The Institute of
Chartered Accountants
of Sri Lanka

Ministry of Finance and Planning
Auditor General's Department

SRI LANKA PUBLIC SECTOR ACCOUNTING STANDARDS

2009

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ACCOUNTING STANDARDS

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The Sri Lanka Public Sector Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka are, with the permission of the International Federation of Accountants (IFAC), largely, based on the International Public Sector Accounting Standards published by IFAC.

SRI LANKA PUBLIC SECTOR

ACCOUNTING STANDARDS

2009

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MESSAGE FROM THE SECRETARY TO THE TREASURY

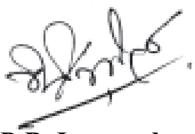
The Public Sector Accounting Standards Committee of the Institute of Chartered Accountants of Sri Lanka (ICASL) chaired by the Auditor General, with the participation of the Ministry of Finance and Planning has formulated Sri Lanka Public Sector Accounting Standards (SLPSAS), which are based on International Public Sector Accounting Standards (IPSAS).

Accounting Standards provide a framework for quality accounting and reporting, facilitating improvements in financial analysis & planning and management in the Public Sector, in line with International Best Practices.

Since these are 'accrual based' standards, they could initially be made applicable to all Statutory Boards (non-commercial Public Corporations) and Local Authorities which follow accrual based accounting. The Central Government and Provincial Councils could make use of these standards once they proceed to adopt and accrual based accounting system.

In this background, the Hon. Minister of Finance and Planning has given his concurrence in terms of sections 8(3) and 12 of the Finance Act No. 38 of 1971, for Statutory Boards (non-commercial Public Corporations) to proceed with the implementation of these standards. Local Authorities are also encouraged to implement these standards.

I take this opportunity to express my sincere appreciation for dedicated work carried out by the Auditor General and his team in making this publication a reality.



P. B. Jayasundera
Secretary to the Treasury

MESSAGE BY THE PRESIDENT OF THE ICASL

Accounting Standards play a key role in transparent financial reporting. Therefore the Institute of Chartered Accountants of Sri Lanka (ICASL) is confident that the introduction of Public Sector Accounting Standards will definitely lead to a significant improvement in the quality of financial accounting and financial reporting in the public sector institutions and will ensure the rational decision making by providing necessary information for resource allocation among the various public sector institutions.

In perusing the mission of strengthening the accountancy profession world wide the International Federation of Accountants (IFAC) of which ICASL is a member body, has established the International Public Sector Accounting Standards Board (IPSASB), to develop high quality global financing reporting standards for the use of public sector entities around the world. In working towards this mission IPSASB develops and issues International Public Sector Accounting Standards (IPASASs)

As the premier National Accounting Body of Sri Lanka ICASL has undertaken the task of assisting to strengthen public sector financing reporting. For this purpose ICASL has established a Public Sector Accounting Standards Committee (PSASC) under the chairmanship of Auditor General of Sri Lanka including nominees from the Ministry of Finance and Planning to develop high quality public sector financial reporting standards.

Sri Lanka Public Sector Accounting Standards (SLPSASs) developed by the PSASC are largely based on the IPSASs issued by the International Public Sector Accounting Standards Board. In developing these standards, the PSASC follows a due process of studying public sector accounting requirements and practices and exchanging views about the issues with public sector officials by providing an opportunity for comments by prospective users including members of Sri Lanka Accountancy Service, Sri Lanka Audit Service and other interested parties in various Ministries and Government Departments, Local Authorities, Provincial Councils, Non-Commercial Public Corporations and individuals. The ICASL will continue this process to formulate other Public Sector Accounting Standards applicable to Sri Lanka.

On behalf of the Council of the ICASL, I would like to place, on record, my appreciation to the Chairman and Members of the Public Sector Accounting Standards Committee for their dedication in developing this inaugural volume of Sri Lanka Public Sector Accounting Standards.

Nisan Fernando
President,
The Institute of Chartered Accountants of Sri Lanka

Foreword

I am pleased to submit the Sri Lanka Public Sector Accounting Standards (SLPSASs) at this remarkable occasion of the 50th Anniversary of the Institute of Chartered Accountants of Sri Lanka. I consider that it is our duty and responsibility to strengthen the Public Sector Management especially the Financial Management of the Public Sector Organizations. In achieving this goal we have to provide know-how, skill and guidance to build the capacity of the Public Sector , keeping in line with the International Public Sector Financial Management requirements.

Public sector in Sri Lanka is diversified and complex. It consists of all Government Ministries and Departments, provincial councils, local authorities and state owned enterprises etc. Public sector entities follow widely different financial reporting practices. Financial Regulations, Finance Act No 38 of 1971 and Enabling Acts of Parliament govern the issue of general purpose financial statements by public sector entities. These regulations may be in the form of reporting requirements, financial reporting directives and instructions, issued by government and regulatory bodies.

Accounting standards are required for the purpose of maintaining uniform and quality financial statements. They are intended to provide a framework and basis for improving governmental accountability through improved accounting and financial reporting. The standards are expected to contribute following benefits to the Public Sector:

- Improved financial management and financial discipline
- Improved quality and reliability of financial reporting by government.
- Improved financial and economic performance.
- Harmonization between economic and financial reporting requirements and
- Harmonization between jurisdictions using the same accounting basis

Objective of the SLPSASs is to serve the public interest

- by developing high quality public sector financial reporting standards and
- by facilitating the convergence of international and national standards,
- thereby enhancing the quality and uniformity of financial reporting in conformity with global standards

The SLPSASs are designed to apply to the **General Purpose Financial Statements** of all public sector entities that adopt **accrual basis** of accounting

- Public sector entities include government, provincial councils, local authorities, non profit making statutory authorities and, universities, unless otherwise stated.
- The Standards do not apply to Government Business Enterprises(GBEs) which apply Sri Lanka Accounting Standards (SLASs) issued by the Institute of Chartered Accountants of Sri Lanka.

We have prepared following 4 SLPSAS

SLPSAS 1	-	Presentation of financial Statements
SLPSAS 2	-	Cash Flow Statements
SLPSAS 3	-	Accounting Policies, changes in Accounting Estimates and Errors
SLPSAS 4	-	Borrowing Cost

We adopt a due process for the development of SLPSASs that provides the opportunity for comment by interested parties including other professional accounting bodies, members of Sri Lanka Accountants Service, members of Sri Lanka Audit Service and preparers (including Ministries and Departments).

I believe that the adoption of SLPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by the government thereby increasing transparency and accountability.

I must express my appreciation on the dedication shown by the members of the Public Sector Accounting Standards Committee, the consultant and the Secretary to the Committee. I would like to pay my gratitude to the Secretary to the Treasury and his staff for the valuable contribution made in this endeavour and to the Chairman and council of the Institute of Chartered Accountants of Sri Lanka for encouragement and assistance provided in fulfilling this task.

S.Swarnajothi
Auditor General of Sri Lanka and
Chairman of the Public Sector Accounting Standard Committee

Sri Lanka Public Sector Accounting Standards

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PREFACE TO SRI LANKA PUBLIC SECTOR ACCOUNTING STANDARDS

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PREFACE TO SRI LANKA PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

1. This preface to the Sri Lanka Public Sector Accounting Standards (SLPSASs) sets out the objectives and operating procedures of Public Sector Accounting Standards Committee of Institute of Chartered Accountants of Sri Lanka (ICASL) and explains the scope and authority of the SLPSASs. The preface should be used as a reference for interpreting Invitations to Comments, discussion documents, Exposure Drafts and SLPSASs approved and published by the ICASL

2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is "to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant." In pursuing this mission, the IFAC has established the International Public Sector Accounting Standards Board (IPSASB) to develop high quality global financial reporting for use by public sector entities around the world other than Government Business Enterprises (GBEs) in the preparation of general purpose financial statements.

3. In working towards this mission of IFAC, IPSASB develops and issues International Public Sector Accounting Standards (IPSASs). IPSASB believes that the issue of such standards will help to improve the degree of uniformity of accounting throughout the world.

4. ICASL, as a member of the International Federation of Accountants (IFAC) is committed to the IFAC mission of development and enhancement of accounting standards. As a condition of its membership of IFAC, ICASL is obliged to support the work of IPSASB by informing its members of IPSAS to work towards implementation to the extent possible of IPSAS, for this purpose ICASL has established a Public Sector Accounting Standards Committee (PSASC) including nominees from the Ministry of Finance and Planning, specifically to adopt IPSAS in Sri Lanka Public Sector Accounting Standards (SLPSASs).

