Sri Lanka Accounting Standard For Smaller Entities (SLFRS for Smaller Entities)

Sri Lanka Accounting Standard For Smaller Entities (SLFRS for Smaller Entities)

The Institute of Chartered Accountants of Sri Lanka
30 A Malalasekera Mawatha
Colombo 7

Telephone: 011 2352000
Fax: 011 2352067

Copyright © 2015 Institute of Chartered Accountants of Sri Lanka.

All rights reserved. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without permission in writing from the Institute of Chartered Accountants of Sri Lanka.

Printed and bound in Sri Lanka by
Heckfort Printers (Pvt) Limited

The Council

President	A Herath FCA, BSc, MA, MBA
Vice President	L L S Wickremasinghe FCA, FMAAT
Members	S Rajapakse FCA, MBA, FSCMA
	S Bandara FCA, MBA, BSc (Accy.) Sp.
	T Dharmarajah FCA, BSc, FMAAT, DA
	M Jayesinghe FCA, FCMA
	S Kurumbalapitiya FCA, FCMA, CGMA
	H Kuruppu FCA, BSc(Accy.), Sp Hons, MBA, MEF, ASCMA
	C Manoharan FCA, FCMA
	D Nanayakkara ACA, FCMA, CFSA, MSc, (Finance), D.C., BSc (Sp)
	W W J C Perera FCA, BSc(B.Admn), CFE
	M C Pietersz FCA (Ms.)
	H A S Samaraweera FCA, BCom(Sp.), ACMA, CCAF-FCVI
	Shan Shanmuganathan FCA, FCMA
	Tishan Subasinghe FCA, MBA (Finance) (Col.), CISA-USA, ACMA
	L Wijewardena FCA, MBA
Secretary/CEO	Aruna Alwis Dip in Bus. Admin. AIMIS, MBA

Sri Lanka Accounting Standards Committee

Chairman	D T S H Mudalige
Alt. Chairman	H M A Jayesinghe
Members	T J S Rajakarier
	Nishan Fernando
	Nalin Attygalle
	D N R Siriwardena
	Harshana Suriyapperuma
	H L S Jayamanne (Ms)
	Arjuna Herath
	Ajith Weeratunga
	Sunjeevani Kotakadeniya (Ms)
	Mano Rajakariar
Secretary	Upendra Wijesingha

Sub Committee to Development of SLFRSs for Smaller Entities

Chairman	Ajith Ratnayake
Members	Nishan Fernando
	Sanath Fernando
	Kapila Athukorala

Technical Staff

Head of Technical	Upendra Wijesingha
Technical Managers	Hiranthi Wijetunge (Ms)
	Nilangi Dilrukshi (Ms)
	Saumya Madhubashini (Ms)
	Ruvini Subasinghe (Ms)
	Nadeeshani Peiris (Ms)
International Liaison Officer	Prabodha Daulagala (Ms)
Coordinator	Ishvi sherieff
Secretaries	Buddhini Chandrasena (Ms)
	Sarasi Weerasinghe (Ms)
	Samanthi Perera (Ms)

PRESIDENT'S MESSAGE TO 2015 EDITION

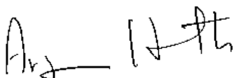
The issuing of a new accounting standard for Smaller Entities is a milestone in the history of promulgating accounting standards in this country. This is an indigenous accounting standard using international norms and accounting principles which are more relevant to the smaller enterprise segment of the commercial world. It has been our intense wish that smaller to micro enterprises produce financial statements for their own sake resulting in this sector growing and contributing to the economic development and progress of the country.

It must be appreciated and understood that having a detail and reliable financial statement provide information to make decisions to manage a business in a more profitable and a sustainable manner which more than proportionately offsets any cost relating to preparation or having reliable financial statements.

The inclusion of this standard in the accounting framework in the country, ensures that the smallest of the smaller entities too would be able to effectively participate in the financial reporting process and help them reap the benefits of accounting standards without much burden and hassle. We believe this standard will help ease the financial reporting burden for smaller entities that can arise using SLFRS or SLFRS for SMEs, as it is considerably less complex than SLFRS and SLFRS for SMEs standards, which also makes financial statements more user friendly in the hands of the stakeholders relating to smaller entities and more cost-effective to produce.

The introduction of this standard we believe will ensure that smaller enterprises and small and medium practitioners does not get marginalized with our accounting standards converging with the International Financial Reporting Standards (IFRS) in 2012 and its implementation taking root in the country.

I extend my appreciation to Deutsche Gesellschaft für Internationale Zusammenarbeit for their support for this initiative, and the Chairman and the Members of the Accounting Standards Committee for the invaluable role played in developing this very important accounting standard.



Arjuna Herath
President
The Institute of Chartered Accountants of Sri Lanka

FOREWORD

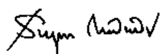
Under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Accounting Standards Committee (ASC) was set up in 1996 to assist the Council of the Institute of Chartered Accountants of Sri Lanka (the Council) in promulgation of the Accounting Standards.

Council adopted the Sri Lanka Accounting Standard for Small and Medium sized Entities (SLFRS for SMEs) in 2011.

However, there is a great demand from the small and medium sized enterprises for a simple financial reporting standard even than the SLFRS for SMEs. Having observed that the adoption of SLFRS for SMEs was low due to complexity, the Institute of Chartered Accountants of Sri Lanka is pleased to introduce the Sri Lanka Accounting Standard (SLFRS for Smaller Entities). This Sri Lanka Accounting Standard is based on a different financial reporting framework and effective from financial periods beginning on or after 01st January 2016.

The SLFRS for Smaller Entities is expected to bring new dimensions of financial reporting which would be cost effective and I am confident that the small and medium sized entities in Sri Lanka would reap the benefits of this effort.

Standards setting by any means is not an easy task and requires an enormous amount of technical input. The ASC is privileged to have the unstinted support of the Technical Division of the Institute of Chartered Accountants of Sri Lanka in this respect. This indigenous SLFRS designed to cater to the financial reporting requirements of smaller entities is the product of the untiring effort of the Sub-committee consist of a group of senior members of the Institute of Chartered Accountants of Sri Lanka chaired by Mr. Ajith Ratnayake. Hence, the Sub-Committee and the technical staff of the Institute deserve the gratitude of all stakeholders for the continuous contribution towards achieving the Institute's ultimate objective of formulating Accounting and Auditing Standards in Sri Lanka.



