SLPSAS for LAs

Sri Lanka Public Sector Accounting Standard for Local Authorities

SRI LANKA PUBLIC SECTOR ACCOUNTING STANDARD

FOR

LOCAL AUTHORITIES

(SLPSAS FOR LOCAL AUTHORITIES)

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Massage from the Secretary of the Ministry of Provincial Councils and Local Government

It is with great pleasure I appreciate the efforts made and dedication shown by the consultant team from the Public Sector Wing of CA Sri Lanka through the initiative made by this Ministry under the North East Local Government Services Improvement Project (NELSIP) for formulating and developing a single Public Sector Accounting Standard for Local Authorities in Sri Lanka in a simplified manner.

Currently the Local Authorities are mandated to prepare accounts in accordance with the Accounting and Administrative Rules published under Pradeshiya Saba Act 1987, and provisions laid down in the Urban and Municipal Councils Ordinances. With the publication of Sri Lanka Public Sector Accounting Standards and the Circulars issued by this Ministry to submit accounts in compliance with these standards, the local authorities found it difficult to do so, due to the complexities involved and the lack of professional skills and expertise required.

It has therefore become necessary to introduce a simplified system of accounts for local authorities. Auditor General has also pointed out in his observation to identify a proper accounting system in accordance with Accounting.Standards.

After three decades, this ministry was able to introduce more simplified accounting system complying to the accounting standards by improving the existing system in Local Authorities and it can be considered as a mile stone in the history of Ministry of Provincial Councils and Local Government.

Further, arrangement has been made to submit a cabinet paper considering the accounting procedure is a national policy and action will be taken to conduct training on new accounting system by Sri Lanka Institute of Local Governance and Provincial Council Training Institutions.

I take this opportunity to express my sincere appreciation again for the dedicated efforts made by the Consultants of the Public Sector Wing of CA Sri Lanka and the NELSIP team for developing the Public Sector Accounting Standards for Local Authorities in Sri Lanka.

H.T.Kamal Pathmasiri
Secretary
Ministry of Provincial Councils and Local Government

Message from the President of CA Sri Lanka

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is pleased to join with its public sector wing, the Association of Public Finance Accountants of Sri Lanka (APFASL) to issue the Sri Lanka Public Sector Accounting Standard for Local Authorities (SLPSAS for LAs). This is an important milestone, as it is the first time such a standard has been issued for the benefit of the local authorities, in line with the International Public Sector Accounting Standards.

For a country to progress , there is an underlying need for organisations from both the public and private sectors to provide reliable and up to date financial statements. Therefore, the SLPSAS for LAs has been developed for the benefit of Municipal Councils, Urban Councils and Pradeshiya Sabhas using modern standard principles for financial reporting, in a manner which can be cost effectively applied and used by local authorities in Sri Lanka.

By applying the SLPSAS for LAs, the local authorities can reduce measurement uncertainties associated with assumptions used in preparation of financial statements and further ensuring that Municipal Councils, Urban Councils and Pradeshiya Sabhas getting the necessary guidelines to produce financial statements which are in line with International Public Sector Accounting Standards.

I am very much grateful to the APFASL and NELSIP for their tireless efforts put in place to help develop this important standard. I am most certain that the SLPSAS for LAs will be immensely beneficial for all local authorities in Sri Lanka, and will also be an important stepping stone to help enhance the role and service provided by local authorities to the public in Sri Lanka.

The ultimate objective of the SLPSAS for LAs is to provide a financial reporting standard which could be cost effectively used by local authorities to enhance the public sector financial management to develop the economy of the country

Lasantha Wickremasinghe
President
CA Sri Lanka

Message from the President APFASL

We are extremely pleased to release this standard specifically formulated for the local authorities at the request of the Ministry of Provincial Councils and Local Government under the North East Local Government Services Improvement Project (NELSIP)

In formulating this standard, every possible attempt has been made to incorporate the principles enumerated in the International Public Sector Accounting Standards, avoiding complexities to the extent possible, considering the needs of the local authorities, without affecting the quality of Financial Reporting.

This Accrual based Single Standard provides a framework for quality accounting and reporting, facilitating reliable information for decision making in the local authorities in line with International Best Practices. Preparation and presentation of financial statements in compliance with these standards will enhance the financial reporting practices, ensuring transparency, accountability and good governance.

I take this opportunity to express my sincere thanks and gratitude to the Consultants who assisted us in formulating this standard and the members of the Public Sector Accounting Standards Committee, the President and Council of CA Sri Lanka for adoption and publication of this standard. I would also like to take this opportunity to place on record the initiative and the interest taken by the Secretary, Ministry of Provincial Councils and Local Governments and the NELSIB team for the financial assistance and commitments extended in making this a success.

V.Kanagasabapathy
President, Association of Public Finance Accountants of Sri Lanka
Chairman Public Sector Accounting Standards Committee

Introduction

Sri Lanka Public Sector Accounting Standards (SLPSASs) are based on International Public Sector Accounting Standards (IPSASs) published by the International Federation of Accountants. IPSASs are based on International Financial Reporting Standards (IFRSs) published by the IFRS Foundation.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has published 20 SLPSASs. These standards include complex financial measurement principles which, among others, involve valuations using income approach, actuarial valuations, and discounted cash flow techniques for ascertainment of value in use etc. which are either not applicable, or not cost effective for application in local authorities in Sri Lanka.

Sri Lanka Public Sector Accounting Standard for Local Authorities (SLPSAS for LAs) was drafted using modern standard setting principles for financial reporting, in a manner which can be cost effectively applied and used by local authorities in Sri Lanka, considering nature and level of complexity of transactions and availability of resources.

Application of SLPSAS for LAs would reduce measurement uncertainties associated with financial statements prepared in compliance with standards based on IPSASs, due to reduction of professional judgement required in measurement of assets and liabilities. It also provides a single source of reference to identify financial reporting principles used in local authorities.

Preface to SLPSAS for LAs

1. The objective of Sri Lanka Public Sector Accounting Standard for Local Authorities (SLPSAS for LAs) is to provide a financial reporting standard which could be cost effectively used by local authorities.

2. Municipal Councils (MCs), Urban Councils (UCs) and Pradeshiya Sabhas (PSs) could use SLPSAS for LAs.

3. SLPSAS for LAs can be read, interpreted and applied without reference to International Public Sector Accounting Standards (IPSASs) or Sri Lanka Public Sector Accounting Standards (SLPSASs).

4. The requirements stated in SLPSAS for LAs recocognises the size, level of complexity, availability of resources and their effect on cost effectiveness in the preparation and presentation of financial statements of local authorities.

5. Application of SLPSAS for LAs would reduce measurement uncertainties associated with financial statements prepared in compliance with standards based on IPSASs, due to reduction of professional judgement required in measurement of assets and liabilities.