5. Once standards are adopted by the council of ICASL, its members are expected to comply with SLPSASs.

6. It is impractical to establish accounting standards which universally apply to all situations and circumstances an accountant may encounter. Therefore accountants should consider SLPSASs as the basic principles which they should follow in implementing these standards.

Objectives of the PSASC

7. The objectives of PSASC of the ICASL are to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting in conformity with global standards

This is achieved by:

- Issuing Sri Lanka Public Sector Accounting Standards (SLPSASs);
- Promoting acceptance of these standards by the public sector in Sri Lanka ; and
- Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.

Scope and Authority of Sri Lanka Public Sector Accounting Standards

Scope of the Standards

8. The PSASC of ICASL develops SLPSASs which apply to the accrual basis of accounting.

9. SLPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements.

10. The SLPSASs are designed to apply to the general purpose financial statements of all public sector entities that adopt accrual basis of accounting. Public sector entities include government, provincial councils, local authorities, non profit making statutory authorities and, universities, unless otherwise stated. The Standards do not apply to GBEs which apply Sri Lanka Accounting Standards (SLASs) issued by the ICASL. SLPSASs include a definition of GBEs.

11. Any limitation of the applicability of specific SLPSASs is made clear in those standards. SLPSASs are not meant to apply to immaterial items.

12. The ICASL has adopted the policy that all paragraphs in SLPSASs shall have equal authority, and that the authority of a particular provision

shall be determined by the language used. To avoid any unintended consequences the ICASL has determined to apply this policy prospectively include paragraphs in bold and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual SLPSAS should be read in the context of the objective and Basis for Conclusions (if any) stated in that SLPSAS and this preface.

General Purpose Financial Statements

13. Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term "financial statements" used in this preface and in the standards covers all statements and explanatory material which are identified as being part of the general purpose financial statements.

14. When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity.

15. In addition to preparing general purpose financial statements, an entity may prepare financial statements for other parties (such as governing bodies, the legislature and other parties who perform an oversight function) who can demand financial statements tailored to meet their specific information needs. Such statements are referred to as special purpose financial statements. The ICASL encourages the use of SLPSASs in the preparation of special purpose financial statements where appropriate.

Accrual based SLPSASs

16. The PSASC of the ICASL develops accrual based SLPSASs that:

    - are converged with SLAS issued by ICASL by adapting them to a public sector context when appropriate. In undertaking that process, the ICASL attempts, wherever possible, to maintain the accounting treatment and original text of the SLASs unless there is a significant public sector issue which warrants a departure; and

- deals with public sector financial reporting issues that are either not comprehensively dealt with in existing SLASs or for which SLASs have not been developed by the ICASL

17. As many accrual based SLPSASs are converged on SLASs, the SLAS's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of SLPSASs

Moving from the Cash Basis to the Accrual Basis

18. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting.

19. Sri Lanka Public Sector Accounting Standard (SLPSAS) 1, "Presentation of Financial Statements" includes the following requirement:

    "An entity whose financial statements comply with Sri Lanka Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with Sri Lanka Public Sector Accounting Standards unless they comply with all the requirements of each applicable Sri Lanka Public Sector Accounting Standard."

Authority of Sri Lanka Public Sector Accounting Standards

20. In Sri Lanka, Financial Regulations, Finance Act No 38 of 1971 and Enabling Acts of Parliament govern the issue of general purpose financial statements by public sector entities. These regulations may be in the form of reporting requirements, financial reporting directives and instructions. and/or accounting standards promulgated by government and, regulatory bodies.

21. The ICASL believes that the adoption of SLPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

22. The ICASL acknowledges the right of Sri Lanka government to establish accounting standards and guidelines for financial reporting in public sector.

23. Standing alone, ICASL has no power to require compliance with SLPSASs. The success of the ICASL's efforts is dependent upon the recognition and support for its work from many different interested groups acting within public sector

Due Process

24. The ICASL adopts a due process for the development of SLPSASs that provides the opportunity for comment by interested parties including other professional accounting bodies members of Sri Lanka Accountants Service, Sri Lanka Audit Service, preparers (including Ministries and Departments), and individuals. The ICASL also consults with its Technical Task force on technical issues,.

25 The ICASL's due process for projects normally, but not necessarily, includes the following steps:

- Study of public sector accounting requirements and practice and an exchange of views about the issues with public sector officials;
- Consideration of pronouncements issued by:
  - The International Accounting Standards Board (IASB);
  - Regulatory authorities and other authoritative bodies;
  - Professional accounting bodies; and
  - Other organisations interested in financial reporting in the public sector;
- Formation of steering committees (SCs), or subcommittees under Public Sector Accounting Standards Committee (PSASC) to provide input to the ICASL on this project;
- Publication of an exposure draft for public comment usually for to provides an opportunity for those affected by the ICASL's pronouncements to present their views before the pronouncements are finalized and approved by the ICASL, where necessary.
- Consideration of all comments received within the comment period on discussion documents and Exposure Drafts, and to make modifications to proposed Standards as considered appropriate in the light of the ICASL's objectives; and

- Publication of an SLPSAS which includes a Basis for Conclusions, if any, that explains the steps in the ICASL's due process and how the ICASL reached its conclusions.

Steering Committees, Project Advisory Panels and Subcommittees

26. The ICASL delegate the responsibility for carrying out the necessary research and for preparing Exposure Drafts of proposed Standards and guidelines or drafts of studies to PSASC or SCs, subcommittees of PSASC or individuals.

27. PSASC/SCs and subcommittees of PSASC that consists of members of ICASL, including persons from Ministry of Finance and others who are not members of the ICASL, is chaired by a council member of the ICASL.

Approval Arrangements

28. The draft of a standard, duly revised after the exposure period, is submitted to the council of ICASL, for approval. If approved by the Council of ICASL, it is issued as an SLPSAS and becomes effective from the date specified in the Standard. On occasion, where there are significant unresolved issues associated with an Exposure Draft, the ICASL may decide to re-expose a proposed Standard.

Compliance with International Public Sector Accounting Standards

29. The penultimate paragraph of most SLPSAS states the extent of compliance in all material respects with the relevant named International Public Sector Accounting Standard.

EFFECTIVE DATE

30. The last paragraph of each SLPSASs states its effective date.

SLPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

Acknowledgment

The Sri Lanka Public Sector Accounting Standard (SLPSAS) 1 "Presentation of Financial Statements" is based on International Public Sector Accounting Standard (IPSAS) 1 "Presentation of Financial Statements" of the International Public Sector Accounting Standard Board (IPSASB), published by the International Federation of Accountants (IFAC) in December 2006 and is used with permission of IFAC.

November 2009

SLPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

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Paragraph

SLPSAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

Presentation of Financial Statements

Sri Lanka Public Sector Accounting Standard (SLPSAS) 1 "*Presentation of Financial Statements"* is set out in paragraph 1-153 and the appendix. All the paragraphs have equal authority. SLPSAS 1 should be read in the context of its objective, the basis for conclusions, and the "Preface to Sri Lanka Public Sector Accounting Standards". SLPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other SLPSASs.

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with Sri Lanka Public Sector Accounting Standards. (SLPSASs)**

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information

4. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial

statements as defined in IPSAS 6, "Consolidated and Separate Financial Statements" or when adopted the equivalent SLPSAS.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**(GBEs)

6. The "Preface to Sri Lanka Public Sector Accounting Standards" issued by ICASL explains that GBEs apply the Sri Lanka Accounting Standards (SLASs) issued by the ICASL, GBEs are defined in paragraph 7 below.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

   Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

   Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

   Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

   a. **Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

   b. **Can be sold, exchanged, transferred or redeemed.**

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Government Business Enterprise means an entity that has all the following characteristics:

(a) **Is an entity with the power to contract in its own name;**

(b) **Has been assigned the financial and operational authority to carry on a business;**

(c) **Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**

(d) **Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**

(e) **Is controlled by a public sector entity.**

Impracticable applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature and size of the item or combination of both could be the determining factor.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in other National and International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Economic Entity

8. The term economic entity is used in this Standard to define, for financial reporting purpose, a group of entities comprising the controlling entity and any controlled entities.

9. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group.

10. An economic entity may include entities with both social policy and commercial objectives. For example, Sri Lanka Railways may be an economic entity which includes entities that provide services for nominal charge as well as entities that provide services on commercial basis.

