

Sinhala and Tamil versions of this *Gazette* extraordinary will be published separately.



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## PART I : SECTION (I) — GENERAL

### Government Notifications

#### SRI LANKA ACCOUNTING AND AUDITING STANDARDS ACT, NO. 15 OF 1995

##### Publication under Section 4(2)

By virtue of the powers vested in the Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the “Institute”), the Institute has adopted changes to Sri Lanka Accounting Standards – (SLFRS & LKAS) with effect from 01<sup>st</sup> January 2016, published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. This Amendments shall be effective for financial statements covering period commencing on or after the first day of January Two Thousand Sixteen. Earlier application is permitted.

By Order of the Council,

ARUNAALWIS,  
Secretary

The Institute of Chartered Accountants of Sri Lanka,  
No. 30A,  
Malalasekera Mawatha,  
Colombo 07.  
08<sup>th</sup> November, 2016



## **SRI LANKA ACCOUNTING STANDARDS CHANGES WITH EFFECT FROM 01ST JANUARY 2016**

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## The Conceptual Framework for Financial Reporting

No Changes

### LKAS 1 - Presentation of Financial Statements

10(e)	<b>....notes, comprising significant accounting policies explanatory information;</b>
<b>30A</b>	<u>When applying this and other SLFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.</u>
<b>31</b>	<u>Some SLFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an SLFRS if the information resulting from that disclosure is not material. This is the case even if the SLFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in SLFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.</u>
<b>54</b>	<b><u>The statement of financial position shall include line items that present the following amounts:</u></b>
<b>54(f)</b>	<b><u>...biological assets within the scope of LKAS 41 Agriculture;</u></b>
<b>55</b>	<b><u>An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.</u></b>
<b>55A</b>	<b><u>When an entity presents subtotals in accordance with paragraph 55, those subtotals shall:</u></b> <ul style="list-style-type: none"> <li>(a) <b><u>be comprised of line items made up of amounts recognised and measured in accordance with SLFRS;</u></b></li> <li>(b) <b><u>be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;</u></b></li> <li>(c) <b><u>be consistent from period to period, in accordance with paragraph 45; and</u></b></li> <li>(d) <b><u>not be displayed with more prominence than the subtotals and totals required in SLFRS for the statement of financial position.</u></b></li> </ul>
<b>82A</b>	<b><u>The other comprehensive income section shall present line items for the amounts for the period of:</u></b> <ul style="list-style-type: none"> <li>(a) <b><u>items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other SLFRSs:</u></b> <ul style="list-style-type: none"> <li>(i) will not be reclassified subsequently to profit or loss; and</li> <li>(ii) will be reclassified subsequently to profit or loss when specific conditions are met.</li> </ul> </li> </ul>

	<p>(b) <b><u>the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other SLFRSs:</u></b></p> <p>(i) <b><u>will not be reclassified subsequently to profit or loss; and</u></b></p> <p>(ii) <b><u>will be reclassified subsequently to profit or loss when specific conditions are met.</u></b></p>
85	<b>An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.</b>
<b>85A</b>	<p>When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:</p> <p>(a) <u>be comprised of line items made up of amounts recognised and measured in accordance with SLFRS;</u></p> <p>(b) <u>be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;</u></p> <p>(c) <u>be consistent from period to period, in accordance with paragraph 45; and</u></p> <p>(d) <u>not be displayed with more prominence than the subtotals and totals required in SLFRS for the statement(s) presenting profit or loss and other comprehensive income.</u></p>
<b>85B</b>	<u>An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in SLFRS for such statement(s).</u>
113	<b>An entity shall, as far as practicable, present notes in a systematic manner. <u>In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements.</u> An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.</b>
114	<p><u>Examples of systematic ordering or grouping of the notes include:</u></p> <p>(a) <u>giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;</u></p> <p>(b) <u>grouping together information about items measured similarly such as assets measured at fair value; or</u></p> <p>(c) <u>following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:</u></p> <p>(i) statement of compliance with SLFRSs (see paragraph 16);</p>

	<p>(ii) significant accounting policies applied (see paragraph 117);</p> <p>(iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and</p> <p>(iv) other disclosures, including:</p> <p>(1) contingent liabilities (see LKAS 37) and unrecognised contractual commitments; and</p> <p>(2) non-financial disclosures, eg the entity’s financial risk management objectives and policies (see SLFRS 7).</p>
115	[Deleted]
117	<b>An entity shall disclose <u>its significant accounting policies comprising:</u></b>
119	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 reported financial performance and financial position. <u>Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in SLFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see LKAS 40 <i>Investment Property</i>). Some SLFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, LKAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.</u>
120	[Deleted]
122	<b>An entity shall disclose, <u>along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</u></b>
<b>139P</b>	<u><i>Disclosure Initiative</i> (Amendments to LKAS 1), issued in March 2015, amended paragraphs 10, 31, 54–55, 82A, 85, 113–114, 117, 119 and 122, added paragraphs 30A, 55A and 85A–85B and deleted paragraphs 115 and 120. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Entities are not required to disclose the information required by paragraphs 28–30 of LKAS 8 in relation to these amendments.</u>

## LKAS 2 - Inventories

No Changes

## LKAS 7 - Statement of Cash Flow

No Changes

**LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

No Changes

**LKAS 10 - Events after the Reporting Period**

No Changes

**LKAS 11 - Construction Contracts**

No Changes

**LKAS 12 - Income Taxes**

No Changes

**LKAS 16 - Property, Plant and Equipment**

3 (b)	biological assets related to agricultural activity other than bearer plants (see LKAS 41 Agriculture). <u>This Standard applies to bearer plants but it does not apply to the produce on bearer plants.</u>
6	<p>The following terms are used in this Standard with the meanings specified:</p> <p><u>A bearer plant is a living plant that:</u></p> <p><u>(a) is used in the production or supply of agricultural produce;</u></p> <p><u>(b) is expected to bear produce for more than one period; and</u></p> <p><u>(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.</u></p> <p><u>(Paragraphs 5A–5B of LKAS 41 elaborate on this definition of a bearer plant.)</u></p> <p><i>Carrying amount</i> is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.</p> <p><i>Cost</i> is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other SLFRSs, eg SLFRS 2 Share-based Payment.</p> <p><i>Depreciable amount</i> is the cost of an asset, or other amount substituted for cost, less its residual value.</p>

	<p><i>Depreciation</i> is the systematic allocation of the depreciable amount of an asset over its useful life.</p> <p><i>Entity-specific value</i> is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.</p> <p><i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See SLFRS 13 Fair Value Measurement.)</p> <p>An <i>impairment loss</i> is the amount by which the carrying amount of an asset exceeds its recoverable amount.</p>
22A	<u>Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to ‘construction’ in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.</u>
37 (i)	<u>bearer plants.</u>
56 (c)	<u>technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.</u>
62A	<u>A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.</u>
80B	<u>In the reporting period when <i>Agriculture: Bearer Plants</i> (Amendments to LKAS 16 and LKAS 41) is first applied an entity need not disclose the quantitative information required by paragraph 28(f) of LKAS 8 for the current period. However, an entity shall present the quantitative information required by paragraph 28(f) of LKAS 8 for each prior period presented.</u>
80C	<u>An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies <i>Agriculture: Bearer Plants</i> (Amendments to LKAS 16 and LKAS 41) and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.</u>
81I	<u><i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (Amendments to LKAS 16 and LKAS 38), issued in February 2016, amended paragraph 56 and added paragraph 62A. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.</u>



