



 THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

## SLFRS for SMEs



සුළු හා මධ්‍යම පරිමාණ  
ව්‍යවසායන් සඳහා ශ්‍රී ලංකා  
මූල්‍ය වාර්තාකරණ ප්‍රමිතිය


28 February 2013



**Simplification of Financial Reporting through SLFRS for SMEs**



මූල්‍ය වාර්තාකරණය සරල කිරීම -  
සුළු හා මධ්‍යම පරිමාණ  
ව්‍යවසායන් සඳහා ශ්‍රී ලංකා මූල්‍ය  
වාර්තාකරණ ප්‍රමිතිය මගින්



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

**Agenda**

- Introduction of SLFRS for SMEs
- Which entities are eligible to use SLFRS for SMEs
- Detail requirements in SLFRS for SMEs
- Differences between SLFRS for SMEs and full SLAS
- How to tackle transition from SLAS
- Discussion



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

# Introduction of SLFRS for SMEs

## ONLY FOR DISCUSSION

- 1 1995 අංක 15 දරන ශ්‍රී ලංකා ගිණුම්කරණ හා විගණන ප්‍රමිත පනත අනුව මෙම සුළු හා මධ්‍යම පරිමාණ ව්‍යවසායන් සඳහා ශ්‍රී ලංකා මූල්‍ය වාර්තාකරණ ප්‍රමිතිය නිකුත් කර ඇත.
- 2 2011.12.22 වන දින අංක 1737/18 දරන අති විශේෂ ගැසට් පත්‍රය මගින් මෙම ප්‍රමිතිය ප්‍රසිද්ධියට පත් කර ඇත.
- 3 මෙම ප්‍රමිතිය ස්වාධීන එක් ප්‍රමිතියක් වුවත් ශ්‍රී ලංකා ගිණුම් ප්‍රමිත සියල්ලෙහිම අන්තර්ගත නිර්දේශයන් අදාළ වන පරිදි සුළු හා මධ්‍යම ව්‍යාපාර වලට යෝග්‍ය ආකාරයට සංකීර්ණව මෙහි අන්තර්ගත කර ඇත.
- 4 මෙවැනි ප්‍රමිතියක් අනුගමනය කිරීමෙන් සුළු හා මධ්‍යම පරිමාණ ව්‍යාපාර වල විශ්වාසනීයත්වය වර්ධනය වීමක් සිදුවේ.


**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Why do we need SLFRS for SMEs?

- **High quality globally accepted financial reporting standard – carefully applied – benefit many stakeholders:**
  - Information is understandable – තේරුම්ගත හැකි බව
  - Reduce compliance costs - පිරිවැය අවම කිරීම
  - Owners/ Capital providers have confidence විශ්වසනීය බව තහවුරු කිරීම
  - Remove uncertainties that affect their cost of capital ප්‍රාග්ධන පිරිවැය පිළිබඳ අවිනිශ්චිතතා ඉවත් කිරීම
- **Improve consistency in audit quality**


**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Why Would an SME Want to Adopt It?

- **SLFRS for SMEs is a completely stand alone SLFRS**
- **Tailored for SMEs**
  - User needs for information about cashflows, liquidity, and solvency
  - Costs and SME capabilities
- **Much smaller**
  - 295 pages vs 1200+ in full SLASs
- **Simplifications** from full SLASs

## Good Financial Reporting Made Simple.

- Some topics in SLFRSs omitted if irrelevant to private entities
- Where SLFRSs have options, include only simpler option
- Recognition and measurement simplifications
- Reduced disclosures
- Simplified drafting

## Disclosure Simplifications

### Big reduction in disclosures:




- Full SLFRSs – more than **3,000** items in the disclosure checklist
- SLFRS for SMEs – roughly **300** disclosures



Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

# Which entities are eligible to use SLFRS for SMEs?



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Who Is Eligible to Use It?

- Any entity that does not have public accountability.  
(සොදු ගිණුම්කටයුතුභාවය හෙවත් මහජනයා වෙත ගිණුම් ඉදිරිපත් කිරීමේ වගකීම)
  - securities not publicly traded
  - not a financial institution
- ... and is required or chooses to produce General Purpose Financial Statements (GPFS)  
(සොදු පරමාර්ථ මූලය ප්‍රකාශන)
- Size is no barrier
- Listed companies may not use, no matter how small



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

**Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013**

# **Details of SLFRS for SMEs**



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

**A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013**

## **Section by section highlights**

**35 sections of the *SLFRS for SMEs***



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 1 Small and medium entities

(සුළු හා මධ්‍ය පරිමාණ ව්‍යවසායන්)

- Defines SME :  
Small and medium-sized entities are entities that:
  - (a) do not have public accountability, and
  - (b) publish general purpose financial statements for external users.



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 1 Small and medium entities

An entity has **public accountability** if:


- (a) its debt (debentures) or equity (shares) are traded in a public market or it is in the process of trading (getting a listing)

ණයකර හෝ සේකර්ට් පත්‍ර කොටස් වෙළඳපලේ වෙළඳාම් වන්නේනම් හෝ එසේ නිකුත් කිරීමේ ක්‍රියාවලියෙහි යෙදී ඇත්නම්

- (b) it holds assets in a fiduciary capacity as one of its primary businesses.

