external and or internal factors over a longer period, say breakdown in the internal control environment or risk culture.

Emerging risks are important to the Boards that place high value on early warnings, and infrequently looking around the bend keeps the risk talks with management perennially fresh and interesting.

Every organisation needs effective process by Investing in Emerging Risk Governance (ERG); this can identify new and emerging risk as well as changes in existing risks. These risks are time bombs that are highly relevant to the Board risk oversight role. Periodic risk assessment is done less annually, however the speed of change continues to go sky-high and therefore processes that are effective in identifying new and emerging risks between periodic assessments are essential to Board risk oversight.

Investing in ERG serves to prevent future damage from new or unfamiliar threats in order to protect the organisation and enable it to adapt to changing conditions and possibly even recognise new opportunities therein.

It also contributes to defining a new regulatory environment for emerging risk management, for instance in the finance and insurance sectors.

Emerging risks always demand the involvement of top management as they must be given the requisite priority; as such, ERG should be considered an integral part of the strategic management process and allocated the necessary resources.

To build a theory of ERG, a road map or checklist should be adapted to particular needs and objectives. The purpose of this, therefore, is to:

- Provide guidance for emerging risk anticipation and response.
- Categorise emerging risk and place it in a response framework.
- Detect and analyse relevant signs of ongoing or future dynamics that could change the risk portfolio of a given organisation.
- Induce the disappearance of an emerging risk, its "decommission" from the watch list of emerging threats, or to prompt its move into the portfolio of routinely manageable risks.

Approaching and Communicating Emerging Risks

Enterprise Risk Management best practices, with regard to identifying and quantifying emerging risks, continue to evolve, and will do so for quite some time. While no clear best practice standard has been identified to recognize and mitigate emerging risks, various tools and processes provide greater insight for evaluating such risks.

Conduct emerging risk reviews – Organisations should establish a formal, documented process for identifying, assessing and periodically reviewing emerging risks. This process should involve the members of the management team responsible for the achievement of strategic goals, and should occur with sufficient frequency to ensure that the review of the risk environment is reasonably current. In addition, the review process should incorporate features that allow for immediate communication of new information about risk as it is discovered.

Integrate emerging risk review into the strategic planning process – Emerging risks may be more distant and more strategic in nature, and therefore aligned with the organization's strategic planning process. Conducting risk reviews in concert with the strategic planning process will help enforce a disciplined approach regarding the relevance, importance and effect of uncertainties on organisational objectives and improve management's decision-making process.

Identify all assumptions and carry out disciplined assumption testing – Establishing a disciplined approach to testing assumptions and beliefs in existing business models will help organizations avoid natural tendencies to prioritise known risks over emerging risks which may not be perceived as serious in the short term. The disciplined approach should include establishment of early warning signals to track the development of the emerging risks over time.

Challenge conventional thought processes and expectations – Testing the potential impact of an emerging risk against the organization's business model requires an assumption as to how the risk will manifest itself in terms of visibility and impact (stress tests). As emerging risks are often the result of the continual evolution of the business environment, an emerging risk may manifest itself in a manner that differs from the conventional expectation. The analysis of an emerging risk should extend beyond what seems to be the most logical development path for that exposure and also consider other development paths that are possible given the characteristics of the risk (Part 2 of the article), even if they seem extremely remote.

Apply new and developing methodologies to better understand and predict risk One example is the Bayesian Belief Networks (probabilistic graphical model (a type of statistical model) which can help capture and calculate the inter connectedness of different risk factors, along with the composite impact of these risk factors which may differ significantly from their individual impact. Also, use of simulations and scenario analysis to further develop emerging risk scenarios and "what if" analyses can help organizations understand the implications of potential emerging risk events.

Practitioners should balance focus on relevant macro-level trends with important micro-level organisational or industry issues that may be developing. This requires additional tools and techniques that are part of their existing risk management toolkit, though possibly in new applications where traditional approaches to risk identification and assessment may not work.

Misplaced confidence regarding the understanding of risks through historical/ statistical analysis can lead to a false understanding of the complex interplay of risk factors within the system. The key is to understand, articulate and manage risk within the risk appetite of the organization over a longer time horizon. This longer horizon not only considers known risks but the impact of emerging risks on the strategic objectives of the organization.

Business continuity management (BCM) programme is part of the enterprise strategic planning process that encompasses in the ERG. A Business Resumption Plan describes how to resume business after a disruption. A Disaster Recovery Plan deals with recovering Information Technology (IT) assets after a disastrous interruption. Both imply a stoppage in critical operations and are reactive.

11 September, 2001 demonstrated that although high impact, low probability events could occur, recovery is possible. Even though buildings were destroyed and blocks of Manhattan were affected, businesses and institutions with good continuity plans literally a good ERG managed to survive.

The evolution of risk in the marketplace has become as rapid as it is complex, with diverse factors blending in varied ways to create new business challenges. As a result, the demands on internal audit are evolving dramatically," the IIA stated.

It's therefore necessary that Internal Audit practitioners must branch out and step out of their comfort zones into these critical areas. It's also true that originations must give Internal Audit the resources and support to make things happen.

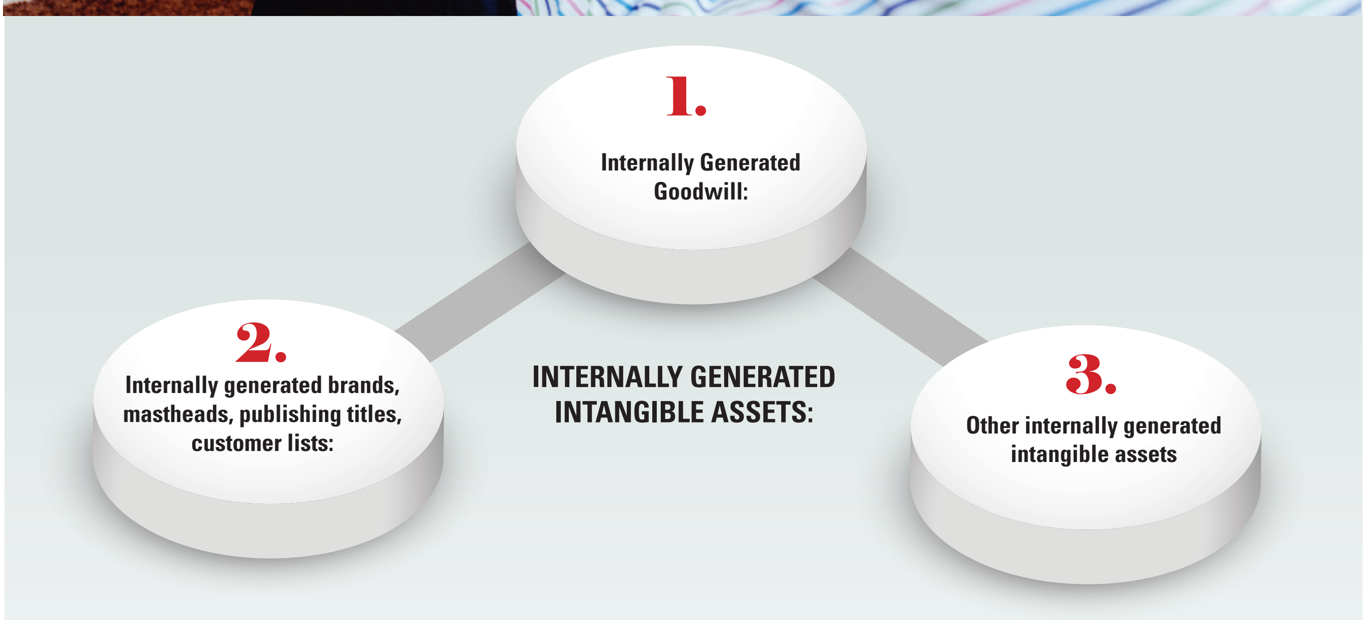
A future article will consider the characterisation of emerging risks, the emerging risk "conductor" and Core Global Emerging Risk Categories.