81K	<u>Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41), issued in March 2015, amended paragraphs 3, 6 and 37 and added paragraphs 22A and 80B–80C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively, in accordance with LKAS 8, except as specified in paragraph 80C.</u>
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**LKAS 17 - Leases**

2	(c) biological assets <u>within the scope of LKAS 41 Agriculture</u> held by lessees under finance leases; or  (d) biological assets <u>within the scope of LKAS 41</u> provided by lessors under operating leases.
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**LKAS 18 - Revenue**

No Changes

**LKAS 19 - Employee Benefits**

83	The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. <u>For currencies for which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency shall be used.</u> The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.
176	<u>Adoption of IASB’s Annual Improvements 2012–2014 Cycle, issued in September 2014, amended paragraph 83 and added paragraph 177. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.</u>
177	<u>An entity shall apply the amendment in paragraph 176 from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the amendment. Any initial adjustment arising from the application of the amendment shall be recognised in retained earnings at the beginning of that period.</u>

**LKAS 20 - Accounting for Government Grants and Disclosure of Government Assistance**

No Changes

**LKAS 21 - The Effects of Changes in Foreign Exchange Rates**

No Changes

### LKAS 23 - Borrowing Costs

4 (a)	a qualifying asset measured at fair value, for example a biological asset <u>within the scope of LKAS 41 Agriculture</u> ; or
7 (f)	<u>bearer plants.</u>

### LKAS 24 - Related Party Disclosures

No Changes

### LKAS 26 - Accounting and Reporting by Retirement Benefit Plans

No Changes

### LKAS 27 - Separate Financial Statements

4	<p>The following terms are used in this Standard with the meanings specified:</p> <p><i>Consolidated financial statements</i> are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.</p> <p><i>Separate financial statements</i> are those presented by <u>an entity in which the entity could elect, subject to the requirements in this Standard, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with SLFRS 9 Financial Instruments, or using the equity method as described in LKAS 28 Investments in Associates and Joint Ventures.</u></p>
5	<p>The following terms are defined in Appendix A of SLFRS 10 <i>Consolidated Financial Statements</i>, Appendix A of SLFRS 11 <i>Joint Arrangements</i> and paragraph 3 of LKAS 28:</p> <ul style="list-style-type: none"> <li>• Associate</li> <li>• control of an investee</li> <li>• <u>equity method</u></li> <li>• group</li> <li>• investment entity</li> <li>• joint control</li> <li>• joint venture</li> <li>• joint venturer</li> <li>• parent</li> <li>• significant influence</li> <li>• subsidiary</li> </ul>
6	<p>Separate financial statements are those presented in addition to consolidated financial statements or in addition to <u>the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by LKAS 28 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A.</u></p>

7	<p>The financial statements of an entity that does not have a subsidiary, associate or joint venturer’s interest in a joint venture are not separate financial statements.</p>
10	<p><b>When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:</b></p> <p>(a) at cost;</p> <p>(b) in accordance with SLFRS 9; <u>or</u></p> <p>(c) <u>using the equity method as described in LKAS 28.</u></p> <p>The entity shall apply the same accounting for each category of investments. Investments accounted for at cost <u>or using the equity method shall be accounted for in accordance with SLFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u> when they are classified as held for sale <u>or for distribution</u> (or included in a disposal group that is classified as held for sale <u>or for distribution</u>). The measurement of investments accounted for in accordance with SLFRS 9 is not changed in such circumstances.</p>
11B	<p>When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:</p> <p>(a) when an entity ceases to be an investment entity, the entity <u>shall account for an investment in a subsidiary in accordance with paragraph 10. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 10.</u></p> <p>I. <u>[deleted]</u></p> <p>II. <u>[deleted]</u></p> <p>(b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with SLFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss.</p> <p>The cumulative amount of any <u>gain or loss</u> previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.</p>
12	<p><b><u>Dividends from a subsidiary, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity’s right to receive the dividend is established. The dividend is recognised in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognised as a reduction from the carrying amount of the investment.</u></b></p>
18J	<p><u>Equity Method in Separate Financial Statements (Amendments to LKAS 27), issued in March 2015, amended paragraphs 4–7, 10, 11B and 12. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016 retrospectively in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.</u></p>

## LKAS 28 - Investments in Associates and Joint Ventures

<b>17 (d)</b>	The ultimate or any intermediate parent of the entity produces <u>financial statements</u> available for public use that comply with SLFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with SLFRS 10.
<b>25</b>	If an entity's ownership interest in an associate or a joint venture is reduced, but the <u>investment</u> continues to <u>be classified either as an associate or a joint venture respectively</u> , the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.
<b>27</b>	A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35–36A).
<b>36</b>	<u>Except as described in paragraph 36A, if</u> an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
<b>36A</b>	<u>Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.</u>
<b>45B</b>	<u>Equity Method in Separate Financial Statements (Amendments to LKAS 27), issued in March 2015, amended paragraph 25. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016 retrospectively in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.</u>
<b>45D</b>	<u>Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28), issued in March 2015, amended paragraphs 17, 27 and 36 and added paragraph 36A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.</u>

## LKAS 29 - Financial Reporting in Hyperinflationary Economies

No Changes

## LKAS 32 - Financial Instruments: Presentation

No Changes

### LKAS 33 - Earnings per Share

No Changes

### LKAS 34 - Interim Financial Reporting

5(e)	...notes, comprising significant accounting policies and other explanatory information;
16A	<b>In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements <u>or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.</u></b>
56	Adoption of IASB’s <i>Annual Improvements 2012–2014 Cycle</i> , issued in September 2014, amended paragraph 16A. An entity shall apply that amendment retrospectively in accordance with LKAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.
57	<i>Disclosure Initiative</i> (Amendments to LKAS 1), issued in March 2015, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application of that amendment is permitted.

### LKAS 36 - Impairment of Assets

2(g)	biological assets related to agricultural activity <u>within the scope of LKAS 41 Agriculture that are measured at fair value less costs to sell;</u>
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### LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets

No Changes

### LKAS 38 - Intangible Assets

92	Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, <u>it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.</u>
98A	<u>There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is</u>

	<p>affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:</p> <p>(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or</p> <p>(b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.</p>
<b>98B</b>	<p>In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (ie time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.</p>
<b>98C</b>	<p>In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches Rs. 2 billion) and not be based on time or on the amount of gold extracted. In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches Rs. 100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.</p>
<b>130J</b>	<p><i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38), issued in February 2016, amended paragraphs 92 and 98 and added paragraphs 98A–98C. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.</i></p>

**LKAS 39 - Financial Instruments: Recognition and Measurement**

<b>88</b>	<b>Deleted</b>
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**LKAS 40 - Investment Property**

<b>4 (a)</b>	biological assets related to agricultural activity (see LKAS 41 <i>Agriculture</i> and LKAS 16 <i>Property, Plant and Equipment</i> ); and
<b>7</b>	Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not

only to property, but also to other assets used in the production or supply process. LKAS 16 applies to owner-occupied property.