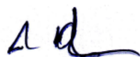
Sujeewa Mudalige
Chairman
Accounting Standards Committee
25 September 2015

MESSAGE FROM THE CHAIRMAN OF THE SUB-COMMITTEE

Paragraph QC35 of the Conceptual Framework for financial reporting (SLFRSs) states that reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. Paragraphs QC39 further indicate that assessments of costs and benefits may not always justify the same reporting requirements for all entities, and that differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

SLFRS for Smaller Entities was drafted with the intention of giving effect to the above in respect of smaller entities. I believe the preparers, auditors and uses of financial statements of smaller entities will benefit immensely by the application of this standard.

I wish to thank the President of CA Sri Lanka, the Council, the Accounting Standards Committee, the members of the sub-committee, and those who sent comments on the exposure draft and also participated at the 2 roundtable discussions for their contribution in drafting the standard.



Ajith S Ratnayake
Chairman
Sub-committee to develop SLFRS for Smaller Entities
25 August 2015

Introduction

Financial statements of most entities which have a high level of public interest are publicly available and members of the public use them to make economic decisions. Therefore, such entities are required to comply with SLFRSs. Other entities could prepare their financial statements in compliance with SLFRS for SMEs. However, SLFRSs and SLFRS for SMEs are too complex for smaller entities and its adoption may not be cost effective for those entities due to:

(a) smaller revenue, equity, assets, and liabilities; and

(b) access to financial statements being generally restricted to stakeholders who may be in a position to request for additional information.

SLFRS for Smaller Entities is a simple financial reporting standard which could be cost effectively used by smaller entities. It could be applied by an entity that is not any of the following:

(a) an entity that had revenue in excess of Rs. 100 million in the reporting period;

(b) an entity that had equity in excess of Rs. 50 million at the end of the previous reporting period;

(c) a company that is required to prepare group financial statements by the law relating to companies; or

(d) an entity that holds assets in a fiduciary capacity as one of its primary businesses.

The standard includes, among others, the following simplifications:

(a) complex requirements relating to financial instruments were excluded;

(b) complex requirements relating to fair value, value in use and actuarial valuations were excluded;

(c) measurement of items were further simplified, for example by the measurement of most leases on a straight line basis, exclusion of overheads from the cost of inventory, exclusion of borrowing costs from the cost of assets, measurement of retirement gratuity at the amount payable if the employees leave on the reporting date, and recognition of the cost of leave in the period in which leave is taken;

(d) changes in accounting policies and corrections of prior period errors to be presented as adjustments to retained earnings at the beginning of the reporting period, without the need to change comparative information;

(e) transition to SLFRS for Smaller Entities has been made easier, by having the transition date as the beginning of the first reporting period of the financial statements prepared in compliance with SLFRS for Smaller Entities;

(d) requirements relating to disclosure substantially reduced;

(e) statement of profit or loss and retained earnings to be presented in place of statement of comprehensive income and the statement of changes in equity; and

(f) not including requirements relating to activities and transactions not likely to be carried out by a smaller entity.

Preface to SLFRS for Smaller Entities

1. The objective of SLFRS for Smaller Entities is to provide a simple financial reporting standard which could be cost effectively used by smaller entities.

2. Entities which could use SLFRS for Smaller Entities are specified in Chapter 1 of the standard.

3. SLFRS for Smaller Entities can be read, interpreted and applied without reference to SLFRSs or SLFRS for SMEs.

4. Concepts and pervasive principles of SLFRS for Smaller Entities are stated in chapter 2 of the standard. The Conceptual Framework for SLFRSs and the Concepts and Pervasive Principles of SLFRS for SMEs are not applicable to SLFRS for Smaller Entities.

5. The requirements stated in SLFRS for Smaller Entities recocognises the size, level of complexity, availability of resources and their effect on cost effectiveness in the preparation and presentation of financial statements of smaller entities. Therefore the principles of presentation, recognition and measurement stated in this standard are simpler than those stated in SLFRSs and SLFRS for SMEs.

Contents

SLFRS for Smaller Entities

Sri Lanka Accounting Standard for Smaller Entities

Chapter		*From page*
1	Scope of this SLFRS	1
2	Concepts and Pervasive Principles	1
3	Presentation of Financial Statements	3
4	Accounting Policies, Estimates and Errors	10
5	Inventories	14
6	Property, Plant and Equipment	17
7	Leases	22
8	Employee Benefits	23
9	Revenue	25
10	Provisions and Contingencies	30
11	Borrowing Cost	33
12	Foreign Currency Translation	34
13	Related Party Disclosures	36
14	Government Grants	38
15	Other Assets and Liabilities	39
16	Events after the End of the Reporting Period	41
17	Transition to SLFRS for Smaller Entities	43
	Illustrative presentation of financial statements	i
	Comparison with SLFRSs	iv
	Comparison with SLFRS for SMEs	vi

Chapter 1 – Scope of this SLFRS

Introduction

1.1 This standard, SLFRS for Smaller Entities may be used in the preparation and presentation of the financial statements of a smaller entity with the meaning specified in this chapter.

Smaller Entity

1.2 An entity that is not any of the following is a smaller entity:

(a) an entity that had revenue in excess of Rs. 100 million in the reporting period;

(b) an entity that had equity in excess of Rs. 50 million at the end of the previous reporting period;

(c) a company that is required to prepare group financial statements by the law relating to companies; or

(d) an entity that holds assets in a fiduciary capacity as one of its primary business.

Chapter 2 - Concepts and Pervasive Principles

Objective of financial statements

2.1 The objective of financial statements prepared in compliance with this standard is to cost effectively provide financial information about the reporting entity that is useful to users of financial statements of a smaller entity.

Assets, liabilities, and Equity

2.2 Assets, liabilities, and equity are defined as follows:

(a) an asset is a present economic resource controlled by the entity as a result of past events;

(b) liability is a present obligation of the entity to transfer an economic resource as a result of past events; and

(c) equity is the residual interest in the assets of the entity after deducting all its liabilities.