Future Economic Benefits or Service Potential

11. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

12. GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6, **"Consolidated and Separate Financial Statements"** or when adopted

the equivalent SLPSAS provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Materiality

13. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Net Assets/Equity

14. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

    (a) Providing information about the sources, allocation and uses of financial resources;

    (b) Providing information about how the entity financed its activities and met its cash requirements;

    (c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

16. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

(a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

(b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

17. To meet these objectives, the financial statements provide information about an entity's:

(a) Assets;

(b) Liabilities;

(c) Net assets/equity;

(d) Revenue;

(e) Expenses;

(f) Other changes in net assets/equity; and

(g) Cash flows.

18. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies depending on who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of officials or positions who will be responsible for the preparation of the financial statements of individual entities (such as government departments statutory bodies or their equivalent) include the individual who heads the entity (the head, chief executive or governing body, board of management) or equivalent

20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of General Treasury (Secretary to the General Treasury jointly with the Director General, State Accounts in the case of government, Chief Secretary and Deputy Chief Secretary (Finance) in the case of provincial councils) .

Components of Financial Statements

21. A complete set of financial statements comprises :

(a) **Statement of financial position;**

(b) **Statement of financial performance;**

(c) **Statement of changes in net assets/equity;**

(d) **Cash flow statement;**

(e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**

(f) **Notes, comprising a summary of significant accounting policies and other explanatory notes**

22. The components listed in paragraph 21 are referred to by a variety of names in different sectors. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as schedules.

23. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities which make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, "Presentation of Budget Information in Financial Statements" or when adopted the equivalent SLPSAS. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for theses entities may be presented in various different ways, including:

    (a) the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and

    (b) Disclosure that budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with SLPSASs

27. **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities revenue and expenses set out in SLPSASs The application of SLPSASs with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

28. **An entity whose financial statements comply with SLPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with SLPSASs unless they comply with all the requirements of SLPSASs.**

29. In virtually all circumstances, fair presentation is achieved by compliance with applicable SLPSASs. A fair presentation also requires an entity:

    (a) To select and apply accounting policies in accordance with SLPSAS 3, "Accounting Policies Changes in Accounting Estimates and Errors". SLPSAS 3 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item.

    (b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

    (c) To provide additional disclosures when compliance with specific requirements in SLPSASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on and entity's financial position and financial performance.

30. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this SLPSAS the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory frame work requires, or otherwise does not prohibit such a departure.**

32. **When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**

    (a) **That management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;**

    (b) **That it has complied with applicable SLPSASs, except that it has departed from a particular requirement to achieve a fair presentation;**

    (c) **The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this SLPSAS, and the treatment adopted; and**

    (d) **For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 32 (c) and (d).**

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out**

in this SLPSAS, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this SLPSAS; and

(b) For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

36. For the purpose of paragraphs 31 -35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this SLPSAS, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this SLPSAS.

37. Departures from the requirements of an SLPSAS in order to comply with statutory/legislative financial reporting requirements do not constitute departures that conflict with objective of financial statements set out in this SLPSAS as outlined in paragraph 31. If such departures are material an entity cannot claim to be complying with SLPSASs.

Going Concern

38. **When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial**

statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:

    (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative net assets/equity; and

    (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial statements may need to consider a wide

range of factors relating to current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) 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 having regard to the criteria for the selection and application of accounting policies in SLPSAS 3 or

(b) A SLPSAS requires a change in presentation.

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an economic entity may dispose of a state institution that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation

and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position statement of financial performance, statement of changes in net assets/ equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in a SLPSAS need not be satisfied if the information is not material.

Offsetting

48. Assets and liabilities, and revenue and expenses shall not be offset unless required or permitted by a SLPSAS.

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

50. IPSAS 9, *"Revenue from exchange transactions"* or when adopted the equivalent SLPSAS defines revenue and requires it to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to main revenue generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

(a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) Expenses related to a provision that is recognised in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets," or when adopted the equivalent SLPSAS and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in SLPSAS 2, "Cash Flow Statements."

Comparative Information

53. Except when a SLPSAS permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in financial statements, Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

54. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.

55. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

(a) The nature of the reclassification;

(b) The amount of each item or class of items that is reclassified; and

(c) The reason for the reclassification.

56. When it is impracticable to reclassify comparative amounts, an entity shall disclose :

(a) The reason for not reclassifying the amounts; and

(b) The nature of the adjustments that would have been made if the amounts had been reclassified.

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. SLPSAS 3, deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity and requires disclosure of other line items either on the face of those statements or in the notes. SLPSAS 2 sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of statement of financial position, statement of financial performance and statement of changes in net assets/equity and cash flow statement as well as, in the notes. Disclosures are also required by other SLPSASs. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of Financial Statements

61. The financial statements shall be identified clearly and distinguished from other information in the same published document.

62. SLPSASs apply only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using SLPSASs from other information that may be useful to users but is not the subject of those requirements.

63. Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(a) **The name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;**

(b) **Whether the financial statements cover the individual entity or the economic entity;**

(c) **The reporting date or the period covered by the financial statements, whichever is appropriate to the component of the financial statements;**

(d) **The presentation currency, as defined in IPSAS 4. "The Effects of Changes in Foreign Exchange Rates," or when adopted the equivalent SLPSAS; and**

(e) **The level of rounding used in presenting amounts in the financial statements.**

64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) **The reason for using a longer or shorter period; and**

(b) **The fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement and related notes are not entirely comparable.**

67. In exceptional circumstances an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

69. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis.

Statement of Financial Position

The Current/Non-current Distinction

70. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76 -

87 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.

71. Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

73. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

75. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 15 "Financial Instruments: Disclosure and Presentation" or when adopted the equivalent SLPSAS, requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. An asset shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded ;

(c) It is expected to be realised within twelve months after the reporting date; or

(d) It is cash or a cash equivalent (as defined in SLPSAS 2) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after reporting date.

All other assets shall be classified as non-current assets.

77. This Standard uses the term non-current assets to include tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as their meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, government transfers resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded (guidance on classification of financial assets can be found in relevant international or national accounting standard dealing with the recognition and measurement of financial instruments) and current portion of non- current financial assets.

Current Liabilities

80. A liability shall be classified as current when it satisfies any of the following criteria:

(a) **It is expected to be settled in the entity's normal operating cycle;**

(b) **It is held primarily for the purpose of being traded;**

(c) **It is due to be settled within twelve months after the reporting date; or**

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

All other liabilities shall be classified as non-current.

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded . Examples are financial liabilities classified as held for trading (guidance on classification of financial liabilities can be found in relevant international and national accounting standard dealing with the recognition and measurement of financial instruments) bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months of the reporting date even if:

(a) The original term was for a period longer than twelve months; and

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it

would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, "Events after the Reporting Date" or when adopted the equivalent SLPSAS.

(a) Refinancing on a long-term basis;

(b) Rectification of a breach of a long-term loan agreement; and

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

Information to be Presented on the Face of the Statement of Financial Position

88. As a minimum, the face of the statement of financial position shall include line items that present the following amounts:

(a) **Property, plant and equipment;**

(b) **Investment property;**

(c) **Intangible assets;**

(d) **Financial assets [excluding amounts shown under (e), (g), (h) and (I);**

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) **Recoverables from non-exchange transactions (taxes and transfers);**

(h) **Receivables from exchange transactions;**

(i) **Cash and cash equivalents;**

(j) **Taxes and transfers payable;**

(k) **Payables under exchange transactions;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (I);**

(n) **Minority interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

89. Additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:

(a) Line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgment on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;

(b) The function of assets within the entity; and

(c) The amounts, nature and timing of liabilities.

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IPSAS 17, "Property, Plant and Equipment" or when adopted the equivalent SLPSAS.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

93. An entity shall disclose, either on the face of the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

94. The detail provided in sub-classifications depends on the requirements of SLPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of sub-classification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17 or when adopted the equivalent SLPSAS;

(b) Receivables are disaggregated in to amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;

(c) Inventories are sub-classified in accordance with IPSAS 12 "Inventories" or when adopted the equivalent SLPSAS, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.

95. When an entity has no share capital, it shall disclose the net assets/ equity either on the face of the statement of financial position or in the notes, showing separately:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distribution to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Minority interests.

96. Many public sector entities will not have share capital but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity's operations.

97. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at whole-of-government level, the economic entity may include a GBE that has been partly privatised. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

98. When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:

(a) **For each class of share capital:**

(i) **The number of shares authorised;**

(ii) **The number of shares issued and fully paid, and issued but not fully paid;**

(iii) **Par value per share, or that the shares have no par value;**

(iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **Shares in the entity held by the entity or by controlled entities or associates; and**

(vii) **Shares reserved for issue under options and sales contracts, including the terms and amounts; and**

(b) **A description of the nature and purpose of each reserve within net assets/equity.**

Statement of Financial Performance

Surplus or deficit for the Period

99. All items of revenue and expense recognised in a period shall be included in surplus or deficit unless SLPSAS requires otherwise.

100. Normally, all items of revenue and expense recognised in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. SLPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

101. Other Standards deal with items that may meet the definitions of revenue or expense set out in this SLPSAS but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17 or when adopted the equivalent SLPSAS), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4 or when adopted equivalent SLPSAS) and gains or losses on remeasuring available-for-sale financial assets (guidance on measurement of financial assets can be found in relevant international or national accounting standard dealing with the recognition and measurement of financial instruments).

Information to be Presented on the Face of the Statement of Financial Performance

102. As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:

(a) Revenue;

(b) Finance costs;

(c) Share of net surpluses or deficit of associates and joint ventures accounted for using the equity method;

(d) Pre-tax gain or loss recognised on disposal of assets or settlement of liabilities attributable to discontinuing operations; and,

(e) Surplus or deficit.

103. The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:

(a) Surplus or deficit attributable to minority interest; and

(b) Surplus or deficit attributable to owners of the controlling entity.

104. Additional line items, headings and sub-totals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.

105. Because the effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections future results. Additional line items are included on the face of the statement of financial performance and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

106. When items of revenue and expense are material, their nature and amount shall be disclosed separately.

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, or recoverable service amount as appropriate as well as reversals of such write-downs;

(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) Disposals of items of property, plant and equipment;

(d) Privatisation or other disposals of investments;

(e) Discontinuing operations;

(f) Litigation settlements; and

(g) Other reversals of provisions.

108. An entity shall present, either on the face of the statement of financial performance or in the notes, a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.

109. An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of financial performance.

111. Expenses are sub classified to highlight the costs and cost recoveries of particular programmes, activities or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.

115. Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expenses.

116. The choice between the function of expense method and nature of expenses method depends on the historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in IPSAS 26, "Employee Benefits" or when adopted the equivalent SLPSAS.

117. When an entity provides a dividend or similar distribution to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or statement of changes in net assets/equity or the notes, the amount of dividends or similar distributions recognised as distributions to owners during the period, and the related amount per share.

Statement of Changes in Net Assets/Equity

118. An entity shall present a statement of changes in net assets/equity showing on the face of the statement:

(a) S**urplus or deficit for the period;**

(b) Each item of revenue and expense for the period that, as required by other standards, is recognised directly in net assets/equity, and the total of these items;

(c) Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of controlling entity and to minority interest; and

(d) For each components of net assets/equity 'separately disclosed, the effect of changes in accounting policies and corrections of errors recognised in accordance with SLPSAS 3.

119. An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:

(a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;

(b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and

(c) To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.

120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in net assets/equity during the period represents the total amount of surplus or deficit for the period, other revenues and expenses recognised directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

123. This Standard requires all items of revenue and expense recognised in a period to be included in surplus or deficit unless another SLPSAS requires otherwise. Other Standards require some items, (such as revaluation increases or decreases particular foreign exchange differences) to be recognised directly as changes in net assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognised directly in net assets /equity.

124. SLPSAS 3 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another IPSAS or when adopted the equivalent SLPSAS require otherwise. SLPSAS 3 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when a SLPSAS requires retrospective adjustment of another component of net assets/ equity. Paragraph 118(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. SLPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. The notes shall:

(a) Present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 132 -139;

(b) Disclose the information required by SLPSASs that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement; and

(c) Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.

128. Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement shall be cross-referenced to any related information in the notes.

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statement of other entities:

(a) A statement of compliance with SLPSASs (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including:

(i) Contingent liabilities, see (IPSAS 19 or when adopted the equivalent SLPSAS) and unrecognised contractual commitments; and

(ii) Non-financial disclosures. e.g., the entity's financial risk management objectives and policies (See IPSAS 15 or when adopted the equivalent SLPSAS)

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

131. Notes proving information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. An entity shall disclose in the summary of significant accounting policies:

(a) The measurement basis (or bases) used in preparing the financial statements;

(b) The extent to which the entity has applied any transitional provisions in any IPSASs or when adopted the equivalent SLPSAS; and

(c) The other accounting policies used that are relevant to an understanding of the financial statements.

133. It is important for users to be informed of the measurement basis or bases used in financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position.

Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in SLPSASs . An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, "Interests in Joint Ventures," or when adopted the equivalent SLPSAS). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IPSAS 17 or when adopted equivalent SPLAS requires disclosure of the measurement bases used for classes of property, plant and equipment. SLPSAS 4, "Borrowing Costs" requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.

135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred the policies used for measuring goodwill and minority interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by SLPSASs but is selected and applied in accordance with SLPSAS 3.

137. An entity shall disclose , in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

138. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. For example, management makes judgments in determining:

(a) Whether assets are investment properties;

(b) Whether agreements for all provision of goods and/or services that involve use of dedicated assets are leases;

(c) Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) Whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity.

139. Some of the disclosures made in accordance with paragraph 137 are required by other Standards. For example, IPSAS 6 or when adopted the equivalent SLPSAS requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a control entity even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. IPSAS 16,"Investment Property" or when adopted the equivalent SLPSAS, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) Their nature; and

(b) Their carrying amount as at the reporting date.

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of certain classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress,. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) The nature of the assumption or other estimation uncertainty;

(b) The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.

146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that

are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other Standards. For example, IPSAS 19 or when adopted the equivalent SLPSAS requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions IPSAS 15 or when adopted the equivalent SLPSAS requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17 or when adopted the equivalent SLPSAS requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Other Disclosures

149. An entity shall disclose in the notes:

(a) the amount of dividends, or similar distributions, proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and

(b) The amount of any cumulative preference dividends, or similar distributions, not recognised.

150. An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;

(b) A description of the nature of the entity's operations and principal activities;

(c) A reference to the relevant legislation governing the entity's operations; and

(d) The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).

Compliance with International Public Sector Accounting Standards

151. Compliance with this SLPSAS 1 ensures compliance in all material respects with IPSAS 1, "Presentation of Financial Statements".

Effective Date

152. An entity shall apply this SLPSAS for annual financial statements covering periods beginning on or after 01 January 2011. Earlier application is encouraged.

153. When an entity adopts the accrual basis of accounting, as defined by SLPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix

Qualitative Characteristics of Financial Reporting

This appendix is an integral part of the Standard

Paragraph 29 of this Standard requires an entity to present information, including accounting policies, in a manner that meets a number of qualitative characteristics. This guidance summarises the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Completeness

The information in financial statements shall be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance Between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Implementation Guidance - **Illustrative Financial Statement**

Structure

This guidance accompanies and is not part of SLPSAS 1.

IG1 The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. The guidance provides simple examples of the ways in which the requirements of Standards for the presentation of the statement of financial position, statement of financial performance and changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a police department are likely to be significantly different from those for a Trust Fund

IG2. The illustrative statements of financial position shows one way in which a statement of financial position distinguishing between current and non current assets items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3 The financial statements have been prepared for a central government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

IG4 The examples are not intended to illustrate all aspects of SLPSASs. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, summery of significant accounting policies and other explanatory notes.

Public Sector Entity-Statement of Accounting Policies (Extract)

Reporting Entity

These financial statements are for a public sector entity The financial statements encompass the reporting entity as specified in the relevant legislation / guidelines.

This comprises:

- Government ministries and departments
- Provincial Councils ministries, departments and local authorities and
- Statutory bodies.