### LKAS 41 - Agriculture

1(a)	<b>biological assets, except for bearer plants:</b>																																								
2(b)	<u>bearer plants related to agricultural activity (see LKAS 16). However, this Standard applies to the produce on those bearer plants.</u>																																								
2(c)	<u>government grants related to bearer plants (see LKAS 20 Accounting for Government Grants and Disclosure of Government Assistance).</u>																																								
3	This Standard is applied to agricultural produce, which is the harvested <u>produce</u> of the entity’s biological assets, at the point of harvest. Thereafter, LKAS 2 <i>Inventories</i> or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.																																								
4	<p>The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:</p> <table border="1" data-bbox="190 911 1160 1567"> <thead> <tr> <th data-bbox="190 911 525 993">Biological assets</th> <th data-bbox="525 911 780 993">Agricultural produce</th> <th data-bbox="780 911 1160 993">Products that are the result of processing after harvest</th> </tr> </thead> <tbody> <tr> <td data-bbox="190 993 525 1033">Sheep</td> <td data-bbox="525 993 780 1033">Wool</td> <td data-bbox="780 993 1160 1033">Yarn, carpet</td> </tr> <tr> <td data-bbox="190 1033 525 1124"><u>Trees in a timber plantation</u></td> <td data-bbox="525 1033 780 1124">Felled trees</td> <td data-bbox="780 1033 1160 1124">Logs, lumber</td> </tr> <tr> <td data-bbox="190 1124 525 1166">Dairy cattle</td> <td data-bbox="525 1124 780 1166">Milk</td> <td data-bbox="780 1124 1160 1166">Cheese</td> </tr> <tr> <td data-bbox="190 1166 525 1208">Pigs</td> <td data-bbox="525 1166 780 1208">Carcass</td> <td data-bbox="780 1166 1160 1208">Sausages, cured hams</td> </tr> <tr> <td data-bbox="190 1208 525 1250"><u>Cotton plants</u></td> <td data-bbox="525 1208 780 1250"><u>Harvested cotton</u></td> <td data-bbox="780 1208 1160 1250"><u>Thread, clothing</u></td> </tr> <tr> <td data-bbox="190 1250 525 1292"><u>Sugarcane</u></td> <td data-bbox="525 1250 780 1292"><u>Harvested cane</u></td> <td data-bbox="780 1250 1160 1292"><u>Sugar</u></td> </tr> <tr> <td data-bbox="190 1292 525 1334"><u>Tobacco plants</u></td> <td data-bbox="525 1292 780 1334"><u>Picked leaves</u></td> <td data-bbox="780 1292 1160 1334"><u>Cured tobacco</u></td> </tr> <tr> <td data-bbox="190 1334 525 1375"><u>Tea bushes</u></td> <td data-bbox="525 1334 780 1375"><u>Picked leaves</u></td> <td data-bbox="780 1334 1160 1375"><u>Tea</u></td> </tr> <tr> <td data-bbox="190 1375 525 1417"><u>Grape vines</u></td> <td data-bbox="525 1375 780 1417"><u>Picked grapes</u></td> <td data-bbox="780 1375 1160 1417">Wine</td> </tr> <tr> <td data-bbox="190 1417 525 1459">Fruit trees</td> <td data-bbox="525 1417 780 1459">Picked fruit</td> <td data-bbox="780 1417 1160 1459">Processed fruit</td> </tr> <tr> <td data-bbox="190 1459 525 1501"><u>Oil palms</u></td> <td data-bbox="525 1459 780 1501"><u>Picked fruit</u></td> <td data-bbox="780 1459 1160 1501"><u>Palm oil</u></td> </tr> <tr> <td data-bbox="190 1501 525 1543"><u>Rubber trees</u></td> <td data-bbox="525 1501 780 1543"><u>Harvested latex</u></td> <td data-bbox="780 1501 1160 1543"><u>Rubber products</u></td> </tr> </tbody> </table> <p data-bbox="190 1567 1160 1707"><u>Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of LKAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of LKAS 41.</u></p>		Biological assets	Agricultural produce	Products that are the result of processing after harvest	Sheep	Wool	Yarn, carpet	<u>Trees in a timber plantation</u>	Felled trees	Logs, lumber	Dairy cattle	Milk	Cheese	Pigs	Carcass	Sausages, cured hams	<u>Cotton plants</u>	<u>Harvested cotton</u>	<u>Thread, clothing</u>	<u>Sugarcane</u>	<u>Harvested cane</u>	<u>Sugar</u>	<u>Tobacco plants</u>	<u>Picked leaves</u>	<u>Cured tobacco</u>	<u>Tea bushes</u>	<u>Picked leaves</u>	<u>Tea</u>	<u>Grape vines</u>	<u>Picked grapes</u>	Wine	Fruit trees	Picked fruit	Processed fruit	<u>Oil palms</u>	<u>Picked fruit</u>	<u>Palm oil</u>	<u>Rubber trees</u>	<u>Harvested latex</u>	<u>Rubber products</u>
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5	The following terms are used in this Standard with the meanings specified:																																								

	<p><b>Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.</b></p> <p><b>Agricultural produce is the harvested produce of the entity’s biological assets.</b></p> <p><b><u>A bearer plant is a living plant that:</u></b></p> <p>(a) <b><u>is used in the production or supply of agricultural produce;</u></b></p> <p>(b) <b><u>is expected to bear produce for more than one period; and</u></b></p> <p>(c) <b><u>has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.</u></b></p> <p><b><u>A biological asset is a living animal or plant.</u></b></p> <p><b>Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.</b></p> <p><b>Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.</b></p> <p><b>A group of biological assets is an aggregation of similar living animals or plants.</b></p> <p><b>Harvest is the detachment of produce from a biological asset or the cessation of a biological asset’s life processes.</b></p>
<b><u>5A</u></b>	<p><u>The following are not bearer plants:</u></p> <p>(a) <u>plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);</u></p> <p>(b) <u>plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and</u></p> <p>(c) <u>annual crops (for example, maize and wheat).</u></p>
<b><u>5B</u></b>	<p><u>When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.</u></p>
<b><u>5C</u></b>	<p><u>Produce growing on bearer plants is a biological asset.</u></p>
<b>8</b>	<p><b>[Deleted]</b></p>
<b>24 (a)</b>	<p>little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to the end of a reporting period <u>or newly acquired livestock</u>); or</p>
<b>44</b>	<p>Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, <u>produce on a bearer plant</u> and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced and <u>fruit trees from which fruit is harvested</u>. Bearer biological assets are not agricultural produce but, rather, are <u>held to bear produce</u>.</p>
<b><u>62</u></b>	<p><u>Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41), issued in March 2015, amended paragraphs 1–5, 8, 24 and 44 and added paragraphs 5A–5C and 63. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If</u></p>



	<u>an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively in accordance with LKAS 8.</u>
<b>63</b>	<u>In the reporting period when Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) is first applied an entity need not disclose the quantitative information required by paragraph 28(f) of LKAS 8 for the current period. However, an entity shall present the quantitative information required by paragraph 28(f) of LKAS 8 for each prior period presented.</u>