SLPSAS for LAs

Sri Lanka Accounting Pubic Sector Accounting Standard for Local Authorities

Contents

Chapter 1 – Scope of this standard

Introduction

1.1 This standard, SLPSAS for LAs shall be used in the preparation and presentation of the financial statements of a local authority (LA) with the meaning specified in this chapter.

Local Authority

1.2 A local authority is an entity which is authorized by law to exercise the functions of public administration, as its lowest tier. The following types of entities are considered as local authorities for the purposes of this standard:
(a) Municipal Councils (MCs);
(b) Urban Councils (UCs); and
(c) Pradeshiya Sabhas (PSs).

Chapter 2 - Concepts and Pervasive Principles

Objective of financial statements

2.1 The objective of financial statements prepared in compliance with this standard is to provide financial information about the reporting local authority that is useful to users of financial statements.

Assets, liabilities, and Net Assets/Equity

2.2 Assets, liabilities, and equity are defined as follows:

(a) an asset is a present economic resource controlled by the entity as a result of past events;

(b) liability is a present obligation of the entity to transfer an economic resource as a result of past events; and

(c) net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Income and Expenses

2.3 Income and expenses are defined as follows:

(a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from government as capital funds; and

(b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to government as the contributor of capital.

Recognition of assets, liabilities, income and expenses

2.4 An item shall be recognised (ie, incorporated in the financial statements) if it meets the definition of an asset, liability, income or expense and satisfies the following criteria:

(a) it is probable (ie, more likely than not) that any future economic benefit associated with the item will flow to or from the entity; and

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

Accrual basis

2.5 An entity shall prepare its financial statements, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Chapter 3 – Presentation of Financial Statements

Fair presentation

3.1 The financial position and financial performance of an entity, shall be presented fairly in financial Statements.

Compliance with SLPSAS for LAs

3.2 An entity that meets the requirements of this standard and whose financial statements comply with this standard shall make a statement of compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities (SLPSAS for LAs) in the notes to the financial statements.

Going concern

3.3 The management shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless the Government either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date. When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

Frequency of reporting

3.4 An entity shall present a complete set of financial statements at least annually.

Consistency of presentation

3.5 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate.

Comparative information

3.6 Except when this standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements.

Budget information

3.7 An entity that has prepared annual budgets in accordance with presentation, recognition and measurement principles of this standard for the relevant period shall present budget information in the financial statements of that period.

3.8 An entity that has not prepared annual budgets in accordance with presentation, recognition and measurement principles of this standard for the relevant period shall not present budget information in the financial statements of that period.

3.9 An entity that presents budget information in the financial statements shall

(a) present the following amounts in separate columns or rows in a manner which facilitates comparison:

(i) actual;

(ii) budget; and

(iv) actual of the previous comparable period;

(b) present original and final budgets in separate columns, if different; and

(c) disclose the reasons for any material difference between the amounts presented for a line item in the notes.

Materiality and aggregation

3.10 Information is material if its omission or misstatement could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements.

3.11 An entity need not follow a requirement in this Standard if the effect of doing so would not be material.

3.12 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Complete set of financial statements

3.13 A complete set of financial statements of an entity shall include all of the following:

(a) a statement of assets and liabilities;

(b) a statement of comprehensive income;

(c) a statement of changes in net assets/equity;

(d) a statement of cash flows; and

(e) notes, comprising a summary of significant accounting policies and other explanatory information.

Identification of the financial statements

3.14 An entity shall clearly identify each of the financial statements (including the notes) and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
(b) the date of the end of the reporting period and the period covered by the financial statements;
(c) the currency in which the financial statements are presented; and
(d) the multiples of the number of currency units (such as rupees millions), if any, at which amounts are presented in the financial statements.

3. 15 An entity shall disclose the following in the notes:

(a) the legal form of the entity, its area of authority, the province and country within which its area of authority exists, and address of its principal office; and
(b) a description of the nature of the entity's operations and its principal activities.

Statement of assets and liabilities

Introduction

3.16 The statement of assets and liabilities, shall present the entity's assets, liabilities and net assets/equity as at the end of the reporting date, which shall be the last day of the reporting period.

Current/non-current distinction

3.17 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of assets and liabilities.

3. 18 An entity shall classify an asset as current when:
(a) it expects to realise the asset, or intends to consume, sell or distribute it, in the entity's normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

3.19 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

3.20 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) the liability is due to be settled within twelve months after the reporting date; or

(c) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

3. 21 An entity shall classify all other liabilities as non-current.

Information to be presented either in the statement of assets and liabilities or in the notes

3.22 An entity shall disclose, either in the statement of assets and liabilities or in the notes, the following sub classifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed;

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business (for example, inventories held by retailers and the finished goods of a manufacturer);

(ii) in the process of production for such sale (for example, the work in progress of a manufacturer);

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services (for example, raw materials); and

(d) trade and other payables, showing separately payables to trade suppliers, payables to related parties, deferred income and accruals;

(e) provisions, showing separately provisions for employee benefits and other items; and

(f) classes of net assets/equity, such as contributed capital, capital expenditure grants not recognised in surpluses/(deficits) and accumulated surpluses/(deficits).

3.23 An entity shall disclose a description of each reserve within net assets/equity, either in the statement of assets and liabilities or in the notes.

Statement of Comprehensive Income

3.24 An entity shall present items of income and expense recognised in determining surplus or deficit of the reporting period, surplus or deficit of the reporting period, items constituting other comprehensive income, other comprehensive income and comprehensive income in the statement of comprehensive income.

3.25 An entity shall present an analysis of expenses using a classification based on the function of expenses within the entity. Administration, health, maintenance of infrastructure, public utility services and welfare are examples of aggregations based on function of expenses. An entity shall not present or describe any items of income or expense as 'extraordinary items' in the financial statements.

Statement of Cash Flows

Cash equivalents

3.26 Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings.

Information to be presented in the statement of cash flows

3.27 An entity shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

3.28 Operating activities are the principal recurrent activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

3.29 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities

3.30 Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of an entity.

Reporting cash flows from operating activities

3.31 An entity shall present cash flows from operating activities using the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

3.32 The net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of:

(a) changes during the period in inventories and operating receivables and payables;
(b) non-cash items such as depreciation, provisions, accrued income (or expenses) not yet received (or paid) in cash, and unrealised foreign currency gains and losses; and
(c) all other items for which the cash effects relate to investing or financing

Notes

3. 33 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used.
(b) disclose the information required by this standard that is not presented elsewhere in the financial statements; and
(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

3.34 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.

3.35 The following is an example of a systematic order for presenting the notes:

(a) a statement that the financial statements have been prepared in compliance with the SLPSAS for LAs;
(b) a summary of significant accounting policies applied;
(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
(d) any other disclosures.

Disclosure of accounting policies

3.36 An entity shall disclose the following in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements (for example, historical cost); and
(b) the other accounting policies used that are relevant to an understanding of the financial statements.