By **CPA VERONICA NAMBAJJWE**

IAS 38 INTANGIBLE ASSETS PART 2

INTRODUCTION

In this issue we examine part 2 of IAS 38: Intangible Assets. Part one was covered in Issue 4 of CPA Connect Magazine (May – July 2016).



INTERNALLY GENERATED INTANGIBLE ASSETS:

1. **Internally Generated Goodwill:**

   Internally generated goodwill shall not be recognised as an intangible asset because it is not an identifiable resource (neither separable nor arising from contractual or legal rights) controlled by the entity that can be measured reliably at cost.

2. **Internally generated brands, mastheads, publishing titles, customer lists:**

   Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets. This is because the expenditure on these items cannot be distinguished from the cost of developing the business as a whole. Therefore, they are not recognised as intangible assets.

3. **Other internally generated intangible assets**

   To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

   (a) Research phase; and

   (b) Development phase.

How would an entity which cannot distinguish the research phase from the development phase of an internal project to create an intangible asset treat the expenditure incurred?

The entity would treat the expenditure on that project as if it were incurred in the research phase only and therefore expense the costs.

Research Phase

(a) No intangible asset arising from research (or from the research phase of an internal project) shall be recognised.

(b) Expenditure on research shall be recognised as an expense when it is incurred.

Examples of research activities:

- activities aimed at obtaining new knowledge;
- the search for, evaluation and final selection of, applications of research findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services

Development Phase

An intangible asset arising from development (or from the development of an internal project) shall be recognised if, and only if, an entity can demonstrate the following:

(a) The technological feasibility of completing the asset so that it may be used or sold.

(b) The intention to complete the asset and the intention and ability to use or sell it.

(c) How the asset will generate future probable economic benefits, by demonstrating that there is a market for the asset's output or for the asset itself, or if the asset is to be used internally, how the asset will increase revenues or reduce costs.

(d) Availability of adequate technical, financial and other resources to complete the development and to use or sell the asset.

(e) The ability to measure reliably the expenditure on the asset during its development.

Examples of Development Activities:

- The design, construction and testing of pre-production or pre-use prototypes and models;
- The design of tools, jigs, moulds, and dies involving new technology;
- The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

- The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

Cost of an internally generated intangible asset

The cost of internally generated intangible assets comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Examples of directly attributable costs are:

- Costs of materials and services used or consumed in generating the asset;
- Costs of employee benefits arising from the generation of the asset;
- Fees to register a legal right; and
- Amortisation of patents and licences that are used to generate the intangible asset.

The following are not included in the cost of an internally generated intangible asset:

(a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

(b) Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance;

(c) Expenditure on training staff to operate the asset.

Illustration 1

Kashat Co is developing a new production process. During the year ended 30 June, 2016, expenditure incurred was Shs. 100,000,000, of which Shs. 90,000,000 was incurred before 1 April, 2016 and Shs. 10,000,000 between 1 April and 30 April 2016. The company can demonstrate that, at 1 April 2016, the production process met the criteria for recognition as an intangible asset.

The recoverable amount of the know-how embodied in the process is estimated to be Shs. 50,000,000.

How should the expenditure be treated?

At the end of April 2016, the production process is recognised as an intangible asset at a cost of Shs.10,000,000. This expenditure incurred since the date when the recognition criteria was met, that is 1 April, 2016. The Shs. 90,000,000 incurred before 1 April, 2016 is expensed, because the recognition criteria was not met. This expenditure does not form part of the cost of the production process recognised in the statement of financial position.

Recognition of an Expense

Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

(a) It forms part of the cost of an intangible asset that meets the recognition criteria; or

(b) The item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date.

Examples of expenditure that are recognised as an expense when it is incurred include expenditure on:

- Research, except when it is acquired as part of a business combination.
- Start-up activities.
- Training activities.
- Advertising and promotional activities.
- Relocating or reorganising part or all of an entity.

Any expenditure written-off during the research or development phase cannot subsequently be capitalised if the project meets the criteria for recognition at a later date.

MEASUREMENT AFTER RECOGNITION

Subsequent to initial recognition, an entity may choose to adopt the:

(a) Cost model or

(b) Revaluation model.

If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall be accounted for using the same model, unless there is no active market for those assets.

Why are items within a class of intangible assets revalued simultaneously?

To avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost Model

The intangible asset is carried at cost less accumulated amortisation and impairment losses.

Revaluation Model

The intangible asset is carried at a revalued amount.

This amount is the asset's fair value (the active market price) at the date of valuation less subsequent accumulated amortisation and impairment losses.

Revaluations shall be made with regularity depending on the volatility of the fair values of the intangible assets being revalued.

The carrying amount shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent impairment losses.

In such a case the asset will have to be tested for impairment

under IAS 36 *Impairment of Assets,* because of the fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired.

However, if the fair value of the asset can be measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

Revaluation Surplus or Deficit

How is the increase or decrease in the carrying amount of an intangible asset as a result of revaluation treated in financial statements?

Surplus:

If the carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under revaluation surplus.

However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Deficit:

If the carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit or loss.

However, the decrease shall be debited directly to equity under the revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset.

Illustration 2

An entity measures its intangible asset at fair value. The asset was revalued upwards by Shs. 6,000,000 in 2014; this was taken to the statement of financial position as a revaluation surplus. At the end of 2015, the asset was revalued and a downward valuation of Shs. 7,500,000 was required.

How is this downward revaluation accounted for?

The downward valuation of Shs. 7,500,000 can be first set against revaluation surplus of Shs 6,000,000.

The revaluation surplus will be reduced to Shs 0 and a charge of Shs. 1,500,000 made as an expense in 2013.

USEFUL LIFE FOR AN INTANGIBLE ASSET

Is the period over which the asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from the asset by an entity?