Income and Expenses

2.3 Income and expenses are defined as follows:

(a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors; and

(b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity investors.

Recognition of assets, liabilities, income and expenses

2.4 An item shall be recognised (ie, incorporated in the financial statements) if it meets the definition of an asset, liability, income or expense and satisfies the following criteria:

(a) it is probable (ie, more likely than not) that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured reliably.

Accrual basis

2.5 An entity shall prepare its financial statements, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Fair presentation

3.1 The financial position and financial performance of an entity, shall be presented fairly in financial Statements.

Compliance with SLFRS for Smaller Entities

3.2 An entity that meets the requirements of this standard and whose financial statements comply with this standard shall make a statement of compliance with SLRFS for Smaller Entities in the notes to the financial statements.

Going concern

3.3 The management shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date. When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

Frequency of reporting

3.4 An entity shall present a complete set of financial statements at least annually.

Consistency of presentation

3.5 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate.

Comparative information

3.6 Except when this standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements.

Materiality and aggregation

3.7 Information is material if its omission or misstatement could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements.

3.8 An entity need not follow a requirement in this Standard if the effect of doing so would not be material.

3.9 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Complete set of financial statements

3.10 A complete set of financial statements of an entity shall include all of the following:

(a) a statement of assets and liabilities;

(b) a statement of profit or loss and retained earnings for the reporting period;

(c) a statement of cash flows for the reporting period; and

(d) notes, comprising a summary of significant accounting policies and other explanatory information.

Identification of the financial statements

3.11 An entity shall clearly identify each of the financial statements (including the notes) and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) the date of the end of the reporting period and the period covered by the financial statements;

(c) the currency in which the financial statements are presented; and

(d) the multiples of the number of currency units (such as Rs. ‘000s), if any, at which amounts are presented in the financial statements.

3. 12 An entity shall disclose the following in the notes:

(a) the legal form of the entity, its country of incorporation, the address of its registered office, and the principal place of business; and

(b) a description of the nature of the entity’s operations and its principal activities.

Statement of assets and liabilities

Introduction

3.13 The statement of assets and liabilities, shall present the entity’s assets, liabilities and equity as at the reporting date.

Current/non-current distinction

3.14 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of assets and liabilities.

3. 15 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity’s normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

3.16 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

3.17 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) the liability is due to be settled within twelve months after the reporting date; or

(c) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

3. 18 An entity shall classify all other liabilities as non-current.

Information to be presented either in the statement of assets and liabilities or in the notes

3.19 An entity shall disclose, either in the statement of assets and liabilities or in the notes, the following sub classifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed;

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business (for example, inventories held by retailers and the finished goods of a manufacturer);

(ii) in the process of production for such sale (for example, the work in progress of a manufacturer);

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services (for example, raw materials); and

(d) trade and other payables, showing separately payables to trade suppliers, payables to related parties, deferred income and accruals;

(e) provisions, showing separately provisions for employee benefits and other items; and

(f) classes of equity, such as stated capital, and retained earnings.

3.20 An entity with share capital shall disclose the following, either in the statement of assets and liabilities or in the notes:

(a) for each class of share capital:

(i) the number of shares issued and fully paid, and issued but not fully paid;

(ii) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(iii) the rights, preferences and restrictions attached to that class including restrictions on the distribution of dividends and the repayment of capital; and

(iv) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and

(b) a description of each reserve within equity.

Statement of Profit or Loss and Retained Earnings

3.21 An entity shall present items of income and expense recognised in determining profit or loss of the reporting period, profit or loss of the reporting period, retained earnings at the commencement of the reporting period, corrections of prior period errors, effect of changes in accounting policy relating to prior periods, dividends, any other items that effect the retained earnings, and retained earnings at the end of the reporting period in the statement of profit or loss and retained earnings for the reporting period.

3.22 An entity shall present an analysis of expenses using a classification based on the function of expenses within the entity. Cost of sales, distribution costs and administration expenses are examples of aggregations based on function of expenses. An entity shall not present or describe any items of income or expense as ‘extraordinary items’ in the financial statements.

Statement of Cash Flows

Cash equivalents

3.23 Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings.

Information to be presented in the statement of cash flows

3.24 An entity shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

3.25 Operating activities are the principal revenue-producing activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit or loss. Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

3.26 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities

3.27 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity.

Reporting cash flows from operating activities

3.28 An entity shall present cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

3.29 The net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, accrued income (or expenses) not yet received (or paid) in cash, and unrealised foreign currency gains and losses; and

(c) all other items for which the cash effects relate to investing or financing.

Notes

3. 30 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used.

(b) disclose the information required by this standard that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

3.31 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.

3.32 The following is an example of a systematic order for presenting the notes:

(a) a statement that the financial statements have been prepared in compliance with the *SLFRS for smaller entities*;

(b) a summary of significant accounting policies applied;

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

Disclosure of accounting policies

3.33 An entity shall disclose the following in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements (for example, historical cost); and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

Chapter 4 - Accounting Policies, Estimates and Errors

Selection and application of accounting policies

4.1 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

Changes in accounting policies

4.2 An entity shall change an accounting policy only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, or financial performance. Therefore, changes in accounting policies are generally rare.

4.3 The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material is not treated as a change in an accounting policy.

Applying changes in accounting policies

4.4 An entity shall present effect of changes in accounting policy relating to prior periods in the statement of profit or loss and retained earnings as an item which is not recognised in determining profit or loss of the reporting period, but recognised in determining the retained earnings brought forward.

Changes in accounting estimates

4.5 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

4.6 Examples of changes in accounting estimate include:

(a) a change in the method of depreciating an item of property, plant and equipment from a reducing balance method to a straight line method to reflect a revised assessment of the pattern of consumption of benefits of the asset; and

(b) the re-estimate of useful life of an item of property, plant and equipment.

4.7 An entity shall recognise the effect of a change in an accounting estimate, prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

4.8 To the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, the entity shall recognise it by adjusting the carrying amount of the related asset or liability in the period of the change.

