

Alternative treatment 1 to SLPSAS 11- Addendum to SLPSAS Volume III

Alternative accounting treatment for capital grant in terms of Sri Lanka Public Sector Accounting standard – Revenue from Non Exchange Transactions (Taxes and Transfers) SLPSAS 11 in SLPSAS Volume III

Revenue from Non Exchange Transactions (Taxes and Transfers) SLPSAS 11 of the Sri Lanka Public Sector Accounting Standard in Volume III, is based on the International Public Sector Accounting Standard (IPSAS) published by the International Federation of Accountants (IFAC) and used with their permission. This standard provides for accounting treatment for revenue from non-exchange transactions which include capital grants.

Whereas the Sri Lanka Accounting Standard - Accounting for Government Grants and Disclosure of Government Assistance – (LKAS 20) published by CA Sri Lanka is based on International Financial Reporting Standard (IFRS).

These standards were issued with international recognition for materially different sectors. While the SLPSAS 11 was issued specifically to the public sector institutions which are neither commercial nor profit oriented entities, the LKAS 20 was issued to commercial or profit oriented entities. Hence there is material difference in the accounting treatment provided for in these standards.

This difference in accounting treatment has created confusion among the accountants in the public sector. The following issues have been considered controversial by them, since the capital grants whether in cash or kind are treated as non-exchange revenue in the Statement of Financial Performance in terms of SLPSAS 11:

- a. Capital grant considered as revenue in total in the statement of financial performance instead of showing it as deferred revenue and amortizing the same during the useful life of the assets acquired under the grant, while the assets acquired under the grant gets depreciated during the life period.
- b. Huge surpluses get carried forward annually in the performance statement contrary to real operational performance.
- c. The surpluses accumulate without having corresponding cash equivalents.

These concerns were deliberated at the Public Sector Accounting Standard Committee (PSASC) of the Institute of Chartered Accountants of Sri Lanka held on 19th June 2019, analyzing the provisions of SLPSAS 11 and LKAS 20 to consider whether any amendment to the standard is required. Having analyzed and deliberated the provisions in detail, the committee considered that the principles are justifiable for the Public Sector and decided not to amend the SLPSAS 11 or to provide any deviation from the standard, but to propose the following as allowed alternative in presenting the statement of financial performance as per SLPSAS 11:

- (a) Disclose the total revenue as a top line item in the 1st compartment Statement of the Financial Performance with a breakdown of recurrent grant, capital grant and other revenue and proceed with showing recurrent grant as the recurrent revenue to match with the recurrent expenses to ascertain the operating surplus.
- (b) The capital grant and the periodical depreciation and other expenses including impairments of capital assets showing, the surplus after accounting for capital grant and related expenses in the 2nd compartment of the statement of financial performance and finally to carry forward the overall surplus or deficit to the accumulated fund.
- (c) Tax related to the surplus if any, arising from the above treatment, to be taken up with the commissioner General of Inland revenue explaining the substance in the accounting treatment.
- (d) Illustrative format with the above changes as attached to be issued as implementation guidance.

The above allowed alternative presentation will not have any effect on the accumulated fund/net assets or to the principles of the standard. It will avoid any confusion and facilitate the reader to have a clear understanding with full compliance of the standard 11

(Presentation format is in the annexure.)

Guidance: Presentation format of Financial Statement in SLPSAS 1 with Grant treatment.**Public Sector Entity – Statement of Financial Performance for the year Ended December 31, 20x2***(Illustrating the Classification of expenses by nature)*

| | 20x2 | 20x1 |
|--|------------------------|------------------------|
| <u>Revenue</u> | | |
| Revenue from Non exchange transactions | | |
| Taxes | x | x |
| Fees, fine, penalties and others | x | x |
| Recurrent grant | <u>x</u> | <u>x</u> |
| | X | x |
| Capital grant | <u>x</u> | <u>x</u> |
| | x | x |
| Revenue from exchange transactions | <u>x</u> | <u>x</u> |
| Total revenue | <u><u>x</u></u> | <u><u>x</u></u> |
| Operation Results | | |
| Recurrent revenue | | |
| - Non exchange | x | x |
| - Exchange | <u>x</u> | <u>x</u> |
| Total | x | x |
| Expenses – Current (non capital) | | |
| Wages, salaries and employee benefit | (x) | (x) |
| Grant and other transfer payment-current | (x) | (x) |
| Supplies and consumables used | (x) | (x) |
| Other expenses | (x) | (x) |
| Finance costs | <u>(x)</u> | <u>(x)</u> |
| Total expenses | <u>(x)</u> | <u>(x)</u> |
| Share of surplus of associate's | <u>x</u> | <u>x</u> |
| Current surplus/(deficit) for the period | <u>x</u> | <u>x</u> |
| Non exchange revenue – Capital grant | x | x |
| Exchange revenue – Capital (Note.) | x | x |
| Depreciation and amortization expenses | (x) | (x) |
| Impairment of property, plant and equipment | <u>(x)</u> | <u>(x)</u> |
| Surplus/(deficit) for the period after accounting for capital Grant | <u>(x)</u> | <u>(x)</u> |
| Total surplus/(deficit) for the period | <u><u>x</u></u> | <u><u>x</u></u> |
| Attributable to | | |
| Owner of controlling entity | x | x |
| Minority interest | <u>x</u> | <u>x</u> |
| | <u><u>x</u></u> | <u><u>x</u></u> |

Public Sector entity- Statement of Financial Position

As at December 31,20x2

(In thousands of currency Units)

(Net assets/ Equity part)

| | | | 20x2 | | 20x1 |
|---------------------------------|----------|----------|----------|----------|----------|
| Net Assets/Equity | | | | | |
| Capital contributed by | | | | | |
| other government entities | | | x | | x |
| Reserve | | | x | | x |
| Accumulated surplus/(Deficit) | -Current | x | | x | |
| | -Capital | <u>x</u> | x | <u>x</u> | x |
| Minority Interest | | | <u>x</u> | | <u>x</u> |
| Total Net Assets/ Equity | | | <u>x</u> | | <u>x</u> |

(The above should be reflected in the Statement of Changes in Equity/Net assets too)