ප්‍රධාන ව්‍යවසාර කටයුතු ලෙස භාගීර පාර්ශව සමූහයකගේ වත්කම් භාරකාර තත්ත්වයෙන් දරා සිටීම






THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 1 Small and medium- sized entities

- Following are not SMEs under SLAAS Act
 

– Banks	බැංකු ආයතන
– Insurance companies	රක්ෂණ ආයතන
– Leasing companies	කල්බදු ව්‍යාපාර
– Factoring companies	සාධකකරන සමාගම්
– Finance companies	මූල්‍ය සමාගම්
– Unit trusts	ඒකකභාර සමාගම්
– Fund management companies	අරමුදල් කළමනාකරණ සමාගම්
– Stock brokers or stock dealers	කොටස් තැරැවිකරුවන් සහ කොටස් හිඟෝපිතයින්
– Stock exchange	කොටස් හුවමාරු සමාගම්
– Listed companies	ලැයිස්තුගත සමාගම්
– Public corporations engaged in the sale of goods or in the provision of services	භාණ්ඩ විකිණීම හෝ සේවා සපයන රාජ්‍ය සංස්ථා



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles


### සංකල්ප හා මූලධර්ම

- **Objective of Financial Statements මූල්‍ය ප්‍රකාශනවල පරමාර්ථය**

To provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users.

Financial statements also show the results of the stewardship of management-the accountability of management for the resources entrusted to it.

An entity shall prepare its financial statements using the accrual basis or accounting. (උපචිත පදනම)




**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles

### සංකල්ප හා මූලධර්ම

- Qualitative characteristics
මූල්‍ය ප්‍රකාශන වල ගුණාත්මක ලක්ෂණ
- Understandability අවබෝධකරගත හැකි බව
- Relevance අදාළභාවය
- Materiality ප්‍රමාණාත්මකභාවය
- Reliability විශ්වසනීයභාවය
- Substance over form විෂයානුගතභාවය
- Prudence විවක්ෂණභාවය
- Completeness සම්පූර්ණත්වය
- Comparability සංසන්දනාත්මකභාවය
- Timeliness යාවත්කාලීනභාවය



**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles

### සංකල්ප හා මූලධර්ම

- Elements of Financial Statements
මූල්‍ය ප්‍රකාශනවල මූලිකාංගයන්
- Assets
- Liabilities
- Equity
- Income (Revenue and Gains)
- Expenses (Expenses and Losses)
- Cash Flows



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles

### සංකල්ප හා මූලධර්ම

- Recognition of Assets, liabilities, income and expenses

Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:

- (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

අයිතමය හා බැඳුණු අනාගත ආර්ථික ප්‍රතිලාභ ව්‍යාපාරය තුළට ගලාඒම හෝ ගලායාමේ හැකියාව

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

අයිතමයේ පිරිවැය හෝ අගය විශ්වසනීය ලෙස මැනීමේ හැකියාව



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles


### සංකල්ප හා මූලධර්ම

- Measurement of assets, liabilities, income and expenses

Two common measurement basis පොදු මිණුම්කරණ පදනම්

- (a) Historical Cost                      චෛතිහාසික පිරිවැය

- (b) Fair Value                              සාධාරණ අගය




**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 2 Concepts and Principles

### සංකල්ප හා මූලධර්ම

- **Basic Measurement concepts** මූලික මිණුම්කරණ සංකල්ප
- **Measurement at initial recognition** හඳුනාගැනීමේදී මිණුම්කරණය
  - measure assets and liabilities at historical cost unless SLFRS for SMEs requires another basis වෙනත් පදනමක් මත කළයුතු බව දක්වා නොමැති නම්, සියළුම වත්කම් හා බැරකම් මූලික හඳුනාගැනීමේදී පිරිවැයට මැනිය යුතුවේ.



**CA**  
THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 3 Financial Statement Presentation

### මූල්‍ය ප්‍රකාශන ඉදිරිපත් කිරීම

<ul style="list-style-type: none"> <li>• Fair Presentation</li> <li>• Compliance with the SLFRS for SMEs</li> <li>• Going Concern</li> <li>• Reporting Period</li> <li>• Consistency of Presentation</li> <li>• Comparative Information</li> <li>• Materiality and Aggregation</li> </ul>	<p>සාධාරණ ඉදිරිපත් කිරීම</p> <p>අනුකූලතාවය</p> <p>අඛණ්ඩ පැවැත්ම</p> <p>වාර්තාකරණ කාලච්ඡේදය</p> <p>ඒකාකාරීතාවය</p> <p>සංසන්දනාත්මක තොරතුරු</p> <p>ප්‍රමාණාත්මකතාවය සහ සමාහරණය</p>
---	--

## Section 3 Financial Statement Presentation

### මූල්‍ය ප්‍රකාශන ඉදිරිපත් කිරීම

- Complete set of financial statements:

සම්පූර්ණ මූල්‍ය ප්‍රකාශන කට්ටලය

- Statement of financial position මූල්‍ය තත්ත්ව ප්‍රකාශනය
- Either single statement of comprehensive income, or two statements: Income statement and statement of comprehensive income විස්තීර්ණ ආදායම් ප්‍රකාශනය
- Statement of changes in equity ස්කන්ධ වෙනස්වීම් ප්‍රකාශනය
- Statement of cash flows මුදල් ප්‍රවාහ ප්‍රකාශනය
- Notes සටහන්

## Section 3 Financial Statement Presentation

### මූල්‍ය ප්‍රකාශන ඉදිරිපත් කිරීම

- Identification of the Financial Statements
  - (a) Name of the reporting entity වාර්තාකරණ ඒකකයේ නම
  - (b) Whether the financial statements cover the individual entity or a group ඒකකයක්ද සමූහයක්ද යනවග
  - (c) End of the reporting period and the period covered වාර්තාකරණ කාලච්ඡේදයේ අවසාන දින සහ වාර්තාකරණ කාලච්ඡේදය
  - (d) The presentation currency ඉදිරිපත් කරන මුදල් ඒකකය
  - (e) The level of rounding වටයීමේ ආසන්නතාවය



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

### Section 3 Financial Statement Presentation

#### මූල්‍ය ප්‍රකාශන ඉදිරිපත් කිරීම

- If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement, or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

