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THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

# SLFRS 1-
# First time adoption of Sri Lanka Accounting Standards (SLFRS)

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## Introduction

▶ Sri Lanka is adopting a new financial reporting framework

**SLAS**
Based on 2004 IFRS/IAS version

**UITF Rulings**
Ruling 1- 40

**SLAS AG**
Application Guidance1 -10

**Local practices SORPs**

**SLFRS 2011**

- SLFRS/ LKAS
  Based on 2011 IFRS/IAS version
- Revision to 28 existing standards
- 12 new IFRS
- 26 IFRICs and SIC

**SLFRS 2012**

- Changes to the SLAS 2011- Bound Volume. These changes will be effective from 01 January 2012.
- Effect on 30 SLFRS/ LKAS

▶ Application of Sri Lanka Accounting Standards (SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs for the first time

## SLFRS timeline

December year end entity

Today

Based on (old) SLAS
YE 31.12.2010
YE 31.12.2011

Based on (new) SLFRS
Comparatives 31.12.2011
YE 31.12.2012

March year end entity

Based on (old) SLAS
YE 31.03.2011
YE 31.03.2012

Based on (new) SLFRS
Comparatives 31.03.2012
YE 31.03.2013

## Key principles

- Provides a suitable starting point for accounting under SLFRS
- Full retrospective application of all SLFRS in force at the closing balance sheet date for the first SLFRS financial statements
- Optional exemptions that reduce the burden of retrospective application
- Mandatory exceptions where retrospective application is not permitted

## When to apply SLFRS 1?

- When a company prepares its first SLFRS financial statements.
- These are the first financial statements to contain an explicit and unreserved statement of compliance with SLFRS.
- Transitional provisions of SLFRS do not apply on the date of the transition
- Applies to an entity only once in its lifetime

## Key Definitions in SLFRS 1

## Key definitions

- **Sri Lanka Financial Reporting Standards (SLFRSs)**
  Standards and Interpretations adopted by the Council. They comprise:

a) Sri Lanka Accounting Standards (SLFRS);
b) Sri Lanka Accounting Standards (LKAS); and
c) Interpretations adopted by the Council of ICASL (IFRIC and SIC).

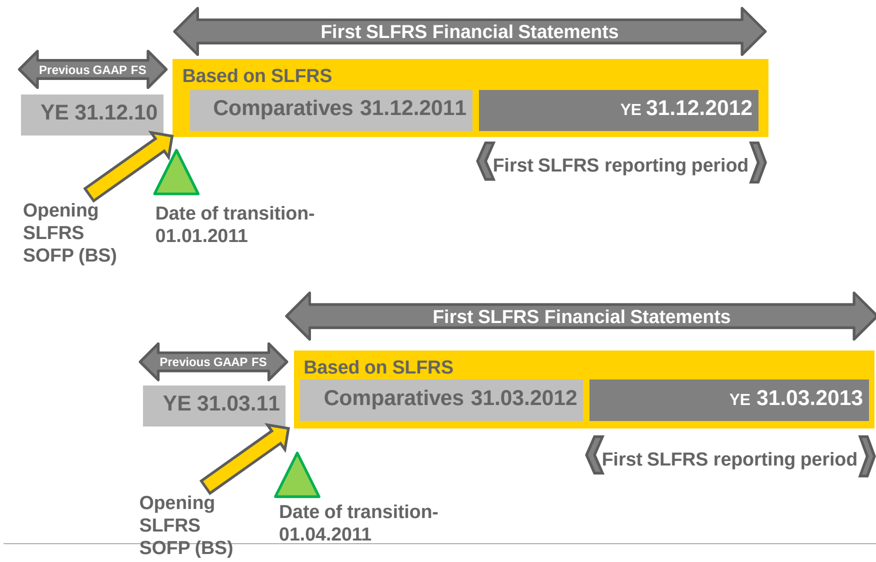
## Key definitions (Contd)

- **First SLFRS financial statements:**
  The first annual financial statements in which an entity adopts Sri Lanka Financial Reporting Standards (SLFRSs), by an explicit and unreserved statement of compliance with SLFRSs.
- **First-time adopter:**
  An entity that presents its first SLFRS financial statements.
- **First SLFRS reporting period:**
  The latest reporting period covered by an entity's First SLFRS financial statements.
- **Previous GAAP:**
  The basis of accounting that a first-time adopter used immediately before adopting SLFRSs.

## Key definitions (Contd)

- **Date of transition to SLFRSs :**
  The beginning of the earliest period for which an entity presents full comparative information under SLFRSs in its first SLFRS financial statements.
- **Opening SLFRS statement of financial position:**
  An entity's statement of financial position at the date of transition to SLFRSs.

# Key definitions (Contd)




# Requirements

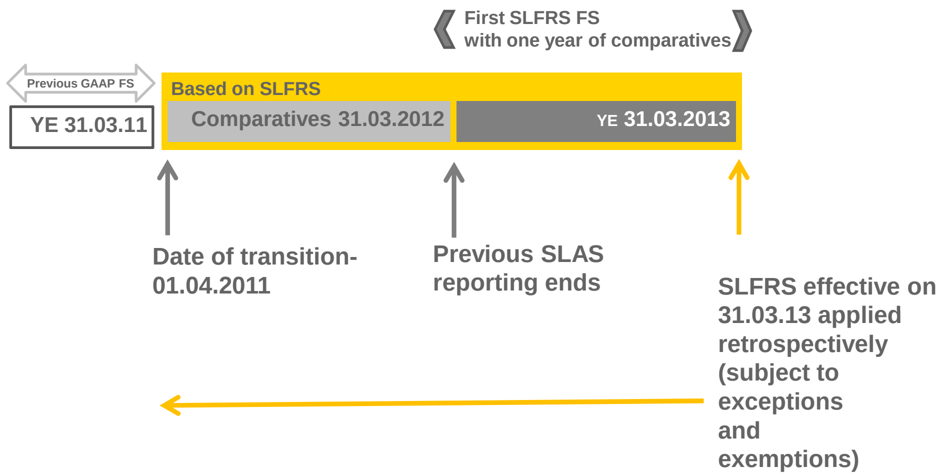
- For the purpose of this presentation assume an entity that has a year end of 31 March.



## Requirements

- Prepare and present an opening SLFRS statement of financial position at the date of transition to SLFRSs (Balance sheet as at 1 April 2011). This is the starting point for accounting in accordance with SLFRSs.
- Use the same accounting policies for the Balance Sheet as at 1 April 2011 and throughout YE 31 March 2012 and 2013.
- Those accounting policies shall comply with each SLFRS effective at the end of its first SLFRS reporting period, except as specified in paragraphs 13–19 and Appendices B–E.