### SLFRS 1 - First-time Adoption of Sri Lanka Accounting Standards

<b>39V</b>	<u>SLFRS 14 Regulatory Deferral Accounts, issued in June 2014, amendment for annual periods beginning on or after 1 January 2016.amended paragraph D8B. An entity shall apply that Earlier application is permitted. If an entity applies SLFRS 14 for an earlier period, the amendment shall be applied for that earlier period.</u>
<b>39W</b>	<u>Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11), issued in March 2015, amended paragraph C5. An entity shall apply that amendment in annual periods beginning on or after 1 January 2016. If an entity applies related amendments to SLFRS 11 from Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11) in an earlier period, the amendment to paragraph C5 shall be applied in that earlier period.</u>
<b>39Z</b>	<u>Equity Method in Separate Financial Statements (Amendments to LKAS 27), issued in March 2015, amended paragraph D14 and added paragraph D15A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.</u>
<b>39AA</b>	<u>Adoption of IASB’s Annual Improvements 2012–2014 Cycle, issued in September 2014, added paragraph E4A. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.</u>
<b>C5</b>	The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures <u>and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in SLFRS 3.</u> Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.
<b>D8B</b>	Some entities hold items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with SLFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to SLFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to SLFRSs, an entity shall test for impairment in accordance with LKAS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they <u>are governed by a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator (as defined in SLFRS 14 Regulatory Deferral Accounts).</u>
<b>D 14 (c)</b>	<u>using the equity method as described in LKAS 28.</u>
<b>D15A</b>	<u>If a first-time adopter accounts for such an investment using the equity method procedures as described in LKAS 28:</u>

	<p>(a) <u>the first-time adopter applies the exemption for past business combinations (Appendix C) to the acquisition of the investment.</u></p> <p>(b) <u>if the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and</u></p> <p>(i) <u>later than its parent, the entity shall apply paragraph D16 in its separate financial statements.</u></p> <p>(ii) <u>later than its subsidiary, the entity shall apply paragraph D17 in its separate financial statements.</u></p>
<b>E4A</b>	A first-time adopter may apply the transition provisions in paragraph 44AA of SLFRS 7.

**SLFRS 2 - Share-based Payment**

No changes

**SLFRS 3 - Business Combinations**

No Changes

**SLFRS 4 - Insurance Contracts**

No changes

**SLFRS 5 - Non-current Assets Held for Sale and Discontinued Operations**

Heading	<b>Changes to a plan of sale <u>or to a plan of distribution to owners</u></b>
26	<p>If an entity has classified an asset (or disposal group) as held for sale <u>or as held for distribution to owners</u>, but the criteria in paragraphs 7–9 (for held for sale) or in <u>paragraph 12A (for held for distribution to owners)</u> are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale <u>or held for distribution to owners (respectively)</u>. <u>In such cases an entity shall follow the guidance in paragraphs 27–29 to account for this change except when paragraph 26A applies.</u></p>
<u>26A</u>	<p><u>If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:</u></p> <p>(a) <u>shall not follow the guidance in paragraphs 27–29 to account for this change. The entity shall apply the classification, presentation and measurement requirements in this SLFRS that are applicable to the new method of disposal.</u></p> <p>(b) <u>shall measure the non-current asset (or disposal group) by following the requirements in paragraph 15 (if reclassified as held for sale) or 15A (if reclassified as held for distribution to owners) and recognise any reduction or increase in the fair value less costs to sell/costs</u></p>

	<p><u>to distribute of the non-current asset (or disposal group) by following the requirements in paragraphs 20–25.</u></p> <p>(c) <u>shall not change the date of classification in accordance with paragraphs 8 and 12A. This does not preclude an extension of the period required to complete a sale or a distribution to owners if the conditions in paragraph 9 are met.</u></p>
27	<p>The entity shall measure a <u>non-current asset (or disposal group)</u> that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale <u>or as held for distribution to owners</u>) at the lower of:</p> <p>(a) its carrying amount before the asset (or disposal group) was classified as held for sale <u>or as held for distribution to owners</u>, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale <u>or as held for distribution to owners</u>, and</p> <p>(b) its <i>recoverable amount</i> at the date of the subsequent decision not to sell <u>or distribute</u>.</p>
28	<p>The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or <u>as held for distribution to owners in profit or loss</u> from continuing operations in the period in which the criteria in paragraphs 7–9 <u>or 12A, respectively</u>, are no longer met. Financial statements for the periods since classification as held for <u>sale or as held for distribution to owners</u> shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale <u>or as held for distribution to owners</u> is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.</p>
29	<p>If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria in paragraphs 7–9. <u>If an entity removes an individual asset or liability from a disposal group classified as held for distribution to owners, the remaining assets and liabilities of the disposal group to be distributed shall continue to be measured as a group only if the group meets the criteria in paragraph 12A.</u> <u>Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale (or as held for distribution to owners) shall be measured individually at the lower of their carrying amounts and fair values less costs to sell (or costs to distribute) at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale in accordance with paragraph 26. Any non-current assets that do not meet the criteria for held for distribution to owners shall cease to be classified as held for distribution to owners in accordance with paragraph 26.</u></p>
44L	<p><u>Adoption of IASB’s Annual Improvements 2012–2014 Cycle, issued in September 2014, amended paragraphs 26–29 and added paragraph 26A. An entity shall apply those amendments prospectively in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to changes in a method of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.</u></p>

No changes

## SLFRS 7 - Financial Instruments: Disclosures - Appendix B

21	In accordance with paragraph 117 of LKAS 1 <i>Presentation of Financial Statements</i> , an entity discloses <u>its significant accounting policies comprising</u> the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.
44R	<i>Disclosures—Offsetting Financial Assets and Financial Liabilities</i> (Amendments to SLFRS 7), issued in 2014, added paragraphs 13A–13F and B40–B53. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. An entity shall <u>provide those amendments retrospectively</u> .
<u>44AA</u>	<u><i>Adoption of IASB's Annual Improvements 2012–2014 Cycle</i>, issued in September 2014, amended paragraphs 44R and B30 and added paragraph B30A. An entity shall apply those amendments retrospectively in accordance with LKAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for annual periods beginning on or after 1 January 2016, except that an entity need not apply the amendments to paragraphs B30 and B30A for any period presented that begins before the annual period for which the entity first applies those amendments. Earlier application of the amendments to paragraphs 44R, B30 and B30A is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.</u>
<u>44BB</u>	<u>Disclosure Initiative (Amendments to LKAS 1), issued in March 2015, amended paragraphs 21 and B5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application of those amendments is permitted.</u>
B5	(g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms.  Paragraph 122 of LKAS 1 also requires entities to disclose, <u>along with its significant accounting policies or other notes</u> , the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
B30	An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. <u>The term 'payment' in this context does not include cash flows of the transferred financial asset that an entity collects and is required to remit to the transferee.</u>
<u>B30A</u>	<u>When an entity transfers a financial asset, the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract. The entity assesses the servicing contract in accordance with the guidance in paragraphs 42C and B30 to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements. For example, a servicer will have continuing involvement in the transferred financial asset for the purposes of the disclosure requirements if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset. Similarly, a servicer has continuing involvement for the purposes of the disclosure requirements if a fixed fee would not be paid in full because of non-</u>

performance of the transferred financial asset. In these examples, the servicer has an interest in the future performance of the transferred financial asset. This assessment is independent of whether the fee to be received is expected to compensate the entity adequately for performing the servicing.