Finite or Indefinite Useful life:

An entity should assess whether an intangible asset's useful life is finite or indefinite.

If finite, the length or number of production or similar units constituting that, useful life.

An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter.

Finite Useful Life:

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

Amortisation shall begin when the asset is available for use that is when it is in a location and condition necessary for it to be capable of operating in the manner intended by management.

It shall cease at the earlier of the date that the asset is:

(a) Classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale,* and

(b) derecognised.

The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

If the pattern cannot be determined reliably, the straight line method shall be used.

Where is the amortisation charge for the period recognised?

The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

Illustration 3

Malik Pharmaceutical purchased a patent for Shs. 500,000,000 estimating its useful life to be 10 years on 1 November 2013.

How is this accounted for at the beginning and after 1 year?

1/11/2013	Patent	Shs. 500,000,000
	Cash	Shs. 500,000,000
31/10/2014	Amortisation expense	Shs. 50,000,000
	Patent	Shs. 50,000,000

On 1 November 2013, the Shs. 500,000,000 is recognised in the statement of financial position as an intangible asset (Patent).

On 31 October 2014, the Patent is amortised by: (Shs. 500,000,000/10 years = Shs. 50,000,000).

The amortisation charge of Shs. 50,000,000 is charged to profit/loss.

Illustration 4

Kas Limited has acquired a copyright that has a remaining legal life of 50 years. However, an analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 years.

How should this copyright be accounted for by Kas Limited?

The copyright would be amortised over its 30-year estimated useful life that is the time it will be able to generate cash flows for Kas Limited.

The copyright would also be reviewed for impairment in accordance with IAS 36 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

RESIDUAL VALUE:

The residual value of an intangible asset with finite useful life shall be assumed to be zero unless there is:

(a) A commitment by a third to purchase the asset at the end of its useful life; or

(b) An active market for the asset and:

  (i) Residual value can be determined by reference to that market; and

  (ii) It is probable that such a market will exist at the end of the asset's useful life.

What does a residual value higher than zero imply?

It implies that an entity expects to dispose of the intangible asset before the end of its economic life.

How often is the residual value reviewed?

The residual value is reviewed at least at the end of each financial year.

How is the change in the asset's residual value accounted for?

A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The residual value may increase to an amount equal to or greater than the asset's carrying amount.

How does the entity account for this?

The amortisation charge is reduced to zero until its residual value decreases to an amount below the asset's carrying amount.

Illustration 5

Mukonnie Limited has a product protected by patent which is expected to be a source of net cash inflows for at least 15 years. Mukonnie Ltd has a commitment from a third party to purchase that patent in seven years for 70% of the fair value of the patent at the date it was acquired and the company intends to sell the patent in seven years.

How will this patent be recognised?

The patent would be amortised over its 7–year useful life to the company, with a residual value equal to the present value of 70% of the patent's fair value at the date it was acquired.

The patent would also be reviewed for impairment in accordance with IAS 36 at the end of each reporting period.

Indefinite Useful Life:

An intangible asset with indefinite useful life shall not be amortised.

Instead an entity is required to test an intangible asset for impairment in accordance with IAS 36 *Impairment of Assets* by comparing its recoverable amount with its carrying amount

(a) Annually, and

(b) Whenever there is an indication that the intangible asset may be impaired.

Illustration 6

The Mutya Communication Commission issued a broadcasting licence to Aisha Television Network which is renewed every 20 years if the network complies with all the legal requirements and provides good service to the public. Aisha television network intends to renew the licence indefinitely and the technology used in broadcasting is not expected to be replaced in the near future. The network expects to obtain cash flows from the licence indefinitely.

How should Aisha Television Network treat the licence?

The licence should be treated as having an indefinite useful life because it is expected to contribute to the network's cash flows indefinitely. Therefore it will not amortise the licence until its useful life can be determined as finite and instead test it for impairment annually and whenever there is an indication of impairment.

IMPAIRMENT TEST

Impairment exists if the future cash flows are less than the carrying amount.

If the asset is impaired, the loss is calculated by the difference between the carrying amount and the fair value.

Illustration 7:

TBM has invested in a new process of extracting oil in Western Uganda. Due to a change in oil prices, the process is under review for impairment. The predicted future cash flows are Shs. 100,000,000; the carrying amount is Shs. 150,000,000, and the fair value is Shs. 120,000,000.

Is the process impaired and if yes how can the entity account for it.

This asset is impaired because the fair value is less than the carrying amount.

(Shs. 120,000,000 – 150,000,000) = Shs. 30,000,000

Entry to record the impairment is:

Dr. Loss on impairment Shs. 30,000,000

Cr. Patent (Process) Shs. 30,000,000

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment.

If they do not, the change in the assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

RETIREMENTS AND DISPOSALS

An intangible asset shall be derecognised:

(a) On disposal

(b) When no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds if any, and the carrying amount of the asset.

It shall be recognised in profit or loss when the asset is derecognised.

Gains shall not be classified as revenue.

DISCLOSURES

IAS 38 provides for a number of disclosures to be made for each class of intangible assets, distinguishing between internally generated and other intangible assets.

By **Mr. Sam Bahame**

PERSISTENCE CONQUERS ALL

The decision of returning to school after a while is never easy, especially if one has been out of class for a while. Many people will wish to go back to school and cannot stand the challenge it comes along with.

However, one's ability to withstand the pressure can enable him or her to sail through. Many people opt to drop the course especially if they have attempted exams more than once.

No matter what you do in life, there will be times when things do not go as planned, times when everything seems to be working against you and times when you fail. During such moments you may feel like throwing in the towel, and even suffer from low levels of confidence and self-esteem. It brings a tendency of feeling bad about one's self and self pity. The easy thing to do during such times is to quit what we are doing and move on to something else, something that is easier or distracts one from our previous task and hence losing it entirely.

This is exactly what most people in our society do, because it is a natural human tendency to do the things that are fun and easy over those that are hard and necessary, forgetting that some things are hard but not impossible.

This often leads to long term failure in life, because those who quit whenever they experience failures or problems will never stick with something of real substance long enough to truly benefit from it. Og Mandino said that, "mistakes are life's way of teaching us and whenever we get knocked down, we need not to look back at it too long. But those who are able to keep going through periods of adversity stand a much better chance of achieving something of real meaning and value in their life".

If you want to achieve real success in your life you must be willing to look at the bigger picture and avoid the tendency of viewing things in a myopic perspective. I love Oliver Wendall Holmes opinion over this, greatness is not where we stand, but in what direction we are moving. We must sail sometimes with the wind and sometimes against it but sail we must, and not drift nor lie at the anchor.

Whilst this may happen for some people, the majority of us will have to work extremely hard and for so many hours before we are able to accomplish what we set out to do, this calls for persistence. People tend to focus on shortcuts to the top. "Quick wins" but later get disappointed because their strategy is too short to make long term achievements. "Perseverance is not a long race, its many short races one after the other". Walter Elliot.