## Requirements




## Requirements

- Subject to the exceptions and exemptions (discussed later), a First time adopter of SLFRS is required to:

| Recognize | De-recognize | Classify | Measure |
| --- | --- | --- | --- |
| all assets and liabilities required to be recognized by SLFRS | all assets and liabilities not permitted by SLFRS | all items in accordance with SLFRS | all assets and liabilities in accordance with SLFRS |

in its Opening SLFRS Statement of Financial Position (BS)

- Adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to SLFRSs. (1 April 2011)

## Exemptions and Exceptions

## Mandatory exceptions from retrospective application

- SLFRS 1 prohibits retrospective application in certain cases

- Retrospective application prohibited for:
  1. **Use of estimates**
  2. **Hedge accounting**
  3. **Derecognition of financial assets and financial liabilities**
  4. **Non controlling interest**

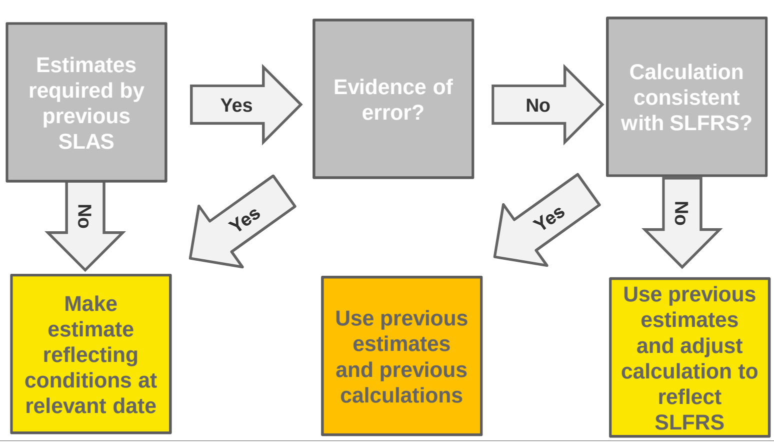
# 1. Use of estimates

► **SLFRS 1 prohibits the use of hindsight in assessing estimates under SLFRS**

- Estimates made by management under previous GAAP should not change as a result of SLFRS implementation, as management cannot use hindsight.
- Significant estimates may include
  - Income tax
  - Future obligations under employee benefit plans
  - Useful lives of PPE (NB, these will need to be assessed under LKAS 16)
  - Valuation of deferred tax assets (NB, these will need to be assessed under LKAS 12)
- If there is objective evidence that those estimates were in error, change the estimate via opening BS

# 1. Use of estimates (contd)

► **The requirements of SLFRS 1 in connection with estimates are summarized in the chart below.**



### IG Example 1 Estimates

**Background**

Entity A's first IFRS financial statements are for a period that ends on 31 December 20X5 and include comparative information for one year. In its previous GAAP financial statements for 31 December 20X3 and 20X4, entity A:

(a) made estimates of accrued expenses and provisions at those dates;

(b) accounted on a cash basis for a defined benefit pension plan; and

(c) did not recognise a provision for a court case arising from events that occurred in September 20X4. When the court case was concluded on 30 June 20X5, entity A was required to pay CU1,000* and paid this on 10 July 20X5.

In preparing its first IFRS financial statements, entity A concludes that its estimates in accordance with previous GAAP of accrued expenses and provisions at 31 December 20X3 and 20X4 were made on a basis consistent with its accounting policies in accordance with IFRSs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with IAS 8.

*continued...*

**Application of requirements**

In preparing its opening IFRS statement of financial position at 1 January 20X4 and in its comparative statement of financial position at 31 December 20X4, entity A:

(a) does not adjust the previous estimates for accrued expenses and provisions; and

(b) makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IAS 19 *Employee Benefits*. Entity A's actuarial assumptions at 1 January 20X4 and 31 December 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

    (i) discount rates at 1 January 20X4 and 31 December 20X4 for the pension plan and for provisions reflect market conditions at those dates; and

    (ii) actuarial assumptions at 1 January 20X4 and 31 December 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at 31 December 20X4 depends on the reason why entity A did not recognise a provision in accordance with previous GAAP at that date.

**Assumption 1** – Previous GAAP was consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with IFRSs are consistent with its assumptions in accordance with previous GAAP. Therefore, entity A does not recognise a provision at 31 December 20X4.

**Assumption 2** – Previous GAAP was not consistent with IAS 37. Therefore, entity A develops estimates in accordance with IAS 37. Under IAS 37, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with IAS 10 *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognises a provision at 31 December 20X4. Entity A measures that provision by discounting the CU1,000 paid on 10 July 20X5 to its present value, using a discount rate that complies with IAS 37 and reflects market conditions at 31 December 20X4.

## 2. Hedge accounting

- An entity may be accounting for derivatives as hedges prior to adoption of SLFRS

- SLFRS 1 requires that:
  - If an instrument is designated as a hedge before the date of transition, but does not meet the conditions for hedge accounting, apply LKAS 39 to discontinue hedge accounting
  - Contemporaneous documentation requirements apply in order to support hedge accounting

## 3. Derecognition of financial assets and financial liabilities

- Should use LKAS 39 requirements prospectively for transactions occurring after 1.4.2011

- SLFRS 1 requires that:
  - If derecognised under previous SLAS before 1.04.2011, do not recognise again
  - Recognise if comply with LKAS 39 after 1.04.2011

## 4. Non-controlling interest

- Should use LKAS 27 requirements prospectively from1.4.2011

- SLFRS 1 requires that:
  - (a) the requirement in paragraph 28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
  - (b) the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
  - (c) the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of SLFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

## Optional exemptions

## Optional exemptions from retrospective application

- There are 13 elective exemptions, from which an entity can choose. Entities will want to consider numerous factors before they make their choice, including cost benefit of choice and impact on financial statements

1. Fair value or revaluation to be used as deemed cost
2. Employee benefits
3. Business combinations
4. Cumulative translation differences
5. Designation of previously recognised financial instruments
6. Assets and liabilities of subsidiaries, associates, and joint ventures
7. Leases
8. Decommissioning liabilities included in PPE
9. Compound financial instruments
10. Insurance contracts
11. Fair value measurement of financial asset and financial liability
12. A financial asset or an intangible asset accounted for in accordance with IFRIC 12
13. Borrowing Costs

- **An entity shall not apply these exemptions by analogy to other items.**

## D5- D8: Fair Value or Revaluation as Deemed Cost

- An entity may elect to measure an item of PPE, IP and Intangible assets at the date of transition (01.04. 2011) to SLFRSs at its fair value and use that fair value as its deemed cost at that date.

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- **Deemed cost:**

  An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
- A first-time adopter may elect to use a previous GAAP revaluation of an item of PPE at, or before, the date of transition to SLFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
  (a) fair value; or
  (b) cost or depreciated cost in accordance with SLFRSs, adjusted to reflect, for example, changes in a general or specific price index.
- The elections in paragraphs D5 and D6 are also available for investment property, if an entity elects to use the cost model in LKAS 40 Investment Property; and intangible assets that meet LKAS 38 criteria (reliable measurement of original cost the existence of an active market)

## D5- D8: Deemed Cost

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- **Deemed cost:**

  An entity shall not use Deemed cost principle for other assets or for liabilities
- **Event driven use:** A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date
  - E.g. a privatisation or initial public offering.

  It may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement.
- Subsequent depreciation is based on the deemed cost and starts from the date at which the fair value measurement or revaluation was established.
- The option to use an event-driven value is only available if that value was recognised in the entity's financial statements under previous GAAP.