Basis of Preparation

The financial statements comply with Sri Lanka Public Sector Accounting Standards for the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

Public Sector Entity — Statement of Financial Position

AS AT DECEMBER 31, 20X2

(In Thousands of Currency Units)

	20X2	**20X1**
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other Current assets	X	X
	X	X

Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	**X**	**X**
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long term borrowings	X	X
Short-term Provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	**X**
Non-current liabilities		
Payables	X	X
Long term Borrowings	X	X
Long term Provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	**X**	**X**
Net assets	X	X
NET ASSETS/EQUITY		
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Minority interest	X	X
Total net assets/equity	X	X

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(In thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	X	X
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic Affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus of associate*	X	X
Surplus/(deficit) for the period	X	X
Attributable to Owners of controlling entity	X	X
Minority interests	X	X
	X	X

* This means the share of associate's surplus attributable to owners of associates, i.e. it is after tax and minority interests in the associates

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(In thousands of currency units)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	X	X
Expenses		
Wages, salaries and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant and equipment *	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus of associate's	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of controlling entity	X	X
Minority interest	X	X
	X	X

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant and equipment is shown as separate line item. By contrast, if expense are classified by function, the impairment is included in the function(s) to which it relates.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X2

(In Thousands of Currency units)

	Attributable to owners of the controlling entity					Minority Interest	Total net assest/equity
	Contributed Capital	Other Reserves[1]	Translation Reserves	Accumulated Surpluses/ (Deficits)	Total		
Balance at December 31, 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Change in net asset/equity for 20X1							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognised directly in net asset/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognised revenue and expenses for the period		X	(X)	X	X	X	X
Balance at December 31, 20X1 carried forward	X	X	(X)	X	X	X	X

1. Other reserves are analysed into components, if material.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X2

(In Thousands of Currency units)

	Attributable to owners of the controlling entity					Minority Interest	Total net assest/equity
	Contributed Capital	Other Reserves[1]	Translation Reserves	Accumulated Surpluses/ (Deficits)	Total		
Balance at December 31, 20X1 brought forward change in net asset/equity for 20X2	X	X	(X)	X	X	X	X
Loss on property Revaluation		(X)			(X)	(X)	(X)
Gain on revaluation of investments		X			X	X	X
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognised directly in net asset/equity		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
Total recognised revenue and expenses for the period		(X)	(X)	(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	X	(X)	X	X	X	X

Basis for conclusions

This basis for conclusions accompanies, but is not a part of SLPSAS 1. This basis for conclusions only notes the ICASL's reason for departing from provisions of related Sri Lanka Accounting Standard.

Back ground

BC1 The International Public Sector Accounting Board's (IPSASB) International Financial Reporting Standards (IFRSs) convergence program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSASs with IFRSs issued by International Accounting Standards Board (IASB) where appropriate for the public sector entities. As member of International Federation of Accountants (IFAC), ICASL is bound to implement the IPSAS in Sri Lanka according to Standards of Members Obligation (SMO) 5.

BC2 Accrual basis SLPSASs that are converged with Sri Lanka Accounting Standards (SLAS) maintain the requirements, structure and text of the SLASs, unless there is a public sector specific reason for a departure. Departure from the equivalent SLAS occurs when requirements or terminology in the SLAS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between SLPSASs and their equivalent SLASs are identified in the Comparison with SLAS included in each SLPSAS.

Income

BC3 SLAS 3 uses the term income, which is not used in SLPSAS 1. SLPSAS 1 uses revenue, which corresponds to income in the SLAS. The term income is boarder than revenue, encompassing gains in addition to revenue.

Extraordinary Items

BC4 SLAS 3 prohibits an entity from presenting any item of income or expenses as extraordinary item, either on the face of the income statement or in the notes. PSASC of ICASL concluded that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement.

BC5 The Standard does not explicitly preclude the presentation of items of revenue and expenses as extraordinary items either on the face of the statement of financial performance or in the notes. The SLAS 3 prohibits the any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes. But PSASC of ICASL adopted the view of IPSASB. IPSASB is of the view that IPSASs should not prohibit entities from disclosing extraordinary items in the notes to, or on the face of, the statement of financial performance. This is because they believe that the disclosure of information about extraordinary items may be consistent with the objectives and qualitative characteristics of the financial reporting. However, there are other views that there is not a public sector specific reason to depart from the requirements of SLAS 3 in respect of this matter. They also noted that SLPSAS 1 does not preclude the separate presentation of items that are distinct from ordinary activities of a government, either, on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector specific reason to depart from SLAS's prohibition on presenting "extraordinary items" in the financial statements.

Comparison with SLAS 3

Sri Lanka Public Sector Accounting Standard (SLPSAS) 1, "Presentation of Financial Statements" is drawn primarily from IPSAS 1 "Presentation of Financial Statements" (December 2006) which is based on International Accounting Standards (IAS) 1. At the time of issuing IPSAS 1 (December 2006), IPSASB has not considered the applicability of IFRS 5. "Non Current Assets Held for Sale and Discontinued Operations" to public sector entities; therefore IPSAS 1, does not reflect amendments made to IAS 1 consequent upon the issuing of IFRS 5.

Sri Lanka Accounting Standard 3, "Presentation of Financial Statements". was issued by Institute of Chartered Accountants of Sri Lanka and used by private sector and Government Business Enterprises (GBEs) in Sri Lanka

The main differences between SLPSAS 1 and SLAS 3 are as follows.

- SLAS 3 (Revised 2005) allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. SLPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- SLPSAS 1 uses different terminology, in certain instances, from SLAS 3. The most significant examples are the use of the terms "revenue,", "statement of financial position", "statement of financial performance", " net assets/equity" , "reporting date" and "surplus or deficit" in SLPSAS 1. The equivalent terms in SLAS 3 are "income", "balance sheet", "income statement" "equity" "balance sheet date" and "profit or loss".
- SLPSAS 1 does not use term "income", which in SLAS 3 (Revised 2005) has a broader meaning than the term "revenue".
- SLPSAS 1 contains a different set of definitions of technical terms from SLAS 3 (Revised 2005) (paragraph 7).
- In SLAS 3 (Revised 2005) the approved budget is not a component of financial statements. But SLPSAS 1 requires approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statement if entity makes publicly available its budget.

- SLPSAS 1 contains commentary on the responsibility for preparation of financial statements (paragraphs 19-20). SLAS 3 (Revised 2005) does not include same commentary.
- SLPSAS 1 contains commentary on timeliness of financial statements because of lack of equivalent Frame work in SLPSASs (paragraph 69)
- SLPSAS 1 does not explicitly preclude the presentation items of revenue and expense as extraordinary items, either on the face of the statement of the financial performance or in the notes. Paragraph 85 of SLAS 3 (Revised 2005) prohibits any items of income and expense to be presented as extraordinary items either on the face of income statement or in the notes.

SLPSAS 2— CASH FLOW STATEMENTS

Acknowledgment

The Sri Lanka Public Sector Accounting Standard (SLPSAS) 2 “Cash Flow Statements” is based on International Public Sector Accounting Standard (IPSAS) 2 “Cash Flow Statements” of the International Public Sector Accounting Standard Board (IPSASB), published by the International Federation of Accountants (IFAC) in May 2000 and is used with permission of IFAC.

November 2009

November 2009

SLPSAS 2—CASH FLOW STATEMENTS

CONTENTS

Paragraph

SLPSAS 2—CASH FLOW STATEMENTS

Sri Lanka Public Sector Accounting Standard (SLPSAS) 2 *Cash Flow Statements* is set out in paragraph 1-65. All the paragraphs have equal authority. SLPSAS 2 should be read in the context of its objective and the *Preface to Sri Lanka Public Sector Accounting Standards.* SLPSAS 3 "*Accounting Policies, Changes in Accounting Estimates and Errors"* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

Scope

1. **An entity which prepares and presents financial statements under the accrual basis of accounting should prepare a cash flow statement in accordance with the requirements of this Standard and should present it as an integral part of its financial statements for each period for which financial statements are presented.**
2. Information about cash flows may be useful to users of an entity's financial statements in assessing the entity's cash flows, assessing the entity's compliance with legislation and regulations (including authorized budgets where appropriate) and for making decisions about whether to provide resources to, or enter into transactions with an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons,

however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

3. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

4. The "Preface to Sri Lanka Public Sector Accounting Standards" issued by the ICASL explains that GBEs apply SLASs which are issued by ICASL. GBEs are defined in SLPSAS 1. " Presentation of Financial Statements"

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and other events.

7. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

   Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions

and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under the accrual basis are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or

(b) Can be sold, exchanged, transferred or redeemed.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

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

Government Business Enterprise (GBEs) means an entity that has all the following characteristics:

(a) **Is an entity with the power to contract in its own name;**

(b) **Has been assigned the financial and operational authority to carry on a business;**

(c) **Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**

(d) **Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**

(e) **Is controlled by a public sector entity.**

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

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Operating activities are the activities of the entity that are not investing or financing activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in other Sri Lanka Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the glossary of Defined Terms published separately.

Cash and Cash Equivalents

9. Cash equivalents are held for the purpose of meeting short-term cash Commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. 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. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

10. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

11. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting- purposes, a group of entities comprising the controlling entity and any controlled entities.