Correction of prior period errors

4.9 Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

4.10 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

4.11 An entity shall present effect of errors relating to prior periods in the statement of profit or loss and retained earnings as an item which is not recognised in determining profit or loss of the reporting period, but recognised in determining the retained earnings brought forward.

Disclosures

Disclosure of a change in accounting policy

4. 12 When a change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) to the extent practicable, the amount of the adjustment for the profit or loss:

(i) for the current period; and

(ii) in the aggregate for periods before current period ; and

(d) an explanation, if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosure of a change in estimate

4.13 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period.

Disclosure of prior period errors

4.14 An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error;

(b) the amount of the correction of the retained earnings;

(c) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Scope

5.1 Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Measurement of inventories

5.2 An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell. A reduction in carrying value of inventories is recognized in profit or loss as impairment of inventories.

Cost of inventories

5.3 An entity shall include in the cost of inventories cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of purchase

5.4 The cost of purchase of inventories comprise purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, material and services. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

Cost of conversion

5.5 The cost of conversion of inventories include only costs directly related to the units of production, such as direct material and direct labour.

Joint products and by-products

5.6 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products becomes separately identifiable, or at the completion of production. When the cost of a by-product is not material, the entity shall measure it at selling price less costs to complete and sell and deduct this amount from the cost of the main product.

Costs excluded from inventories

5.7 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted material, labour or other production cost;

(b) storage cost, unless storage is required between production stages;

(c) production and administrative overhead;

(d) selling cost;

(e) interest cost; and

(f) foreign exchange differences.

Cost of inventories of a service provider

5.8 Service providers who have inventories, measure such inventories at the cost of production. Cost of production consist primarily of cost of personnel directly engaged in providing the service, including supervisory personnel. Cost relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

5.9 An entity may use techniques such as the standard cost method, the retail price less margin or most recent purchase price for measuring the cost of inventories if the result approximates actual cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised based on current conditions.

Methods of Cost Ascertainment

5.10 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

5.11 An entity shall measure the cost of inventories, by using the first-in, first-out (FIFO) or weighted average cost method. An entity shall use the same method for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different methods may be justified. The last-in, first-out method (LIFO) is not permitted.

Recognition as an expense

5.12 When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense (often referred to as cost of goods sold) in the period in which the related revenue is recognised.

5.13 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are subsequently accounted for in accordance with the chapter of this Standard relevant to that type of asset.

Disclosures

5.14 An entity shall disclose the following:

(a) the accounting policies adopted in measuring inventories, including the method used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) impairment losses recognised or reversed in profit or loss; and

(e) the total carrying amount of inventories pledged as security for liabilities.

Chapter 6 - Property, Plant and Equipment

Scope

6.1 Property, plant and equipment are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

Recognition

6.2 Items such as spare parts, stand-by equipment and servicing equipment are property, plant and equipment if the entity expects to use them during more than one period or if they can be used only in connection with an item of property, plant and equipment. Otherwise, such items are classified as inventories.

Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

6.3 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

6.4 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the cost of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

6.5 The following costs are not costs of an item of property, plant and equipment, and an entity shall recognise them as an expense when they are incurred:

(a) cost of opening a new facility;

(b) cost of introducing a new product or service (including costs of advertising and promotional activities);

(c) cost of conducting business in a new location or with a new class of customer (including costs of staff training);

(d) administration and other general overhead cost; and

(e) borrowing cost.

6.6 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement after initial recognition

6.7 An entity shall measure an item of property, plant and equipment after initial recognition at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

6.8 The relevant proportion of cost less accumulated depreciation of an item of property, plant and equipment that has suffered damages, other than due to normal use, shall be recognized in profit or loss as impairment. An entity shall recognise the cost of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which such cost is incurred.

Depreciable amount and depreciation period

6.9 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is cost minus accumulated depreciation and accumulated impairment losses, minus residual value. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

6.10 The depreciation charge for each period shall be recognised in profit or loss.

6.11 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.

6.12 Depreciation of an asset begins when it is available for use, ie, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized or fully depreciated.

6.13 The useful life of an asset is the period over which the asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity. An entity shall consider all of the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

Depreciation method

6.14 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

Derecognition

6.15 An entity shall derecognise an item of property, plant and equipment:

(a) on disposal; or

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

6.16 An entity shall recognise the gain or loss on derecognition of an item of property, plant and equipment in profit or loss when the item is derecognised. The entity shall not classify such gains as revenue.

6.17 The date of disposal is the date when the risks and rewards of ownership of the asset have passed.

6.18 An entity shall determine the gain or loss arising from derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

6.19 An entity shall disclose the following for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount, accumulated depreciation, and accumulated impairment losses if any at the beginning and end of the reporting period; and

(e) a reconciliation of the carrying amount at the beginning and the end of the reporting period showing separately:

   (i) additions;

   (ii) disposals;

   (iii) depreciation; and

   (iv) impairment.

   This reconciliation need not be presented for prior periods.

6.20 The entity shall also disclose the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.

Scope

7.1 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease may or may not transfer the ownership of the asset to the lessee at the end of the lease term.

7.2 This chapter covers accounting for all leases other than:

(a) a lease to explore for or use mineral, oil, natural gas and similar non-regenerative resource;

(b) a licensing agreement for such item as motion picture film, video recording, play, manuscript, patent or copyright;

(c) a lease of biological assets; and

(d) a lease that:

(i) transfers substantially all risks and rewards incidental to ownership; and

(ii) the period of the lease is not a significant part of the useful life of the asset.

Financial Statements of lessees

7.3 A lessee shall recognise lease payments as an expense on a straight-line basis unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

Financial statements of lessors

7.4 A lessor shall present assets subject to leases in its statement of assets and liabilities according to the nature of the asset.

7.5 A lessor shall recognise lease income in profit or loss on a straight-line basis over the lease term, unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

7.6 A lessor shall recognise as an expense costs, including depreciation, incurred in earning the lease income.

Disclosures

7.7 A lessee shall make the following disclosures for leases:

(a) lease payments recognised as an expense.