# Example deemed cost

Company O acquires a factory building for CU360 on 1 January 20X7 with an expected remaining useful life of 40 years at that date. The building is revalued on 1 January 20X8 to CU390 and the resulting adjustment is recognised in equity. The building has a depreciated carrying amount of CU351 on 1 January 20X8 and CU380 on 1 January 20X9. The depreciation method under previous GAAP is acceptable under IAS 16 and the revaluation is broadly comparable to fair value at the date of revaluation.

Company O selects the cost model as its accounting policy for measurement after recognition of buildings in accordance with IAS 16. Company O has a date of transition of 1 January 20X9. At 1 January 20X9, the building has a market value of CU415. Company O has an option to measure the building at:

a) fair value at the date of transition,
b) the previous GAAP revaluation, or
c) to apply LKAS 16 retrospectively.

# Example deemed cost

The following journal entries are required in each instance.

| | CU | CU |
|---|---|---|
| *(a) Fair value at 1 January 20X9* | | |
| Dr. Factory building [CU415 – CU380] | 35 | |
| Cr. Retained earnings | | 35 |
| *Adjustment of carrying amount to fair value as deemed cost* | | |
| Dr. Revaluation surplus [CU390 – CU351] | 39 | |
| Cr. Retained earnings | | 39 |
| *Reversal of original revaluation at 1 January 20X8* | | |
| *(b) No journal entry is required as the carrying amount under previous GAAP is acceptable under IAS 16.* | | |
| *(c) Retrospective application of IAS 16* | | |
| Dr. Revaluation surplus [CU390 – CU351] | 39 | |
| Cr. Factory building [CU390 – CU360] | | 30 |
| Cr. Accumulated depreciation | | 9 |
| *Reversal of original revaluation at 1 January 20X8* | | |
| Dr. Accumulated depreciation [(CU390 x 1/39) – (CU360 x 1/40)] | 1 | |
| Cr. Retained earnings | | 1 |
| *Reversal of additional depreciation on revaluation at 1 January 20X9* | | |

## D10- D11: Employee benefits

- Under LKAS 19 Employee Benefits, an entity may elect to use a “corridor approach” to recognize actuarial gains and losses

- However, under SLFRS 1, an entity may choose to recognize all cumulative actuarial gains and losses at the date of transition (even if it then chooses to use the corridor approach for subsequent actuarial gains and losses)
- No splitting of the cumulative actuarial gains and losses from the inception of the plan until the date of transition to SLFRSs into a recognised portion and an unrecognised portion.

## D2-D3: Share based payments

- A first-time adopter is encouraged, but not required, to apply SLFRS 2 Share-based Payment to equity instruments that were granted on or before 1 January, 2011.

- A first-time adopter is also encouraged, but not required, to apply SLFRS 2 to equity instruments that were granted after 1 January, 2012 and vested before the later of (a) the date of transition to SLFRSs and (b) 1 January, 2012.
- However, if a first-time adopter elects to apply SLFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in SLFRS 2.
- For all grants of equity instruments to which SLFRS 2 has not been applied (eg equity instruments granted on or before 1 January, 2011), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of SLFRS 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which SLFRS 2 has not been applied, the entity is not required to apply paragraphs 26–29 of SLFRS 2 if the modification occurred before the date of transition to SLFRSs.
- A first-time adopter is encouraged, but not required, to apply SLFRS 2 to liabilities arising from share based payment transactions that were settled before the date of transition to SLFRSs. A first-time adopter is also encouraged, but not required, to apply SLFRS 2 to liabilities that were settled before 1 January, 2012.

## D12- D13: Cumulative Translation Adjustments (CTA)

- Need not comply with LKAS21 requirements for cumulative translation differences that existed at the date of transition to SLFRSs

- Under SLFRS 1, CTA may be deemed zero at the transition date
  - No need to restate historically
  - Gain/loss on subsequent disposal of foreign operations will exclude translation differences that arose before transition to SLFRS, and shall include later translation differences (after 01.04.2011)

## D 19: Designation of previously recognized financial instruments

- Exempted from designating only at the initial recognition, by allowing designation at the date of transition

- LKAS 39 permits a financial asset to be designated on inital recognition as AFS FA or FL at FVtPL (provided it meets with certian criteria). Despite that designation can be done:
  - At the date of transition (01.04.2011) to make an AFS designation
  - At the date of transition (01.04.2011) , to make a FA or FL that meets with para ((b)(i), (ii) or 11A of LKAS 39.

## D14-D15; Investments in subsidiaries, jointly controlled entities and associates

- Cost or deemed cost can be used to measure investment in subsidiaries, jointly controlled entities or associates

- If a first time adopter, in its separate financial statements uses cost to measure investment in subsidiaries, jointly controlled entities and associates, it can measure those investments in its separate opening SLFRS balance sheet (01.04.2011), either at:
  - Cost in accordance with LKAS 27
  - Deemed cost: (either of the following)
    1. Fair value (determined in accordance with LKAS 39) at the entity's date of transition to IFRSs in its separate financial statements; or
    2. Previous GAAP carrying amount at that date.

## D16-D17: Assets and liabilities of subsidiaries, associates and joint ventures

- In companies with multiple subsidiaries, associates and joint ventures, it is possible that SLFRS may be require for the parent prior to the rest of the group, or that a subsidiary may adopt SLFRS prior to the parent.

**Late comer subsidiaries:** If the subsidiary, jointly controlled entity or associate becomes a first time adopter later than is parent SLFRS 1 provides a choice between two measurements, in the subsidiary's (or jointly controlled entity and associate) financial statements:

- At the carrying amounts required by the rest of the SLFRS 1, based on the subsidiary's date of transition to IFRSs, or
- At the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to SLFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary

## D16-D17: Assets and liabilities of subsidiaries, associates and joint ventures (contd)

- In companies with multiple subsidiaries, associates and joint ventures, it is possible that SLFRS may be require for the parent prior to the rest of the group, or that a subsidiary may adopt SLFRS prior to the parent.

**Late comer parents:**

- If an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.
- Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

## D9: Leases

- Certain arrangements may be determined to be leases under IFRIC 4.

- A first-time adopter may apply the transitional provisions in IFRIC 4 Determining whether an Arrangement contains a Lease.
- Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to SLFRSs contains a lease on the basis of facts and circumstances existing at that date.

## D21: Decommissioning liabilities

- A first-time adopter need not comply with the IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities:* requirement that specifies the changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

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- A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs. (01.04.2011)
- If a first-time adopter uses this exemption, it shall:
  - measure the liability as at the date of transition to SLFRSs in accordance with LKAS 37;
  - to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose (by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period) and
  - calculate the accumulated depreciation on that amount, as at the date of transition to SLFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under SLFRSs.

## Example D21: Decommissioning liabilities

### IG Example 201 Changes in existing decommissioning, restoration and similar liabilities

**Background**

An entity's first IFRS financial statements are for a period that ends on 31 December 20X5 and include comparative information for 20X4 only. Its date of transition to IFRSs is therefore 1 January 20X4.

The entity acquired an energy plant on 1 January 20X1, with a life of 40 years.

As at the date of transition to IFRSs, the entity estimates the decommissioning cost in 37 years' time to be 470, and estimates that the appropriate risk-adjusted discount rate for the liability is 5 per cent. It judges that the appropriate discount rate has not changed since 1 January 20X1.

