



AFRICAN ADVANCED LEVEL TELECOMMUNICATIONS INSTITUTE (AFRALTI)

TRAINING WORKSHOP OUTLINE

Title: Current Cost Accounting Financial Statements and Economic Depreciation Methods in Utility Taxation

Dates: 24th-28th July 2017

Duration: Nairobi, Kenya

Tuition Fee: AFRALTI Member States USD1,200; Non-Member States USD1,440

Course Overview

Financial Statements, which are prepared by Current Cost Accounting (CCA) and Economic Depreciation (ED) methods for taxation of utilities (telecoms, electricity, water, gases and transports) give more collection of revenue taxes than the financial statements, which are prepared by Historical Cost Accounting (HCA) and Accounting Depreciation (AD) methods because of the following reasons:

- The CCA Financial Statements and Economic Depreciation methods use the current cost of the modern equivalent technology (market prices) and decline in market value of the asset beside decline of value of the asset due to wear and tear;
- The HCA Financial Statements and Accounting Depreciation methods use the historical cost (purchased prices) and the decline of the historical costs of the asset due to wear and tear of the asset without considering the decline in market value of the asset due to technological advancement and changes;
- The use of purchased price and its decline of the purchased price value of the asset due to wear and tear in the HCA Financial Statements and Accounting Depreciation gives high costs; hence, low net profit and corporate tax; and
- The use of market price and its decline in market value of the asset due to technological changes in the CCA Financial Statements and Economic Depreciation methods gives low costs; hence, high net profit and corporate tax.

In view of the above mentioned reasons, the use of the CCA Financial Statements and Economic Depreciation methods enables the government through their National Revenue Authorities to collect more revenue taxes particularly the corporate tax than the present method using the HCA Financial Statements and Accounting Depreciation.

Surprisingly, the above said utilities, are still continuing reporting the HCA Financial Statements and Accounting Depreciation methods to the National Revenue Authorities for taxation purposes despite the technological changes, which are taking place in the sector around the world. As a result, the National Revenue Authorities continue collecting less revenue taxes than the expected amount if they were using the CCA Financial Statements and Economic Depreciation.

Therefore, this course presents in details preparations of the CCA Financial Statements with the Economic Depreciation methods in order to enable the government to raise more collection of revenue taxes than the present tax revenue collection. The course recommends the governments to adopt the CCA Financial Statements and Economic Depreciation methods.

Target Audience

Ministry of Finances; Ministry of Economic Planning; National Revenue Authorities; National Regulatory Agencies; Utility Operators and Regulators; Accountants and Economists.

Pre-requisite/s

Basic knowledge of economic regulations, accounting, financing and economics.

Pain Points

Advert of technological advancement and changes, which are taking place around the world, market value of some of the assets falls down drastically beside the decline of the value of the asset due to wear and tear. The HCA Financial Statement and Accounting Depreciation methods used at present by most of the National Revenue Authorities in Africa cannot capture well the fall of the market value of the asset due to the technological advancement and changes; hence, the governments lose some tax revenue. There is need for the governments in Africa to adopt the CCA Financial Statements and Economic Depreciation method to capture well the fall of the market value of the asset due to the technological advancement and changes to improve the tax revenue collection.

Value Proposition

At the end of this course, participants will be able to get skills and knowledge of preparing the CCA Financial Statement with the Economic Depreciation methods, which replace the traditional HCA Financial Statements with Accounting Depreciation.

Workshop Objectives

Upon successful completion of the training workshop, participants will be able to meet amongst others the following objectives:

- Understand well conceptual framework of the HCA Financial Statements and Accounting Depreciation methods;
- Understand well conceptual framework of the CCA Financial Statements and Economic Depreciation methods
- Be able to get period to period change in market value of the asset due to technological advancement and changes;
- Be able to get decline in asset value due to wear and tear;
- design the most economic and cost effective digital broadcasting networks;

Workshop methodology

The workshop includes presentations by the facilitator, country presentations and interactive sessions.

Course Contents

Background of the CCA Financial Statements and Economic Depreciation methods

Aim of the CCA Financial Statements and Economic Depreciation methods;

Legal and Regulatory requirements;

Overview of taxation in utilities;

Definition of the following terms:

- Cost Accounting;
- Current Cost Accounting;
- Historical Cost Accounting;
- Accounting Depreciation;
- Economic Depreciation;
- Financial Statements.

Basic Accounting Concepts;

Principles of Cost Accounting

Types of Cost Accounting

- Historical Cost Accounting;
- Current Cost Accounting;
 - Operating Capital Maintenance (OCM);
 - Financial Capital Maintenance (FCM);
 - Asset Re-valuation;

Accounting Depreciation methods

- Straight Line method;
- Decline Balance method;
- Sum of the Years' Digit method;
- Constant Percentage method;
- Annuity method; and
- Sinking Fund method

Economic Depreciation Method

- Discounted Cash Flow (DCF) Analysis ;
- Calculations of the Present Value (PV) of the first ten year future Free Cash Flows (FCFs);
- Calculation of the PV of the future Terminal Year FCFs; that is, the future FCFs after 10 years;;
- Calculation of the market value of the asset;
- Calculation of the period-by-period change in market value of the asset; that is, the Economic depreciation.

Strengths and weaknesses of the Economic and Accounting Depreciation Methods;

Alignment of the Economic and Accounting Depreciation; and

An example of the CCA Financial Statements from the British Telecoms (BT) of the United Kingdom (U.K).

For more information, please contact us on
Tel: +254 710 207 061, +254 733 444 421
training@afralti.org or info@afralti.org
www.afralti.org