(b) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Chapter 8 - Employee Benefits

General recognition principle

8.1 Employee benefits are consideration given by an entity in exchange for service rendered by employees, including directors and management. An entity shall recognise the cost of employee benefits to which its employees have become entitled as a result of service rendered to the entity, in accordance with the requirements stated in this chapter:

(a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless another chapter of this standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Specific employee benefits

8.2 When an employee has rendered service to an entity, the entity shall measure the amounts recognised in profit or loss as follows:

(a) benefits payable within a short period of time before or after the period of service, such as wages, salaries, contributions to provident funds or trust funds, medical insurance premiums,

and use of vehicle or residence, in the reporting period in which service is rendered;

(b) bonus and profit sharing payments, in the reporting period in which service is rendered;

(c) medical benefits not covered by insurance, in the reporting period in which employee claims the benefit;

(d) cost incurred for casual, annual or medical leave, in the reporting period in which leave is taken;

8.3 Benefits payable on termination of employment, such as gratuity shall be measured and recognized as a liability at the amount that would be payable at the end of the reporting period, if the employees leave on that date. Employees who have not completed the minimum period of service to be entitled to the termination benefit at the end of the reporting period are not considered in the measurement of the liability.

8.4 Benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date, are recognised in the reporting period in which the decision is communicated to the employee.

8.5 Benefits payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits, are recognised in profit or loss in the reporting period in which the employee accepts the same.

Scope

9.1 Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. This chapter shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);

(b) the rendering of services;

(c) construction contracts in which the entity is the contractor. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; and

(d) deposits or receivables yielding interest.

Measurement of revenue

9.2 An entity shall measure revenue at the value of the consideration received or receivable. The value of the consideration received or receivable is after deducting the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.

9.3 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties. Taxes based on sales or value added collected on behalf of a government shall not be included in revenue. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.

Sale of goods

9.4 An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable (ie more likely than not) that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

9.5 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. An entity does not recognise revenue if it retains significant risks and rewards of ownership, for example, if the receipt of the revenue from a particular sale is contingent on the buyer selling the goods.

Rendering of services

9.6 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

9.7 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are recoverable.

Construction contracts

9.8 When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, and future costs.

Percentage of completion method

9.9 This method is used to recognise revenue from rendering services and from construction contracts. An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

9.10 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

(a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;

(b) surveys of work performed; and

(c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

9.11 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

9.12 An entity shall recognise as an expense immediately any costs whose recovery is not probable.

9.13 When the outcome of a construction contract cannot be estimated reliably:

(a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) the entity shall recognise contract costs as an expense in the period in which they are incurred.

9.14 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an onerous contract.

9.15 If the collectability of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

Interest

9.16 Interest shall be recognised using the effective interest rate.

9.17 The effective interest rate is the rate that exactly discounts estimated future cash receipts, to the carrying amount of the asset. The effective interest rate is determined at initial recognition. Under the effective interest method:

(a) the carrying value of an asset is the present value of future cash receipts discounted at the effective interest rate; and

(b) the interest income in a period equals the carrying amount of the asset at the beginning of a period multiplied by the effective interest rate for the period.

9.18 Where interest is received regularly at the same interest rate and premiums, discounts or other receipts or payments are not involved in relation to the asset for which interest is received, interest receivable

from that asset for the period is the interest income from that asset for that period.

Disclosures

General disclosures about revenue

9.19 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions, where relevant; and

(b) the amount of each category of revenue recognised during the period, showing separately, at a minimum, revenue arising from:

(i) the sale of goods;

(ii) the rendering of services;

(iii) interest;

(iv) commissions; and

(v) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

9.20 An entity shall disclose the following:

(a) the amount of contract revenue recognised as revenue in the period;

(b) the methods used to determine the contract revenue recognised in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

9.21 An entity shall present:

(a) the gross amount due from customers for contract work, as an asset; and

(b) the gross amount due to customers for contract work, as a liability.

Chapter 10 - Provisions and Contingencies

Scope

10.1 This Chapter applies to all provisions (ie liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other chapters of this Standard. These include provisions relating to:

(a) leases

(b) construction contracts

(c) employee benefit obligations; and

(d) income tax.

Initial recognition

10.2 An entity shall recognise a provision only when:

(a) the entity has an obligation at the reporting date as a result of a past event;

(b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

10.3 The entity shall recognise the provision as a liability in the statement of assets and liabilities and shall recognise the amount of the provision as an expense, unless another chapter of this standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Initial measurement

10.4 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at

the end of the reporting period or to transfer it to a third party at that time.

(a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

(b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the single most likely outcome.

Subsequent measurement

10.5 An entity shall charge against a provision only those expenditures for which the provision was originally recognised.

10.6 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

Contingent liabilities

10.7 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 10.2. An entity shall not recognise a contingent liability as a liability. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

10.8 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. An entity shall not recognise a contingent asset as an asset. When the flow of future economic benefits to the entity is

virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

10.9 For each class of provision, an entity shall disclose all of the following:

(a) a reconciliation showing:

(i) the carrying amount at the beginning and end of the period;

(ii) additions during the period;

(iii) amounts charged against the provision during the period; and

(iv) unused amounts reversed during the period;

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;

(c) an indication of the uncertainties about the amount or timing of those outflows; and

(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

10.10 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

If after making every reasonable effort to do so, an entity cannot make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

10.11 If an inflow of economic benefits is probable (more likely than not) but not virtually certain (therefore not recognized), an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect. If after making every reasonable effort to do so, an entity cannot make this disclosure, that fact shall be stated.

Chapter 11 - Borrowing Cost

Scope

11.1 This chapter prescribes requirements relating to borrowing cost. Borrowing costs are interest and other costs that an entity incurs in connection with borrowing of funds.

Recognition

11.2 An entity shall recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.

Disclosure

11.3 An entity shall disclose total interest expense recognised during the reporting period.

Chapter 12 – Foreign Currency Translation

Scope

12.1 This chapter prescribes how to include foreign currency transactions in the financial statements of an entity.

Functional currency

12.2 Each entity shall identify its functional currency. An entity's functional currency is the currency of the primary economic environment in which the entity operates.