## SLFRS 8 - Operating Segments

No Changes

## SLFRS 10 - Consolidated Financial Statements

<b>4 (a) (iv)</b>	its ultimate or any intermediate parent produces <u>financial statements</u> that are available for public use and comply with SLFRSs, <u>in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this SLFRS.</u>
<b>4 (b)</b>	<b>Deleted</b>
<b>4 (c)</b>	<b>Deleted</b>
<b>4A</b>	<u>This SLFRS does not apply to post-employment benefit plans or other long-term employee benefit plans to which LKAS 19 <i>Employee Benefits</i> applies.</u>
<b>4B</b>	<u>A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this SLFRS, to measure all of its subsidiaries at fair value through profit or loss.</u>
<b>32</b>	Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary <u>that is not itself an investment entity and whose main purpose and activities are providing services</u> that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this SLFRS and apply the requirements of SLFRS 3 to the acquisition of any such subsidiary.
<b>B85C</b>	An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity, <u>subject to the entity continuing to meet the definition of an investment entity.</u>
<b>B85E</b>	If an investment entity has a subsidiary that <u>is not itself an investment entity and whose main purpose and activities are providing investment-related services</u> or activities that relate to the investment entity's investment activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32. <u>If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent shall measure that subsidiary at fair value through profit or loss in accordance with paragraph 31.</u>
<b>C1D</b>	<u><i>Investment Entities: Applying the Consolidation Exception</i> (Amendments to SLFRS 10, SLFRS 12 and LKAS 28), issued in March 2015, amended paragraphs 4, 32, B85C, B85E and C2A and added paragraphs 4A–4B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.</u>
<b>C2A</b>	Notwithstanding the requirements of paragraph 28 of LKAS 8, when this SLFRS is first applied, and, if later, when the <i>Investment Entities</i> and <i>Investment Entities: Applying the</i>

*Consolidation Exception* amendments to this SLFRS are first applied, an entity need only present the quantitative information required by paragraph 28(f) of LKAS 8 for the annual period immediately preceding the date of initial application of this SLFRS (the ‘immediately preceding period’). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

## SLFRS 11 - Joint Arrangements

**21A** When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in SLFRS 3 *Business Combinations*, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in SLFRS 3, and other SLFRSs, that do not conflict with the guidance in this SLFRS and disclose the information that is required in those SLFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D.

### Heading **Accounting for acquisitions of interests in joint operations**

**B33A** When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in SLFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in SLFRS 3, and other SLFRSs, that do not conflict with the guidance in this SLFRS and disclose the information required by those SLFRSs in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this SLFRS include but are not limited to:

- (a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in SLFRS 3 and other SLFRSs;
- (b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with LKAS 32 Financial Instruments: Presentation and SLFRS 9;<sup>1</sup>
- (c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, as required by SLFRS 3 and LKAS 12 Income Taxes for business combinations;
- (d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and
- (e) testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by LKAS 36 Impairment of Assets for goodwill acquired in a business combination.

**B33B** Paragraphs 21A and B33A also apply to the formation of a joint operation if, and only if, an existing business, as defined in SLFRS 3, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not

	<u>apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute businesses to the joint operation on its formation.</u>
<u>B33C</u>	<u>A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in SLFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.</u>
<u>B33D</u>	<u>Paragraphs 21A and B33A–B33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.</u>
<b>Footnote to Para 33A (b)</b>	<u>If an entity applies these amendments but does not yet apply SLFRS 9, the reference in these amendments to SLFRS 9 shall be read as a reference to LKAS 39 Financial Instruments: Recognition and Measurement.</u>
<u>C1AA</u>	<u>Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11), issued in March 2015, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D and C14A and their related headings. An entity shall apply those amendments prospectively in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments in an earlier period it shall disclose that fact.</u>
<b>Heading</b>	<b><u>Accounting for acquisitions of interests in joint operations</u></b>
<u>C14A</u>	<u>Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11), issued in March 2015, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D, C1AA and their related headings. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in SLFRS 3, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognised for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.</u>

## SLFRS 12 - Disclosure of Interests in Other Entities

<u>6 (b) (ii)</u>	<u>an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of SLFRS 10 shall present the disclosures relating to investment entities required by this SLFRS.</u>
<u>C1C</u>	<u>Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28), issued in March 2015, amended paragraph 6. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.</u>

## SLFRS 13 - Fair Value Measurement

No changes

## Sri Lanka Accounting Standard– SLFRS 14

### Regulatory Deferral Accounts

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## Sri Lanka Accounting Standard– SLFRS 14

### Regulatory Deferral Accounts

Sri Lanka Accounting Standard SLFRS 14 *Regulatory Deferral Accounts* (SLFRS 14) is set out in paragraphs 1–36 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary for Sri Lanka Accounting Standards. The Standard should be read in the context of its objective, the *Preface to Sri Lanka Accounting Standards* and the *Conceptual Framework for Financial Reporting*. LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

### Objective

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- 1 The objective of this Standard is to specify the financial reporting requirements for *regulatory deferral account balances* that arise when an entity provides goods or services to customers at a price or rate that is subject to *rate regulation*.
- 2 In meeting this objective, the Standard requires:



- (a) limited changes to the accounting policies that were applied in accordance with previous generally accepted accounting principles (*previous GAAP*) for regulatory deferral account balances, which are primarily related to the presentation of these accounts; and
- (b) disclosures that:
  - (i) identify and explain the amounts recognised in the entity's financial statements that arise from rate regulation; and
  - (ii) help users of the financial statements to understand the amount, timing and uncertainty of future cash flows from any regulatory deferral account balances that are recognised.
- 3 The requirements of this Standard permit an entity within its scope to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts SLFRS, subject to the limited changes referred to in paragraph 2 above.
- 4 In addition, this Standard provides some exceptions to, or exemptions from, the requirements of other Standards. All specified requirements for reporting regulatory deferral account balances, and any exceptions to, or exemptions from, the requirements of other Standards that are related to those balances, are contained within this Standard instead of within those other Standards.

## Scope

- 5 **An entity is permitted to apply the requirements of this Standard in its *first SLFRS financial statements* if and only if it:**
  - (a) **conducts *rate-regulated activities*; and**
  - (b) **recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.**
- 6 **An entity shall apply the requirements of this Standard in its financial statements for subsequent periods if and only if, in its first SLFRS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this Standard.**
- 7 This Standard does not address other aspects of accounting by entities that are engaged in rate-regulated activities. By applying the requirements in this Standard, any amounts that are permitted or required to be recognised as assets or liabilities in accordance with other Standards shall not be included within the amounts classified as regulatory deferral account balances.
- 8 **An entity that is within the scope of, and that elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities.**

## Recognition, measurement, impairment and derecognition

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### Temporary exemption from paragraph 11 of LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

- 9 **An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of LKAS8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.**

- 10 Paragraphs 11–12 of LKAS 8 specify sources of requirements and guidance that management is required or permitted to consider in developing an accounting policy for an item, if no relevant Standard applies specifically to that item. This Standard exempts an entity from applying paragraph 11 of LKAS 8 to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, entities that recognise regulatory deferral account balances, either as separate items or as part of the carrying value of other assets and liabilities, in accordance with their previous GAAP, are permitted to continue to recognise those balances in accordance with this Standard through the exemption from paragraph 11 of LKAS 8, subject to any presentation changes required by paragraphs 18–19 of this Standard.

### **Continuation of existing accounting policies**

11. **On initial application of this Standard, an entity shall continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, except for any changes permitted by paragraphs 13–15. However, the presentation of such amounts shall comply with the presentation requirements of this Standard, which may require changes to the entity’s previous GAAP presentation policies (see paragraphs 18–19).**
- 12 An entity shall apply the policies established in accordance with paragraph 11 consistently in subsequent periods, except for any changes permitted by paragraphs 13–15.