Persistence is a great quality we should all nurture. The ability to hold on or to get back up after we have been knocked down is essential for us to achieve any real success because there will be failures along the way. It's how we deal with these failures that will determine the outcome of any endeavour that is undertaken.

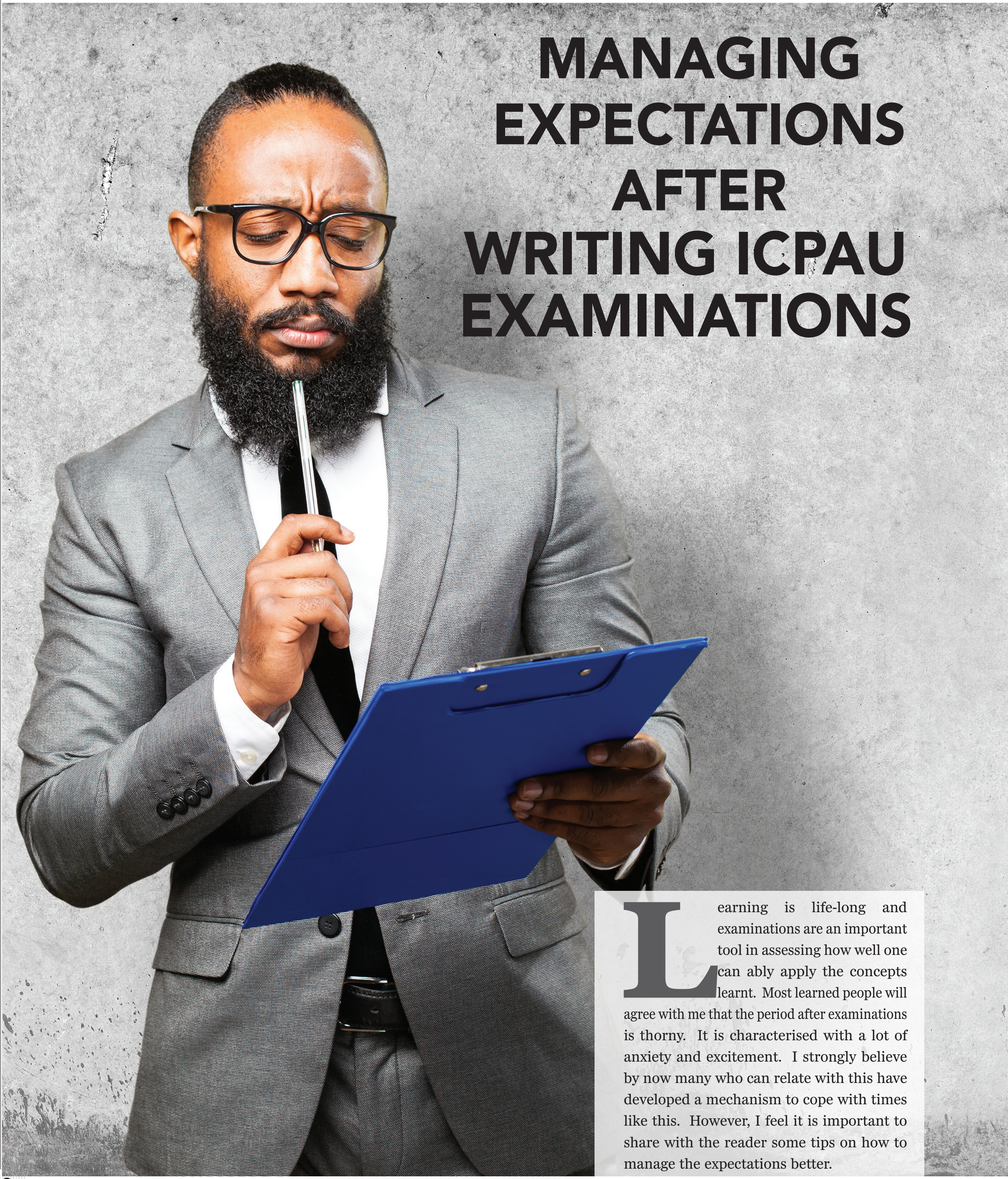
Undertaking a professional course is not a walk over, more so to those in full time employment or raising a family among other responsibilities, you tend to have a lot to juggle. Without persistence, your ability to grow and succeed will be severely restricted, and so will be the amount of happiness and wealth to achieve. It is important to note that persistence does not mean change of course or direction in life. Persistence and success is a self-feeding cycle. The more we persist, the more we will be successful.

Failure is just another lesson that you can learn from to grow and develop as a person and it may seem hopeless at times, but if you hang on long enough you will pull yourself to the required level.

Of course, no one likes to experience difficulties or misfortunes in their life, but the fact is these things will happen, Roger Crawford asserts, "Being challenged in life is inevitable, being defeated is optional. You can therefore either choose to give up when the going gets tough, or persist until you achieve your aims and objectives".

By **CPA Denis Wabomba**

MANAGING EXPECTATIONS AFTER WRITING ICPAU EXAMINATIONS



Learning is life-long and examinations are an important tool in assessing how well one can ably apply the concepts learnt. Most learned people will agree with me that the period after examinations is thorny. It is characterised with a lot of anxiety and excitement. I strongly believe by now many who can relate with this have developed a mechanism to cope with times like this. However, I feel it is important to share with the reader some tips on how to manage the expectations better.

Students should desist from the habit of re-reading instructions or discussing questions that appeared in a paper immediately after leaving the examinations room until a later date, possibly a fortnight.

It is motivating, especially when the answers to questions turnout to be correct and demotivating when one realises they actually failed the questions. Instead, that time can be used for networking with peers or reading/revising for the next examinations paper, if any. That could possibly be beneficial professionally and career wise.

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Remember passing a paper does not guarantee one is flawless in every aspect. Accounting and auditing standards for example will keep changing. The requirements of this profession remain dynamic. One remains a candidate for as long as they still are performing accounting roles. Therefore, one needs to keep abreast answering other examinations outside the four wall confinement. Continuous Professional Development Seminars (CPDs) can help bridge that gap. Try to reflect on what made you perform the way you performed