Reporting foreign currency transactions in the functional currency

Initial recognition

12.3 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

12.4 An entity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

12.5 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example;

(a) an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period; or

(b) the rate at which related receivable or payable was settled may be used, if the settlement occurred within a short period of the date of transaction.

Reporting at the end of subsequent reporting periods

12.6 At the end of each reporting period, an entity shall:

(a) translate foreign currency monetary items using the closing rate; and

(b) translate non-monetary items in a foreign currency using the exchange rate at the date of the transaction; and

12.7 An entity shall recognise, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

12.8 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its items of income, expense, assets and liabilities into the presentation currency.

12.9 An entity shall translate its items of income, expense, assets and liabilities into a different presentation currency using the following procedures:

(a) assets and liabilities for each statement of assets and liabilities presented shall be translated at the closing rate at the date of that statement of asets and liabilities;

(b) income and expenses for each statement of profit or loss and retained earnings shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in the statement of profit or loss and retained earnings as an item which is not recognised in determining profit or loss of the reporting period, but recognised in determining the retained earnings carried forward.

12.10 For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items.

Chapter 13 - Related Party Disclosures

Scope

13.1 This chapter requires an entity to include in its financial statements the disclosures necessary relating to transactions with related parties and outstanding balances with such parties.

Definition of a related party

13.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

13.3 A person (or an entity) or a close member of that person's family is related to a reporting entity if that person (or entity):

(a) has control over the reporting entity;

(b) has joint control or significant influence over the reporting entity or has significant voting power in it; or

(c) is an entity that is subject to control, joint control or significant influence of a related party.

Disclosures

Disclosure of subsidiary-parent relationships

13.4 Relationships between a subsidiary and its parent shall be disclosed irrespective of whether there have been related party transactions. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party presents financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of related party transactions

13.5 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions include, but are not limited to:

(a) transactions between an entity and its principal owner(s);

(b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and

(c) transactions in which an entity or person that controls the reporting entity incurs expenses that otherwise would have been borne by the reporting entity.

13.6 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the entity on behalf of the related party or vice versa.

13.7 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services, including as an employee or director;

(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral;

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; and

(j) participation by a parent in a defined benefit plan that shares risks between group entities.

13.8 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

13.9 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Chapter 14 - Government Grants

Scope

14.1 This chapter prescribes requirements relating to government grants. A government grant is assistance by a government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.

14.2 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with a government that cannot be distinguished from the normal trading transactions of the entity.

14.3 This chapter does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

Recognition and measurement

14.4 An entity shall recognise government grants as follows:

(a) A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.

(b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.

(c) A grant that is provided to incur an expense is recognised in income in the periods in which the expense is recognised in profit or loss.

(d) A grant that is provided to acquire an asset is recognised in a systematic basis over the useful life of the asset.

(e) Grants received before the revenue recognition criteria are satisfied are recognised in the statement of assets and liabilities as deferred income.

14.5 An entity shall measure grants at the value of the asset received or receivable.

Disclosures

14.6 An entity shall disclose the following about government grants:

(a) the nature and amounts of government grants recognised in the financial statements;

(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income; and

(c) an indication of other forms of government assistance from which the entity has directly benefited.

Chapter 15 – Other Assets and Liabilities

Trade and other receivables

15.1 An entity shall recognise and measure a trade or other receivable initially at transaction price.

15.2 An entity shall review and consider whether the amount receivable at the end of the reporting period is recoverable.

15.3 If the amount receivable (or a part of it), cannot be recovered and if the entity has decided not to make further attempts to recover the same, the entity may reduce the amount receivable by the relevant amount and recognise it in profit or loss, as an irrecoverable receivable.

15.4 An entity shall review the amounts receivable at the end of the reporting period, to assess the extent to which the amounts shown as receivable are likely to be recovered. The entity shall measure trade and other receivables recognised in the statement of assets and liabilities at the amounts likely to recovered and the differences shall be recognized in profit or loss, as allowance for impairment of receivables.

Shares in listed companies

15.5 Shares traded in a stock exchange shall be measured at the volume weighted average price of trades in the last trading period before the end

of the reporting period as regularly disclosed by the relevant stock exchange.

15.6 If, a share listed in a stock exchange was suspended from trading in that exchange, at the end of the reporting period, the entity shall measure the shares in the statement of assets and liabilities at its most probable value on that date.

Shares in other companies

15.7 Shares in companies which are not quoted in a stock exchange shall be measured at cost or net asset value whichever is lower. The net asset value of the shares shall be ascertained based on the general purpose financial statements of that entity.

Loans payable

15.8 Loans payable by the entity shall be measured at the amount repayable.

15.9 A loan for which the amount repayable within a year was less than the amount repayable after one year at the time the loan was received is classified as a non-current liability. Any other loan is classified as a current liability.

15.10 Unpaid interest accrued up to the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities.

Trade and other payables

15.11 An entity shall recognise and measure a trade or other payable initially at transaction price.

15.12 The amount remaining payable at the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities.

Tax on profit or loss

15.13 An entity shall recognise the amounts payable as tax on its profits or losses up to the end of the reporting period, based on the amounts payable computed in accordance with the relevant statutes.

Disclosures

15.14 An entity shall disclose the following items:

(a) Amounts recognised in profit or loss for irrecoverable receivables;

(b) Amounts recognised in profit or loss as allowance for impairment of receivables; and

(c) An analysis of the age of trade and other receivables that are past due at the end of the reporting period.

Chapter 16 - Events after the End of the Reporting Period

Events after the end of the reporting period defined

16.1 Events after the end of the reporting period are those events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Recognition and measurement

Adjusting events after the end of the reporting period

16.2 An entity shall adjust the amounts recognised in its financial statements, or recognise items that were not previously recognised, including related disclosures, to reflect adjusting events after the end of the reporting period. Adjusting events after the end of the reporting period are those events that provide evidence of conditions that existed at the end of the period.

16.3 Examples include:

(a) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing amount recoverable at that date.

(b) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

Non-adjusting events after the end of the reporting period

16.4 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period. Non-adjusting events after the end of the reporting period are

those events that are indicative of conditions that arose after the end of the reporting period.