### **Changes in accounting policies**

- 13 **An entity shall not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in paragraph 10 of LKAS 8.**
- 14 This Standard does not exempt entities from applying paragraphs 10 or 14–15 of LKAS 8 to changes in accounting policy. To justify changing its accounting policies for regulatory deferral account balances, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in paragraph 10 of LKAS 8. However, the change does not need to achieve full compliance with those criteria for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.
- 15 Paragraphs 13–14 apply both to changes made on initial application of this Standard and to changes made in subsequent reporting periods.

### **Interaction with other Standards**

- 16 **Any specific exception, exemption or additional requirements related to the interaction of this Standard with other Standards are contained within this Standard (see paragraphs B7–B28). In the absence of any such exception, exemption or additional requirements, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Standards.**
- 17 In some situations, another Standard might need to be applied to a regulatory deferral account balance that has been measured in accordance with an entity’s accounting policies that are established in accordance with paragraphs 11–12 in order to reflect that balance appropriately in the financial statements. For example, the entity might have rate-regulated activities in a foreign country for which the transactions and regulatory deferral account balances are denominated in a currency that is not the functional currency of the reporting entity. The regulatory deferral account balances and the movements in those balances are translated by applying LKAS 21 *The Effects of Changes in Foreign Exchange Rates*.

## Presentation

### Changes in presentation

- 18 This Standard introduces presentation requirements, outlined in paragraphs 20–26, for regulatory deferral account balances that are recognised in accordance with paragraphs 11–12. When this Standard is applied, the regulatory deferral account balances are recognised in the statement of financial position in addition to the assets and liabilities that are recognised in accordance with other Standards. These presentation requirements separate the impact of recognising regulatory deferral account balances from the financial reporting requirements of other Standards.
- 19 In addition to the items that are required to be presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income in accordance with LKAS 1 *Presentation of Financial Statements*, an entity applying this Standard shall present all regulatory deferral account balances and the movements in those balances in accordance with paragraphs 20–26.

### Classification of regulatory deferral account balances

- 20 **An entity shall present separate line items in the statement of financial position for:**

- (a) **the total of all regulatory deferral account debit balances; and**
- (b) **the total of all regulatory deferral account credit balances.**

- 21 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify the totals of regulatory deferral account balances as current or non-current. Instead, the separate line items required by paragraph 20 shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.**

#### **Classification of movements in regulatory deferral account balances**

- 22 **An entity shall present, in the other comprehensive income section of the statement of profit or loss and other comprehensive income, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items shall be used for the net movement related to items that, in accordance with other Standards:**
- (a) **will not be reclassified subsequently to profit or loss; and**
  - (b) **will be reclassified subsequently to profit or loss when specific conditions are met.**
- 23 **An entity shall present a separate line item in the profit or loss section of the statement of profit or loss and other comprehensive income, or in the separate statement of profit or loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.**
- 24 When an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity shall present the resulting deferred tax asset (liability) and the related movement in that deferred tax asset (liability) with the related regulatory deferral account balances and movements in those balances, instead of within the total presented in accordance with LKAS 12 *Income Taxes* for deferred tax assets (liabilities) and the tax expense (income) (see paragraphs B9–B12).

- 25 When an entity presents a discontinued operation or a disposal group in accordance with SLFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity shall present any related regulatory deferral account balances and the net movement in those balances, as applicable, with the regulatory deferral account balances and movements in those balances, instead of within the disposal groups or discontinued operations (see paragraphs B19–B22).
- 26 When an entity presents earnings per share in accordance with LKAS 33 *Earnings per Share*, the entity shall present additional basic and diluted earnings per share, which are calculated using the earnings amounts required by LKAS 33 but excluding the movements in regulatory deferral account balances (see paragraphs B13–B14).

## Disclosure

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### Objective

- 27 **An entity that elects to apply this Standard shall disclose information that enables users to assess:**
- (a) **the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and**
  - (b) **the effects of that rate regulation on its financial position, financial performance and cash flows.**
- 28 If any of the disclosures set out in paragraphs 30–36 are not considered relevant to meet the objective in paragraph 27, they may be omitted from the financial statements. If the disclosures provided in accordance with paragraphs 30–36 are insufficient to meet the objective in paragraph 27, an entity shall disclose additional information that is necessary to meet that objective.
- 29 To meet the disclosure objective in paragraph 27, an entity shall consider all of the following:
- (a) the level of detail that is necessary to satisfy the disclosure requirements;
  - (b) how much emphasis to place on each of the various requirements;
  - (c) how much aggregation or disaggregation to undertake; and
  - (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

### Explanation of activities subject to rate regulation

- 30 To help a user of the financial statements assess the nature of, and the risks associated with, the entity's rate-regulated activities, an entity shall, for each type of rate-regulated activity, disclose:
- (a) a brief description of the nature and extent of the rate-regulated activity and the nature of the regulatory rate-setting process;
  - (b) the identity of the rate regulator(s). If the rate regulator is a related party (as defined in LKAS 24 *Related Party Disclosures*), the entity shall disclose that fact, together with an explanation of how it is related;
  - (c) how the future recovery of each class (ie each type of cost or income) of regulatory deferral account debit balance or reversal of each class of regulatory deferral account credit balance is affected by risks and uncertainty, for example:

- (i) demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition);
- (ii) regulatory risk (for example, the submission or approval of a rate-setting application or the entity's assessment of the expected future regulatory actions); and
- (iii) other risks (for example, currency or other market risks).

31 The disclosures required by paragraph 30 shall be given in the financial statements either directly in the notes or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. If the information is not included in the financial statements directly or incorporated by cross-reference, the financial statements are incomplete.

### **Explanation of recognised amounts**

32 An entity shall disclose the basis on which regulatory deferral account balances are recognised and derecognised, and how they are measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and how any impairment loss is allocated.

33 For each type of rate-regulated activity, an entity shall disclose the following information for each class of regulatory deferral account balance:

(a) a reconciliation of the carrying amount at the beginning and the end of the period, in a table unless another format is more appropriate. The entity shall apply judgement in deciding the level of detail necessary (see paragraphs 28–29), but the following components would usually be relevant:

- (i) the amounts that have been recognised in the current period in the statement of financial position as regulatory deferral account balances;
- (ii) the amounts that have been recognised in the statement(s) of profit or loss and other comprehensive income relating to balances that have been recovered (sometimes described as amortised) or reversed in the current period; and
- (iii) other amounts, separately identified, that affected the regulatory deferral account balances, such as impairments, items acquired or assumed in a business combination, items disposed of, or the effects of changes in foreign exchange rates or discount rates;

(b) the rate of return or discount rate (including a zero rate or a range of rates, when applicable) used to reflect the time value of money that is applicable to each class of regulatory deferral account balance; and

(c) the remaining periods over which the entity expects to recover (or amortise) the carrying amount of each class of regulatory deferral account debit balance or to reverse each class of regulatory deferral account credit balance.

34 When rate regulation affects the amount and timing of an entity's income tax expense (income), the entity shall disclose the impact of the rate regulation on the amounts of current and deferred tax recognised. In addition, the entity shall separately disclose any regulatory deferral account balance that relates to taxation and the related movement in that balance.

35 When an entity provides disclosures in accordance with SLFRS 12 *Disclosure of Interests in Other Entities* for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with this Standard, the entity shall disclose the amounts

that are included for the regulatory deferral account debit and credit balances and the net movement in those balances for the interests disclosed (see paragraphs B25–B28).

- 36 When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it shall disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced.