Chapter 4 - Accounting Policies, Estimates and Errors

Selection and application of accounting policies

4.1 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

Changes in accounting policies

4.2 An entity shall change an accounting policy only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, or financial performance. Therefore, changes in accounting policies are generally rare.

4.3 The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material is not treated as a change in an accounting policy.

Applying changes in accounting policies

4.4 An entity shall present effect of changes in accounting policy relating to prior periods in the statement of changes in net assets/equity as an item which is not recognised in determining surplus or deficit of the reporting period, but recognised in determining the surplus or deficit brought forward.

Changes in accounting estimates

4.5 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

4.6 Examples of changes in accounting estimate include:

(a) a change in the method of depreciating an item of property, plant and equipment from a reducing balance method to a straight line method to reflect a revised assessment of the pattern of consumption of benefits of the asset; and

(b) the re-estimate of useful life of an item of property, plant and equipment.

4.7 An entity shall recognise the effect of a change in an accounting estimate, prospectively by including it in surplus or deficit in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

4.8 To the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, the entity shall recognise it by adjusting the carrying amount of the related asset or liability in the period of the change.

Correction of prior period errors

4.9 Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

4.10 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

4.11 An entity shall present effect of errors relating to prior periods in the statement of changes in equity as an item which is not recognised in determining surplus or deficit of the reporting period, but recognised in determining the retained earnings brought forward.

Disclosures

Disclosure of a change in accounting policy

4. 12 When a change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) to the extent practicable, the amount of the adjustment for the surplus or deficit:

(i) for the current period; and

(iii) in the aggregate for periods before current period ; and

(d) an explanation, if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosure of a change in estimate

4.13 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period.

Disclosure of prior period errors

4.14 An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error;
(b) the amount of the correction of the retained earnings;
(c) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Chapter 5 - Inventories

Scope

5.1 Inventories are assets:

(a) in the form of materials or supplies to be consumed or distributed in the administration of the entity or in rendering services;

(b) held for sale or distribution in the ordinary course of operations; or

(c) in the form of materials or supplies to be consumed in the production process; or

(d) in the process of production for sale or distribution.

Measurement of inventories

5.2 Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 5.3 applies.

5.3 Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

(a) consumption in the process of administration of the entity or providing services at no charge or for a nominal charge;

(b) distribution at no charge or for a nominal charge; or

(c) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Cost of inventories

5.4 The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition..

Cost of purchase

5.5 The cost of purchase of inventories comprise purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, material and services. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

Cost of conversion

5.6 The cost of conversion of inventories include only costs directly related to the units of production, such as direct material and direct labour.

Joint products and by-products

5.7 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products becomes separately identifiable, or at the completion of production. When the cost of a by-product is not material, the entity shall measure it at selling price less costs to complete and sell and deduct this amount from the cost of the main product.

Costs excluded from inventories

5.8 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted material, labour or other production cost;
(b) storage cost, unless storage is required between production stages;
(c) production and administrative overhead;
(d) selling cost;
(e) interest cost; and
(f) foreign exchange differences.

Cost of inventories of a service

5.9 Inventories of a service are measured at the cost of production. Cost of production consist primarily of cost of personnel directly engaged in providing the service, including supervisory personnel. Cost relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service does not include profit margins or overheads.

Methods of Cost Ascertainment

5.10 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

5.11 An entity shall measure the cost of inventories, by using the first-in, first-out (FIFO) or weighted average cost method. An entity shall use the same method for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different methods may be justified. The last-in, first-out method (LIFO) is not permitted.

Recognition as an expense

5.12 When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognized when the goods are distributed or the related service is rendered.

The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

5.13 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are subsequently accounted for in accordance with the chapter of this standard relevant to that type of asset.

Disclosures

5.14 An entity shall disclose the following:

(a) the accounting policies adopted in measuring inventories, including the method used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) write-down or losses of inventory recognised or reversed during the period; and

(e) the total carrying amount of inventories pledged as security for liabilities.

Chapter 6 - Property, Plant and Equipment

Scope

6.1 Property, plant and equipment are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

Recognition

6.2 Items such as spare parts, stand-by equipment and servicing equipment are property, plant and equipment if the entity expects to use them during more than one period or if they can be used only in connection with an item of property, plant and equipment. Otherwise, such items are classified as inventories.

6.3 Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

6.4 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

6.5 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the cost of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

6.6 The following costs are not costs of an item of property, plant and equipment, and an entity shall recognise them as an expense when they are incurred:

(a) cost of opening a new facility;

(b) cost of introducing a new product or service (including costs of advertising and promotional activities);

(c) cost of conducting business in a new location or with a new class of customer (including costs of staff training);
(d) administration and other general overhead cost; and
(e) borrowing cost.

6.7 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in surplus or deficit if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement after initial recognition

6.8 An entity shall measure an item of property, plant and equipment after initial recognition at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

6.9 The relevant proportion of cost less accumulated depreciation of an item of property, plant and equipment that has suffered damages, other than due to normal use, shall be recognized in surplus or deficit as impairment. An entity shall recognise the cost of day-to-day servicing of an item of property, plant and equipment in surplus or deficit in the period in which such cost is incurred.

Depreciable amount and depreciation period

6.10 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is cost minus accumulated depreciation and accumulated impairment losses, minus residual value. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

6.11 The depreciation charge for each period shall be recognised in surplus or deficit.

6.12 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.

6.13 Depreciation of an asset begins when it is available for use, ie, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized or fully depreciated.

6.14 The useful life of an asset is the period over which the asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity. An entity shall consider all of the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;
(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;
(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

Depreciation method

6.15 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

Derecognition

6.16 An entity shall derecognise an item of property, plant and equipment:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

6.17 An entity shall recognise the gain or loss on derecognition of an item of property, plant and equipment in surplus or deficit when the item is derecognised. The entity shall not classify such gains as revenue.

6.18 The date of disposal is the date when the risks and rewards of ownership of the asset have passed.

6.19 An entity shall determine the gain or loss arising from derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

6.20 An entity shall disclose the following for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;
(b) the depreciation methods used;
(c) the useful lives or the depreciation rates used;
(d) the gross carrying amount, accumulated depreciation, and accumulated impairment losses if any at the beginning and end of the reporting period; and
(e) a reconciliation of the carrying amount at the beginning and the end of the reporting period showing separately:
    (i) additions;
    (ii) disposals;
    (iii) depreciation; and
    (iv) impairment.

6.21 The entity shall also disclose the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.

Chapter 7 – Leases

Scope

7.1 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease may or may not transfer the ownership of the asset to the lessee at the end of the lease term.

7.2 This chapter covers accounting for all leases other than:

- (a) a lease to explore for or use mineral, oil, natural gas and similar non-regenerative resource;
- (b) a licensing agreement for such item as motion picture film, video recording, play, manuscript, patent or copyright;
- (c) a lease of biological assets; and
- (d) a lease that:
  - (i) transfers substantially all risks and rewards incidental to ownership; and
  - (ii) the period of the lease is not a significant part of the useful life of the asset.

