Sri Lanka Accounting Standard

for

Small and Medium-sized Entities

(SLFRS for SMEs)

Illustrative Financial Statements

Sri Lanka Accounting Standard for Small and Medium-sized Entities

Illustrative Financial Statements

This guidance accompanies, but is not part of, the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).

1 Section 3 *Financial Statement Presentation* of the SLFRS *for SMEs* defines a complete set of financial statements and prescribes general standards of financial statement presentation. Sections 4–8 prescribe the format and content of the individual financial statements and notes. Other sections of the SLFRS *for SMEs* establish additional presentation and disclosure requirements. The financial statements set out below illustrate how those presentation and disclosure requirements might be met by a typical small or medium-sized entity. Of course, each entity will need to consider the content, sequencing and format of presentation and the descriptions used for line items to achieve a fair presentation in that entity's particular circumstances. These illustrative financial statements should not be regarded as a template appropriate for all entities.

2 In accordance with paragraph 3.18, the illustrative financial statements present a single statement of comprehensive income and retained earnings in place of two separate statements—a statement of comprehensive income and a statement of changes in equity. This may be done if the only changes to the equity of an entity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors and changes in accounting policy. (Because there are no items of other comprehensive income, this statement could have been titled statement of income and retained earnings.) Two statements of comprehensive income and retained earnings are provided to illustrate the alternative classifications of income and expenses, by nature and by function—see paragraph 5.11 of the *SLFRS for SMEs*.

3 The illustrative financial statements are not intended to illustrate all aspects of the *SLFRS for SMEs* and the transitional provisions in adopting the Standard for the first time are not considered in these illustrative financial statements.

4 The *SLFRS for SMEs* does not require a statement of financial position at the beginning of the earliest comparative period. The illustrative statement of financial position shown below includes a column for the opening statement of financial position to aid in understanding of the calculations underlying amounts in the statement of cash flows.

XYZ Limited
Statement of comprehensive income and retained earnings
for the year ended 31 December 20X2

(Alternative 1 – illustrating the classification of expenses by function)

	Notes	20X2	20X1
		Rs.	Rs.
Revenue	5	6,863,545	5,808,653
Cost of sales		(5,178,530)	(4,422,575)
Gross profit		1,685,015	1,386,078
Other income	6	88,850	25,000
Distribution costs		(175,550)	(156,800)
Administrative expenses		(810,230)	(660,389)
Other expenses		(106,763)	(100,030)
Finance costs	7	(26,366)	(36,712)
Profit before tax	8	654,956	457,147
Income tax expense	9	(270,250)	(189,559)
Profit for the year		384,706	267,588
Retained earnings at start of year		2,171,353	2,003,765
Dividends		(150,000)	(100,000)
Retained earnings at end of year		2,406,059	2,171,353

Note: The format illustrated above aggregates expenses according to their function (cost of sales, distribution, administrative etc). As the only changes to XYZ Limited's equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.

XYZ Limited
Statement of comprehensive income and retained earnings
for the year ended 31 December 20X2

(Alternative 2 – illustrating the classification of expenses by nature)

	Notes	20X2	20X1
		Rs.	Rs.
Revenue	5	6,863,545	5,808,653
Other income	6	88,850	25,000
Changes in inventories of finished goods and work in progress		3,310	(1,360)
Raw material and consumables used		(4,786,699)	(4,092,185)
Employee salaries and benefits		(936,142)	(879,900)
Depreciation and amortisation expense		(272,060)	(221,247)
Impairment of property, plant and equipment		(30,000)	–
Other expenses		(249,482)	(145,102)
Finance costs	7	(26,366)	(36,712)
Profit before tax	8	654,956	457,147
Income tax expense	9	(270,250)	(189,559)
Profit for the year		384,706	267,588
Retained earnings at start of year		2,171,353	2,003,765
Dividends		(150,000)	(100,000)
Retained earnings at end of year		2,406,059	2,171,353

Note: The format illustrated above aggregates expenses according to their nature (raw materials and consumables, employee salaries and benefits, depreciation and amortisation, impairment etc). As the only changes to XYZ Limited’s equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.