## Appendix A

### Defined terms

*This appendix is an integral part of the Standard.*

<b>First SLFRS financial statements</b>	The first annual financial statements in which an entity adopts Sri Lanka Accounting Standards (SLFRS), by an explicit and unreserved statement of compliance with SLFRS.
<b>First-time adopter</b>	An entity that presents its <b>first SLFRS financial statements</b> .
<b>Previous GAAP</b>	The basis of accounting that a <b>first-time adopter</b> used immediately before adopting SLFRS.
<b>Rate-regulated activities</b>	An entity's activities that are subject to <b>rate regulation</b> .
<b>Rate regulation</b>	A framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a <b>rate regulator</b> .
<b>Rate regulator</b>	An authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The <b>rate regulator</b> may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.
<b>Regulatory deferral account balance</b>	The balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the <b>rate regulator</b> in establishing the rate(s) that can be charged to customers.

## Appendix B

### Application Guidance

*This appendix is an integral part of the Standard.*

#### Rate-regulated activities

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- B1 Historically, rate regulation applied to all activities of an entity. However, with acquisitions, diversification and deregulation, rate regulation may now apply to only a portion of an entity's activities, resulting in it having both regulated and non-regulated activities. This Standard applies only to the rate-regulated activities that are subject to statutory or regulatory restrictions through the actions of a rate regulator, regardless of the type of entity or the industry to which it belongs.
- B2 An entity shall not apply this Standard to activities that are self-regulated, ie activities that are not subject to a pricing framework that is overseen and/or approved by a rate regulator. This does not prevent the entity from being eligible to apply this Standard when:
- (a) the entity's own governing body or a related party establishes rates both in the interest of the customers and to ensure the overall financial viability of the entity within a specified pricing framework; and
  - (b) the framework is subject to oversight and/or approval by an authorized body that is empowered by statute or regulation.

#### Continuation of existing accounting policies

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- B3 For the purposes of this Standard, a regulatory deferral account balance is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers. Some items of expense (income) may be outside the regulated rate(s) because, for example, the amounts are not expected to be accepted by the rate regulator or because they are not within the scope of the rate regulation. Consequently, such an item is recognised as income or expense as incurred, unless another Standard permits or requires it to be included in the carrying amount of an asset or liability.
- B4 In some cases, other Standards explicitly prohibit an entity from recognising, in the statement of financial position, regulatory deferral account balances that might be recognised, either separately or included within other line items such as property, plant and equipment in accordance with previous GAAP accounting policies. However, in accordance with paragraph 11 of this Standard, an entity that elects to apply this Standard in its first SLFRS financial statements applies the exemption from paragraph 11 of LKAS 8 in order to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment, and derecognition of regulatory deferral account balances. Such accounting policies may include, for example, the following practices:
- (a) recognising a regulatory deferral account debit balance when the entity has the right, as a result of the actual or expected actions of the rate regulator, to increase rates in future periods in order to recover its allowable costs (ie the costs for which the regulated rate(s) is intended to provide recovery);
  - (b) recognising, as a regulatory deferral account debit or credit balance, an amount that is equivalent to any loss or gain on the disposal or retirement of both items of property, plant and equipment and of intangible assets, which is expected to be recovered or reversed through future rates;

- (c) recognising a regulatory deferral account credit balance when the entity is required, as a result of the actual or expected actions of the rate regulator, to decrease rates in future periods in order to reverse over-recoveries of allowable costs (ie amounts in excess of the recoverable amount specified by the rate regulator); and
- (d) measuring regulatory deferral account balances on an undiscounted basis or on a discounted basis that uses an interest or discount rate specified by the rate regulator.

B5 The following are examples of the types of costs that rate regulators might allow in rate-setting decisions and that an entity might, therefore, recognise in regulatory deferral account balances:

- (i) volume or purchase price variances;
- (ii) costs of approved ‘green energy’ initiatives (in excess of amounts that are capitalised as part of the cost of property, plant and equipment in accordance with LKAS 16 *Property, Plant and Equipment*);
- (iii) non-directly-attributable overhead costs that are treated as capital costs for rate regulation purposes (but are not permitted, in accordance with LKAS 16, to be included in the cost of an item of property, plant and equipment);
- (iv) project cancellation costs;
- (v) storm damage costs; and
- (vi) deemed interest (including amounts allowed for funds that are used during construction that provide the entity with a return on the owner’s equity capital as well as borrowings).

B6 Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. When an entity changes an accounting policy on the first-time adoption of SLFRS or on the initial application of a new or revised Standard, new or revised timing differences may arise that create new or revised regulatory deferral account balances. The prohibition in paragraph 13 that prevents an entity from changing its accounting policy in order to start to recognise regulatory deferral account balances does not prohibit the recognition of the new or revised regulatory deferral account balances that are created because of other changes in accounting policies required by SLFRS. This is because the recognition of regulatory deferral account balances for such timing differences would be consistent with the existing recognition policy applied in accordance with paragraph 11 and would not represent the introduction of a new accounting policy. Similarly, paragraph 13 does not prohibit the recognition of regulatory deferral account balances arising from timing differences that did not exist immediately prior to the date of transition to SLFRS but are consistent with the entity’s accounting policies established in accordance with paragraph 11 (for example, storm damage costs).

## **Applicability of other Standards**

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B7 An entity that is within the scope of, and that elects to apply, the requirements of this Standard shall continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. However, paragraphs 16–17 state that, in some situations, other Standards might also need to be applied to regulatory deferral account balances in order to reflect them appropriately in the financial statements. The following paragraphs outline how some other Standards interact with the requirements of this Standard. In particular, the following paragraphs clarify specific exceptions to, and exemptions from, other Standards and additional presentation and disclosure requirements that are expected to be applicable.



### ***Application of LKAS 10 Events after the Reporting Period***

B8 An entity may need to use estimates and assumptions in the recognition and measurement of its regulatory deferral account balances. For events that occur between the end of the reporting period and the date when the financial statements are authorised for issue, the entity shall apply LKAS 10 to identify whether those estimates and assumptions should be adjusted to reflect those events.

### ***Application of LKAS 12 Income Taxes***

B9 LKAS 12 requires, with certain limited exceptions, an entity to recognise a deferred tax liability and (subject to certain conditions) a deferred tax asset for all temporary differences. A rate-regulated entity shall apply LKAS 12 to all of its activities, including its rate-regulated activities, to identify the amount of income tax that is to be recognised.

B10 In some rate-regulatory schemes, the rate regulator permits or requires an entity to increase its future rates in order to recover some or all of the entity's income tax expense. In such circumstances, this might result in the entity recognising a regulatory deferral account balance in the statement of financial position related to income tax, in accordance with its accounting policies established in accordance with paragraphs 11–12. The recognition of this regulatory deferral account balance that relates to income tax might itself create an additional temporary difference for which a further deferred tax amount would be recognised.

B11 Notwithstanding the presentation and disclosure requirements of LKAS 12, when an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity shall not include that deferred tax amount within the total deferred tax asset (liability) balances. Instead, the entity shall present the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:

- (a) with the line items that are presented for the regulatory deferral account debit balances and credit balances; or
- (b) as a separate line item alongside the related regulatory deferral account debit balances and credit balances.