### Section 4 Statement of Financial Position

#### මූල්‍ය තත්ත්ව ප්‍රකාශනය

- May still be called "balance sheet"
- Current/non-current split is not required if entity concludes liquidity approach is better
- Some minimum line items
- And some items that may be in the statement or in the notes
- But sequencing, format, and titles are not mandated

**Illustrative BS (Statement of financial position)**

	Notes	20X2 CU	20X1 CU		Notes	20X2 CU	20X1 CU
<b>ASSETS</b>							
<b>Current assets</b>				<b>Non-current liabilities</b>			
Cash		28,700	22,075	Bank loan	16	50,000	150,000
Trade and other receivables	10	585,548	573,862	Long-term employee benefit obligations	19	5,679	5,076
Inventories	11	57,381	47,920	Obligations under finance leases	20	23,163	44,624
		<u>671,629</u>	<u>643,857</u>			<u>78,842</u>	<u>199,700</u>
<b>Non-current assets</b>				<b>Total liabilities</b>			
Investment in associate	12	107,500	107,500			<u>898,174</u>	<u>956,921</u>
Property, plant and equipment	13	2,549,945	2,401,455	<b>Equity</b>			
Intangible assets	14	850	2,550	Share capital	22	30,000	30,000
Deferred tax asset	15	4,609	2,912	Retained earnings	4	2,406,059	2,171,353
		<u>2,662,204</u>	<u>2,514,417</u>			<u>2,436,059</u>	<u>2,201,353</u>
Total assets		<u>3,334,233</u>	<u>3,158,274</u>	Total liabilities and equity		<u>3,334,233</u>	<u>3,158,274</u>
<b>LIABILITIES AND EQUITY</b>							
<b>Current liabilities</b>							
Bank overdraft	16	83,600	115,507				
Trade payables	17	431,480	420,520				
Interest payable	7	2,000	1,200				
Current tax liability		271,647	190,316				
Provision for warranty obligations	18	4,200	5,040				
Current portion of employee benefit obligations	19	4,944	4,754				
Current portion of obligations under finance leases	20	21,461	19,884				
		<u>819,332</u>	<u>757,221</u>				




A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

**Section 5 Income Statement and Statement of Comprehensive Income**

**ආදායම් ප්‍රකාශනය සහ විස්තීර්ණ ආදායම් ප්‍රකාශනය**

- If an SME presents consolidated financial statements:
  - Bottom line (Profit or Loss in the income statement and Total Comprehensive Income in the statement of comprehensive income) is before allocating those amounts to non-controlling interest and owners of the parent



**SLFRS for SMEs - 28<sup>th</sup> February 2013**

## Section 5 Income Statement and Statement of Comprehensive Income

**Single Statement of Comprehensive Income:**

- Revenue
- Expenses:
  - Finance costs
  - P&L from associates / JVs
  - Tax expense
  - Discontinued operations
- **Profit or loss**
- Items of Other Comprehensive Income
- **Total comprehensive income**

**Two statements:**


**Income Statement:**

- Bottom line is profit or loss (as at left)

**Statement of Comprehensive Income:**

- Begins with profit or loss
- Items of OCI
- **Bottom line is Total Comprehensive Income**

31



**SLFRS for SMEs - 28<sup>th</sup> February 2013**

## Section 5 Income Statement and Statement of Comprehensive Income

**විස්තීර්ණ ආදායම් ප්‍රකාශනය**  
**(තනි ප්‍රකාශනයක් සේ)**

- අයහාරය
- වියදම්
  - මූල්‍ය පිරිවැය
  - ආශ්‍රිත / බද්ධ ව්‍යාපාර ලාභ
  - බදු වියදම
  - ඛණ්ඩ ක්‍රියාකාරකම්
- කාලච්ඡේදයේ ලාභය / අලාභය
- .....
- අනෙකුත් විස්තීර්ණ ආදායම් අයිතම
- මුළු විස්තීර්ණ ආදායම්

**(ප්‍රකාශන දෙකක් සේ)**  
**ආදායම් ප්‍රකාශනය**

- කාලච්ඡේදයේ ලාභය / අලාභයෙන් අවසන්වේ

**විස්තීර්ණ ආදායම් ප්‍රකාශනය**

- කාලච්ඡේදයේ ලාභය / අලාභයෙන් ආරම්භ කරයි
- අනෙකුත් විස්තීර්ණ ආදායම් අයිතම
- මුළු විස්තීර්ණ ආදායම්

32





A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 6 Statement of Changes in Equity

### ස්කන්ධ වෙනස්වීම් ප්‍රකාශනය

- Can omit if no owner investments or withdrawals other than dividends
- Shows all changes to equity including
  - Total comprehensive income
  - Owners investments and withdrawals
  - Dividends
  - Treasury share transactions



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 6 Statement of Changes in Equity

### ස්කන්ධ වෙනස්වීම් ප්‍රකාශනය

- If the only changes to equity 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, the entity may present a **single statement of income and retained earnings (ආදායම් සහ රඳවාගත් ඉපැයීම් ප්‍රකාශනය)** in place of the statement of comprehensive income and statement of changes in equity



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

### Illustrative P&L (Statement of comprehensive income and retained earnings)

	Notes	20X2 CU	20X1 CU
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



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

### Section 7 Statement of Cash Flows

#### මුදල් ප්‍රවාහ ප්‍රකාශනය

- Indirect Method වක්‍ර ක්‍රමය
- Direct Method සෘජු ක්‍රමය
- Cash Flows
  - Operating Activities මෙහෙයුම් ක්‍රියාකාරකම්
  - Investing Activities ආයෝජන ක්‍රියාකාරකම්
  - Financing Activities මූල්‍ය ක්‍රියාකාරකම්



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 8 Notes to the Financial Statements