Financial Statements of lessees

7.3 A lessee shall recognise lease payments as an expense on a straight-line basis unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

Financial statements of lessors

7.4 A lessor shall present assets subject to leases in its statement of assets and liabilities according to the nature of the asset.

7.5 A lessor shall recognise lease income in surplus or deficit on a straight-line basis over the lease term, unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

7.6 A lessor shall recognise as an expense costs, including depreciation, incurred in earning the lease income

Disclosures

7.7 A lessee shall make the following disclosures for leases:

- (a) lease payments recognised as an expense.
- (b) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Chapter 8 - Employee Benefits

General recognition principle

8.1 Employee benefits are consideration given by an entity in exchange for service rendered by employees, including management. An entity shall recognise the cost of employee benefits to which its employees have become entitled as a result of service rendered to the entity, in accordance with the requirements stated in this chapter:

(a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless another chapter of this standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Specific employee benefits

8.2 When an employee has rendered service to an entity, the entity shall measure the amounts recognised in surplus or deficit as follows:

(a) benefits payable within a short period of time before or after the period of service, such as wages, salaries, contributions to provident funds or trust funds, medical insurance premiums, and use of vehicle or residence, in the reporting period in which service is rendered;

(b) bonus and profit sharing payments, in the reporting period in which service is rendered;

(c) medical benefits not covered by insurance, in the reporting period in which employee claims the benefit;

(d) cost incurred for casual, annual or medical leave, in the reporting period in which leave is taken;

8.3 Benefits payable on termination of employment, such as gratuity shall be measured and recognized as a liability at the amount that would be payable at the end of the reporting period, if the employees leave on that date.

8.4 Benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date, are recognised in the reporting period in which the decision is communicated to the employee.

8.5 Benefits payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits, are recognised in surplus or deficit in the reporting period in which the employee accepts the same.

8.6 Post-employment benefits, such as pension paid to past employees shall be recognised as an expense in the period in which payment is made. If such benefits are paid by another entity, such as the Central Government, without reimbursement from the entity, the cost of such benefit shall be recognised both as a revenue and as an expense in recognising the surplus or deficit for the period.

Disclosures

8.7 An entity shall disclose the following in the notes to the financial statements:

(a) the amount of post-employment benefits, such as pension, paid or payable to past employees of the entity during the period;

(b) the extent to which post-employment benefits, such as pension, paid or payable to past employees of the entity during the period are paid or incurred by another entity, such as the Central Government;

(c) the number of employees to whom such post-employment benefits were payable during the period, and the number of present employees who are entitled to receive such benefits upon retirement;

Chapter 9 – Revenue from non-exchange transactions (taxes and transfers)

Scope

9.1 Revenue is the gross inflow of economic benefits or service potential during the reporting period arising in the course of the ordinary activities of an entity when those inflows result in increases in net assets/equity, other than inflows relating to contributions from government as capital funds. This chapter shall be applied in accounting for revenue arising from the following transactions and events:

(a) taxes, including rates received or receivable;
(b) penalties, including fines received or receivable;
(c) transfers received from government, other than as capital funds; and
(d) gifts and grants received, other than from government.

Taxes and Penalties

9.2 Taxes include rates and other forms of levies paid or payable to an entity, in accordance with laws and/or regulations established to provide revenue to the entity.

9.3 Taxes and penalties shall be recognised as revenue in the period in respect of which the taxes and penalties are levied.

9.4 Taxes and penalties in respect of periods before the reporting date, remaining receivable at the end of the reporting date shall be recognised as an asset, and measured at the amount recoverable.

Transfers from government

9.5 Transfers from government to incur expenses, are recognised as revenue in the period in which such expenses are recognised.

9.6 Transfers from government to provide funds for identified property, plant and equipment or other assets are recognised as revenue in the period in which cost of such property, plant and equipment or other assets are recognised in surplus or deficit.

9.7 Transfers from government which are related to a specific period shall be recognised as revenue in that period.

9.8 Transfers from government, other than as capital funds, not referred to in paragraphs 9.5, 9.6 or 9.7 shall be recognised as revenue in the period in which such transfer is received or receivable.

9.9 Transfers from government for capital expenditure are initially recognized in other comprehensive income. Transfers so recognised in other comprehensive income are recognised as revenue, and the corresponding amount is deducted from other comprehensive income, in the period in which the revenue recognition criteria referred to in the preceding paragraphs are satisfied. Transfers from government for which revenue recognition criteria referred to in the preceding paragraphs have not been satisfied on the reporting date are recognised in the statement of assets and liabilities as a separate component of equity.

Transfers from parties other than government

9.10 Transfers from parties other than government to incur expenses, are recognised as revenue in the period in which such expenses are recognised.

9.11 Transfers from parties other than government to provide funds for identified property, plant and equipment or other assets are recognised as revenue in the period in which cost of such property, plant and equipment or other assets are recognised in surplus or deficit.

9.12 Transfers from parties other than government which are related to a specific period shall be recognised as revenue in that period.

9.13 Transfers from parties other than government, not referred to in paragraphs 9.10, 9.11 or 9.12 shall be recognised as revenue in the period in which such transfer is received or receivable.

9.14 Transfers from parties other than government for capital expenditure are initially recognized in other comprehensive income. Transfers so recognised in other comprehensive income are recognised as revenue, and the corresponding amount is deducted from other comprehensive income, in the period in which the revenue recognition criteria referred to in the preceding paragraphs are satisfied. Transfers from parties other than government for which revenue recognition criteria referred to in the preceding paragraphs have not been satisfied on the reporting date are recognised in the statement of assets and liabilities as a separate component of equity.

Disclosures

9.15 An entity shall disclose:

(a) amount of revenue recognised as tax, with an appropriate analysis by type of tax;

(b) amount of revenue recognised as penalties, with an appropriate analysis by type of penalty;

Chapter 10 – Revenue from exchange transactions

Scope

10.1 Revenue is the gross inflow of economic benefits or service potential during the reporting period arising in the course of the ordinary activities of an entity when those inflows result in increases in net assets/equity, other than inflows relating to contributions from government as capital funds. This chapter shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);

(b) the rendering of services;

(c) construction contracts in which the entity is the contractor. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; and

(d) deposits or receivables yielding interest.

Measurement of revenue

10.2 An entity shall measure revenue at the value of the consideration received or receivable. The value of the consideration received or receivable is after deducting the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.

10.3 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties. Taxes based on sales or value added collected on behalf of a government shall not be included in revenue. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity

Sale of goods

10.4 An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable (ie more likely than not) that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

10.5 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. An entity does not recognise revenue if it retains significant risks and rewards of ownership, for example, if the receipt of the revenue from a particular sale is contingent on the buyer selling the goods.