## Example D21: Decommissioning liabilities

**Application of requirements**

The decommissioning liability recognised at the transition date is CU77 (CU470 discounted for 37 years at 5 per cent).

Discounting this liability back for a further three years to 1 January 20X1 gives an estimated liability at acquisition, to be included in the cost of the asset, of CU67. Accumulated depreciation on the asset is CU67 × 3/40 = CU5.

The amounts recognised in the opening IFRS statement of financial position on the date of transition to IFRSs (1 January 20X4) are, in summary:

| | CU |
|---|---|
| Decommissioning cost included in cost of plant | 67 |
| Accumulated depreciation | (5) |
| Decommissioning liability | (77) |
| Net assets/retained earnings | (15) |

## D 18: Compound financial instruments

- SLFRS requires and entity to split compound financial instruments into two components – liability and equity at the time of inception of the instrument.

- Requirement in LKAS 32 is the instrument should be divided into liability and equity.
  - Liability to be adjusted into retained earnings, which would represent the cumulative interest on the liability component.
  - The other portion would represent the original equity component.
- However, for the first time adopters it these components do not have to be separated if the liability component is no longer outstanding at the date of transition to SLFRS.

## D 4: Insurance contracts

- SLFRS is likely to require a change in accounting policy for insurance contracts

- A first time adopter may use transitional provisions in SLFRS 4 .
- SLFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first time adopter.

## D 20: Fair value measurement of financial assets and liabilities at initial recognition

- [Deleted]

- As there is no specific guidance the effect would be that SLFRS 1 requires all the financial assets and financial liabilities be recorded at their fair values from the date of transition.

## D 22: Service concession arrangements

- It may be impractical for an operator to apply IFRIC 12 Service concession agreements retrospectively

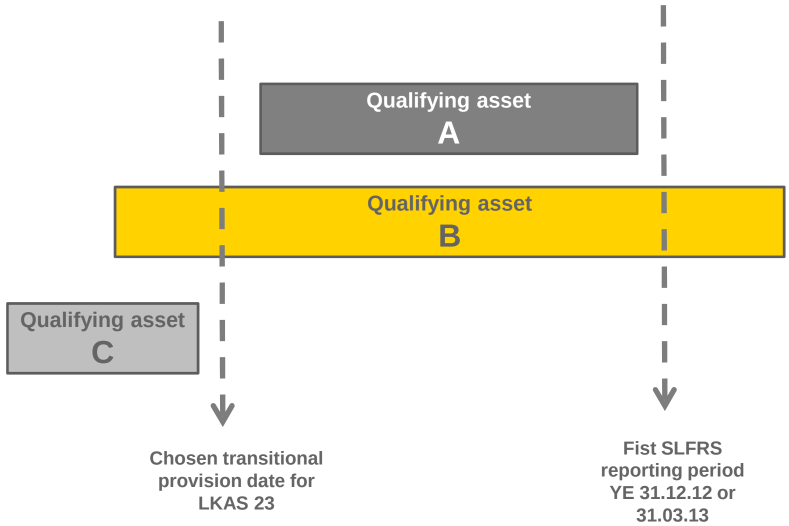
- If this is the case, then SLFRS 1 requires that an entity shall:
  - recognize financial assets and intangible assets that existed at the start of the earliest period presented;
  - use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
  - test financial and intangible assets recognized at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

## D 23: Borrowing costs

- [Deleted]

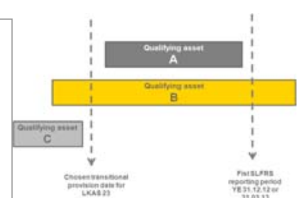
- An entity choosing deemed cost principle for PPE/ IP (assume qualifying assets), should not capitalise borrowing costs incurred before the transition date. (01.04.11)
- It would be onerous for a first time adopter who may have previously expensed all borrowing costs to be required to gather all the necessary information for the retrospective capitalisation of borrowing costs.
- LKAS 23 Transitional provisions indicate: An entity may designate any date before the effective date and apply the Standard to borrowing costs related to all qualifying assets for which the commencement date of the capitalisation is on or after that date

# Example -D 23: Borrowing costs




# Example -D 23: Borrowing costs (Contd)

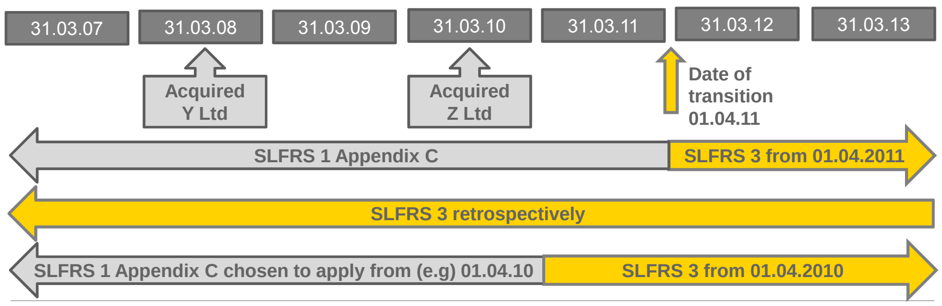
- The construction of Qualifying Asset A began after the date of transition and ended in the reporting period; accordingly, borrowing costs should be capitalised in accordance with LKAS 23.
- The construction of Qualifying Asset B began before the date of transition and extends beyond the end of the first reporting period. Because the commencement date for capitalisation is before the date of transition, and the entity has elected to apply the transitional provisions of LKAS 23, it is not required to restate the borrowing costs capitalised before the date of transition.
- The construction of Qualifying Asset C began and ended before the date of transition. Because the entity has elected to apply the transitional provisions of IAS 23, it is not required to restate the borrowing costs capitalised before the date of transition.



# C1-C5: Business combinations

- SLFRS 3 requires business combinations to be accounted for by applying fair values to assets and liabilities acquired

- SLFRS 1 Provides a choice:
  - Restating all past business combinations according to SLFRS 3
  - Restating all business combinations starting from a pre transition date (selected by the company)
  - Not restating past business combinations that occurred before the date of transition to SLFRS




# C1-C5: Business combinations (Contd)

- As an alternative to applying SLFRS 3 retrospectively, SLFRS 1 includes an optional exemption for business combinations, set out in Appendix C of the Standard. The most significant features of the accounting under SLFRS 1, Appendix C are that:
  - the classification of former business combinations (acquisition or uniting of interests) under previous GAAP is maintained;
  - there is no re-measurement of original ‘fair values’ determined at the time of the business combination (date of acquisition); and
  - the carrying amount of goodwill recognised under previous GAAP is not adjusted, other than in specific instances.

## C1-C5: Business combinations (Contd)

- **Classification of previous business combinations**
  - Under previous GAAP, a business combination may have been classified differently than SLFRSs would require for the same business combination. For example, under previous GAAP an acquisition may have been classified as:
    - a uniting of interests (also known as a 'pooling of interests'), which is not permitted under SLFRS 3; or
    - an acquisition following the legal form, which would have been classified as a reverse acquisition under SLFRS 3.
- If an entity elects to apply the optional exemption for business combinations, the classification under previous GAAP is retained. If the entity instead elects to apply SLFRS 3 retrospectively, the classification is changed retrospectively to comply with SLFRS 3.
- The determination as to whether a transaction qualifies for the business combination exemption depends on whether that combination meets the definition of a business combination under SLFRSs. If the transaction meets the definition, regardless of whether it met the definition under the entity's previous GAAP, use of the exemption for business combinations is permitted for that transaction.