### මූල්‍ය ප්‍රකාශන සඳහා සටහන්

- Basis of preparation and the specific accounting policies used  
සකස් කිරීමේ පදනම හා නිශ්චිත ගිණුම්කරණ ප්‍රතිපත්ති
- Disclosure information required by this SLFRS  
මෙම ප්‍රමිතිය පරිදි මූල්‍ය ප්‍රකාශන වල වෙනත් ස්ථානයක ඇතුළත් නොවූ එහෙත් අනාවරණය කළ යුතු තොරතුරු
- Information that is not presented elsewhere in the FS වෙනත් ස්ථානයක අනාවරණය නොවූ එහෙත් අදාළ වන වෙනත් තොරතුරු

### ONLY FOR DISCUSSION

- 1 සමාගම් ඒකාබද්ධකරණය පිළිබඳව අනුගමනය කරන ක්‍රමය හා මෙම ප්‍රමිතියේ අන්තර්ගතයෙහි විශාල වෙනස්කමක් දැකිය නොහැකිය.
- 2 ඒකාබද්ධ පිළිවෙත අනුව පරිපාලක සමාගමේ සහ පරිපාලිත සමාගම් වල වත්කම්, බැරකම්, ස්කන්ධයන්, ආදායම් හා වියදම් ජේප්‍රියෙන් ජේප්‍රියට සංයෝජන කිරීමේ ක්‍රමයට ඒකාබද්ධ මූල්‍ය ප්‍රකාශන සකස් කරනු ලැබේ.
- 3 පරිපාලන සමාගමේ ඇති ආයෝජන ධාරණ අගය පරිපාලිත සමාගමේ අත්පත් කරගන්නා ලද ස්කන්ධ ප්‍රමාණය හා හිලවී කරනු ලැබේ.
- 4 අන්තර් සමාගම් වත්කම්, බැරකම් සහ ආදායම් වියදම් හිලවී කරන අතර, අන්තර් සමාගම් නොඉපැයූ ලාභයන් ඉවත් කරනු ලැබේ.
- 5 පාලනයට යටත් නොවන කොටස්හිමියන්ගේ අයිතිය වෙනමම අනාවරණය කෙරේ
- 6 එක හා සමාන ගිණුම් ප්‍රතිපත්ති අනුගමනය කරන අතර එක හා සමාන වාර්තාකරණ දින භාවිතා කරයි.

## Section 9 Consolidation

### ඒකාබද්ධකරණය

- Consolidation is required when parent-subsiary relationship (පරිපාලක පරිපාලිත සම්බන්ධතාවය) except:
  - Sub was acquired with intent to dispose within one year
  - Parent itself is a sub and its parent or ultimate parent uses full SLFRSs or *SLFRS for SMEs*
- Basis of consolidation: control
  - Consolidate all controlled SPEs (Special Purpose Entity – විශේෂ අරමුණුගත ඒකක)

## Section 10 Accounting policies

### ගිණුම් ප්‍රතිපත්ති

- If *SLFRS for SMEs* addresses an issue, must follow *SLFRS for SMEs*
- If *SLFRS for SMEs* does not address an issue:
  - Choose policy that results in most relevant and reliable information
  - Try to analogize from requirements in the *SLFRS for SMEs*
  - Or use concepts/pervasive principles in Sec 2
  - May look to guidance in full SLFRSs – but not required



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 10 Accounting policies

### ගිණුම් ප්‍රතිපත්ති

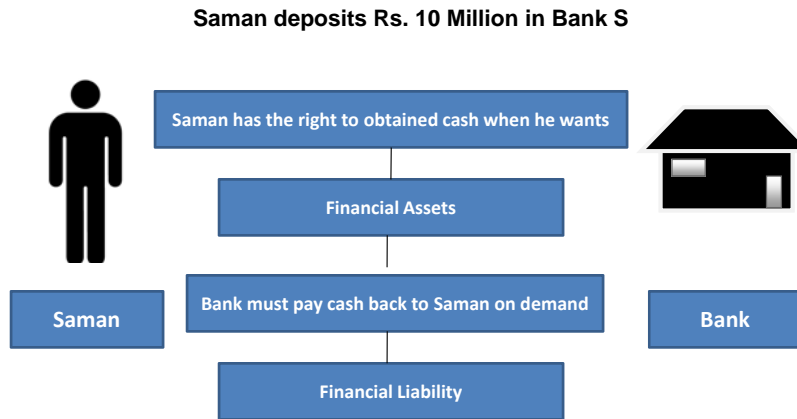
- **Change in accounting policy: ගිණුම් ප්‍රතිපත්ති වෙනස්වීම**
  - If mandated, follow the transition guidance as mandated
  - If voluntary, retrospective (**අතීතයානුයෝගී ක්‍රමය**)
- **Change in accounting estimate: ගිණුම් ඇස්තමේන්තු වෙනස්වීම**
  - Prospective
- **Correction of prior period error: පෙර වර්ෂ වැරදි නිවැරදි කිරීම්**
  - Restate prior periods if practicable

## ONLY FOR DISCUSSION

- 1 මූල්‍ය සාධන පත්‍රයක් යනු එක් පාර්ශවයකට මූල්‍ය වත්කමක් හා අනෙක් පාර්ශවයට මූල්‍ය වගකීමක් හෝ ස්කන්ධ සාධන පත්‍රයක් ඇති කෙරෙන ගිවිසුමකි.
- 2 මූල්‍ය සාධන පත්‍ර වර්ග 04 ක් සාමාන්‍ය ව්‍යවහාරයේ වේ
  - ලාභාලාභ ගිණුම හරහා සාධාරණ අගයට අගය කෙරෙන මූල්‍ය සාධන පත්‍ර Fair Value through Profit or Loss
  - පරිණත දින දක්වා තබා ගන්නා මූල්‍ය සාධන පත්‍ර Held to maturity
  - විකිණීම සඳහා ඇති මූල්‍ය සාධන පත්‍ර Available for sale
  - ණය හා ලැබිය යුතු ගිණුම් Loans and receivables
- 3 ඉහත මූල්‍ය සාධන පත්‍ර අතරින් විකිණීම සඳහා ඇති මූල්‍ය සාධන පත්‍ර Available for sale මෙම ප්‍රමිතියෙහි විෂය පථයට අයත් නොවේ.