XYZ Limited
Statement of financial position at 31 December 20X2

	Notes	20X2	20X1	20X0
		Rs.	Rs.	Rs.
ASSETS				
Non-current assets				
Property, plant and equipment	10	2,549,945	2,401,455	2,186,002
Intangible assets	11	850	2,550	4,250
Investment in associate	12	107,500	107,500	107,500
Deferred tax asset	13	4,649	3,932	2,155
Other non current assets		2,453	1,468	1,251
		2,665,397	2,516,905	2,301,158
Current assets				
Inventories	14	57,381	47,920	45,050
Trade and other receivables	15	583,095	572,394	519,983
Cash		28,700	22,075	18,478
		669,176	642,389	583,511
Total assets		3,334,573	3,159,294	2,884,669
EQUITY AND LIABILITIES				
Equity				
Stated capital	16	30,000	30,000	30,000
Retained earnings	4	2,406,059	2,171,353	2,003,765
		2,436,059	2,201,353	2,033,765
Non-current liabilities				
Bank loan	17	50,000	150,000	150,000
Deferred tax liability	13	340	1,020	–
Obligations under finance leases	18	23,163	44,624	64,508
Long-term employee benefit obligations	19	5,679	5,076	5,066
		79,182	200,720	219,574

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XYZ Limited

Consolidated statement of financial position at 31 December 20X2

	Notes	**20X2**	**20X1**	**20X0**
		Rs.	**Rs.**	**Rs.**
Current liabilities				
Trade payables	20	431,480	420,520	412,690
Current portion of obligations under finance leases	18	21,461	19,884	18,423
Current portion of employee benefit obligations	19	4,944	4,754	4,571
Provision for warranty obligations	21	4,200	5,040	2,000
Interest payable	7	2,000	1,200	–
Current tax liability		271,647	190,316	173,211
Bank overdraft	17	83,600	115,507	20,435
		819,332	757,221	631,330
Total liabilities		898,514	957,941	850,904
Total equity and liabilities		3,334,573	3,159,294	2,884,669

Note: The SLFRS for SMEs does not require a statement of financial position at the beginning of the earliest comparative period—hence the shading. It is presented here to aid understanding of the calculations underlying amounts in the statement of cash flows.

XYZ Limited

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

	Notes	20X2	20X1
		Rs.	**Rs.**
Cash flows from operating activities			
Profit for the year		384,706	267,588
Adjustments for non-cash income and expenses:			
Non-cash finance costs (a)		800	1,200
Non-cash income tax expense (b)		79,934	16,348
Depreciation of property, plant and equipment		270,360	219,547
Impairment loss		30,000	–
Amortisation of intangibles		1,700	1,700
Cash flow included in investing activities:			
Gain on sale of equipment		(63,850)	–
Changes in operating assets and liabilities			
Decrease (increase) in trade and other receivables		(10,701)	(52,411)
Decrease (increase) in other non current assets		(985)	(217)
Decrease (increase) in inventories		(9,461)	(2,870)
Increase (decrease) in trade payables (c)		10,120	10,870
Increase in current and long-term employee benefit payable		793	193
Net cash from operating activities		693,416	461,948

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XYZ Limited

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

	Notes	**20X2**	**20X1**
		Rs.	**Rs.**
Cash flows from investing activities			
Proceeds from sale of equipment		100,000	–
Purchases of equipment		(485,000)	(435,000)
Net cash used in investing activities		(385,000)	(435,000)
Cash flows from financing activities			
Payment of finance lease liabilities		(19,884)	(18,423)
Repayment of borrowings		(100,000)	–
Dividends paid		(150,000)	(100,000)
Net cash used in financing activities		(269,884)	(118,423)
Net increase (decrease) in cash and cash equivalents		38,532	(91,475)
Cash and cash equivalents at beginning of year		(93,432)	(1,957)
Cash and cash equivalents at end of year	23	(54,900)	(93,432)
(a) Finance costs paid in cash		25,566	35,512
(b) Income taxes paid in cash		190,316	173,211
(c) Includes unrealised foreign exchange loss		1,000	–

XYZ Limited
Accounting policies and explanatory notes to the financial statements for the year ended 31 December 20X2

1. General information

XYZ Limited (the Company) is a limited liability company incorporated in Sri Lanka. The address of its registered office and principal place of business is ____________. The principal activities are the manufacture and sale of candles.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with the *Sri Lanka Accounting Standard for Small and Medium-sized Entities* issued by the Institute of Chartered Accountants of Sri Lanka. These Financial Statements are presented in Sri Lankan Rupees (Rs.) and all financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee.