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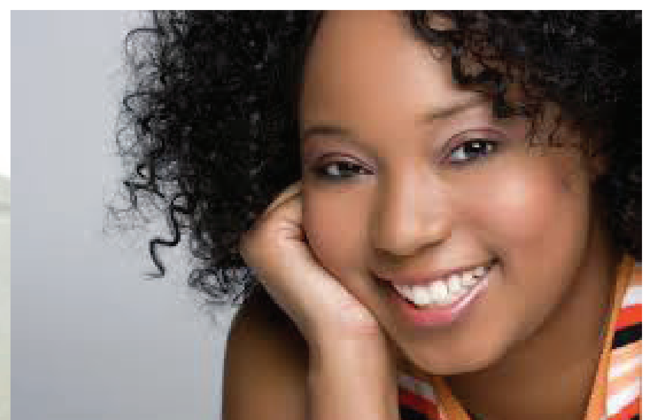
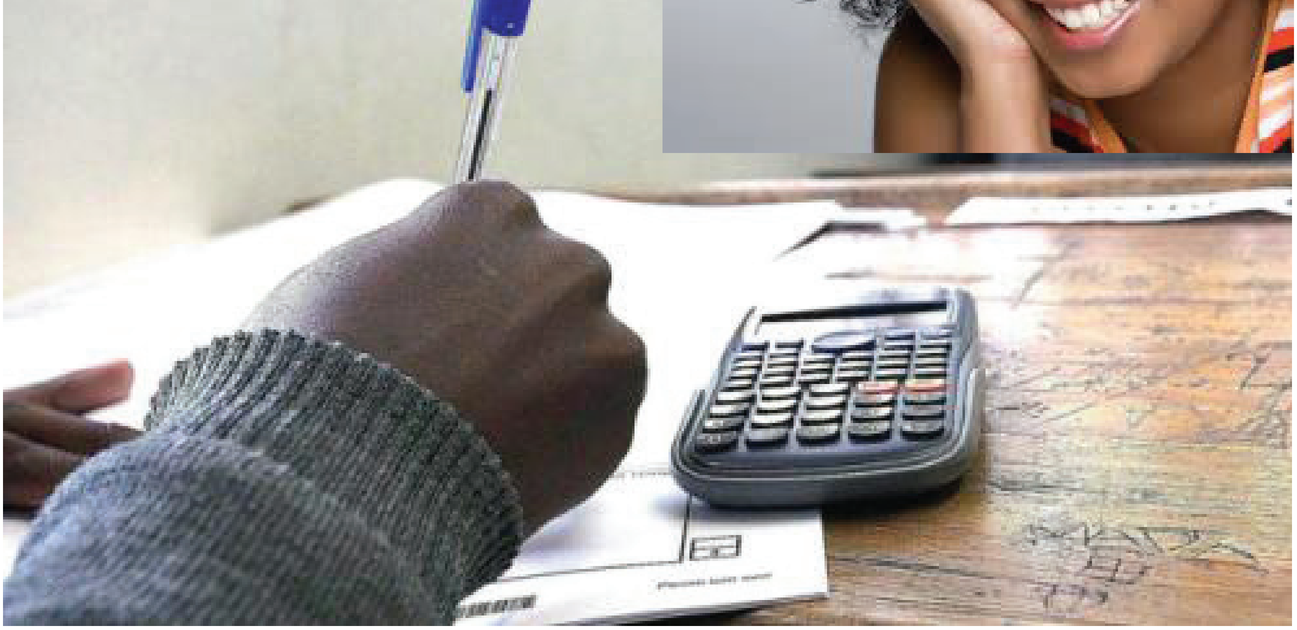




By **Ms. Christine Nantege Ronnie**

STEPS TO A SUCCESSFUL CAREER

While at Primary School there was a question that teachers, parents and elders often asked. What do you want to become in future? The obvious answers then were, I want to become a Pilot, Doctor and Engineer. Then we didn't know what it took to get there. It is advisable that one starts to think about his or her career by the age of 16 years (Senior four). So that, they are guided on, specific subjects to do in order to get good subject combinations in A'level and courses in University and Tertiary Institutions. After University it's important to look for a job and acquire some experience before one thinks about furthering their education.

In today's environment, we would probably all agree that, a job is no longer for life. If we want to get a sense of achievement from our working life, in whatever form, then we need to put some thought into managing the series. Sadly and far too often, we find it easier to abdicate responsibility, expecting the organisation we are working for to provide career path. Lifelong jobs are a thing of the past. Employees have to shift their mindset to embrace change in jobs. Most often we think it is the organisation responsibility to groom its employees. There is need to change our mindsets and take responsibility for our own careers, creating value for ourselves and the organisations we work for. It is important to have such a mindset because it gives you a sense of personal security for you and the organisation. Below are some strategies that you can use to achieve a successful career.

Update your Resume regularly

For one to be successful in his or her career, it is important to update one's resume on daily basis especially if you are interested in taking on new projects, more responsibilities, meet targets or make some noticeable achievements in the organisation. An updated resume will make you soar high. It will also make you get that job that you applied for.

Build your networks

Network creation is important in our career path because you get to meet people who will be of help either today or in future. For your network could include the professors, lecturers, teaching assistants and course mates. Be relevant in the network, it could be having good interpersonal relations and sharing academic material, introducing them to each other, discussions or sending them articles that are valuable to them. Always attend worthwhile events (conferences and seminars) and secure at least a business card. All the above will continually enhance your network.

Achieve lifetime employability

One of the top five organisations face all over the world is recruiting people with inappropriate skills to do the job. Do you want to feel frustrated and de-motivated that you trained and studied over the years only to find your skills have become redundant overtime? The likely answer is no. Therefore, to ensure you continue to be employable you need to take some time to look to the future. Think about what is necessary in terms of skills and how best to use them. Read about your industry; ask your manager, mentor and CEO questions on the new trends of the organisation then brainstorm about what skills one needs to develop that may be desirable, but still interesting to you.