## What is a Financial Instrument?

- ❑ A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



## Financial Instruments

- **Financial Instruments**
  1. Financial Assets
  2. Financial Liabilities
- **There are four (04) types of Financial Assets**
  1. At fair value through profit and loss
  2. Loans and receivables
  3. Held to maturity Investments
  4. Available for sale
- **There are two (02) types of Financial Liabilities**
  1. At fair value through profit and loss
  2. Other Liabilities

## Section 11 Basic financial instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Scope of Sec 11 includes:**
  - Cash මුදල්
  - Fixed deposits and Demand deposits (savings a/c)  
ස්ථාවර තැන්පතු හා ඉල්ලුම් තැන්පතු
  - Accounts receivable and Accounts payable  
ගෙවිය යුතු හා ලැබිය යුතු ගිණුම්
  - Loans from banks බැංකු ණය
  - Investments in shares කොටස් ආයෝජන
  - Debentures ණයකර

## Section 11 Basic financial instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Accounting for basic financial instruments:**
  - Initial measurement මුල්වරට හඳුනාගැනීම**
    - Most basic financial instruments measured initially at the transaction price (including transaction costs)
    - E.g: Financial assets මූල්‍ය වත්කම්
      - For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.
      - For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.

## Section 11 Basic financial instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Accounting for basic financial instruments:**
  - E.g
    - For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.

## Section 11 Basic Financial Instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Accounting for basic financial instruments:**
  - E.g: Financial liabilities මූල්‍ය බැරකම්
    - For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.
    - For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (eg including interest payments and repayment of principal).





A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 11 Basic Financial Instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Accounting for basic financial instruments:**

#### Subsequent measurement

- Shares: if quoted – fair value (e.g market value in Stock Exchange)
- At the year-end assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost.
- If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 11 Basic Financial Instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- **Accounting for basic financial instruments:**

#### Subsequent measurement පසුකාලීන මිණුම්කරණය

- E.g. (Accounting for impairment)
  - Shares: take individually and assess if impaired
  - If significant debtors assess individually
  - Other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 11 Basic Financial Instruments

### මූලික මූල්‍ය සාධන පත්‍ර

- Option to follow LKAS 39 instead of sections 11 and 12
  - Even if LKAS 39 is followed, make Section 11 and 12 disclosures (not SLFRS 7 disclosures)

## ONLY FOR DISCUSSION

ක්‍රමයෙන් පිරිවැය Amortized Cost පිරිවැය පහත උදාහරණයෙන් අධ්‍යයනය කරන්න.

01.01.2012 “X” Ltd Acquired a Bond for Rs. 1,800 incurring a transaction cost of Rs. 100/-.

Interest receivable annually, Rs. 80/- per annum over a period of 5 years.

The redemption value of Bond on 31.12.2016 will be Rs. 2,200/-.

### Answer

Year	Cash Flow
2012	(1,900)
2012	80
2013	80
2014	80
2014	80
2016	80+2,200

*Effective rate of Interest is 6.9583% which is equivalent to internal rate of return.*

<b>Bond Investment Account</b>			
01.01.12 Cash	1,900	31.12.12 Cash	80
31.12.12 Interest P/L	<u>132.2</u>	31.12.12 Balance	<u>1,952.2</u>
	<b>2,032.2</b>		<b>2,032.2</b>
01.01.13 Balance	1,952.2	31.12.13 Cash	80
31.12.13 Interest P/L	<u>135.8</u>	31.12.13 Balance	<u>2,008.0</u>
	<b>2,088.0</b>		<b>2,088.0</b>
01.01.14 Balance	2,008.0	31.12.14 Cash	80
31.12.14 Interest P/L	<u>139.8</u>	31.12.14 Balance	<u>2,067.8</u>
	<b>2,147.8</b>		<b>2,147.8</b>
01.01.15 Balance	2,067.8	31.12.15 Cash	80
31.12.15 Interest P/L	<u>143.9</u>	31.12.15 Balance	<u>2,131.7</u>
	<b>2,211.7</b>		<b>2,211.7</b>
01.01.16 Balance	2,131.7	31.12.16 Cash 2200+80	2,280.0
31.12.16 Interest P/L	<u>148.3</u>	31.12.16 Balance	<u>-</u>
	<b>2,280.0</b>		<b>2,280.0</b>



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 12 Complex Financial Instruments

### සංකීර්ණ මූල්‍ය සාධන පත්‍ර

- **Financial instruments not covered by Section 11 are at fair value through profit or loss.** This includes:
  - Investments in convertible and puttable ordinary and preference shares
  - Options, forwards, swaps, and other derivatives
  - Financial assets that would otherwise be in Section 11 but that have “exotic” provisions that could cause gain/loss to the holder or issuer
- Hedge accounting ඉදිරි රැකුම් ගිණුම්කරණය



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 13 Inventories

### තොග

- At cost, which may be
  - Specific identification for specialised items  
(විශේෂිත හඳුනාගැනීමේ ක්‍රමය)
  - FIFO or weighted average for others  
(ප්‍ර.ල.ප්‍ර.නි. ක්‍රමය සහ බරතැබූ සාමාන්‍ය මිල ක්‍රමය)
- Impairment (write down to estimated selling price less costs to complete and sell)