2.1.1 Going Concern

The directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.2 Investments in associates

Investments in associates are accounted for at cost less any accumulated impairment losses.

Dividend income from investments in associates is recognised when the Company's right to receive payment has been established. It is included in other income.

2.3 Revenue recognition

Revenue from sales of goods is recognised when the goods are delivered and title has passed. Royalty revenue from licensing candle-making patents for use by others is recognised on a straight-line basis over the licence period. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of Sri Lanka.

2.4 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.5 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.6 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.
Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

Buildings	2 per cent
Fixtures and equipment	10-30 per cent

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

2.7 Intangible assets

Intangible assets are purchased computer software that is stated at cost less accumulated depreciation and any accumulated impairment losses. It is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

2.8 Impairment of assets

At each reporting date, property, plant and equipment, intangible assets, and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognised as assets of the Company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

2.10 Inventories

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

2.11 Trade and other receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

2.12 Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Sri Lankan Rupees (Rs.) using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

2.13 Bank loans and overdrafts

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

2.14 Employee benefits

2.14.1 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contribution to Employee Provident and Employee Trust Funds covering all employees are recognized as an expense in profit or loss as incurred.

The Companycontributes 12% and 3% of gross emoluments of employees as Provident Fund and Trust Fund contribution respectively.

2.14.2 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit obligation is measured using the projected unit credit method assuming a 4 per cent average annual salary increase, with employee turnover based on the Company's recent experience. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

2.15 Provision for warranty obligations

All goods sold by the Company are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the Company's option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

3. Key sources of estimation uncertainty

Defined benefit Plans

In determining the liability for employee benefit obligation (explained in note 19), management must make an estimate of salary increases over the following five years, the discount rate for the next five years to use in the present value calculation, and the number of employees expected to leave before they receive the benefits.

4. Restriction on payment of dividend

Under the terms of the bank loan and bank overdraft agreements, dividends cannot be paid to the extent that they would reduce the balance of retained earnings below the sum of the outstanding balance of the bank loan and the bank overdraft.

5. Revenue

	20X2	**20X1**
	Rs.	**Rs.**
Sale of goods	6,743,545	5,688,653
Royalties – licensing of candle-making patents	120,000	120,000
	6,863,545	5,808,653

6. Other income

Other income includes dividends received from an associate of Rs.25,000 in both 20X1 and 20X2 and gain on disposal of property, plant and equipment of Rs.63,850 in 20X2.

7. Finance costs

	20X2 Rs.	20X1 Rs.
Interest on bank loan and overdraft	(21,250)	(30,135)
Interest on finance leases	(5,116)	(6,577)
	(26,366)	(36,712)

8. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	20X2 Rs.	20X1 Rs.
Cost of inventories recognised as expense	3,966,638	3,170,872
Research and development cost (included in other expenses)	31,620	22,778
Depreciation/ Amortisation	302,060	221,247
Staff Cost	1,125,621	1,162,587
Directors' remuneration	78,530	82,575
Legal fees	7,741	6,541
Foreign exchange loss on trade payables (included in other expenses)	1,000	–
Warranty expense (included in cost of sales*)	5,260	7,340

*If the entity classifies its expenses by nature in its income statement, this would say 'included in raw materials and consumables used'.

9. Income tax expense

	20X2 Rs.	20X1 Rs.
Current tax	271,647	190,316
Deferred tax (note 13)	(1,397)	(757)
	270,250	189,559

Income tax is calculated at 40 per cent (20X1: 40 per cent) of the estimated assessable profit for the year.

Income tax expense for the year Rs.270,250 in 20X2 (Rs.189,559 in 20X1) differs from the amount that would result from applying the tax rate of 40 per cent (both 20X2 and 20X1) to profit before tax because, under the tax laws of Sri Lanka, some employee compensation expenses (Rs.20,670 in 20X2 and Rs.16,750 in 20X1) that are recognised in measuring profit before tax are not tax-deductible.

