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CHARTERED ACCOUNTANTS OF SRI LANKA

LKAS 34 – Interim Financial Reporting

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Scope of the presentation

- Objectives of the standard
- Scope of the standard
- Interim financial report
- Minimum contents of interim financial report
- Comparison between LKAS 1 and LKAS 34
- Significant events and transactions
- Additional disclosures
- Reporting period
- Measurement principles
- Use of estimates

Objectives of the standard

- Prescribe the minimum content of an interim financial report
- Prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period

Scope of the standard

Standard does not mandate to prepare interim financial statements

However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports

This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Sri Lanka Accounting Standards (SLFRSs)

The Sri Lanka Accounting Standards Committee encourages publicly traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Standard.

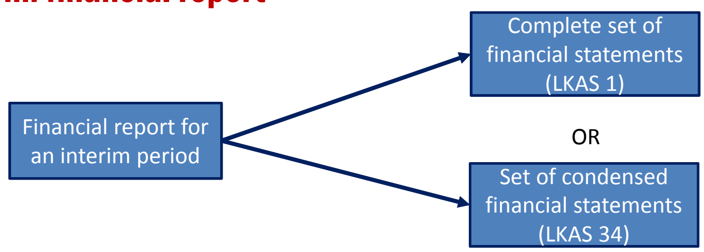
Scope of the standard (Cont...)

Specifically, publicly traded entities are encouraged:

a) to provide interim financial reports at least as of the end of the first half of their financial year; and
b) to make their interim financial reports available not later than 60 days after the end of the interim period.

If an entity's interim financial report is described as complying with SLFRSs, it must comply with all of the requirements of this Standard.

Interim financial report



Interim period is a financial reporting period shorter than a full financial year.

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Minimum contents of an interim financial report

- a condensed statement of financial position
- a condensed statement or condensed statements of profit or loss and other comprehensive income
- a condensed statement of changes in equity
- a condensed statement of cash flows
- selected explanatory notes

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Minimum contents of an interim financial report

If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum,

- Each of the headings and subtotals that were included in its most recent annual financial statements
- The selected explanatory notes as required by LKAS 34

Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading

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Comparison between LKAS 1 and LKAS 34

Full set of financial statements (LKAS 1)	Set of condensed financial statements (LKAS 34)
a statement of financial position as at the end of the period	a condensed statement of financial position
a statement of profit or loss and other comprehensive income for the period	a condensed statement or condensed statements of profit or loss and other comprehensive income
a statement of changes in equity for the period	a condensed statement of changes in equity
a statement of cash flows for the period	a condensed statement of cash flows
notes, comprising significant accounting policies and other explanatory information	selected explanatory notes
a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with LKAS 1	

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Significant events and transactions

- An entity should include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period

Examples of significant events and transactions

- The write-down of inventories to net realisable value and the reversal of such a write-down
- Recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss
- The reversal of any provisions for the costs of restructuring
- Acquisitions and disposals of items of property, plant and equipment
- Commitments for the purchase of property, plant and equipment
- Litigation settlements
- Corrections of prior period errors

Examples of significant events and transactions

- Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost
- Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period
- Related party transactions
- Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments
- Changes in the classification of financial assets as a result of a change in the purpose or use of those assets
- Changes in contingent liabilities or contingent assets

Additional disclosures

- a statement that the same accounting policies and methods of computation are followed in the interim financial statements
- explanatory comments about the seasonality or cyclicality of interim operations
- the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence
- the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years
- issues, repurchases and repayments of debt and equity securities

Additional disclosures

- dividends paid (aggregate or per share) separately for ordinary shares and other shares
- the segment information
- events after the interim period that have not been reflected in the financial statements for the interim period
- the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations
- for financial instruments, the disclosures about fair value required SLFRS 13 *Fair Value Measurement* and SLFRS 7 *Financial Instruments: Disclosures*

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Disclosure of compliance with SLFRSs

- If an entity's interim financial report is in compliance with LKAS 34, that fact shall be disclosed
- An interim financial report shall not be described as complying with SLFRSs unless it complies with all the requirements of SLFRSs.