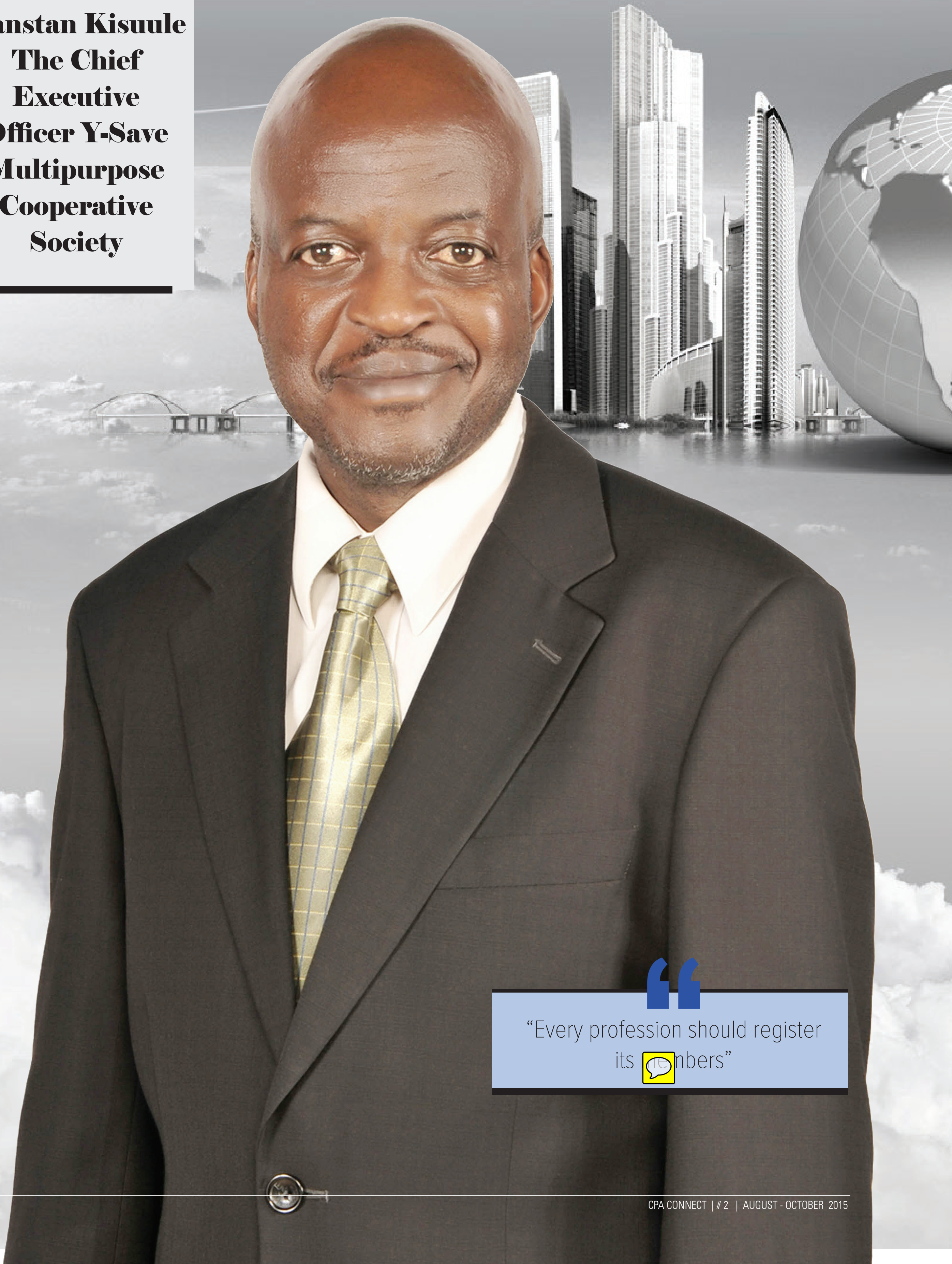
Set development goals

Write down your goals as a physical commitment to yourself. I personally use the SMART (specific, measurable, attainable, relevant and timely) formula to set your goals. Write them down and review them in order to keep on track. It's important to define action steps, success indicators and milestones in order to direct your actions on a daily/ weekly/ monthly basis.

MAKING IT

Tell us about your journey to becoming a CPA?

Danstan Kisuule The Chief Executive Officer Y-Save Multipurpose Cooperative Society



> “Every profession should register its members”

INTERVIEW WITH THE CHIEF EXECUTIVE OFFICER Y-SAVE MULTIPURPOSE COOPERATIVE SOCIETY

Give us a brief background of Y-Save Multipurpose Cooperative Society?

Y-Save Multipurpose Cooperative Society was started on 24th January, 2000 by the Young Workers of Kampala Pentecostal Church now Watoto Church. At its inception, Y-Save was called Y-Save Micro Finance Association. It later changed to Y-Save Cooperative Savings & Credit Society on 26 November, 2004. However, due to the desire of members of Y-Save to collectively get involved in other areas of business and investments, Y-Save changed its legal status on 22 May, 2013 to Y-Save Multi-Purpose Cooperative Society Ltd.

Y-Save has nine products, mainly: Children's, Personal loans, Pensions, Shares, Investment clubs, Target, School fees, Medical and Dollar accounts.

Our Vision is "To Be a World Class Financial Institution."

Our Mission is "To Contribute to the Effective Development of Our Clientele and to Impact the Society with Godly Values and Principles".

What is the criterion for membership to Y-Save?

Y-Save admits members at a fee of Shs. 105,000 as long as one is a member of Watoto Church. He/she must be a member of a church cell and takes part in or participates in any other church ministry activity. It is mandatory for every member to have a savings account.

Does Y-Save have plans of becoming a commercial bank?

Y-Save has no plans to start up a commercial bank because we can do what other commercial banks are doing with fewer restrictions and at a low cost. However, we plan to partner with other institutions to form a bank in future.

How many CPAs does Y-Save employ and what positions do they hold?

Currently, we have one CPA in the position of Accountant and two other CPAs in the making/ prospective CPAs. The CPA and the CPA Students are adding value to the organisation because they have come up with better internal controls and procedures for smooth running of the Y-Save.

In November 2016, Y-Save won the Most Improved Report of the Year" and "Cooperative Societies" Awards. What effort did you put in, and how did you feel?

Every year the Board of Directors sits to discuss the financial affairs of the organisation and among the agenda items during this meeting is the Financial Report. In the discussions we look at ways of improving on our financial report. I worked tirelessly with the Accountant to ensure that the report is up to standard. We do this to keep on track with our vision, "To be a World Class Financial Institution". This implies putting in place sustainable policies, ensuring accountability, and maintenance of high reporting standards.

Immediately they announced Y-Save as the Winner Cooperative Societies, I stood up shook hands with the Accountant and we said to each other it was worth it. It was a trophy for a job well done and we thank God for enabling us to win this Award.

What challenges has Y-Save Multi Purpose Cooperative Society faced since its inception?

One of the organisation's main challenges is mindset change; most people prefer to live for now than to save for the future. We have an entire strategic objective on wealth and finance training. We instill in our members a savings culture by putting measures in place that, lead to closure of any account which is left for three months without additional savings. This has compelled our members to prioritise savings so that, their accounts are not closed.

Do you think the quality of Y-Save financial reports has improved as a result of employing a CPA, and participating in the FiRe Awards?

Yes it has, especially when it comes to best practices, although this would not have been possible if management was not supportive and willing to implement the changes.

I also commend the FiRe Awards evaluation reports for highlighting areas that needed improvement. They have always been our benchmark.

What's your typical day like?

I wake up at 5:00 am, read my bible and pray. I am married to Anne Kisuule Nabuyobo. We have two children Daniela Kirabo and David Kusinza. I then prepare myself and my children for school. After dropping them I proceed to office. I then get into meetings and work concurrently. I leave office between 6:00 pm - 7:00 pm and sometimes 8:00 pm on days when we have committee meetings. When I get home I do exercise for about one to two hours, have dinner, pray with family and get to bed.

How do you feel being a CEO of a Successful Cooperative Society?

It is very humbling. It's an honour and privilege to lead and guide Y-Save. I thank God for calling me to serve at a time like this. I may not refer to Y-Save as a successful cooperative society because there is nothing extraordinary about what we do, "We are simply doing what we are supposed to do". This has been possible through following policies that have been set by the Board.

Do you have any other comments?