16.5 An example of a non-adjusting event after the end of the reporting period is a loss caused by flood, fire, or other event that occurred after the end of the reporting period.

Dividends

16.6 If an entity declares dividends to its shareholders after the end of the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

Disclosure

Date of authorisation for issue

16.7 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation.

Chapter 17 - Transition to SLFRS for Smaller Entities

Scope

17.1 This chapter applies to a first-time adopter of SLFRS for Smaller Entities, regardless of whether its previous basis of financial reporting was SLFRSs, SLFRS for SMEs or any other basis.

First-time adoption

17.2 A first-time adopter of SLFRS for Smaller Entities shall apply the requirements of this chapter in its first financial statements that conform to SLFRS for Smaller Entities.

17.3 An entity's first financial statements that conform to SLFRS for Smaller Entities are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with SLFRS for Smaller Entities. Financial statements prepared in accordance with this standard are an entity's first such financial statements if, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements based on principles not consistent with SLFRS for Smaller Entities in all respects; or

(c) presented its most recent previous financial statements in conformity with SLFRSs or SLFRS for SMEs.

17.4 An entity's date of transition to SLFRS for Smaller Entities is the beginning of the reporting period for which the entity presents its first financial statements that conform to SLFRS for Smaller Entities. An entity shall prepare an opening statement of assets and liabilities as at the date of transition to SLFRS for Smaller Entities.

Procedures for preparing financial statements at the date of transition

17.5 Except as provided in subsequent paragraphs, an entity shall, in its opening statement of assets and liabilities (as at the date of transition to SLFRS for Smaller Entities):

(a) recognise all assets and liabilities for which recognition is required by SLFRS for Smaller Entities;

(b) not recognise items as assets or liabilities if SLFRS for Smaller Entities does not permit such recognition;

(c) reclassify each item that it recognised under its previous basis of financial reporting as one type of asset, liability or component of equity, but is a different type of asset, liability or component of equity under SLFRS for Smaller Entities; and

(d) apply SLFRS for Smaller Entities in measuring all recognised assets and liabilities.

17.6 The accounting policies that an entity uses in its opening statement of assets and liabilities (as at the date of transition to SLFRS for Smaller Entities) under SLFRS for Smaller Entities may differ from those that it used using its previous basis of financial reporting. The resulting adjustments arise from transactions, other events or conditions before the date of transition to SLFRS for Smaller Entities. Therefore, an entity shall recognise those as adjustments to retained earnings (or, if appropriate, another category of equity) at the date of transition to SLFRS for Smaller Entities.

17.7 An entity that has presented its most recent previous financial statements in compliance with SLFRSs or SLFRS for SMEs may elect to use the revalued amount of an item of property, plant and equipment used in presenting financial statements in compliance with SLFRSs or SLFRS for SMEs, as the carrying value of that item on the date of such revaluation, in presenting its financial statements in compliance with this standard.

Presentation of comparative information

17.8 An entity shall present its opening statement of assets and liabilities (as at the date of transition to SLFRS for Smaller Entities) prepared in accordance with this standard, as comparative information, in its first financial statements that conform to SLFRS for Smaller Entities.

17.9 An entity may present comparative information relating to the previous financial period in the statement of profit or loss and retained earnings, of its first financial statements prepared using SLFRS for Smaller Entities, based on the principles of recognition and measurement of the general purpose financial statements presented by the entity for that period, and disclose that fact in the notes.

Disclosures

Explanation of transition to SLFRS for Smaller Entities

17.10 An entity shall explain how the transition from its previous basis of financial reporting to SLFRS for Smaller Entities affected its reported equity and financial performance.

Reconciliations

17.11 To comply with the preceding paragraph, an entity's first financial statements prepared using SLFRS for Smaller Entities shall include:

(a) a description of the nature of each change in accounting policy; and

(b) a reconciliation of its equity determined in accordance with the basis of financial reporting used previously, with its equity determined in accordance with the SLFRS for Smaller Entities on the date of transition to SLFRS for Smaller Entities.

17.12 If an entity did not present general purpose financial statements for previous periods, it shall disclose that fact in its first financial statements that comply with IFRS for Smaller Entities.

Effective Date

17.13 SLFRS for Smaller Entities becomes operative for financial statements covering periods beginning on or after 01 January 2016. Earlier application is permitted. If an entity applies this standard for a period beginning before 01 January 2016, it shall disclose that fact.

Illustrative presentation of financial statements

This Illustrative presentation of financial statements accompanies SLFRS for Smaller Entities, but is not part of the standard.

<Name of the entity>
Statement of Assets and Liabilities as at 31 March 20X2

As at 31 March	**20X2** **Rs**	**20X1** **Rs**
ASSETS		
Non-current assets		
Property, plant and equipment	X	X
Shares in unquoted companies	X	X
Bank deposits – Long term	X	X
	X	X
Current assets		
Inventories	X	X
Shares in quoted companies	X	X
Receivables from related parties	X	X
Trade and other receivables	X	X
Cash and cash equivalents	X	X
	X	X
Total assets	X	X
EQUITY AND LIABILITIES		
Equity		
Stated capital	X	X
Retained earnings	X	X
Total equity	X	X
	X	X
Non-current liabilities		
Bank loans – long term	X	X
Loans – long term	X	X
Long term employee benefit obligation	X	X
	X	X
Current Liabilities		
Bank loans – short term	X	X
Tax payable	X	X
Payables to related parties	X	X
Trade and other payables	X	X
	X	X
Total liabilities	X	X
Equity and liabilities	X	X

<Name of the entity>
Statement of profit or loss and retained earnings
for the year ended 31 March 20X2

Year ended 31 March	**20X2** **Rs**	**20X1** **Rs**
Revenue	X	X
Cost of sales	X	X
Gross profit	X	X
Other income	X	X
Distribution costs	X	X
Administrative expenses	X	X
Other expenses	X	X
Finance costs	X	X
Profit before tax	X	X
Income tax	X	X
Profit for the year	X	X
Retained Earnings:		
Retained earnings at the commencement of the year	X	X
Corrections of prior period errors	X	X
Effect of changes in accounting policy relating to prior periods	X	X
Adjusted retained earnings at the commencement of the year	X	X
Profit for the year	X	X
Dividends	X	X
Retained earnings at the end of the year	X	X