13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group

14. An economic entity may include entities with both social policy and commercial objectives. For example, Sri Lanka Railway may be an economic entity which includes services that provide for nominal charge as well as services provide on commercial basis.

Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential. Assets that are

used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term future economic benefits or service potential to describe the essential characteristic of assets.

Government Business Enterprises

16. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6, "Consolidated and Separate Financial Statements" or when adopted the equivalent SLPSAS provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Presentation of a Cash Flow Statement

18. T**he cash flow statement should report cash flows during the period classified by operating, investing and financing activities.**

19. An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

20. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

    (a) By way of taxes (directly and indirectly); or

    (b) From the recipients of goods and services provided by the entity.

    The amount of the net cash flows also assists in showing the ability of the entity to maintains its operating capability, repay obligations, pay a dividend or similar distribution to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

    (a) Cash receipts from taxes, levies and fines;

    (b) Cash receipts from charges for goods and services provided by the entity;

    (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

    (d) Cash receipts from royalties, fees, commissions and other revenue;

    (e) Cash payments to other public sector entities to finance their operations (not including loans);

    (f) Cash payments to suppliers for goods and services;

    (g) Cash payments to and on behalf of employees;

    (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

    (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of net surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

23. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash generating activity of that entity.

24. Government or other public sector entities will appropriate or authorise funds to entities to finance the operations of an entity and no clear distinction is made for the disposition of those funds between current activities, capital works and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorizations into current activities, capital works and contributed capital, the appropriation or budget authorisation should be classified as cash flows from operations and this fact should be disclosed in the notes to the financial statements.

Investing Activities

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed; and

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting Cash Flows from Operating Activities

27. **An entity should report cash flows from operating activities using either:**

    (a) **The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**

    (b) **The indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.**

28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

    (a) From the accounting records of the entity; or

    (b) By adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution) and other items in the statement of financial performance for:

        (i) Changes during the period in inventories and operating receivables and payables;

        (ii) Other non-cash items; and

        (iii) Other items for which the cash effects are investing or financing cash flows.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting net surplus or deficit from ordinary activities for the effects of:

(a) Changes during the period in inventories and operating receivables and payables;

(b) Non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed surpluses of associates, and minority interests;

(c) All other items for which the cash effects are investing or financing cash flows; and

(d) The impact of any extraordinary items which are classified as operating cash flows.

Reporting Cash Flows from Investing and Financing Activities

31. **An entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.**

Reporting Cash Flows on a Net Basis

32. **Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**

    (a) **Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and**

    (b) **Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

    (a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;

    (b) The acceptance and repayment of demand deposits of a public financial institution;

    (c) Funds held for customers by an investment or trust entity; and

    (d) Rents collected on behalf of, and paid over to, the owners of properties.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:

    (a) The purchase and sale of investments; and

    (b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

35. **Cash flows arising from each of the following activities of a public financial institution may be reported on a net basis:**

    (a) **Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**

    (b) **The placement of deposits with and withdrawal of deposits from other financial institutions; and**

    (c) **Cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign Currency Cash Flows

36. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

37. The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

38. Cash flows denominated in a foreign currency are reported in a manner consistent with IPSAS 4, "The Effects of Changes in Foreign Exchange Rates." or when adopted the equivalent SLPSAS. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. IPSAS 4 or when adopted the equivalent SLPSAS does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.

39. Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount

is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and Dividends

40. Cash flows from interest and dividends received and paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing activities.

41. The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognized as an expense in the statement of financial performance or capitalised in accordance with the allowed alternative treatment in SLPSAS 4, "Borrowing Costs".

42. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net surplus or deficit. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

43. Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

Taxes/Levies on Net Surplus

44. Cash flows arising from taxes/levies on net surplus should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

45. Public sector entities are generally exempt from taxes on net surpluses. However, for some public sector entities taxes may be levied in the same way as they are on private sector entities.

46. Taxes on net surplus arise from transactions that give rise to cash flows that are classified as operating, investing or financing activities

in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in Controlled Entities, Associates and Joint Ventures

47. When accounting for an investment in an associate or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends and advances.

48. An entity which reports its interest in a jointly controlled entity using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units should be presented separately and classified as investing activities.

50. An entity should disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:

(a) **The total purchase or disposal consideration;**

(b) **The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**

(c) **The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and**

(d) **The amount of the assets and liabilities other than cash or cash equivalents recognised by the controlled entity or operating unit acquired or disposed of, summarisd by each major category.**

51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those acquisitions.

52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

53. Assets and liabilities other than cash or cash equivalents of a controlled entity or operating unit acquired or disposed of are only required to be disclosed where the controlled entity or unit had previously recognised those assets or liabilities. For example, where a public sector entity which prepares reports under the cash basis is acquired by another public sector entity, the acquiring entity would not be required to disclose the assets and liabilities (other than cash and cash equivalents) of the entity acquired as that entity would not have recognized non-cash assets or liabilities.

Non-cash Transactions

54. Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

55. Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities or by means of a finance lease; and

(b) The conversion of debt to equity.

Components of Cash and Cash Equivalents

56. An entity should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

57. In view of the variety of cash management practices and banking arrangements in order to comply with SLPSAS 1 an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

58. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with SLPSAS 3. "Accounting Policies, Changes in Accounting Estimates and Errors"

Other Disclosures

59. An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.

60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Example include cash and cash equivalent balances held by a controlled entity when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged and may include:

   (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

   (b) The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; and

   (c) The amount and nature of restricted cash balances.

62. Where appropriations or budget authorisation are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the government's budgetary information. Refer to SLPSAS 1 for a brief discussion of the comparison of actual and budgeted figures.

Compliance with International Public Sector Accounting Standards

63. Compliance with this SLPSAS 2 ensures compliance in all material respects with IPSAS 2, "Cash Flow Statements".

Effective Date

64. This Sri Lanka Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 01 January 2011 Earlier application is encouraged.

65. When an entity adopts the accrual basis of accounting, as defined SLPSASs for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix

Cash Flow Statement (For an Entity Other Than a Financial Institution)

This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards to assist in clarifying their meaning.

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended 31 December 20X2 (In Thousands of Rupees)

	20X2	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	X	X

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	20X2	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant and equipment with an aggregate cost of X of which X was acquired by means of capital grants by the government. Cash payments of X were made to purchase property, plant and equipment.

(c) *Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) from Ordinary Activities (in thousands of Rupees)*

Direct Method Cash Flow Statement (paragraph 27(a))

Notes to the Cash Flow Statement

(d) Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)

(In Thousand of Rupees)

	20X2	20X1
Surplus/(deficit) from ordinary activities	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended 31 December 20X2

(In Thousands of Rupees)

	20X2	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit)	X	X
Non-cash movements	X	X
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	20X2	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) Property, Plant and Equipment

During the period, the economic entity acquired property, plant and equipment with an aggregate cost of X of which X was acquired by means of capital grants by the government. Cash payments of X were made to purchase property, plant and equipment.

Comparison with SLAS 9

Sri Lanka Public Sector Accounting Standard (SLPSAS) 2, "Cash Flow Statements," is drawn primarily from International Public Sector Accounting Standard. (IPSAS) 2 "Cash Flow Statements" which is based on International Accounting Standards (IAS) 07 "Cash Flow Statements,"

Sri Lanka Accounting Standards (SLAS) 9, "Cash Flow Statements" was issued by Institute of Chartered Accountants of Sri Lanka and used by private sector and Government Business Enterprises (GBEs) in Sri Lanka

The main differences between SLPSAS 2 and SLAS 9 are as follows:

· Commentary additional to that in SLAS 9 has been included in SLPSAS 2 to clarify the applicability of the standards to accounting by public sector entities.

· SLPSAS 2 uses different terminology, in certain instances, from SLAS 9. The most significant examples are the use of the terms "entity," "revenue," "statement of financial performance," "statement of financial position" and "net assets/equity" in SLPSAS 2. The equivalent terms in SLAS 9 are "enterprise," "income," "income statement," "balance sheet" and "equity."

· SLPSAS 2 contains a different set of definitions of technical terms from SLAS 9 (paragraph 5).

· In common with SLAS 9, SLPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, SLPSAS 2 encourages disclosure of a reconciliation of surplus or deficit from operating cash flows in the notes to the financial statements (paragraph 29).

· The Appendix to SLPSAS 2 does not include an illustration of a Cash Flow Statement for a financial institution and for an insurance institution.

SLPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Acknowledgment

The SLPSAS 03 "Accounting Policies, Changes in Accounting Estimates and Errors" is based on IPSAS 03 "Accounting Policies, Changes in Accounting Estimates and Errors" of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) in December 2006 and is used with permission of IFAC.

November 2009

SLPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

CONTENTS

SLPSAS 3 - ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Sri Lanka Public Sector Accounting Standard (SLPSAS) 3 "Accounting Policies, Changes in Accounting Estimates and Errors" is set out in paragraphs 1-61 and the Appendix. All the paragraphs have equal authority. SLPSAS 3 should be read in the context of its objective and the "Preface to Sri Lanka Public Sector Accounting Standards"

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in SLPSAS 1. "Presentation of Financial Statements".

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. Sri Lanka accounting standards dealing with income taxes contain guidance on the treatment of tax effects.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The "Preface to Sri Lanka Public Sector Accounting Standards" issued by ICASL explains that Government Business Enterprises (GBEs) apply the Sri Lanka Accounting Standards (SLASs) which are issued by the ICASL, GBEs are defined in SLPSAS 1.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accrual basis means a basis of accounting under which transactions, other events and conditions are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events and conditions are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

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 correction of errors.

Impracticable. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) **The effects of the retrospective application or retrospective restatement are not determinable;**

(b) **The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

(c) **The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

    (i) **Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and**

(ii) **Would have been available when the financial statements for that prior period were authorized for issue from other information.**

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

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 authorized 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.**

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

Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

(a) **Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and**

(b) **Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.**

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Terms defined in other SLPSASs are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. When a SLPSAS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Implementation Guidance issued by the ICASL for the Standard.

10. SLPSASs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from SLPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

11. Implementation Guidance for Standards issued does not form part of those Standards, and therefore does not contain requirements for financial statements.

12. In the absence of a SLPSAS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

(a) **Relevant to the decision-making needs of users; and**

(b) R**eliable, in that the financial statements:**

(i) **Represent faithfully the financial position, financial performance and cash flows of the entity;**

(ii) **Reflect the economic substance of transactions, other events and conditions and not merely the legal form;**

(iii) **Are neutral i.e., free from bias;**

(iv) **Are prudent; and**

(v) **Are complete in all material respects.**

13. Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix in SLPSAS 1 summarizes the qualitative characteristics of financial reporting.

14. **In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in descending order:**

(a) **The requirements and guidance in SLPSASs dealing with similar and related issues; and**

(b) **The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other SLPSASs.**

15. **In making the judgment described in paragraph 12, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the sources in paragraph 14.**

Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a SLPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

(a) **Is required by a SLPSAS; or**

(b) **Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 17.

19. **A change from one basis of accounting to another basis of accounting is a change in accounting policy.**

20. **A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.**

21. **The following are not changes in accounting policies:**

    (a) **The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

    (b) **The application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with IPSAS 17 "Property, Plant and Equipment" or when adopted the equivalent SLPSAS or the relevant international or national accounting standard dealing with intangible assets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or when adopted the equivalent SLPSAS or relevant Standard, rather than in accordance with this Standard.**

23. Paragraphs 24d36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. **Subject to paragraph 28:**

    (a) **An entity shall account for a change in accounting policy resulting from the initial application of a SLPSAS in accordance with the specific transitional provisions, if any, in that Standard; and**

    (b) **When an entity changes an accounting policy upon initial application of a SLPSAS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this SLPSAS, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of a SLPSAS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 15, apply an accounting policy from the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 14. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective Application

27. Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on Retrospective Application

28. When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the change.

29. When it is impracticable to determine the period specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.

30. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with a SLPSAS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55"58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. **When initial application of a SLPSAS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

    (a) **The title of the Standard;**

    (b) **When applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

    (c) **The nature of the change in accounting policy;**

    (d) **When applicable, a description of the transitional provisions;**

    (e) **When applicable, the transitional provisions that might have an effect on future periods;**

    (f) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

    (g) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

    (h) **If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

    Financial statements of subsequent periods need not repeat these disclosures.

34. **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

    (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) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

35. **When an entity has not applied a new SLPSAS that has been issued but is not yet effective, the entity shall disclose:**

(a) **This fact; and**

(b) **Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

36. In complying with paragraph 35, an entity considers disclosing:

(a) The title of the new SLPSAS;

(b) The nature of the impending change or changes in accounting policy;

(c) The date by which application of the Standard is required;

(d) The date as at which it plans to apply the Standard initially; and

(e) Either:

(i) A discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) If that impact is not known or reasonably estimable, a statement to that effect.

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required, of:

    (a) Tax revenue due to government;

    (b) Bad debts arising from uncollected taxes;

    (c) Inventory obsolescence;

    (d) The fair value of financial assets or financial liabilities;

    (e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction; and

    (f) Warranty obligations

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. 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.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:**

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

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

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/ equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with SLPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material

errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47-51).

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**

    (a) **Restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/ equity for the earliest prior period presented.**

Limitations of Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information

prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 55"58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. **In applying paragraph 47, an entity shall disclose the following:**

(a) **The nature of the prior period error;**

(b) **For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

(c) **The amount of the correction at the beginning of the earliest prior period presented; and**

(d) **If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

Financial Statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56"58, its prospective application to prior periods) or retrospective

restatement to correct a prior period error, and it may be impracticable to recreate the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

    (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

    (b) Would have been available when the financial statements for that prior period were authorized for issue.

    from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner occupied office building.

In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from government operations in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets," or when adopted the equivalent SLPSAS it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Compliance with International Public Sector Accounting Standards

59. Compliance with this SLPSAS 3 ensures compliance in all material respects with IPSAS 3, "*Accounting Polices, Changes in Accounting Estimates and Errors"*.

Effective Date

60. **An entity shall apply this SLPSAS for annual periods beginning on or after 01 January 2011. Earlier application is encouraged.**

61 When an entity adopts the accrual basis of accounting, as defined by SLPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Guidance on Implementing SLPSAS 3

This guidance accompanies, but is not part of, SLPSAS 3.

Example 1 - Retrospective Restatement of Errors

1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of Rs. 6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

1.2. The entity's accounting records for 20X2 show revenue from taxation of Rs. 60,000 (including the Rs.6,500 taxation which should have been recognized in opening balances), and expenses of Rs. 86,500.

1.3. In 20X1, the entity reported:

	Rs.
Revenue from taxation	34,000
User charges	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Surplus	7,000

1.4. 20X1 opening accumulated surplus was Rs.20,000 and closing accumulated surplus was Rs.27,000.

1.5. The entity had no other revenue or expenses.

1.6. The entity had Rs.5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

	20X2 Rs.	(restated) 20X1 Rs.
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Surplus	11,000	13,500

Public Sector Entity X Statement of Changes in Equity

	Contributed Capital Rs.	Accumulated Surpluses Rs.	Total Rs.
Balance at 31 December 20X0	5,000	20,000	25,000
Surplus for the year ended December 31, 20X1 as Restated		13,500	13,500
Balance at 31 December 20X1	5,000	33,500	38,500
Surplus for the year ended 31 December 20X2	-	11,000	11,000
Balance at 31 December 20X2	5,000	44,500	49,500

Extracts from Notes to the Financial Statements

1. Revenue from taxation of Rs.6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20X2.

	Effect on 20X1 Rs.
Increase revenue	6,500
Increase in surplus	6,500
Increase in debtors	6,500
Increase in net assets/equity	6,500

Example 2 - Change in Accounting Policy with Retrospective Application

2.1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydroelectric power station which is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

2.2. The entity capitalized borrowing costs incurred of Rs.2,600 during 20X1 and Rs.5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

2.3. The accounting records for 20X2 show surplus before interest of Rs.30,000; and interest expense of Rs.3,000 (which relates only to 20X2).

2.4. The entity has not recognized any depreciation on the power station because it is not yet in use.

2.5. In 20X1, the entity reported:

	Rs.
Surplus before interest	18,000
Interest expense	–
Surplus	18,000

2.6. 20X1 opening accumulated surpluses was Rs.20,000 and closing accumulated surpluses was Rs.38,000.