I thank the Institute for their efforts in promoting the accountancy profession in Uganda and beyond. I also appreciate the Institute for taking Continuing Professional Development programmes up country; this has enabled accountants to update their knowledge and skills. The effort to get rid of quack accountants by the Institute is commendable.

PARAMOUNT PRACTICES FOR MANAGING

Inventory management is the practice of planning, directing and controlling of the ordering, storage and use of components that a company will use in the production of the items it will sell as well as the overseeing and controlling of quantities of finished products for sale. Literally, it's the practice of planning, directing and controlling inventory so that it contributes to business profitability

A business inventory is one of its major assets and represents an investment that is tied up until the item is to be sold or used in the production of an item that is sold. It also costs money to store, track and insure inventory. Inventories that are mismanaged can create significant financial problems for a business, whether the mismanagement results in an inventory glut, an inventory shortage or defalcate.

Inventory is an asset on the Statement of Financial Position (SFP) that remains there until goods are sold. It includes merchandise or inventory in trade, raw materials, work in process, finished products, and supplies that physically become a part of the item intended for sale

Why is inventory management important?

From a financial perspective, it can help a business be more profitable by lowering their cost of goods sold or by increasing sales. Inventory is a major factor in calculating taxable income. When an ending inventory overstatement occurs, the cost of goods sold (COGS) is stated too low. This means that net income before taxes is overstated by the amount of the inventory overstatement.

From a business perspective, it is about having the right inventory at the right time to meet customer demands.

Internal Audit focuses on ensuring that various policies and procedures and internal controls, including: receiving and issuing of inventory, inventory counts, and physical access to inventory. In addition, Internal Audit tests whether slow moving and obsolete inventory reports are reviewed monthly and ensure that the policies and procedures document is updated for any process changes that resulted from the internal audit review on inventory.

In order to properly manage inventory, there are a number of factors to consider:

Have a solid inventory control system. Two common systems are the periodic and perpetual systems. A periodic system updates the accounting ledger on a periodic basis weekly, monthly, quarterly. A perpetual system (most commonly used) updates inventory after each purchase, sale and adjustment. The more frequently it is updated, the easier it is for a business to plan.

A fixed Period Ordering System may be adopted where orders are periodically placed, but the order quantity is different every time, and this is also called Fixed Period Deficit Ordering System. The method has features such as; an order is periodically placed, the order quantity is different every time, even relatively large fluctuations in demand can be handled properly, even seasonal variation can be handled modestly, the inventory volume can be reduced compared with ordering point system, group items are usually best for this method, longer lead time is acceptable and longer time for paperwork is needed. Every order quantity in their method is obtained by use of a formula.

Have a proper inventory ordering system. Know what you need, how much you need and when you need it. This is important as it often leads to undesirable consequences such as longer lead times, reduced responsiveness and customer service, lost sales opportunities and increased inventory costs.

Categorize your inventory. The 80-20 rule, also known as the Pareto principle, simply means that roughly 80 percent of the effects of anything you might be doing come from 20 percent of the causes. When applied to inventory 80 percent of the sales come from 20 percent of the products, so it is a good idea to categorize and set priorities accordingly. It may be a good idea to make sure you have a larger inventory buffer for faster moving items than slower items.

Therefore it's far more important to keep the big 20 percent of your products in inventory than it is to keep the other 80 percent in inventory because 80 percent of your sales come from that small 20 percent. Worry when you run low on the big sellers and prevent that from happening; don't sweat when you begin to run low on the other items.

Automate and consider an asset-tracking system. This can streamline the inventory management process, simplify documentation, increase accuracy and save time and money. It correlates with having a proper ordering system.

Maintain policies and procedures document for inventory processes and update for any changes that resulted from the audit review on inventory or adoption of best practice. An Inventory management policy and procedures is a document that sets out to answer the questions why, what and how about the inventory management. It is a written statement setting out guidelines for the requisition, acquisition, management and withdrawal of inventory items and this should be revised on a regular basis.

Demand forecasting. Sales often fluctuate due to seasonality, business trends and the economic outlook. Thus, the ability to forecast can help one to plan better for inventory needs in order to maintain appropriate levels.

Take physical inventory counts. This is a method to control inventory and reconcile it to the amounts shown under a periodic or perpetual system on the books. These are normally taken at least once a year, often close to the end of a business' fiscal year. Larger businesses, those with a large number of items, those who need to verify the accuracy of their inventory more frequently and those who prefer periodic or seasonal inventory counts often do it more frequently.

Make adjustments as necessary to account for goods that are unsaleable, obsolete, damaged, stolen or where the market value is lower than the cost (if you use the lower of cost or market value method). The effect of a write-down is to lower the value of ending inventory. COGS are equal to beginning inventory plus inventory purchases minus ending inventory. Any decrease in ending inventory increases COGS and cuts gross profits. The effect on the income statement is lower taxable income.

The preceding points summarize a number of best practices when it comes to managing inventory. It is one of the more overlooked areas that impact increasing profitability, especially for smaller, less sophisticated businesses.

By **Levi Leku,**
Motivational Speaker - the iPedlars

To conclude, always remember that your brand is like a picture and since a picture is worth more than 1000 words, seek to make your brand attractive every day. It is the attractive brands that attract top dollars.

By **CPA ANDREW KAWERE**
Assistant Director in the supervision Directorate Bank of Uganda

MARKETING MIX CONT'D

THE ROLE OF THE PRICE AND PLACE AS ELEMENTS OF THE MARKETING MIX

Part 21

In part 20, we discussed product as an element of the marketing mix. In this article, we shall consider Price, Place and their impact on marketing efforts.

Price

The price of a product or service reflects the value addition by the seller. A firm should appropriately price its products depending on the quality of the product, the level of competition in the market and the stage at which the product is in the life cycle. In deciding upon an appropriate pricing strategy, a firm needs to have clear pricing objectives, which may include;

- Market entry - prices likely to be lower than average.
- Consolidation of market share – in this case the firm aims at maintaining a stronghold on the market.
- Profit maximisation – This may involve high prices especially in cases of monopolistic tendencies and or cases of inelastic demand for products.
- Creation of brand leadership – this depends on the perceived positioning, for example, high prices may be set to reflect high quality attributes.
- Countering of new entrants – this will most likely involve setting prices at a low level as a strategy to deter the entry of new competitors.

The following are some of the potential pricing strategies that can be adopted;

Going rate pricing - A firm charges the same product price as is being currently charged on the market. In this case the firm avoids upsetting the market dynamics, which could prompt immediate reaction from competitors. It therefore, initially sets the same price as the other players and may consider a change at a later stage.

Premium Pricing - This involves charging a high price which usually reflects high quality attributes. The strategy is recommended in cases where there is substantial competitive advantage on the part of the firm. For example, a five star hotel will use premium pricing, which reflects the quality of service expected.

Penetration Pricing - The price charged for products and services is lower than what is charged by the competitors in order to gain market share. Once this is achieved, the price is revised upwards. This approach was used by some telecommunication players in the mid 2000s as they made entry into the Ugandan market.