## C1-C5: Business combinations (Contd)

- **Recognition of assets and liabilities**
  - All assets acquired and liabilities assumed in a business combination that qualify for recognition under SLFRSs are recognised at the date of transition, except for some financial assets and liabilities derecognised under previous GAAP
  - Assets and liabilities are recognised in accordance with the relevant SLFRS for the specific item. Therefore, under the optional exemption, research projects and contingent liabilities existing at the date of acquisition are not separated from goodwill, as they would be if SLFRS 3 were applied for the same business combination.
  - Any adjustments arising as a result of the recognition of assets and liabilities not recognised under previous GAAP are recognised in retained earnings (or another relevant category of equity), other than those related to intangible assets acquired in a business combination and not previously recognised. Adjustments to those assets are adjusted against goodwill.
  - Assets acquired and liabilities assumed that do not qualify for recognition under SLFRSs, but that were recognised under previous GAAP, are derecognised. The resulting adjustments are recognised in retained earnings, unless they relate to an intangible asset (in which case they are adjusted against goodwill).

## C1-C5: Business combinations (Contd)

- **Measurment of assets and liabilities**
  - The measurement of assets acquired and liabilities assumed in a business combination may be different to that of other assets and liabilities of the entity. The optional exemption for business combinations provides the following three measurement bases for assets and liabilities.

| | Assets and liabilities that are: | | |
|---|---|---|---|
| **Measurement basis** | **Measured on a basis other than cost under IFRSs** | **Measured on a cost basis** | **Not previously recognised** |
| SLFRS 1 requirement | In accordance with applicable IFRS measurement basis (e.g. fair value) at date of transition | Carrying amount immediately after the business combination under previous GAAP (deemed cost) less accumulated depreciation under IFRSs | Basis that IFRSs would require in separate financial statements of acquiree |
| Examples | • Financial assets designated as at fair value through profit or loss<br>• Property, plant and equipment measured under the revaluation model<br>• Defined benefit liabilities recognised<br>• Provisions | • Property, plant and equipment measured under the cost model<br>• Financial assets and liabilities measured at amortised cost<br>• Inventories | • Finance leases **not** previously recognised<br>• Intangible assets **not** previously recognised.<br>• Defined benefit liabilities **not** previously recognised |

## C1-C5: Business combinations (Contd)

- **Goodwill**
  - As a general principle, under the optional exemption, the carrying amount of goodwill in the opening SLFRS statement of financial position is its carrying amount under previous GAAP – adjusted only for the following items.

| Item | Adjustment to goodwill |
|---|---|
| Intangible assets recognised under previous GAAP but not under IFRSs | Carrying amount of the intangible asset at date of transition (less deferred tax and non-controlling interests) is added to goodwill |
| Intangible assets not recognised under previous GAAP but qualify for recognition under IFRSs (e.g. IAS 38) | The amount at which the intangible asset would have been recognised in the separate IFRS financial statements of the acquiree at the date of transition (less deferred tax and non-controlling interests) is deducted from goodwill |
| Impairment of goodwill | Any impairment loss resulting from testing goodwill at the date of transition is deducted from goodwill |

  - No other adjustments to goodwill are permitted at the date of transition when applying the optional exemption. SLFRS 1 highlights the following examples for which goodwill is not adjusted:
    - to exclude in-process research and development acquired in a business combination (unless it qualifies for separate recognition by the acquiree under LKAS 38);
    - to adjust previous amortisation of goodwill; and
    - to reverse adjustments to goodwill that SLFRS 3 would not permit, but that were made under previous GAAP as a result of adjustments to assets and liabilities between the date of acquisition and the date of transition.

## C1-C5: Business combinations (Contd)

- **Goodwill (Contd)**
  - Although there is no explicit prohibition in SLFRS 1 on the reversal of a past impairment of goodwill, this is similar to the reversal of past amortisation which is prohibited. Also, the list of permitted adjustments to goodwill refers only to 'any resulting impairment loss' and does not envisage a profit arising from the impairment review of goodwill at the date of transition.
  - From the date of transition, goodwill is no longer amortised. As a result, SLFRS 1 requires that goodwill be tested for impairment at the date of transition, in accordance with LKAS 36 Impairment of Assets, irrespective of whether there is any indication that goodwill may be impaired. The effect of any impairment loss identified is deducted from equity in the opening SLFRS statement of financial position.
  - When goodwill has been amortised under previous GAAP, the carrying amount of accumulated amortisation at the date of transition is adjusted against the original cost of goodwill. The net amount is carried forward as the new carrying amount under SLFRSs.

- **'Negative goodwill'**
  - Under the optional exemption for business combinations, any 'negative goodwill' recognised under previous GAAP is derecognised, with a corresponding adjustment to retained earnings at the date of transition.

## C1-C5: Business combinations (Contd)

- **Subsidiaries not consolidated under previous GAAP**
- Under previous GAAP, an entity may not have consolidated a subsidiary acquired in a past business combination because, for example, it did not regard the investment as a subsidiary, or because the subsidiary was exempted from consolidation under previous GAAP, or because the entity did not prepare consolidated financial statements under previous GAAP. If a subsidiary has not previously been consolidated, at the date of transition the parent identifies the assets and liabilities of the subsidiary and adjusts the carrying amounts to the amounts that SLFRSs would require in the subsidiary's separate financial statements.
- The deemed cost of the goodwill relating to the previously unconsolidated subsidiary at the date of transition is calculated as the difference at the date of transition between:
  - the parent's interest in the adjusted carrying amounts of the net assets of the subsidiary; and
  - the cost in the entity's separate financial statements of its investment in the subsidiary.
- The procedures for determining goodwill for a subsidiary that was not previously consolidated could lead to the recognition of a significant amount of goodwill if the subsidiary has, subsequent to the date of acquisition, reduced the carrying amount of net assets either by distribution of preacquisition reserves or by incurring significant losses. In all cases, goodwill recognised is tested for impairment at the date of transition.
- If, on the other hand, the subsidiary has generated a significant amount of profit subsequent to acquisition, goodwill could be very limited. 'Negative goodwill' at the date of transition is recognised directly in retained earnings.