Rendering of services

10.6 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
(a) the amount of revenue can be measured reliably;
(b) it is probable that the economic benefits associated with the transaction will flow to the entity;
(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

10.7 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are recoverable.

Construction contracts

10.8 When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, and future costs.

Percentage of completion method

10.9 This method is used to recognise revenue from rendering services and from construction contracts. An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

10.10 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

(a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;

(b) surveys of work performed; and

(c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

10.11 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

10.12 An entity shall recognise as an expense immediately any costs whose recovery is not probable.

10.13 When the outcome of a construction contract cannot be estimated reliably:

(a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) the entity shall recognise contract costs as an expense in the period in which they are incurred.

10.14 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an onerous contract.

10.15 If the collectability of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

Interest

10.16 Interest shall be recognised using the effective interest rate.

10.17 The effective interest rate is the rate that exactly discounts estimated future cash receipts, to the carrying amount of the asset. The effective interest rate is determined at initial recognition. Under the effective interest method:

(a) the carrying value of an asset is the present value of future cash receipts discounted at the effective interest rate; and
(b) the interest income in a period equals the carrying amount of the asset at the beginning of a period multiplied by the effective interest rate for the period.

10.18 Where interest is received regularly at the same interest rate and premiums, discounts or other receipts or payments are not involved in relation to the asset for which interest is received, interest receivable from that asset for the period is the interest income from that asset for that period.

Disclosures

General disclosures about revenue

10.19 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions, where relevant; and
(b) the amount of each category of revenue recognised during the period, showing separately, at a minimum, revenue arising from:
  (i) the sale of goods;
  (ii) the rendering of services;
  (iii) interest;
  (iv) commissions; and
  (v) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

10.20 An entity shall disclose the following:

(a) the amount of contract revenue recognised as revenue in the period;

(b) the methods used to determine the contract revenue recognised in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

10.21 An entity shall present:

(a) the gross amount due from customers for contract work, as an asset; and

(b) the gross amount due to customers for contract work, as a liability.

10.22 An entity shall disclose:

(a) amount of revenue recognised from exchange transactions, with an appropriate analysis by type of transaction;

(b) amounts recognised in surplus or deficit for irrecoverable receivables from exchange transactions;

(c) net amount recognised as receivable from exchange transactions on the reporting date, with an analysis of gross amount receivable, and the allowance for unrecoverable receivables;

(d) an analysis of the movement of the allowance for unrecoverable receivables from exchange transactions during the reporting period, including the amount of the allowance at the beginning of the period, amount recognised in surplus or deficit, and the allowance on the reporting date;

(e) an age analysis of the gross amount receivable from exchange transactions on the reporting date; and

(f) any amounts written off from receivables from exchange transactions during the period as not recoverable, and the authority which approved the write off.

Chapter 11 - Provisions and Contingencies

Scope

11.1 This Chapter applies to all provisions (ie liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other chapters of this Standard. These include provisions relating to:

(a) leases
(b) construction contracts
(c) employee benefit obligations; and
(d) income tax.

Initial recognition

11.2 An entity shall recognise a provision only when:

(a) the entity has an obligation at the reporting date as a result of a past event;
(b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and
(c) the amount of the obligation can be estimated reliably.

11.3 The entity shall recognise the provision as a liability in the statement of assets and liabilities and shall recognise the amount of the provision as an expense, unless another chapter of this standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Initial measurement

11.4 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

(a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

(b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the single most likely outcome.

Subsequent measurement

11.5 An entity shall charge against a provision only those expenditures for which the provision was originally recognised.

11.6 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in surplus or deficit unless the provision was originally recognised as part of the cost of an asset.

Contingent liabilities

11.7 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 11.2. An entity shall not recognise a contingent liability as a liability. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

11.8 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. An entity shall not recognise a contingent asset as an asset. When the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

11.9 For each class of provision, an entity shall disclose all of the following:

(a) a reconciliation showing:

(i) the carrying amount at the beginning and end of the period;

   (ii) additions during the period;
   (iii) amounts charged against the provision during the period; and
   (iv) unused amounts reversed during the period;

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
(c) an indication of the uncertainties about the amount or timing of those outflows; and
(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

11.10 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement.

If after making every reasonable effort to do so, an entity cannot make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

11.11 If an inflow of economic benefits is probable (more likely than not) but not virtually certain (therefore not recognized), an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect. If after making every reasonable effort to do so, an entity cannot make this disclosure, that fact shall be stated.

Chapter 12 - Borrowing Cost

Scope

12.1 This chapter prescribes requirements relating to borrowing cost. Borrowing costs are interest and other costs that an entity incurs in connection with borrowing of funds.

Recognition

12.2 An entity shall recognise all borrowing costs as an expense in surplus or deficit in the period in which they are incurred.

Disclosure

12.3 An entity shall disclose total interest expense recognised during the reporting period.

Chapter 13 – Foreign Currency Translation

Scope

13.1 This chapter prescribes how to include foreign currency transactions in the financial statements of an entity.

Reporting foreign currency transactions

Initial recognition

13.2 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

13.3 An entity shall record a foreign currency transaction, on initial recognition in the local currency, by applying to the foreign currency amount the spot exchange rate between the local currency and the foreign currency at the date of the transaction.

13.4 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example;

(a) an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period; or

(b) the rate at which related receivable or payable was settled may be used, if the settlement occurred within a short period of the date of transaction.

Reporting at the end of subsequent reporting period

13.5 At the end of each reporting period, an entity shall:

(a) translate foreign currency monetary items using the closing rate; and
(b) translate non-monetary items in a foreign currency using the exchange rate at the date of the transaction; and

13.6 An entity shall recognise, in surplus or deficit in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were previously translated.

Chapter 14 - Related Party Disclosures

Scope

14.1 This chapter requires an entity to include in its financial statements the disclosures necessary relating to transactions with related parties and outstanding balances with such parties.

Definition of a related party

14.2 Parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions.

14.3 Related parties include:

(a) key management personal, and close members of the family of key management personal;
(b) entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (a), or over which such person is able to exercise significant influence; and
(c) entities that the reporting entity has control or has significant influence over.

14.4 Key management personnel are:

(a) all members of the governing body of the entity;
(b) other persons having authority and responsibility for planning, directing and controlling the activities of the entity; and
(c) key advisors of members of the governing body of the entity.

14.5 The following are presumed to be close members of the family of an individual:

(a) a spouse, domestic partner, or relative living in a common household;
(b) a child, grand child, parent, grand parent, brother or sister; and
(c) the spouse or domestic partner of a child, a parent-in-law, a brother-in-law or sister-in-law.

Disclosures

Disclosure of subsidiary-parent relationships

14.6 Relationships between a subsidiary and its parent shall be disclosed irrespective of whether there have been related party transactions

Disclosure of related party transactions

14.7 If an entity has transactions with a related party, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.

14.8 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);
(b) purchases or sales of property and other assets;
(c) leases;
(d) transfers of research and development;
(e) transfers under licence agreements;
(f) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
(g) provision of guarantees or collateral; and
(h) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

14.9 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm’s length transactions unless such terms can be substantiated.