Example - Statements required for entities that report half-yearly

	Current Reporting Period	Comparative
Statement of Financial Position	30 June 2016	31 December 2015
Statement of profit or loss and other comprehensive income (and, where applicable, separate income statement) – 6 months ended	30 June 2016	30 June 2015
Statement of changes in equity – 6 months ended	30 June 2016	30 June 2015
Statement of cash flows – 6 month ended	30 June 2016	30 June 2015

Example - Statements required for entities that report quarterly

	Current Reporting Period	Comparative
Statement of Financial Position	30 June 2016	31 December 2015
Statement of profit or loss and other comprehensive income (and, where applicable, separate income statement) - 6 months ended - 3 months ended	 30 June 2016 30 June 2016	 30 June 2015 30 June 2015
Statement of changes in equity - 6 months ended	 30 June 2016	 30 June 2015
Statement of cash flows - 6 month ended	 30 June 2016	 30 June 2015

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Measurement

- Same accounting policies as those in annual financial statements
- Revenues received occasionally, seasonally or cyclically should not be anticipated or deferred
- Costs incurred unevenly during the financial year should only be anticipated or deferred if it would be appropriate to do so in the annual financial statements

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Examples of measurement principles

Employee payroll taxes and insurance contributions In some countries these are assessed on an annual basis but paid at an uneven rate during the year. It is therefore appropriate, in this situation, to adopt an estimated average annual tax rate for the year in an interim statement, not the actual tax paid. Taxes are average annual assessment, but payment is uneven.

Cost of a planned major periodic overhaul The cost of such an event must not be anticipated unless there is a legal or constructive obligation to carry out the work. A mere intention to carry out work later in the year is not sufficient justification to create a liability.

Year end Bonus This should not be provided in the interim report unless there is a constructive obligation to pay such a bonus and it can be reliably measured.

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Examples of measurement principles (Cont...)

Intangible asset IAS 34 must follow IAS 38 Intangible assets and thus it would be inappropriate in an interim report to defer a cost in the expectation that it will eventually be part of a non monetary intangible asset that has not yet been recognised.

Holiday pay If holiday pay is an enforceable obligation on the employer, than any unpaid accumulated holiday pay should be accrued in the interim report.

Tax on income An expense for tax should be included in the interim report and the tax rate should be estimated average annual tax rate for the year.

Example 1 – Tax on income

1. Assume a quarterly reporting entity expects to earn CU10,000 pre-tax each quarter and operates in a tax jurisdiction with a tax rate of 20% on the first CU20,000 and 30% on all additional earnings.

   If actual earnings match expectations, the tax reported in each quarter is as follows:

   Tax expense: CU2,500; CU2,500; CU2,500; CU2,500 = Total CU10,000

   Total earnings estimate: CU40,000 (CU20,000 x 20%) = CU4,000 + CU20,000 x 30% = CU6,000 (i.e. CU10,000 / 4 = CU2,500)

Example 2 – Tax on income

2. Assume a quarterly reporting entity expects to earn CU15,000 pre-tax in quarter 1 but incur losses of CU5,000 in quarters 2-4.

   If the tax rate is 20%, the tax reported in each quarter is as follows:

   Tax expense: CU3,000; (CU1,000); (CU1,000); (CU1,000) = Total CU Nil

3. Assume a year end of 30 June and a taxable year end of 31 December, together with pre-tax earnings of CU10,000 each quarter and an average tax rate of 30% in year 1 and 40% in year 2.

   Tax expense: CU3,000; CU3,000; CU4,000; CU4,000 = Total CU 14,000

Examples of measurement principles

Inventory valuations Inventory should be valued in the same way as for year end accounts but it will be necessary to rely more heavily on estimates for interim reports.

Depreciation This should only be charged in the interim statement on assets that have been owned during the period but not on assets that will be acquired later in the financial year.

Foreign currency translation gains and losses This should be calculated using the same principles at the end of the year in accordance with IAS 21 (see **Chapter 31**).

Use of estimates

Many estimates are made in the preparation of financial statements (for example, inventory valuation, estimated useful lives of assets, recoverability of debts)

Being cautious when exercising judgement in arriving at these estimates is known as prudence

While prudence is a generally accepted concept, it does not extend to including excess provisions, overstating liabilities or understating income or assets

While accounting information must be reliable and free from material error, it may be necessary to sacrifice some accuracy and reliability for the sake of timeliness and cost benefits

This is particularly relevant for interim reports (e.g. inventory, provisions and income taxes)

THANK YOU