## C1-C5: Business combinations (Contd)

- Summary of the business combinations exemption

| Subject | Optional exemption in IFRS 1 applied | IFRS 3 applied retrospectively |
|---|---|---|
| Classification | Keep the previous classification (acquisition/pooling of interests/reverse acquisition). | Identify the acquirer and the acquiree under IFRS 3. |
| Recognition | Identify assets and liabilities at the date of transition to IFRSs and:<br>• recognise assets and liabilities in compliance with IFRSs (except for some financial assets and liabilities derecognised under previous GAAP), which means that both recognition criteria – reliable measurement and probability – have to be met for all assets and liabilities;<br>• exclude assets and liabilities not complying with IFRSs. | Identify assets and liabilities at the date of acquisition and:<br>• recognise assets and liabilities in accordance with IFRS 3;<br>• exclude assets and liabilities not complying with IFRSs. |

## C1-C5: Business combinations (Contd)

- Summary of the business combinations exemption

| Subject | Optional exemption in IFRS 1 applied | IFRS 3 applied retrospectively |
|---|---|---|
| Measurement | Measurement basis other than cost:<br>• these assets and liabilities are measured on that basis at the date of transition, e.g. fair value.<br>Cost-based measured assets and liabilities:<br>• these assets and liabilities are measured at the carrying amount under previous GAAP immediately after the business combination less subsequent accumulated depreciation under IFRSs.<br>Assets and liabilities not recognised under previous GAAP:<br>• these assets and liabilities are measured as if the acquiree had adopted IFRSs retrospectively itself. | All identifiable assets and liabilities are:<br>• measured in accordance with IFRS 3 (most at fair value at the date of acquisition) and adjusted subsequently in compliance with relevant IFRSs. |

## C1-C5: Business combinations (Contd)

- Summary of the business combinations exemption

| Subject | Optional exemption in IFRS 1 applied | IFRS 3 applied retrospectively |
|---|---|---|
| Measurement of goodwill | Keep carrying amount of goodwill at the date of transition, except adjust for:<br>• recognition/non-recognition of intangible assets at the date of transition; and<br>• impairment of goodwill.<br>Goodwill deducted from equity under previous GAAP remains deducted from equity at the date of transition. | • Goodwill is determined at the date of acquisition in accordance with IFRS 3.<br>• This will be likely to cause adjustment to the carrying amount of any recognised goodwill under previous GAAP, including reversals of goodwill previously deducted from equity.<br>• Reverse previous goodwill amortisation. |
| Subsidiaries not previously consolidated | Recognise and measure assets and liabilities at the date of transition as if the subsidiary always has applied IFRSs. Determine goodwill at the date of transition as the difference between:<br>• the parent's interest in those adjusted carrying amounts; and<br>• the cost of the investment in the subsidiary. | Apply the general rules as stated above. |

# Changes by Council
# 02 March 2012

**Ruling on Bearer Biological Assets**

***Background:***

With the application of Sri Lanka Accounting Standards converged with IFRSs with effect from 1 January, 2012, Sri Lanka Accounting Standard, LKAS 41 – Agriculture will be applied in the local context for fair valuation of biological assets and agricultural produce when they relate to agricultural activity.

The Standard defines Agricultural Activity as the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Hence this Standard can only be applied where there have been active management of the biological assets covered by the agricultural activity.

Therefore, LKAS 41 does not permit fair valuation of unmanaged biological assets in a plantation.

International Accounting Standards Board (IASB) is reconsidering the fair value treatment for bearer biological assets, where it may allow preparers an option to measure bearer biological assets using LKAS 16.

***Discussion:***

In view of the IASB considering the granting of above mentioned option for bearer biological assets, Institute of Chartered Accountants of Sri Lanka has decided to grant a similar option to measure bearer biological assets (for example perennial crops such as tea, rubber and coconut ect.) under LKAS 16 – Property, Plant and Equipment.

***Recommendation***

- The preparers may measure bearer biological assets (for example perennial crops such as tea, rubber and coconut etc.) using LKAS 16 - Property, Plant and Equipment. However the preparers who wish to fair value bearer biological assets under LKAS 41 – Agriculture may continue to do so.

LKAS 41 - Agriculture is only applicable to managed agricultural activity thus does not allow preparers to fair value unmanaged trees in their plantations.

**Ruling on the Comparative Figures in the Interim Financial Statements**

With the new SLFRS and LKAS coming into effect from 1 January 2012, interim results shall be required to be reported by entities in accordance with LKAS 34, Interim Financial Reporting.

Taking into consideration the concerns expressed by most of the entities and the short time frame available for the conversion process, the Institute of Chartered Accountants of Sri Lanka has decided to grant the following alternative options for the entities when preparing the interim financial statements during the first financial year commencing on or after 1 January 2012 ;

1. Prepare the interim financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), effective from 1 January 2012 ; Or

2. Prepare the interim financial statements in accordance with Sri Lanka Accounting Standards existed immediately prior to 1 January 2012 (SLASs), with disclosures on impact to the Statement of Comprehensive Income for the period and Net assets based on SLFRS/LKAS. If determination of that impact is impracticable, an entity shall disclose that fact. Or;

3. Prepare the interim financial statements presenting the current period figures based on Sri Lanka Accounting Standards (SLFRS/LKAS) effective from 1 January 2012, while presenting the comparative figures under the Sri Lanka Accounting Standards existed immediately prior to 1 January 2012 (SLASs).

However, entities will be required to prepare the financial statements based on full Sri Lanka Accounting Standards (SLFRS/LKAS) for the annual periods beginning on or after 1 January 2012. (i.e. financial statements for the year ended 31 December 2012 or 31 March 2013)

**Ruling on Deferring Application of IFRIC 15 – Agreements for the Construction of Real Estate**

With the adoption of IFRIC 15, there have been concerns expressed by the entities on the recognition of revenue and associated expenses by entities that undertake the construction of real estate directly or through sub-contractors.

Considering the latest developments in revenue recognition – the five step model, which will bring more clarity on revenue recognition, the Institute of Chartered Accountants of Sri Lanka has decided to grant an option for entities to defer application of IFRIC 15 until the five step model comes into effect. However, the companies who use the above mentioned option should disclose that fact in the financial statements.

# Disclosures

## Disclosures

- First set of SLFRS financial statements to include:
  - at least three statements of financial position;
  - two statements of comprehensive income;
  - two separate income statements ( if presented);
  - two statements of changes in equity; and
  - related notes, including comparative information

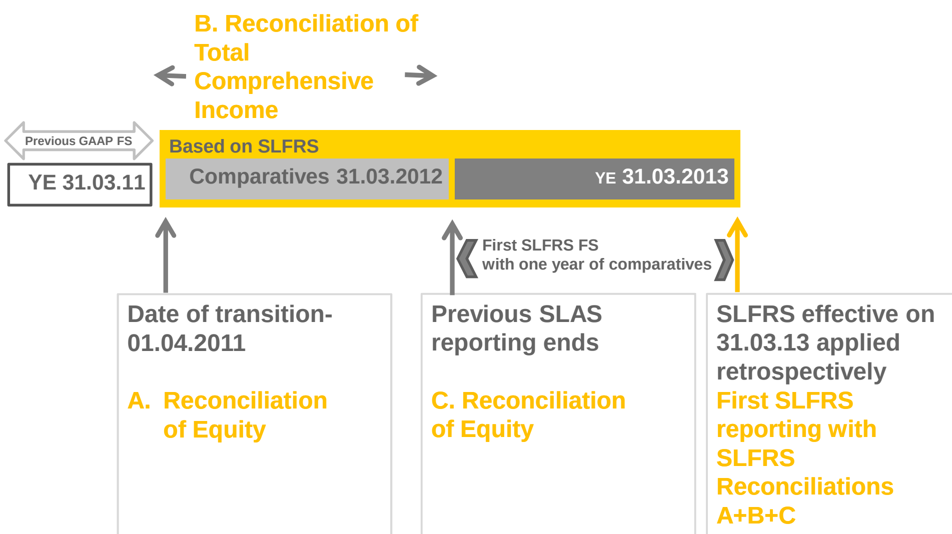
- Non-SLFRS comparative information and historical summaries are not required to be compliant with SLFRS provided :
  - these are prominently labelled as such; and
  - the entity discloses the nature (and not value) of main adjustments required to make it comply with SLFRS