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 14 Associates

### ආශ්‍රිතයන්

- Option to use:
  - Cost model (except if published quotation then must use Fair Value through P&L) පිරිවැය ක්‍රමය
  - Equity method සේතේඛ ක්‍රමය
  - Fair value through profit or loss (if impracticable, then use cost) ලාභාලාභ ගිණුම හරහා සාධාරණ අගයට ගැලපීම

**Cost and FV models are not allowed by LKAS 28.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 15 Joint Ventures

### බද්ධ ව්‍යාපාර

- Option to use:
  - Cost model (except if published quotation then must use Fair Value through P&L) **පිරිවැය ක්‍රමය**
  - Equity method **ස්කන්ධ ක්‍රමය**
  - Fair value through profit or loss (if impracticable, then use cost) **ලාභාලාභ ගිණුම හරහා සාධාරණ අගයට ගැලපීම**
- Proportionate consolidation **සමානුපාතික ඒකාබද්ධකරණය** is prohibited

**Cost and FV models are not allowed by LKAS 31.  
Proportionate consol is allowed by LKAS 31.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 16 Investment Property

### ආයෝජන දේපළ

- If fair value can be measured reliably without undue cost or effort, use Fair Value through P&L
- Otherwise, must treat investment property as property, plant and equipment using Section 17

**LKAS 40 is pure accounting policy choice – either depreciation model or fair value through P&L.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 17 Property, Plant & Equipment

### දේපළ, ජීරියන හා උපකරණ

- Historical cost – depreciation – impairment model only. No revaluation model.

**LKAS 16 allows revaluation of PP&E**

- Section 17 applies to property held for sale
  - Holding for sale is an impairment indicator

**SLFRS 5 requires separate treatment for non-current assets held for sale**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 17 Property, Plant & Equipment

### දේපළ, ජීරියන හා උපකරණ

- Component depreciation (**සංරචක කෂය**) only if major parts of an item of PP&E have “significantly different patterns of consumption of economic benefits”
- Majority of assets depreciated as a single asset
- Review useful life, residual value, depreciation rate only if there is a significant change in the asset or how it is used

**LKAS 16 requires annual review**

## Section 18 Intangibles other than goodwill

### කීර්තිනාමය හැර අනිකුත් අස්පාශය වත්කම්

- No recognition of internally generated intangible assets  
අභ්‍යන්තරව ජනනය කරගන්නා අස්පාශය වත්කම්
- An entity shall measure an Intangible Asset initially at cost  
අස්පාශය වත්කම් මුල්වරට පිරිවැයට අගය කළ යුතුවේ

**LKAS 38 requires capitalization of development costs incurred after a determination of commercial viability**

## Section 18 Intangibles other than goodwill

### කීර්තිනාමය හැර අනිකුත් අස්පාශය වත්කම්

- Amortise intangibles that are purchased separately (වෙන්ව අත්පත්කරගත්), acquired in a business combination (ව්‍යාපාර සංයෝජනයකදී අත්පත්කරගත්), acquired by grant (රාජ්‍ය ප්‍රදානයක් මගින් අත්පත්කරගත්), and acquired by exchange of other assets (වෙනත් වත්කම් හුවමාරුවෙන් අත්පත්කරගත්)
- Amortise over useful life. If unable to estimate useful life, then use 10 years



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 19 Business Combinations & goodwill

### ව්‍යාපාර සංයෝජනය හා කීර්තිනාමය

- Acquisition method අත්පත්කරගැනීමේ ක්‍රමය
- Amortise goodwill. කීර්තිනාමය ක්‍රමය If unable to estimate useful life, then use 10 years.
- Negative goodwill සෘණ කීර්තිනාමය – first reassess original accounting. If that is ok, then immediate credit to P&L

**Goodwill amortisation is prohibited by LKAS 38.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 20 Leases

### කල්බදු

- Finance and operating lease (මූල්‍ය හා මෙහෙයුම් කල්බදු) classification similar to LKAS 17
- Measure finance leases at lower of FV of interest in leased property and present value of minimum lease payments
- For operating leases, do not force straight-line expense recognition if lease payments are structured to compensate lessor for general inflation

**LKAS 17 requires straight-line recognition.**



## Section 21 Provisions & contingencies

### ප්‍රතිපාදන හා අසම්භව්‍යයන්

- Accrue if an obligation arising from a past event and amount can be estimated reliably
- Disclose (no accrual) contingent liability
- Measure at best estimate
  - Large population – weighted average calculation
  - Single obligation – adjusted most likely outcome
- Includes an appendix of examples

## Section 22 Liabilities and Equity

### බැරකම් හා ස්කන්ධය

- Guidance on classifying an instrument as liability or equity:
  - Instrument is a liability if the issuer could be required to pay cash
  - However, if puttable only on liquidation or death or retirement of owner, then it is equity



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 22 Liabilities and Equity

### බැරකම් හා ස්කන්ධය

- Section 22 also covers:
  - Original issuance of shares and other equity instruments
  - Sales of options, rights and warrants
  - Stock dividends and stock splits

These topics are not addressed in full SLFRSs.



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 23 Revenue

### අයහාරය

- Same principles as LKAS 18 and LKAS 11
  - **Goods:** Revenue recognized when risks and rewards are transferred, seller has no continuing involvement, measurable
  - **Services and construction contracts:** Recognized by percentage of completion
- Principle for measurement is fair value of consideration received or receivable



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 24 Government Grants

### රාජ්‍ය ප්‍රදාන

- All measured at the fair value of the asset received or receivable
- Recognition as income:
  - Immediately if no performance conditions are imposed
  - If conditions, recognise when conditions are fulfilled
- Grants received are shown as a liability before the revenue recognition criteria are satisfied.