10. Property, plant and equipment

	Land and buildings	Fixtures and equipment	Total
	Rs.	**Rs.**	**Rs.**
Cost			
1 January 20X2	1,960,000	1,102,045	3,062,045
Additions	–	485,000	485,000
Disposals	–	(241,000)	(241,000)
31 December 20X2	1,960,000	1,346,045	3,306,045
Accumulated depreciation and impairment			
1 January 20X2	390,000	270,590	660,590
Annual depreciation	30,000	240,360	270,360
Impairment	–	30,000	30,000
Less: accumulated depreciation on assets disposed of	–	(204,850)	(204,850)
31 December 20X2	420,000	336,100	756,100
Carrying amount			
31 December 20X2	1,540,000	1,009,945	2,549,945

During 20X2 the Company noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of Rs.30,000.

The carrying amount of the Company's fixtures and equipment includes an amount of Rs.40,000 (20X1: Rs.60,000) in respect of assets held under finance leases.

On 10 December 20X2 the directors resolved to dispose of a machine. The machine's carrying amount of Rs.1,472 is included in fixtures and equipment at 31 December 20X2, and trade payables includes the Company's remaining obligation of Rs.1,550 on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.

11. Intangible assets

Software:

Cost	**Rs.**
1 January 20X2	8,500
Additions	–
Disposals	–
31 December 20X2	8,500
Accumulated amortisation and impairment	
1 January 20X2	5,950
Annual amortisation (included in administrative expenses*)	1,700
31 December 20X2	7,650
Carrying amount	
31 December 20X2	850

*If the entity classifies its expenses by nature in its income statement, this would say ‘included in depreciation and amortisation expense’.

12. Investment in associate

The Company owns 35 per cent of an associate whose shares are not publicly traded.

	20X2 Rs.	**20X1 Rs.**
Cost of investment in associate	107,500	107,500
Dividend received from associate (included in other income)	25,000	25,000

13. Deferred tax

Differences between amounts recognised in the income statement and amounts reported to tax authorities in connection with investments in the subsidiary and associate are insignificant.

The deferred tax assets are the tax effects of expected future income tax benefits relating to:

(a) the employee benefit obligation (note 19), which will not be tax-deductible until the benefit is actually paid but has already been recognised as an expense in measuring the Company’s profit for the year.

(b) the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled but has already been recognised as an expense in measuring the Company’s profit for the year.

The Company has not recognised a valuation allowance against the deferred tax assets because, on the basis of past years and future expectations, management considers it probable that taxable profits will be available against which the future income tax deductions can be utilised.

The following are the deferred tax liabilities (assets) recognised by the Company:

	Software	Foreign exchange loss	Employee benefit obligation	Total
	Rs.	**Rs.**	**Rs.**	**Rs.**
1 January 20X1	1,700	–	(3,855)	(2,155)
Charge (credit) to profit or loss for the year	(680)	–	(77)	(757)
1 January 20X2	1,020	–	(3,932)	(2,912)
Charge (credit) to profit or loss for the year	(680)	(400)	(317)	(1,397)
31 December 20X2	340	(400)	(4,249)	(4,309)

	20X2	20X1
	Rs.	**Rs.**
Deferred tax liability	340	1,020
Deferred tax asset	(4,649)	(3,932)
	(4,309)	(2,912)

14. Inventories

	20X2	20X1
	Rs.	**Rs.**
Raw materials	42,601	36,450
Work in progress	1,140	900
Finished goods	13,640	10,570
	57,381	47,920

15. Trade and other receivables

	20X2	20X1
	Rs.	**Rs.**
Trade debtors	526,335	526,916
Prepayments	56,760	45,478
	583,095	572,394

16. Stated capital

Balances as at 31 December 20X2 and 20X1 of Rs.30,000 comprise 30,000 ordinary shares fully paid, issued and outstanding. An additional 70,000 shares are legally authorised but unissued.