## Disclosures requirements

**An entity shall explain how the transition from previous GAAP to SLFRS affected its financial position, performance and cash flows**

- reconciliations of its equity reported under previous GAAP to its equity under SLFRS at:
  - the date of transition to SLFRS; and
  - the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP
- a reconciliation of its total comprehensive income under SLFRS for the latest period in the entity's most recent annual financial statements to its total comprehensive income, or if not available, to its profit or loss under previous GAAP for the same period
- disclosures under LKAS 36 around impairment, if an impairment is recognised or reversed for opening balance sheet
- an explanation of the material adjustments to the cash flow statement, if it presented one under its previous GAAP

# Reconciliations




# Disclosures requirements-
## Illustrative reconciliations

► Effect of IFRS adoption for the statement of financial position

| CU million | Notes | As at 01.04.2011 (date of transition) Previous GAAP | Effect of transition to SLFRS | Opening IFRS statement of financial position | As at 31.03.2012 (end of last period presented under previous GAAP) Previous GAAP | Effect of transition to SLFRS | SLFRS |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | | 75,973 | – | 75,973 | 96,680 | – | 96,680 |
| Goodwill | f | 1,567 | – | 1,567 | 5,504 | 730 | 6,234 |
| Intangible assets | a | 200 | 2,056 | 2,256 | 943 | 2,458 | 3,401 |
| Financial assets | j | 2,680 | 36 | 2,716 | 4,065 | 16 | 4,081 |
| **Total non-current assets** | | **80,420** | **2,092** | **82,512** | **107,192** | **3,204** | **110,396** |
| Trade and other receivables | | 12,943 | – | 12,943 | 14,630 | – | 14,630 |
| Inventories | e | 6,868 | 1,286 | 8,154 | 12,270 | 1,571 | 13,841 |
| Other receivables | | 4,711 | – | 4,711 | 4,953 | – | 4,953 |
| Long-term bonds held for sale | | 7,158 | – | 7,158 | 3,902 | – | 3,902 |
| Cash and cash equivalents | | 13,959 | – | 13,959 | 19,567 | – | 19,567 |
| **Total current assets** | | **45,639** | **1,286** | **46,925** | **55,322** | **1,571** | **56,893** |
| **Total assets** | | **126,059** | **3,378** | **129,437** | **162,514** | **4,775** | **167,289** |

## Disclosures requirements-
Illustrative reconciliations

► Effect of SLFRS adoption for the statement of financial

| CU million | Notes | As at 01.04.2011 (date of transition) Previous GAAP | Effect of transition to SLFRS | Opening IFRS statement of financial position | As at 31.03.2012 (end of last period presented under previous GAAP) Previous GAAP | Effect of transition to SLFRS | SLFRS |
|---|---|---|---|---|---|---|---|
| Interest-bearing loans | b | 36,111 | (1,405) | 34,706 | 59,887 | (1,272) | 58,615 |
| Trade and other payables | c | 9,574 | 309 | 9,883 | 10,045 | 238 | 10,283 |
| Restructuring provision | g | 1,000 | (1,000) | – | 2,180 | (2,180) | – |
| Dividends to shareholders | d | 1,568 | (1,568) | – | 1,824 | (1,824) | – |
| Current tax liability | | 1,053 | – | 1,053 | 962 | – | 962 |
| Deferred tax liability | h | 2,384 | 1,736 | 4,120 | 4,855 | 2,249 | 7,104 |
| **Total liabilities** | | **51,690** | **(1,928)** | **49,762** | **79,753** | **(2,789)** | **76,964** |
| **Total assets less total liabilities** | | **74,369** | **5,306** | **79,675** | **82,761** | **7,564** | **90,325** |
| Issued capital | | 22,800 | – | 22,800 | 22,800 | – | 22,800 |
| Share premium | | 16,559 | – | 16,559 | 16,559 | – | 16,559 |
| Revaluation reserve | | 1,313 | – | 1,313 | 1,899 | – | 1,899 |
| Available-for-sale securities reserve | j | – | 25 | 25 | – | 11 | 11 |
| Hedging reserve | c | – | (309) | (309) | – | (238) | (238) |
| Retained earnings | a,b,d,e,f,g | 33,697 | 5,590 | 39,287 | 41,503 | 7,791 | 49,294 |
| **Total equity** | | **74,369** | **5,306** | **79,675** | **82,761** | **7,564** | **90,325** |

## Disclosures requirements-
Illustrative reconciliations

► Reconciliation of equity

| CU million | | As at 01.04.2011 (date of transition) | As at 31.03.2012 (end of last period presented under previous GAAP) |
|---|---|---|---|
| **Total equity under previous GAAP** | | **74,369** | **82,761** |
| Recognition of development costs less amortisation | a | 2,056 | 2,458 |
| Loans measured at amortised cost instead of nominal value | b | 1,405 | 1,272 |
| Derivatives recognised and measured at fair value | c | (309) | (238) |
| Dividend not recognised as liability until declared | d | 1,568 | 1,824 |
| Production overheads in cost of inventories | e | 1,286 | 1,571 |
| Goodwill no longer amortised as from the date of transition | f | – | 730 |
| Derecognition of restructuring provision | g | 1,000 | 2,180 |
| Recognition of available-for-sale securities | j | 36 | 16 |
| | | 7,042 | 9,813 |
| Tax effect of the above | h | (1,736) | (2,249) |
| **Total adjustment to equity** | | **5,306** | **7,564** |
| **Total equity under IFRSs** | | **79,675** | **90,325** |

## Disclosures requirements-
## Illustrative reconcilitations

- Reconcilitation of Profit for the year ended 31 March 2013

| CU million | | YE 31.03.2012 (the latest period presented under previous GAAP) Profit before tax | Profit for the year |
|---|---|---|---|
| **Previous GAAP** | | **16,037** | **10,556** |
| Recognition of development costs less amortisation | a | 403 | 282 |
| Loans measured at amortised cost instead of nominal value | b | (133) | (93) |
| Production overheads in cost of inventories | e | 285 | 200 |
| Goodwill no longer amortised as from the date of transition | f | 730 | 730 |
| Restructuring provision not recognised as a liability | g | 1,180 | 826 |
| **Total adjustment to profit or loss** | | **2,465** | **1,945** |
| Profit or loss under IFRSs | | **18,502** | **12,501** |
| Other comprehensive income | | | (227) |
| **Total comprehensive income under IFRSs** | | | **12,274** |

Note: No statement of comprehensive income was produced under previous GAAP. Therefore the reconciliation at A.4 starts with profit under previous GAAP.