**LKAS 20 allows a wide range of methods of accounting for government grants.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 25 Borrowing Costs

### ණය ගැනුම් පිරිවැය

- All charged to expense when incurred
- No capitalisation

**LKAS 23 requires capitalisation of borrowing costs relating to an asset during construction.**

## Section 26 Share-based payment

### කොටස් පාදක ගෙවීම්

- Must recognise
- Measure at fair value if practicable
- If it is impracticable to determine the fair value of the option or other instrument granted, the entity's directors should use their judgement to apply the most appropriate valuation method

SLFRS 2 has intrinsic value "simplification".

## Section 27 Impairment of Assets

### වත්කම් හානිකරණය

- **Inventories** - write down selling price less costs to complete and sell, if below carrying amount
- **Other assets** - write down to recoverable amount, if below carrying amount
- **Recoverable amount** (හැවන අයකරගත හැකි අගය) is the greater of fair value less costs to sell and value in use



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 28 Employee Benefits

### සේවක ප්‍රතිලාභ

- For defined benefit plans, (නිශ්චිත ප්‍රතිලාභ සැලසුම්) use projected unit credit calculation only if entity is able without undue cost or effort. Otherwise, can simplify:
  - Ignore estimated future salary increases
  - Ignore future service of current employees (assume closure of plan)
  - Ignore possible future in-service mortality

**These simplifications are not in LKAS 19.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 28 Employee Benefits

### සේවක ප්‍රතිලාභ

- Actuarial gains and losses may be recognised in profit or loss or as an item of other comprehensive income
  - No deferral, including no corridor approach

**LKAS 19 allows various options for deferring and amortizing actuarial gains and losses – though IASB has proposed to eliminate those options**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 29 Income Tax

### ආදායම් බදු

- Recognise deferred taxes if the tax basis of an asset or liability is different from its carrying amount
- Tax basis assumes recovery by sale. (If zero capital gains tax, no deferred tax)
- No deferred tax on an asset or liability if recovery or settlement of carrying amount is not expected to affect taxable profit



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 29 Income Tax

### ආදායම් බදු

- Exception: No deferred tax on unremitted earnings of foreign subsidiaries and JVs
- Recognise deferred tax assets in full, with valuation allowance
  - Criterion is that realisation is probable (more likely than not)
- Deferred taxes all non-current

**Section 29 model is same as IASB/FASB March 2009 exposure draft on Income Tax.**



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 30 Foreign Currency Translation

### විදේශීය මුදල් පරිවර්තනය

- Functional currency (ව්‍යවහාර මුදල්) approach similar to that in LKAS 21
- No recycling of gains or losses on net investment in a foreign entity that are initially recognised in other comprehensive income



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 32 Events after the end of Reporting Period

### වාර්තාකරණ කාලච්ඡේදය අවසාන දිනෙන් පසු සිදුවූ සිද්ධීන්

- Adjusting Events ගලපන සිද්ධීන්
- Non Adjusting Events නොගලපන සිද්ධීන්

## Section 32 Events after the end of Reporting Period

### වාර්තාකරණ කාලච්ඡේදය අවසාන දිනෙන් පසු සිදුවූ සිද්ධීන්

- Disclosure අනාවරණයන්
  - Date of authorization for issue  
මූලය ප්‍රකාශන නිකුත් කිරීම සඳහා අධිකාරිය දුන් දිනය
  - Non Adjusting Events Disclosures  
නොගලපන සිද්ධීන් පිළිබඳ අනාවරණයන්
  - The nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

## Section 33 Related Party Disclosures

### සම්බන්ධිත පාර්ශව අනාවරණය

- Government departments and agencies are not related parties simply by virtue of their normal dealings with an entity
- Disclosure of key management personnel (ප්‍රධාන කළමනාකරණ පාර්ශවයන්) compensation only as one number in total
- Fewer disclosures about transactions





A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 34 Specialized Activities

### විශේෂිත ක්‍රියාකාරකම්

- Agriculture – use historical cost model unless fair value is readily determinable without undue cost or effort

**LKAS 41 requires FVTPL for all biological assets (ජීවයක් සහිත වස්තූ) and agricultural produce.**

- Oil and gas and mining – not required to charge exploration costs to expense



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

# Transition from SLAS to SLFRS for SMEs



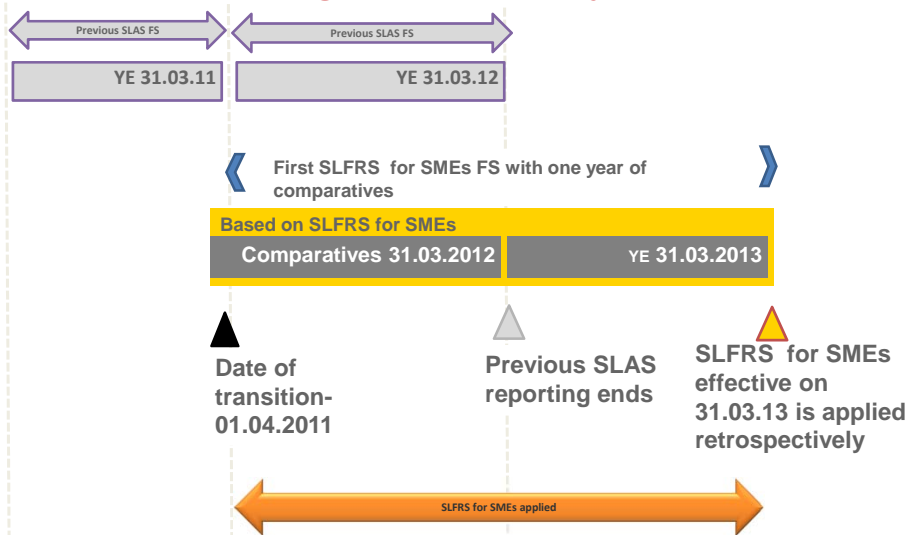
A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- SLFRS for SMEs effective date: periods beginning on or after 1 January 2012
- An entity can be a first time adopter of SLFRS for SMEs only once.
- Prepare current year and one prior year’s financial statements using the *SLFRS for SMEs*