14.10 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Chapter 15 – Other Assets and Liabilities

Receivables

15.1 An entity shall initially recognize a receivable from a non-exchange transaction at the amount receivable in accordance with the relevant laws and regulations. An entity shall initially recognise and measure a receivable from an exchange transaction at transaction price.

15.2 An entity shall review and consider whether the amount receivable at the end of the reporting period is recoverable.

15.3 An entity shall review the amounts receivable on the reporting date, to assess the extent to which the amounts shown as receivable are likely to be recovered. The receivables shall be measured in the statement of assets and liabilities at the amounts likely to recovered by recognizing an allowance for impairment. The difference in the carrying value of the allowance on the reporting date shall be recognised in surplus or deficit, as impairment of receivables.

Shares in listed companies

15.4 Shares traded in a stock exchange shall be measured at the volume weighted average price of trades in the last trading period before the end of the reporting period as regularly disclosed by the relevant stock exchange.

15.5 If, a share listed in a stock exchange was suspended from trading in that exchange, at the end of the reporting period, the entity shall measure the shares in the statement of assets and liabilities at its most probable value on that date.

Shares in other companies

15.6 Shares in companies which are not quoted in a stock exchange shall be measured at cost or net asset value whichever is lower. The net asset value of the shares shall be ascertained based on the general purpose financial statements of that entity.

Loans payable

15.7 Loans payable by the entity shall be measured at the amount repayable.

15.8 The amount of a loan repayable more than a year after the reporting date is classified as a non-current liability. The amount of a loan repayable not more than a year from the reporting date is classified as a current liability.

15.9 Unpaid interest accrued up to the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities.

Payables

15.10 An entity shall initially recognise and measure a payable at transaction price.

15.11 The amount remaining payable at the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities.

Tax on surplus or deficit

15.12 An entity shall recognise the amounts payable as tax on its surpluses or deficits up to the end of the reporting period, based on the amounts payable computed in accordance with the relevant statutes.

Disclosures

15.13 An entity shall disclose the following separately in respect of receivables from non-exchange transactions and receivables from exchange transactions:

(a) net amount recognised as receivable on the reporting date, with an analysis of gross amount receivable, and the allowance for unrecoverable receivables;

(b) an analysis of the movement of the allowance for unrecoverable receivables during the reporting period, including the amount of the allowance at the beginning of the period, amounts recognised in surplus or deficit, and the allowance at the end of the reporting date;

(c) an age analysis of the gross amount receivable on the reporting date; and

(d) any amounts written off during the period as not recoverable, and the authority which approved the write off.

Chapter 16 – Reporting Service Performance Information

Scope

16.1 This chapter provides guidance on reporting service performance information in the financial statements.

16.2 Reporting service performance information in accordance with this chapter represents good practice. Compliance with this chapter is not required for an entity to assert that the financial statements have been prepared in accordance with SLPSAS for LAs.

16.3 Service performance information should not be described as complying with this chapter unless it complies with all the principles of this chapter.

Definitions

16.4 The following terms are used in this chapter with the meanings specified:

Effectiveness is the relationship between actual results and service performance objectives.

Efficiency is the relationship between (a) inputs and outputs; or (b) inputs and outcomes.

Inputs are resources used by an entity to provide outputs.

Outputs are services provided by an entity to recipients external to the entity.

Outcomes are impacts on society, which occur as a result of, or are reasonably attributed to, the entity's outputs.

Performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services and achieving its service performance objectives.

Service performance objective is a description of a planned result that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

Statement of service performance

16.5 An entity that reports service performance information in accordance with this chapter shall in addition to the statements referred to in *Chapter 3 Presentation of financial statements*, present a statement of service performance.

Service performance information

16.6 The following information shall be presented in the statement service performance:

(a) service performance objectives;

(b) performance indicators; and

(c) total cost of the services.

16.7 With respect to performance indicators and the total cost of the services, the entity shall present:

(a) planed and actual information for the reporting period; and

(b) actual information for the previous reporting period.

16.8 Where service performance information includes information that is also in the other statements or notes comprising the financial statements, reference information shall be presented in the statement of service performance.

Narrative discussion and analysis

16.9 The entity shall present a narrative discussion and analysis on its service performance information.

16.10 The narrative discussion and analysis on service performance information shall provide a concise overview of the entity's service performance.

16.11 The narrative discussion and analysis on service performance information shall:

(a) discuss the degree to which service performance objectives have been met;

(b) provide neutral explanations of the information presented, which address both negative and positive aspects; and

(c) facilitate users' assessment of efficiency and effectiveness of the entity's service performance.

Chapter 17 - Events after the End of the Reporting Period

Definition

17.1 Events after the end of the reporting period are those events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Recognition and measurement

Adjusting events after the end of the reporting period

17.2 An entity shall adjust the amounts recognised in its financial statements, or recognise items that were not previously recognised, including related disclosures, to reflect adjusting events after the end of the reporting period. Adjusting events after the end of the reporting period are those events that provide evidence of conditions that existed at the end of the period.

17.3 Examples include:

(a) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a tenant that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on rent receivable and that the entity needs to adjust the carrying amount of the allowance for impairment for rent receivable; and

(ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing amount recoverable at that date.

(b) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

Non-adjusting events after the end of the reporting period

17.4 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period. Non-adjusting events after the end of the reporting period are those events that are indicative of conditions that arose after the end of the reporting period.

17.5 An example of a non-adjusting event after the end of the reporting period is a loss caused by flood, fire, or other event that occurred after the end of the reporting period.

Disclosure

Date of authorisation for issue

17.6 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation.

Chapter 18 - Transition to SLPSAS for LAs

Scope

18.1 This chapter applies to a first-time adopter of SLPSAS for LAs, regardless of whether its previous basis of financial reporting was SLPSASs or any other basis.

First-time adoption

18.2 A first-time adopter of SLPSAS for LAs shall apply the requirements of this chapter in its first financial statements that conform to SLPSAS for LAs.

18.3 An entity's first financial statements that conform to SLPSAS for LAs are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with SLPSAS for LAs. Financial statements prepared in accordance with this standard are an entity's first such financial statements if, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements based on principles not consistent with SLPSAS for LAs in all respects; or

(c) presented its most recent previous financial statements in conformity with SLPSASs.

18.4 An entity's date of transition to SLPSAS for LAs is the beginning of the reporting period for which the entity presents its first financial statements that conform to SLPSAS for LAs. An entity shall prepare an opening statement of assets and liabilities as at the date of transition to SLPSAS for LAs.