## Disclosures requirements-
## Illustrative reconcilitations

- Effect of SLFRS adoption for the consolidated statement of cash flows

| | | YE 31.03.2012 (the latest period presented under previous GAAP) | | |
|---|---|---|---|---|
| CU million | Notes | Previous GAAP | Effect of transition to SLFRS | IFRSs |
| Net cash flows from operating activities | k | 22,578 | (4) | 22,574 |
| Net cash flows from investing activities | i,k | (33,888) | 2,759 | (31,129) |
| | | (11,310) | 2,755 | (8,555) |
| Net cash flows from financing activities | | 14,163 | – | 14,163 |
| **Net increase (decrease) in cash and cash equivalents** | | 2,853 | 2,755 | 5,608 |
| **Cash and cash equivalents at beginning of period** | | 20,400 | (6,441) | 13,959 |
| **Cash and cash equivalents at end of period** | | 23,253 | (3,686) | 19,567 |

# Disclosures requirements-
## Illustrative reconcilitations

► Analysis of cash and cash equivalents under SLFRSs

| | | At 01.04.2011 | At 31.03.2012 |
|---|---|---|---|
| **Cash and cash equivalents consist of:** | | | |
| Long-term bonds with a maturity of less than three months | i | 717 | 216 |
| Cash and bank balances | i | 13,242 | 19,351 |
| **Total cash and cash equivalents** | | **13,959** | **19,567** |
| **Long-term bonds consist of:** | | | |
| Long-term bonds with a maturity of less than three months | | 717 | 216 |
| Long-term bonds with a maturity above three months | i | 6,441 | 3,686 |
| | | 7,158 | 3,902 |

# Disclosures requirements-
## Illustrative reconcilitations

► Notes to the reconcilitations

The transition to IFRSs has resulted in the following changes in accounting policies:

a) When the criteria in IAS 38 *Intangible Assets* are met, development costs are recognised as an intangible asset measured at cost less accumulated amortisation. Amortisation commences when the asset is available for use. Under previous GAAP, development costs were recognised as an expense when incurred. The effect of the change is an increase in equity as at 31 December 20X1 of CU2,458 million (CU2,056 million as at 1 January 20X1) and an increase in profit before tax for 20X1 of CU403 million (CU282 million after tax).

b) Financial liabilities, other than derivatives, are measured at amortised cost. Under previous GAAP, financial liabilities were measured at their nominal value and any difference between the amount initially recognised and the maturity amount of the liability was recognised in profit and loss. The effect of the change is an increase in equity as at 31 December 20X1 of CU890 million (CU983 million as at 1 January 20X1) and a decrease in profit before tax for 20X1 of CU133 million (CU93 million after tax).

c) Derivative financial instruments are initially recognised at fair value and subsequently measured at fair value. Changes in the fair value of derivative financial instruments classified as hedging instruments and meeting the criteria for hedging future cash flows are recognised in other comprehensive income, and reclassified to profit or loss in the period in which the hedged forecast transaction affects profit or loss. Under previous GAAP, derivatives hedging future cash flows were not recognised. The effect of the change is a decrease in equity as at 31 December 20X1 of CU238 million (CU309 million as at 1 January 20X1). The change does not affect profit or loss for 20X1.

d) Dividends to shareholders declared after the end of the reporting period but before the financial statements are authorised for issue are not recognised as a liability at the end of the reporting period, but are disclosed separately in the notes. Under previous GAAP, dividends for the accounting year were recognised as a liability. The effect of the change is an increase in equity at 31 December 20X1 of CU1,824 million (CU1,568 million as at 1 January 20X1). The change does not affect profit or loss for 20X1.

# Disclosures requirements-
## Illustrative reconcilitations

- Notes to the reconcilitations

e) Inventories are measured at the lower of cost and net realisable value. Cost include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Under previous GAAP, production overheads were not included in the cost of inventories. The effect of the change is an increase in equity at 31 December 20X1 of CU1,100 million (CU900 million as at 1 January 20X1) and an increase in profit before tax for 20X1 of CU285 million (CU200 million after tax).

f) Under IFRSs, goodwill is not amortised but is measured at cost less impairment losses. Under previous GAAP, goodwill was amortised on a straight-line basis through profit or loss based on an individual assessment of the economic life of the asset, subject to a maximum of 20 years. The effect of the change is an increase in equity as at 31 December 20X1 of CU730 million and an increase in profit before tax for 20X1 of CU730 million. The change does not affect the equity at 1 January 20X1. The change has no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

g) Under previous GAAP, a restructuring provision relating to head office activities was recognised. Under IFRSs, this provision does not qualify for recognition as a liability, neither at 1 January 20X1 nor at 31 December 20X1. The effect of the change is an increase in equity at 31 December 20X1 of CU1,526 million (CU700 million as at 1 January 20X1) and an increase of profit before tax for 20X1 of CU1,180 million (CU826 million after tax).

# Disclosures requirements-
## Illustrative reconcilitations

- Notes to the reconcilitations

h) The above changes increased the deferred tax liability as follows:

| | 01.04.2011 | 31.03.2012 |
|---|---|---|
| Recognition of development cost asset (a) | 617 | 737 |
| Recognition of financial liabilities (b) | 422 | 382 |
| Production overheads included in cost of inventories (e) | 386 | 471 |
| Restructuring provision derecognised (g) | 300 | 654 |
| Recognition of available-for-sale securities (j) | 11 | 5 |
| Total | 1,736 | 2,249 |

i) Under previous GAAP, long-term bonds with a maturity exceeding three months were included in cash and cash equivalents in the cash flow statement. Under IFRSs, investments in and sales of such bonds are included in cash flows from investing activities.

j) Under previous GAAP, available-for-sale (AFS) equity securities were measured at cost. Under IFRSs, these AFS instruments are recognised at fair value with unrealised gains or losses recorded in other comprehensive income. Upon transition to IFRSs, after recognition of deferred tax, the effect of the change is an increase in equity at 31 December 20X1 of CU16 million (CU36 million as at 1 January 20X1). The change does not affect profit or loss for 20X1.

k) Under previous GAAP, cash flows from interest and dividends received were classified as cash flows from operating activities. IFRSs permit a choice as to how such cash flows are classified, provided that the classification is consistently applied from period to period. Management has decided that cash flows from interest and dividends received should be classified as investing cash flows because they are recognised to be returns on the investments held during the reporting period. The effect of the change is a reclassification of CU4 million from 'net cashflows from operating activities' into 'net cashflows from investing activities'.

## Disclosure requirements

- Interim financial statements
  - If an entity adopting SLFRS is required to prepare interim financial reports (either on a voluntary basis or if required to do so by a regulator), it is mandatory to comply with the requirements of LKAS 34
  - If the entity prepares interim financial reports under LKAS 34, these should include reconciliations of:
    - its equity under previous GAAP at the end of that comparable interim period to its equity under SLFRS at that date;
    - its comprehensive income under SLFRS for that comparable interim period to comprehensive income, or if not available, profit or loss under previous GAAP, both on a current and year-to-date basis; and
    - reconciliations to explain how the transition from previous GAAP to SLFRS affected its financial position, performance and cash flows

## Disclosure requirements

- First-time adopters should not apply the requirements of LKAS 8 relating to the disclosure of changes in accounting policies
- In all reconciliations, entity should distinguish errors, if any, under previous GAAP from accounting policy changes

Thank you.