17. Bank overdraft and loan

	20X2	**20X1**
	Rs.	**Rs.**
Bank overdraft	83,600	115,507
Bank loan—fully repayable in 20X4, prepayable without penalty	50,000	150,000
	133,600	265,507

The bank overdraft and loan are secured by a floating lien over land and buildings owned by the Company with a carrying amount of Rs.266,000 at 31 December 20X2 (Rs. 412,000 at 31 December 20X1).

Interest is payable on the bank overdraft at 200 points above the London Interbank Borrowing Rate (LIBOR). Interest is payable on the seven-year bank loan at a fixed rate of 5 per cent of the principal amount.

18. Obligations under finance leases

The Company holds one piece of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are as follows:

	20X2	**20X1**
	Rs.	**Rs.**
Within one year	25,000	25,000
Later than one year but within five years	25,000	50,000
Later than five years	–	–
	50,000	75,000

The obligation is classified as:

	20X2	**20X1**
	Rs.	**Rs.**
Current liability	21,461	19,884
Non-current liability	23,163	44,624
	44,624	64,508

19. Employee benefit obligation

The Company's employee benefit obligation is based on a comprehensive actuarial valuation as of 31 December 20X2 and is as follows:

	20X2 Rs.
Obligation at 1 January 20X2	9,830
Additional accrual during the year	7,033
Benefit payments made in year	(6,240)
Obligation at 31 December 20X2	10,623

The obligation is classified as:

	20X2 Rs.	20X1 Rs.
Current liability	4,944	4,754
Non-current liability	5,679	5,076
Total	10,623	9,830

20. Trade payables

Trade payables at 31 December 20X2 include Rs.42,600 denominated in foreign currencies (nil at 31 December 20X1).

21. Provision for warranty obligations

Changes in the provision for warranty obligations during 20X2 were:

	20X2 Rs.
1 January 20X2	5,040
Additional accrual during the year	5,260
Cost of warranty repairs and replacement during the year	(6,100)
31 December 20X2	4,200

The obligation is classified as a current liability because the warranty is limited to twelve months.

22. Commitments under operating leases

The Company rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

	20X2 Rs.	20X1 Rs.
Minimum lease payments under operating leases recognised as an expense during the year	26,100	26,100

At year-end, the Company has outstanding commitments under non-cancellable operating leases that fall due as follows:

	20X2 **Rs.**	**20X1** **Rs.**
Within one year	13,050	26,100
Later than one year but within five years	–	13,050
Later than five years	–	–
	13,050	39,150

23. Cash and cash equivalents

	20X2 **Rs.**	**20X1** **Rs.**
Cash on hand	28,700	22,075
Overdrafts	(83,600)	(115,507)
	(54,900)	(93,432)

24. Contingent liabilities

During 20X2 a customer initiated proceedings against XYZ (Trading) Limited for a fire caused by a faulty candle. The customer asserts that its total losses are Rs.50,000 and has initiated litigation claiming this amount.

The Company's legal counsel do not consider that the claim has merit, and the Company intends to contest it. No provision has been recognised in these financial statements as the Company's management does not consider it probable that a loss will arise.

25. Events after the end of the reporting period

On 25 January 20X3 there was a flood in one of the candle storage rooms. The cost of refurbishment is expected to be Rs.36,000. The reimbursements from insurance are estimated to be Rs.16,000.

On 14 February 20X3 the directors voted to declare a dividend of Rs.1.00 per share (Rs.30,000 total) payable on 15 April 20X3 to shareholders registered on 31 March 20X3. Because the obligation arose in 20X3, a liability is not shown in the statement of financial position at 31 December 20X2.

26. Related party transactions

The Company sells goods to its associate (see note 12), which is a related party, as follows:

	Sales of goods		Amounts owed to the Company by the related party and included in trade receivables at year-end	
	20X2	**20X1**	**20X2**	**20X1**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Associate	10,000	8,000	800	400

The payments under the finance lease (see note 18) are personally guaranteed by a principal shareholder of the Company. No charge has been requested for this guarantee.

The total remuneration of directors and other members of key management in 20X2 (including salaries and benefits) was Rs.249,918 (20X1: Rs.208,260).

27. Approval of financial statements

These financial statements were approved by the board of directors and authorised for issue on 10 March 20X3.

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