B12 Similarly, when an entity recognises the movement in a deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances, the entity shall not include the movement in that deferred tax amount within the tax expense (income) line item that is presented in the statement(s) of profit or loss and other comprehensive income in accordance with LKAS 12. Instead, the entity shall present the movement in the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:

- (a) with the line items that are presented in the statement(s) of profit or loss and other comprehensive income for the movements in regulatory deferral account balances; or
- (b) as a separate line item alongside the related line items that are presented in the statement(s) of profit or loss and other comprehensive income for the movements in regulatory deferral account balances.

### ***Application of LKAS 33 Earnings per Share***

B13 Paragraph 66 of LKAS 33 requires some entities to present, in the statement of profit or loss and other comprehensive income, basic and diluted earnings per share both for profit or loss from continuing operations and profit or loss that is attributable to the ordinary equity holders of the parent entity. In addition, paragraph 68 of LKAS 33 requires an entity that reports a discontinued operation to disclose the basic and diluted amounts per

share for the discontinued operation, either in the statement of profit or loss and other comprehensive income or in the notes.

B14 For each earnings per share amount presented in accordance with LKAS 33, an entity applying this Standard shall present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts shall exclude the net movement in the regulatory deferral account balances. Consistent with the requirement in paragraph 73 of LKAS 33, an entity shall present the earnings per share required by paragraph 26 of this Standard with equal prominence to the earnings per share required by LKAS 33 for all periods presented.

### ***Application of LKAS 36 Impairment of Assets***

B15 Paragraphs 11–12 require an entity to continue to apply its previous GAAP accounting policies for the identification, recognition, measurement and reversal of any impairment of its recognised regulatory deferral account balances. Consequently, LKAS 36 does not apply to the separate regulatory deferral account balances recognised.

B16 However, LKAS 36 might require an entity to perform an impairment test on a cash-generating unit (CGU) that includes regulatory deferral account balances. This test might be required because the CGU contains goodwill, or because one or more of the impairment indicators described in LKAS 36 have been identified relating to the CGU. In such situations, paragraphs 74–79 of LKAS 36 contain requirements for identifying the recoverable amount and the carrying amount of a CGU. An entity shall apply those requirements to decide whether any of the regulatory deferral account balances recognised are included in the carrying amount of the CGU for the purpose of the impairment test. The remaining requirements of LKAS 36 shall then be applied to any impairment loss that is recognized as a result of this test.

### ***Application of SLFRS 3 Business Combinations***

B17 The core principle of SLFRS 3 is that an acquirer of a business recognises the assets acquired and the liabilities assumed at their acquisition-date fair values. SLFRS 3 provides limited exceptions to its recognition and measurement principles. Paragraph B18 of this Standard provides an additional exception.

B18 Paragraphs 11–12 require an entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, if an entity acquires a business, it shall apply, in its consolidated financial statements, its accounting policies established in accordance with paragraphs 11–12 for the recognition and measurement of the acquiree’s regulatory deferral account balances at the date of acquisition. The acquiree’s regulatory deferral account balances shall be recognised in the consolidated financial statements of the acquirer in accordance with the acquirer’s policies, irrespective of whether the acquiree recognises those balances in its own financial statements.

### ***Application of SLFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

B19 Paragraphs 11–12 require an entity to continue to apply its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, the measurement requirements of SLFRS 5 shall not apply to the regulatory deferral account balances recognised.

B20 Paragraph 33 of SLFRS 5 requires a single amount to be presented for discontinued operations in the statement(s) of profit or loss and other comprehensive income. Notwithstanding the requirements of that paragraph, when an entity that elects to apply this Standard presents a discontinued operation, it shall not include the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation within the line items that are required by paragraph 33 of SLFRS 5. Instead, the entity shall present the movement

in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation either:

- (a) within the line item that is presented for movements in the regulatory deferral account balances related to profit or loss; or
- (b) as a separate line item alongside the related line item that is presented for movements in the regulatory deferral account balances related to profit or loss.

B21 Similarly, notwithstanding the requirements of paragraph 38 of SLFRS 5, when an entity presents a disposal group, the entity shall not include the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group within the line items that are required by paragraph 38 of SLFRS 5. Instead, the entity shall present the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group either:

- (a) within the line items that are presented for the regulatory deferral account debit balances and credit balances; or
- (b) as separate line items alongside the other regulatory deferral account debit balances and credit balances.

B22 If the entity chooses to include the regulatory deferral account balances and movements in those balances that are related to the disposal group or discontinued operation within the related regulated deferral account line items, it may be necessary to disclose them separately as part of the analysis of the regulatory deferral account line items described by paragraph 33 of this Standard.

### ***Application of SLFRS 10 Consolidated Financial Statements and LKAS 28 Investments in Associates and Joint Ventures***

B23 Paragraph 19 of SLFRS 10 requires that a “parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances”. Paragraph 8 of this Standard requires that an entity that is within the scope of, and elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances arising from all of the entity’s rate-regulated activities. Consequently, if a parent recognises regulatory deferral account balances in its consolidated financial statements in accordance with this Standard, it shall apply the same accounting policies to the regulatory deferral account balances arising in all of its subsidiaries. This shall apply irrespective of whether the subsidiaries recognize those balances in their own financial statements.

B24 Similarly, paragraphs 35–36 of LKAS 28 require that, in applying the equity method, an “entity’s financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances”. Consequently, adjustments shall be made to make the associate’s or joint venture’s accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances conform to those of the investing entity in applying the equity method.

### ***Application of SLFRS 12 Disclosure of Interests in Other Entities***

B25 Paragraph 12(e) of SLFRS 12 requires an entity to disclose, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, the profit or loss that was allocated to non-controlling interests of the subsidiary during the reporting period. An entity that recognizes regulatory deferral account balances in accordance with this Standard shall disclose the net movement in regulatory deferral account balances that is included within the amounts that are required to be disclosed by paragraph 12(e) of SLFRS 12.

B26 Paragraph 12(g) of SLFRS 12 requires an entity to disclose, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, summarised financial information about the subsidiary, as

specified in paragraph B10 of SLFRS 12. Similarly, paragraph 21(b) (ii) of SLFRS 12 requires an entity to disclose, for each joint venture and associate that is material to the reporting entity, summarised financial information as specified in paragraphs B12–B13 of SLFRS 12. Paragraph B16 of SLFRS 12 specifies the summary financial information that an entity is required to disclose for all other associates and joint ventures that are not individually material in accordance with paragraph 21(c) of SLFRS 12.

B27 In addition to the information specified in paragraphs 12, 21, B10, B12–B13 and B16 of SLFRS 12, an entity that recognises regulatory deferral account balances in accordance with this Standard shall also disclose the total regulatory deferral account debit balance, the total regulatory deferral account credit balance and the net movements in those balances, split between amounts recognised in profit or loss and amounts recognised in other comprehensive income, for each entity for which those SLFRS 12 disclosures are required.

B28 Paragraph 19 of SLFRS 12 specifies the information that an entity is required to disclose when the entity recognises a gain or loss on losing control of a subsidiary, calculated in accordance with paragraph 25 of SLFRS 10. In addition to the information required by paragraph 19 of SLFRS 12, an entity that elects to apply this Standard shall disclose the portion of that gain or loss that is attributable to derecognising regulatory deferral account balances in the former subsidiary at the date when control is lost.

## Appendix C

### Effective date and transition

*This appendix is an integral part of the Standard.*

### Effective date and transition

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#### Effective date

C1 An entity shall apply this Standard if its first annual SLFRS financial statements are for a period beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies this Standard in its first annual SLFRS financial statements for an earlier period, it shall disclose that fact.