## Transition to SLFRS for SMEs: e.g. March YE entity





A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- Procedure for restating the BS on date of transition:
  - The resulting adjustments arising from transition to SLFRS for SMEs should be recognized directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this IFRS.
  - Derecognized financial assets and liabilities under SLAS- not required to be recognized.
  - Financial assets and liabilities that should have been derecognized under SLFRS for SMEs, can be either derecognized or kept till disposed / settled.
  - Accounting estimates need not be revisited unless was in error



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- But there are many exemptions (electable) for restating specific items
  - **Fair value/ Revaluation as deemed cost:** an item of PPE, an IP, or an intangible asset on the date of transition can be stated at its fair value and use that fair value as its deemed cost at that date.
  - This becomes 'deemed cost' going forward. In other words entity uses cost-depreciation-impairment model going forward



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- But there are many exemptions (electable) for restating specific items
  - **Deferred income tax:** not required to recognize, at the date of transition, deferred tax assets or deferred tax liabilities relating to differences between the tax basis and the carrying amount of any assets or liabilities for which would involve undue cost or effort.



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- Exemptions (electable) *continued*
  - **Business combinations** that were effected before the date of transition can be ignored
  - **Arrangements containing a lease:** determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at date of transition, rather than when the arrangement was entered into.
  - **Cumulative translation differences:** deem the cumulative translation differences for all foreign operations to be zero at the date of transition (*i.e. a 'fresh start'*).



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- Exemptions (electable) *continued*
  - In separate financial statements, account for its investments in subsidiaries, associates, and jointly controlled entities either:
    - (i) at cost or deemed cost (which shall be either fair value at the date of transition or previous SLAS carrying amount on that date) less impairment, or
    - (ii) at fair value with changes in fair value recognised in profit or loss.
  - **Some more electives** on compound financial instruments, service concession arrangements, decommissioning liabilities, share based payments



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- And a general exemption for impracticability
  - If it is **impracticable for an entity to restate the opening BS** at the date of transition, make such adjustments in the earliest period for which it is practicable to do so
  - Identify the data presented for prior periods that are not comparable
  - If it is impracticable for an entity to provide any disclosures required, the omission shall be disclosed.



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013

## Section 35 First-time adoption

### මුල්වරට භාවිතය

- Disclosures for transition
  - explain how the transition from previous SLAS to SLFRS for SMEs affected
  - a description of the nature of each change in accounting policy
  - reconciliations of its equity (on date of transition and opening date to current BS)
  - a reconciliation of the profit or loss in SLAS and SLFRS for SMEs



A Presentation to practitioners and preparers of financial statements on SLFRS for SMEs on 28<sup>th</sup> February 2013


## No sections covering these topics

- |                        |  |
|------------------------|--|
| • Segment reporting    | බණ්ඩ වාර්තාකරණය                        |
| • Earnings per share   | කොටසක ඉපැයුම                           |
| • Interim reporting    | අතුරු වාර්තාකරණය                       |
| • Assets held for sale | විකිණීම සඳහා තබාගන්නා ජංගම නොවන වත්කම් |


SLFRS for SMEs- 28<sup>th</sup> February 2013


# SLFRS for SMEs vs. Full SLFRSs-In Summary

93


SLFRS for SMEs - 28<sup>th</sup> February 2013

Topic	Full SLFRS	SLFRS for SMEs
Goodwill and Intangibles	Capitalization of development costs mandatory.  Goodwill and indefinite life intangibles are not amortized but subject to an annual impairment test.	All internally developed intangibles, including development costs, must be expensed.  Acquired intangibles (including goodwill) must be amortized. Default useful life 10 years.
Investment Property	Option to use cost or fair value through profit and loss ("FVTPL").	Use cost unless fair value can be measured reliably without undue cost or effort in which case use FVTPL.
Property Plant and Equipment	Option to revalue through the comprehensive income statement.	Mandatory cost model, no option to revalue.


94



### SLFRS for SMEs - 28<sup>th</sup> February 2013

Topic	Full SLFRS	SLFRS for SMEs
Borrowing costs	Mandatory capitalization.	Must be expensed as incurred
Business combinations	Acquisition method using a fair value exchange approach - attributable costs are expensed, and adjustments to contingent consideration generally to the profit and loss.	Acquisition method using a cost approach - attributable costs capitalized, and adjustments to contingent consideration against goodwill.
Defined benefit pension schemes	Net liability approach using projected salaries. Spreading of actuarial gains/losses permitted.	Net liability approach based on present value of future obligations. Simplification of the calculation allowed by omitting certain variables e.g. future salary increases. No spreading of actuarial gains/losses.
Income tax	Temporary difference approach. Limited rules on tax uncertainties	Temporary difference approach. Specific rules on tax uncertainties

95



### SLFRS for SMEs - 28<sup>th</sup> February 2013

Topic	Full SLFRS	SLFRS for SMEs
Financial Instruments	Complex mixed cost/fair value model using four asset categories, recycling of gains from equity, separation of embedded derivatives and restrictive hedging rules.	<p>Only two classifications: cost and FVTPL.</p> <ul style="list-style-type: none"> <li>"basic" financial instruments (e.g. cash, trade receivables) are measured at cost or amortized cost using the effective interest rate method. Equity investments with a quoted price at FVTPL.</li> <li>"Complex" financial instruments (e.g. derivatives such as options and forward contracts) are measured at FVTPL.</li> <li>No separation of embedded derivatives.</li> <li>Simplified hedging requirements.</li> <li>Option to use full IFRS for recognition and measurement (but retaining reduced disclosure).</li> </ul>

96





SLFRS for SMEs - 28<sup>th</sup> February 2013

**THANK YOU**