2.7. The entity had Rs.10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

		(restated)
	20X2	20X1
	Rs.	Rs.
Surplus before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
Surplus	27,000	15,400

Public Sector Entity – Statement of Changes in Net Assets/Equity

	Contributed Capital Rs.	(restated) Accumulated Surplus Rs.	Total Rs.
Balance at 31 December 20X0 as previously reported	10,000	20,000	30,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	-	(5,200)	(5,200)
Balance at 31 December 20X0 as restated	10,000	14,800	24,800
Surplus for the year ended 31 December 20X1 (restated)	-	15,400	15,400
Balance at 31 December 20X1	10,000	30,200	40,200
Surplus for the year ended 31 December 20X2	-	27,000	27,000
Closing at 31 December 20X2	10,000	57,200	67,200

Extracts from the Notes

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by Rs.5,200 which is the amount of the adjustment relating to periods prior to 20X1.

Effect on 20-1	Rs.
(Increase) in interest expense	(2,600)
(Decrease) in surplus	(2,600)
Effect on periods prior to 20-1	
(Decrease) in surplus	(5,200)
(Decrease) in assets in the course of construction and in accumulated surplus	(7,800)

Example 3 - Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

3.1. During 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

3.2. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

3.4. Additional information:

	Rs.
Property, plant and equipment	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

Extract from the Notes

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by Rs.6,000; create a revaluation reserve at the start of the year of Rs.6,000; and increase depreciation expense by Rs. 500.

Comparison with SLAS 10

Sri Lanka Public Sector Accounting Standard SLPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” is drawn primarily from International Public Sector Accounting Standard IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors.” which is based on International Accounting Standards (IAS) 8.

SLAS 10 “Accounting Policies, Changes in Accounting Estimates and Errors.” was issued by Institute of Chartered Accountants of Sri Lanka and used by private sector and Government Business Enterprises (GBEs) in Sri Lanka

The main differences between SLPSAS 3 and SLAS 10 are as follows

- Commentary additional to that in SLAS 10 has been included in SLPSAS 3 to clarify the applicability of the standards to accounting by public sector entities (paragraph 5).

- SLPSAS 3 uses different terminology, in certain instances, from SLAS 10. The most significant examples are the use of the terms statement of financial performance, statement of financial position, accumulated surplus or deficit and net assets/equity in SLPSAS 3. The equivalent terms in SLAS 10 are income statement, balance sheet, retained earning and equity.

- SLPSAS 3 does not use the term “income”, which in SLAS 10 has a broader meaning than the term “revenue”.

- SLPSAS 3 contains a different set of definitions of technical terms from SLAS 10 (paragraph 7).

- SLPSAS 3 has a similar hierarchy to SLAS 10 except that the SLPSAS does not have a conceptual framework.

- SLPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. SLAS 10 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

SLPSAS 4—BORROWING COSTS

Acknowledgment

The SLPSAS 4 “Borrowing Costs” is based on IPSAS 5 “Borrowing Costs” of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) in May 2000 and is used with permission of IFAC.

November 2009

SLPSAS 4—BORROWING COSTS

CONTENTS

Paragraph

SLPSAS4—BORROWING COSTS

The standards, which have been set in bold, should be read in the context of the commentary paragraphs in this Standard which are in plain type, and in the context of the "Preface to Sri Lanka Public Sector Accounting Standards." Sri Lanka Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Scope

1. **This Standard should be applied in accounting for borrowing costs.**

2. **This Standard applies to all public sector entities other than Government Business Enterprises.**

3. The "Preface to Sri Lanka Public Sector Accounting Standards" issued by the ICASL explains that GBEs apply SLASs which are issued by the ICASL. GBEs are defined in SLPSAS 1, "Presentation of Financial Statements."

4. This Standard does not deal with the actual or imputed cost of net assets/equity. Where judgment will need to be exercised to determine whether the charge meets the definition of borrowing costs or whether it should be treated as an actual or imputed cost of net assets/equity.

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

   Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in

the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Cash comprises cash on hand and demand deposits.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) **Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **Can be sold, exchanged, transferred or redeemed.**

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/ equity, other than those relating to distributions to owners.

Government Business Enterprise means an entity that has all the following characteristics:

(a) **Is an entity with the power to contract in its own name;**

(b) **Has been assigned the financial and operational authority to carry on a business;**

(c) **Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**

(d) **Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**

(e) **Is controlled by a public sector entity.**

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in other Sri Lanka Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Borrowing Costs

6. Borrowing costs may include:

(a) Interest on bank overdrafts and short-term and long-term borrowings;

(b) Amortization of discounts or premiums relating to borrowings;

(c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

(d) Finance charges in respect of finance leases; and

(e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Economic Entity

7. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

8. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group.

9. An economic entity may include entities with both social policy and commercial objectives. For example, Sri Lanaka Railways may be an economic entity which includes entities that provide services for a nominal charge, as well as entities that provide services on a commercial basis.

Future Economic Benefits or Service Potential

10. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

11. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6, "Consolidated and Separate Financial Statements" or when adopted the equivalent SLPSAS provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Net Assets/Equity

12. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Qualifying Assets

13. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Borrowing Costs -Benchmark Treatment

Recognition

14. **Borrowing costs should be recognized as an expense in the period in which they are incurred.**

15. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

Disclosure

16. **The financial statements should disclose the accounting policy adopted for borrowing costs.**

Borrowing Costs—Allowed Alternative Treatment

Recognition

17. **Borrowing costs should be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized in accordance with paragraph 18.**

18. **Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard.**

19. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred.

20. **Where an entity adopts the allowed alternative treatment, that treatment should be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets of the entity.**

Borrowing Costs Eligible for Capitalization

21. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

22. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds which have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant or a capital injection. Such transfers may be interest-free or require that only a portion of the actual interest cost be recovered. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the economic entity operates in highly inflationary economies, and from

fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required

23. **To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**

24. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

25. **To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization should be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing costs incurred during that period.**

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds which are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs and consequently will not capitalize any such costs.

27. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalize that portion of borrowing costs which it itself has incurred. In the financial statements of the

economic entity, the full amount of borrowing costs can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

28. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalization of borrowing costs. However, if the economic entity met the criteria for capitalization of borrowing costs, it would be able to capitalize the borrowing costs to the qualifying asset in its financial statements.

29. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

30. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of other international and/or national accounting standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other standards.

Commencement of Capitalization

31. **The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when:**

    (a) **Outlays for the asset are being incurred;**

    (b) **Borrowing costs are being incurred; and**

    (c) **Activities that are necessary to prepare the asset for its intended use or sale are in progress.**

32. Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets or the assumption

of interest bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the outlays to which the capitalization rate is applied in that period.

33. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalized during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization.

Suspension of Capitalization

34. **Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted, and expensed.**

35. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalization. However, capitalization of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during an extended period needed for inventories to mature or an extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalization

36. **Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

37. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

38. **When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.**

39. An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include an operating theatre in a hospital when all construction must be complete before the theatre may be used; a sewage treatment plant where several processes are carried out in sequence at different parts of the plant; and a bridge forming part of a highway.

Disclosure

40. **The financial statements should disclose:**

    (a) **The accounting policy adopted for borrowing costs;**

    (b) **The amount of borrowing costs capitalized during the period; and**

    (c) **The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).**

Compliance with International Public Sector Accounting Standards

41 Compliance with this SLPSAS 4 ensures compliance in all material respects with International Public Sector Accounting Standard (IPSAS) 5 "" *Borrowing Costs"*

Effective Date

42. **This SLPSAS becomes effective for annual financial statements covering periods beginning on or after 01 January 2011 Earlier application is encouraged.**

43. When an entity adopts the accrual basis of accounting, as defined by SLPSAS, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Comparison with SLAS 20

Sri Lanka Public Sector Accounting Standard (SLPSAS) 4, “Borrowing Costs” is drawn primarily from International Public Sector Accounting Standard 5, “Borrowing Costs.” which is based on International Accounting Standards (IAS) 23

SLAS.20 “Borrowing Costs” was issued by Institute of Chartered Accountants of Sri Lanka and used by private sector and Government Business Enterprises (GBEs) in Sri Lanka

The main differences between SLPSAS 4 and SLAS 20 are as follows:

- Commentary additional to that in SLAS 20 has been included in SLPSAS 4 to clarify the applicability of the standards to accounting by public sector entities (paragraph 2).

- SLPSAS 4 uses different terminology, in certain instances, from SLAS 20. The most significant examples are the use of the terms entity, revenue, statement of financial performance, statement of financial position and net assets/equity in SLPSAS 4. The equivalent terms in SLAS 20 are enterprise, income, income statement, balance sheet and equity.

- SLPSAS 4 contains a different set of definitions of technical terms from SLAS 20 (paragraph 5).