Statement of Assets and Liabilities as at the date of transition

18.5 Except as provided in subsequent paragraphs, an entity shall, in its opening statement of assets and liabilities (as at the date of transition to SLPSAS for LAs):

(a) recognise all assets and liabilities for which recognition is required by SLPSAS for LAs;

(b) not recognise items as assets or liabilities if SLPSAS for LAs does not permit such recognition;

(c) reclassify each item that it recognised under its previous basis of financial reporting as one type of asset, liability or component of equity, but is a different type of asset, liability or component of equity under SLPSAS for LAs; and

(d) apply SLPSAS for LAs in measuring all recognised assets and liabilities.

18.6 The accounting policies that an entity uses in its opening statement of assets and liabilities (as at the date of transition to SLPSAS for LAs) under SLPSAS for LAs may differ from those that it used using its previous basis of financial reporting. The resulting adjustments arise from transactions, other events or conditions before the date of transition to SLPSAS for LAs. Therefore, an entity shall recognise those as adjustments to retained surpluses or deficits (or, if appropriate, another category within net assets/equity) on the date of transition to SLPSAS for LAs.

18.7 An entity that has presented its most recent previous financial statements in compliance with SLPSASs may elect to use the revalued amount of an item of property, plant and equipment used in presenting financial statements in compliance with SLPSASs, as the carrying value of that item on the date of such revaluation, in presenting its financial statements in compliance with this standard.

18.8 An entity that has not recognised property, plant and equipment, or any class or classes of property plant and equipment in previous financial statements may

(a) elect to recognise property, plant and equipment, or any relevant class or classes of property plant and equipment acquired prior to the date of transition to SLPSAS for LAs at market value on the date of transition to SLPSAS for LAs, or

(b) elect not to recognise property, plant and equipment, or any relevant class or classes of property plant and equipment acquired prior to the date of transition to SLPSAS for LAs, except property, plant and equipment, the purchase of which was financed by a borrowing, the liability for which is partly or fully outstanding on the date of transition to SLPSAS for LAs.

18.9 An entity that has made an election in accordance with the previous paragraph, and has not recognised any class or classes of property, plant and equipment may identify the market value of property, plant and equipment within the relevant class or classes of assets on a subsequent reporting date, and recognise the market value of the relevant property, plant and equipment as its carrying value on that reporting date.

18.10 An entity that recognises the carrying value of assets and liabilities in accordance with the paragraph 18.8 or 18.9 shall recognise the gain as adjustments to retained surpluses or deficits.

Presentation ofcomparative information

18.11 An entity shall present its opening statement of assets and liabilities (as at the date of transition to SLPSAS for LAs) prepared in accordance with this standard, as comparative information, in the statement of assets and liabilities of its first financial statements that comply with SLPSAS for LAs.

18.12 An entity may present comparative information relating to the previous financial period in the statement of comprehensive income of its first financial statements prepared using SLPSAS for LAs, based on the principles of recognition and measurement of the general purpose financial statements presented by the entity for that period, and disclose that fact in the notes.

Disclosures

Explanation of transition to SLPSAS for LAs

18.13 An entity shall explain how the transition from its previous basis of financial reporting to SLPSAS for LAs affected its reported equity.

18.14 An entity that has elected not to recognise property, plant and equipment or any class or classes of property, plant and equipment in accordance with paragraph 18.8(b), shall disclose:

(a) its election in the financial statements;
(b) the class or classess of property, plant and equipment to which the election is applicable;
(c) identify any property, plant and equipment for which the election was not made, due to a borrowing referred to in paragraph 18.8; and
(d) identify any borrowing referred to in (c) above.

18.15 An entity that has recognised property, plant and equipment or any class of property, plant and equipment at market value shall disclose the date on which market value was recognised as its carrying value, and the method by which market value was ascertained.

Reconciliations

18.16 To comply with the preceding paragraph, an entity's first financial statements prepared using SLPSAS for LAs shall include:

(a) a description of the nature of each change in accounting policy; and
(b) a reconciliation of its net assets/equity determined in accordance with the basis of financial reporting used previously, with its net assets/equity determined in accordance with the SLPSAS for LAs on the date of transition to SLPSAS for LAs.

18.17 If an entity did not present general purpose financial statements for previous periods, it shall disclose that fact in its first financial statements that comply with SLPSAS for LAs.

Effective Date

18.18 SLPSAS for LAs becomes operative for financial statements covering periods ending on or after 31 December 2018. Earlier application is permitted. If an entity applies this standard for a period ending before 31 December 2018, it shall disclose that fact.

Illustrative presentation of financial statements with budget information

This Illustrative presentation of financial statements accompanies SLPSAS for LAs, but is not part of the standard.

<Name of the entity>
Statement of Assets and Liabilities as at 31 December 20X2

Actual 20X1		Actual 20X2	Final Budget 20X2	Original Budget 20X2	*Difference: Original Budget and Actual*
Rs.		Rs.	Rs.	Rs.	Rs.
	ASSETS				
	Current assets				
X	Cash and cash equivalents	X	X	X	X
X	Prepayments and advances	X	X	X	X
X	Receivables from employees	X	X	X	X
X	Receivables from exchange transactions	X	X	X	X
X	Receivables from non-exchange transactions	X	X	X	X
X		X	X	X	X
	Non-Current assets				
X	Long term receivables	X	X	X	X
X	Non-current investments	X	X	X	X
X	Property, plant and equipment	X	X	X	X
X		X	X	X	X
X	**Total assets**	X	X	X	X

LIABILITIES

	Current Liabilities				
X	Short term payables	X	X	X	X
X	Short-term borrowings	X	X	X	X
X		X	X	X	X
	Non-current liabilities				
X	Long-term borrowings	X	X	X	X
X	**Total Liabilities**	X	X	X	X
X	**Net assets/Equity**	X	X	X	X
	NET ASSETS/EQUITY				
X	Accumulated surpluses/(deficits)	X	X	X	X
X	Capital exp. grants not recognised in surpluses/(deficits)	X	X	X	X
X		X	X	X	X

<Name of the entity>
Statement of comprehensive income
for the year ended 31 December 20X2

Actual 20X1		**Actual 20X2**	**Final Budget 20X2**	**Original Budget 20X2**	***Difference: Original Budget and Actual***
Rs.		Rs.	Rs.	Rs.	Rs.
	Revenue				
X	Transfers from government for recurrent expenses	X	X	X	X
X	Transfers from government for non-recurrent expenses	X	X	X	X
X	Revenue from other non-exchange transactions	X	X	X	X
X	Revenue from exchange transactions	X	X	X	X
X		X	X	X	X
	Expenses				
X	Administration	X	X	X	X
X	Health services	X	X	X	X
X	Infrastructure maintenance	X	X	X	X
X	Public utilities	X	X	X	X
X	Welfare services	X	X	X	X
X	Finance costs	X	X	X	X
X		X	X	X	X
X	**SURPLUS / (DEFICIT) FOR THE YEAR**	X	X	X	X