Economy Pricing - Under this approach, prices and the underlying operational costs are kept low. This translates into increased customer numbers and sales performance. Examples of economy pricing are demonstrated by low cost airlines which can for example lower ticket prices, but also serve no inflight meals, or offer no inflight entertainment. Consider the pricing strategy exhibited by Air Uganda prior to their closure Vs the pricing by renowned operators such as Kenya Airways.

Market Skimming – This involves charging a high price because you have a substantial competitive advantage. This may require charging a high price in the initial stages when a products demand is still inelastic and appropriately reducing the price as competition dynamics change. In the aftermath of Air Uganda's closure, air ticket prices to Nairobi were reported to have risen by as high as 100%! This is an example of price skimming. In another example, one could think about the initial years of the mobile telecommunications industry. The pioneers, most likely used market skimming as an entry strategy.

Psychological pricing – This aims to exploit the psychological aspects of the consumers' behaviour so as to maximize sales. An example is the advertisement of discounts and clearance sales when in fact the price reductions are minimal. As an illustration, consider this pricing advert:

CLEARANCE SALE:

WAS ~~10,000,000;~~ NOW AT 9,999,000

In the above illustration, the customer's attention is drawn to the message indicating the clearance sale as opposed to the actual price at which the product is being sold.

You will also note that bright colours are usually used in such psychological pricing techniques. As a result, the customer is likely to buy the product in anticipation of massively benefiting from the clearance sale / price reduction. However, this is not always the case.

Other possible pricing strategies include product line pricing, product bundle pricing, promotional pricing, and geographical pricing.

Place

Place as an element of the marketing mix relates to the location at which services are delivered or the distribution and storage process for goods. Means of distribution must therefore be carefully evaluated so as to optimize the availability of goods and services to customers.

Place is also known as channel, distribution, or intermediary. It is the mechanism through which goods and services are moved from the manufacturer/ service provider to the user or consumer. It comprises a set of institutions, which perform all of the activities required to move a product and its title from production to consumption.

Key decisions include deciding on whether to use direct or indirect channels, single or multiple channels and the types of intermediaries (such as wholesalers, retailers, agents etc). In selecting the channel intermediaries, there is need to consider the target market segment as well as monitoring of the changes during the product life cycle. For example, when a product has matured, there is need to ensure maximum availability, if it's under the introduction stage, it is better to use the selective/targeted distribution approach.

Regarding the chain of distribution, agents receive commission while the possession of goods remains with the manufacturer. Therefore, risks remain with the manufacturer even when goods are with the agent. Agents may however be difficult to keep track of due to the physical distances involved. In Uganda, for example, there were reports in the 1990s that certain agents were compromised into selling off bottles for a beverage manufacturer to a competitor. However, the agent has incentive to sell the goods since they are paid a commission.

Wholesalers on the other hand earn a profit, so the ownership of the goods moves from the manufacturer as soon as goods are sold to the retailer. Other than agents, a firm may opt to use the conventional Wholesaler > Retailer > Consumer chain of distribution. This approach reduces risks for the manufacturer since possession of the goods passes when the items are sold.

Electronic commerce has emerged as another channel intermediary with some online companies able to send the goods directly to the customers. The main benefit of the internet is that product information reaches a wider audience at low costs. Similarly, little or no commission is paid since goods can be sold directly to the end user.

For services, the place at which services are delivered matters a lot and should be aligned to target customers. The importance of the place in service delivery is partly a result of the intangibility of services. Given that services cannot be touched, the place of delivery emerges as a key marketing avenue. If one is marketing a leisure centre, there is need for it to have good facilities that can attract patrons. This may include well mowed gardens or other facilities.

The place of service delivery must also be matched to the target clients. If you were

running a consultancy firm for example, whose target market are the small and medium sized clients, then locating the office premises of the firm in an upscale neighbourhood that is not easily accessible is unlikely to yield good results. On the other hand, if the target market are blue chip corporate companies, a down town location for a consultancy firm will not work.

In the next article, we shall wind up this discussion of the marketing mix by considering the role of Promotion in marketing. We shall also discuss the implications of the extended marketing mix for services.

By Rhoda Musiima,
Journalism and Communications Student
Makerere University Kampala.

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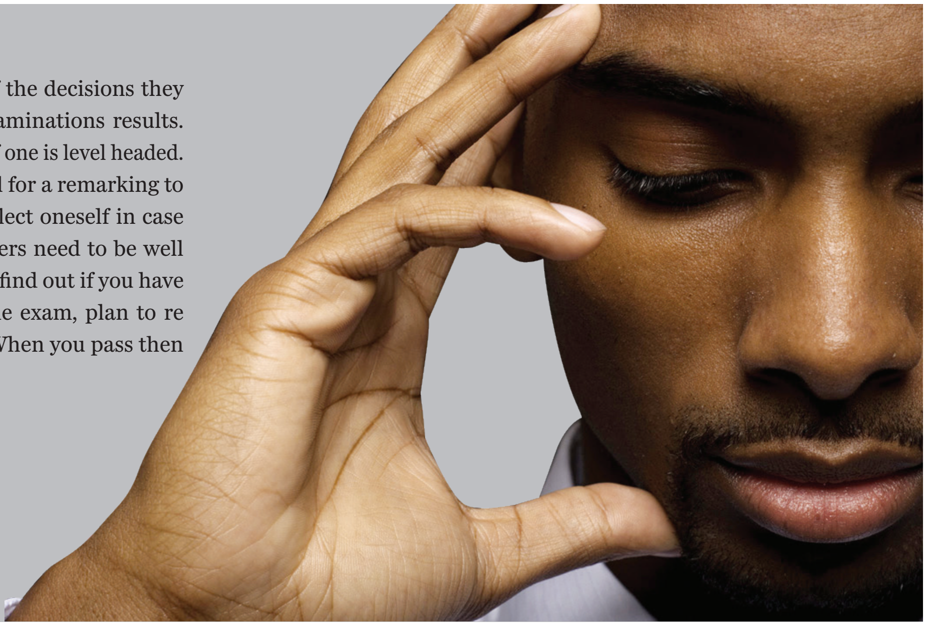

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Muwanguzi Isaac
Top CPA (U) student for Paper 2, Economic Environment in the CPA (U) November 2014 sitting. He started his studies at MAT, whilst finalizing his Bachelors of Business in Computing from Makerere University Business School (MUBS).

Scovia Ayebare Byarugaba
Senior Accountant with Cipla Quality Chemical Industries Ltd is another top performing student with MAT. She finished the whole examination process in five sittings,showing dedication by commencing the study even before registration.

James Anthony Malinga
Senior Internal Auditor with the National Water and Sewerage Corporation (NWSC) was a top student at MAT, completing his CPA (U) qualification in two and a half years. He joined the accounting profession with a Bachelors of Commerce Degree (2nd class honours) from Makerere University.

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