<Name of the entity>

Statement of cash flows
for the year ended 31 March 20X2

	Rs	Rs
Cash flows from operating activities		
Profit before taxation	X	
Adjustments for:		
Depreciation	X	
Investment income	(X)	
Interest expense	X	
	X	
Increase in trade and other receivables	(X)	
Decrease in inventories	X	
Decrease in trade payables	(X)	
Cash generated from operations	X	
Interest paid	(X)	
Income taxes paid	(X)	
Net cash from operating activities		X
Cash flows from investing activities		
Purchase of property, plant and equipment	(X)	
Proceeds from sale of equipment	X	
Interest received	X	
Dividends received	X	
Net cash used in investing activities		(X)
Cash flows from financing activities		
Proceeds from issue of share capital	X	
Proceeds from long-term borrowings	X	
Dividends paid	(X)	
Net cash used in financing activities		(X)
Net increase in cash and cash equivalents		X
Cash and cash equivalents at beginning of period		X
Cash and cash equivalents at end of period		X

Comparison with SLFRSs

The comparison with SLFRSs accompanies SLFRS for Smaller Entities, but is not part of the standard.

SLFRS Reference	Description of SLFRS	Requirements in SLFRS for Smaller Entities
SLFRS 1	First-time adoption of Sri Lanka Accounting standards (SLFRSs)	Simplified
SLFRS 2	Share-based payment	Not included
SLFRS 3	Business combinations	Not included
SLFRS 4	Insurance Contracts	Not included
SLFRS 5	Non-current assets held for sale and discontinued operations	Not included
SLFRS 6	Exploration for and evaluation of mineral resources	Not included
SLFRS 7	Financial Instruments: Disclosure	Modified
SLFRS 8	Operating segments	Not included
SLFRS 9	Financial Instruments	Not included
SLFRS 10	Consolidated financial statements	Not included
SLFRS 11	Joint arrangements	Not included
SLFRS 12	Disclosure of interests in other entities	Not included
SLFRS 13	Fair value measurement	Not included
SLFRS 14	Regulatory deferral accounts	Not included
SLFRS 15	Revenue from contracts with customers	Modified
LKAS 1	Presentation of financial statements	Simplified
LKAS 2	Inventories	Simplified
LKAS 7	Statement of cash flows	Not included
LKAS 8	Accounting policies, changes in accounting estimates and errors	Simplified
LKAS 10	Events after the reporting period	Simplified
LKAS 11	Construction contracts	Simplified
LKAS 12	Income taxes	Modified
LKAS 16	Property, plant and equipment	Simplified
LKAS 17	Leases	Modified
LKAS 18	Revenue	Simplified
LKAS 19	Employee benefits	Modified

SLFRS Reference	Description of SLFRS	Requirements in SLFRS for Smaller Entities
LKAS 20	Accounting for government grants and disclosure of government assistance	Simplified
LKAS 21	The effects of changes to foreign exchange rates	Simplified
LKAS 23	Borrowing costs	Modified
LKAS 24	Related party disclosures	Simplified
LKAS 26	Accounting and reporting by retirement benefit plans	Not included
LKAS 27	Consolidated and separate financial statements	Not included
LKAS 28	Investments in associates	Not included
LKAS 29	Financial reporting in hyperinflationary economies	Not included
LKAS 31	Interests in joint ventures	Not included
LKAS 32	Financial instruments: Presentation	Modified
LKAS 33	Earnings per share	Not included
LKAS 34	Interim financial reporting	Not included
LKAS 36	Impairment of assets	Modified
LKAS 37	Provisions, contingent liabilities and contingent assets	Simplified
LKAS 38	Intangible assets	Not included
LKAS 39	Financial instruments: Recognition and measurement	Modified
LKAS 40	Investment property	Modified
LKAS 41	Agriculture	Not included

Simplified means the requirements have been simplified without significant modification to the principles on which the standard was based.

Modified means the requirements have been significantly modified to reduce complexity and improve cost effectiveness for a smaller entity.

Not included means the requirements of the standard have not been included.

Comparison with SLFRS for SMEs

SLFRS for SMEs chapter	Description of chapter in SLFRS for SMEs	Requirements in SLFRS for Smaller Entities
1	Small and medium sized entities	Not applicable
2	Concepts and pervasive principles	Simplified
3	Financial statement presentation	Simplified
4	Statement of financial position	Simplified
5	Statement of comprehensive income and income statement	Simplified
6	Statement of changes in equity and statement of income and retained earnings	Simplified
7	Statement of cash flows	Not included
8	Notes to the financial statements	Simplified
9	Consolidated and separate financial statements	Not included
10	Accounting policies, estimates and errors	Simplified
11	Basic financial instruments	Modified
12	Other financial instruments issues	Modified
13	Inventories	Simplified
14	Investments in associates	Not included
15	Investments in joint ventures	Not included
16	Investment property	Modified
17	Property, plant and equipment	Simplified
18	Intangible assets other than goodwill	Not included
19	Business combinations and goodwill	Not included
20	Leases	Modified
21	Provisions and contingencies	Simplified
22	Liabilities and Equity	Modified
23	Revenue	Simplified
24	Government grants	Clarified
25	Borrowing costs	Modified
26	Share-based payment	Not included
27	Impairment of assets	Modified
28	Employee benefits	Modified
29	Income tax	Modified
30	Foreign exchange translation	Simplified

SLFRS for SMEs chapter	Description of chapter in SLFRS for SMEs	Requirements in SLFRS for Smaller Entities
31	Hyperinflation	Not included
32	Events after the end of the reporting period	Simplified
33	Related party disclosures	Simplified
34	Specialised activities	Not included
35	Transition to SLFRS for SMEs	Modified

Simplified means the requirements have been simplified without significant modification to the principles on which the chapter was based.

Modified means the requirements have been significantly modified to reduce complexity and improve cost effectiveness for a smaller entity.

Not included means the requirements of the chapter have not been included.