	Other comprehensive income				
X	Capital expenditure grants received	X	X	X	X
X	Capital expenditure grants recognised in surplus or deficit	X	X	X	X
X	Other comprehensive income for the year	X	X	X	X
X	**COMPREHENSIVE INCOME FOR THE YEAR**	X	X	X	X

<Name of the entity>
Statement of changing in net assets /equity for the year ended 31st December 20x2

	Accumulated surpluses / (deficits) Rs.	Capital expenditure grants not recognised in surpluses/ (deficits) Rs.	Total Rs.
Actual			
Balance as at 1 January 20X1	X	X	X
Changes in accounting policy	X		X
Errors in prior periods	X		X
Restated balance	X	X	X
Comprehensive income for 20X1	X	X	X
Balance as at 31 December 20X1	X	X	X
Comprehensive income for 20X2	X	X	X
Balance as at 31 December 20X2	X	X	X
Final Budget			
Balance as at 1 January 20X1	X	X	X
Changes in accounting policy	X		X
Errors in prior periods	X		X
Restated balance	X	X	X
Comprehensive income for 20X1	X	X	X
Balance as at 31 December 20X1	X	X	X
Comprehensive income for 20X2	X	X	X
Balance as at 31 December 20X2	X	X	X

Original Budget

Balance as at 1 January 20X1	X	X	X
Changes in accounting policy	X		X
Errors in prior periods	X		X
Restated balance	X	X	X
Comprehensive income for 20X1	X	X	X
Balance as at 31 December 20X1	X	X	X
Comprehensive income for 20X2	X	X	X
Balance as at 31 December 20X2	X	X	X

<Name of the entity>

Statement of Cash flow for the year ended 31st December 20x2

<Name of the entity>

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

Actual 20X1		**Actual 20X2**	**Final Budget 20X2**	**Original Budget 20X2**	***Difference: Original Budget and Actual***
Rs.		Rs.	Rs.	Rs.	Rs.
	Cash flows from operating activities				
x	Surplus/(deficit) for the year	x	x	x	x
	Adjustments for:				
x	Depreciation	x	x	x	x
x	Investment income	x	x	x	x
x	Capital expenditure grants recognised in surplus or deficit	x	x	x	x
x		x	x	x	x
x	Decease/(Increase) in receivables	x	x	x	x
x	Decrease/(Increase) in inventories	x	x	x	x
x	Decrease/(Increase) in other current assets	x	x	x	x
x	Increase/(Decrease) in payables	x	x	x	x
x	Inc./(Dec) in other current liabilities	x	x	x	x
x		x	x	x	x

	Cash flows from investing activities				
x	Purchase of property, plant and equipment	x	x	x	x
x	Proceeds from sale of equipment	x	x	x	x
x	Interest received	x	x	x	x
x	Dividends received	x	x	x	x
x		x	x	x	x
	Cash flows from financing activities				
x	Capital Expenditure grants received	x	x	x	x
x	Proceeds from long-term borrowings	x	x	x	x
x	Repayment of long-term borrowings	x	x	x	x
x		x	x	x	x
x	**Net increase/(decrease) in cash and cash equivalents**	x	x	x	x
x	**Cash and cash equivalents at beginning of the year**	x	x	x	x
x	**Cash and cash equivalents at end of the year**	x	x	x	x

Illustrative presentation of financial statements without budget information

This Illustrative presentation of financial statements accompanies SLPSAS for LAs, but is not part of the standard.

<Name of the entity>
Statement of Assets and Liabilities as at 31st December 20X2

As at 31 December	20X2 Rs	20X1 Rs
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Prepayments and advances	X	X
Receivables from employees	X	X
Receivables from exchange transactions	X	X
Receivables from non-exchange transactions	X	X
Inventories	X	X
	X	X
Non-Current assets		
Long term receivables	X	X
Non-current investments	X	X
Property, plant and equipment	X	X
	X	X
Total assets	X	X
LIABILITIES		
Current Liabilities		
Short term payables	X	X
Short-term borrowings	X	X
	X	X
Non-current liabilities		
Long-term borrowings	X	X
	X	X
Total Liabilities	X	X
Net assets/Equity	X	X
NET ASSETS/EQUITY		
Accumulated surpluses/(deficits)	X	X
Capital exp. grants not recognised in surpluses/(deficits)	X	X
	X	X

<Name of the entity>
Statement of Comprehensive Income for the year ended 31st December 20X2

Year ended 31 December	**20X2** **Rs**	**20X1** **Rs**
Revenue		
Transfers from government for recurrent expenses	X	X
Transfers from government for non-recurrent expenses	X	X
Revenue from other non-exchange transactions	X	X
Revenue from exchange transactions	X	X
	X	X
Expenses		
Administration	X	X
Health services	X	X
Infrastructure maintenance	X	X
Public utilities	X	X
Welfare services	X	X
Finance costs	X	X
	X	X
SURPLUS / (DEFICIT) FOR THE YEAR	X	X
Other comprehensive income		
Capital expenditure grants received	X	X
Capital expenditure grants recognised in surplus or deficit	(X)	(X)
Other comprehensive income for the year	X	X
COMPREHENSIVE INCOME FOR THE YEAR	X	X

Name of the entity>
Statement of changes in net assets /equity for the year ended 31 December 20X2

	Accumulated surpluses / (deficits)	Capital expenditure grants not recognised in surpluses/ (deficits)	Total
	Rs.	Rs.	Rs.
Balance as at 1 January 20X1	X	X	X
Changes in accounting policy	X		X
Errors in prior periods	X		X
Restated balance	X	X	X
Comprehensive income for 20X1	X	X	X
Balance as at 31 December 20X1	X	X	X
Comprehensive income for 20X2	X	X	X
Balance as at 31 December 20X2	X	X	X

<Name of the Entity

Statement of cash flows
For the year ended 31st December 2012

	20X2	20X1
Cash flows from operating activities		
Surplus/(deficit) for the year	x	x
Adjustments for:		
Depreciation	x	x
Investment income	(x)	(x)
Capital expenditure grants recognised in surplus or deficit	(x)	(x)
	x	x
Decease/(Increase) in receivables	(x)	x
Decrease/(Increase) in inventories	x	(x)
Decrease/(Increase) in other current assets	x	x
Increase/(Decrease) in payables	(x)	(x)
Inc./(Dec) in other current liabilities	x	x
Net cash flow from operating activities	x	x

Cash flows from investing activities		
Purchase of property, plant and equipment	(x)	(x)
Proceeds from sale of equipment	x	x
Interest received	x	x
Dividends received	x	x
Net cash from investing activities	x	x
Cash flows from financing activities		
Capital Expenditure grants received	x	x
Proceeds from long-term borrowings	x	x
Repayment of long-term borrowings	(x)	(x)
Net cash flow from financing activities	x	x
Net increase/(decrease) in cash and cash equivalents	x	x
Cash and cash equivalents at beginning of the year	x	x
Cash and cash equivalents at end of the year	x	x