

# Accounting Standard

## Accounting and discloses changes in Accounting Estimates Policies and errors – LKAS 08

### Accounting Policies

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

Accounting policies are applied in **recognition , measurement** and **presentation** of transactions and events.

### Selecting Accounting Policies

There are two ways of selecting an accounting policy.

- If an **accounting standard** is clearly applied to a transaction or an event. The accounting policy should adhere to the standard.
- If not (in the absence of clearly applied accounting standard **management shall use their judgment** in developing and applying an accounting policy.( by protecting qualitative characteristics)

### Changes in Accounting Policies

An entity **should select and apply it's accounting policies consistently** for similar transactions, other events and conditions.

### What is change in accounting policy

Change in **recognition , measurement** basis and **presentation**

An entity **can change an accounting policy** only if the change

- Is required by an accounting standard  
(should account for the change in accordance with the specific transitional provisions of the relevant standard – **Prospective application**)
- Required to changes in entity's **financial position ,performance or cash flows** to be presented in **more reliable and more relevant manner**  
(**Retrospective Application**)

### Accounting estimates

Accounting estimation is an approximation when there is no precise means of measurements.

### Why accounting estimates

- Inherent uncertainties in business activities
- Many items in the financial statements are to be estimated since they cannot be measured exactly.

## Changes in accounting estimates

### Accounting estimates may change due to

New environment changes

New information or experience

It is an **adjustment of the carrying amount of an asset or a liability** or the amount of the periodic consumption of an asset. That results from the assessment of the present status and expected future benefits and obligations associates with assets and liabilities.

### Accounting for changes in accounting estimates. (Prospective application)

If the change affects only the period in which the change occurred, then adjust the profit or loss of the period.

Examples :

- Impairment loss on trade receivables.
- Stock written off.

If the change affects both the period in which the changes occurred and the future periods. Then adjust the profits / losses of each period affected.

Examples :

- Changes in depreciation values due to the changes in useful economic life of property plant and equipment.

If the change affects assets, liabilities or equity. Then adjust the related period assets, liabilities, equity and their fair values.

## Errors ( prior period errors)

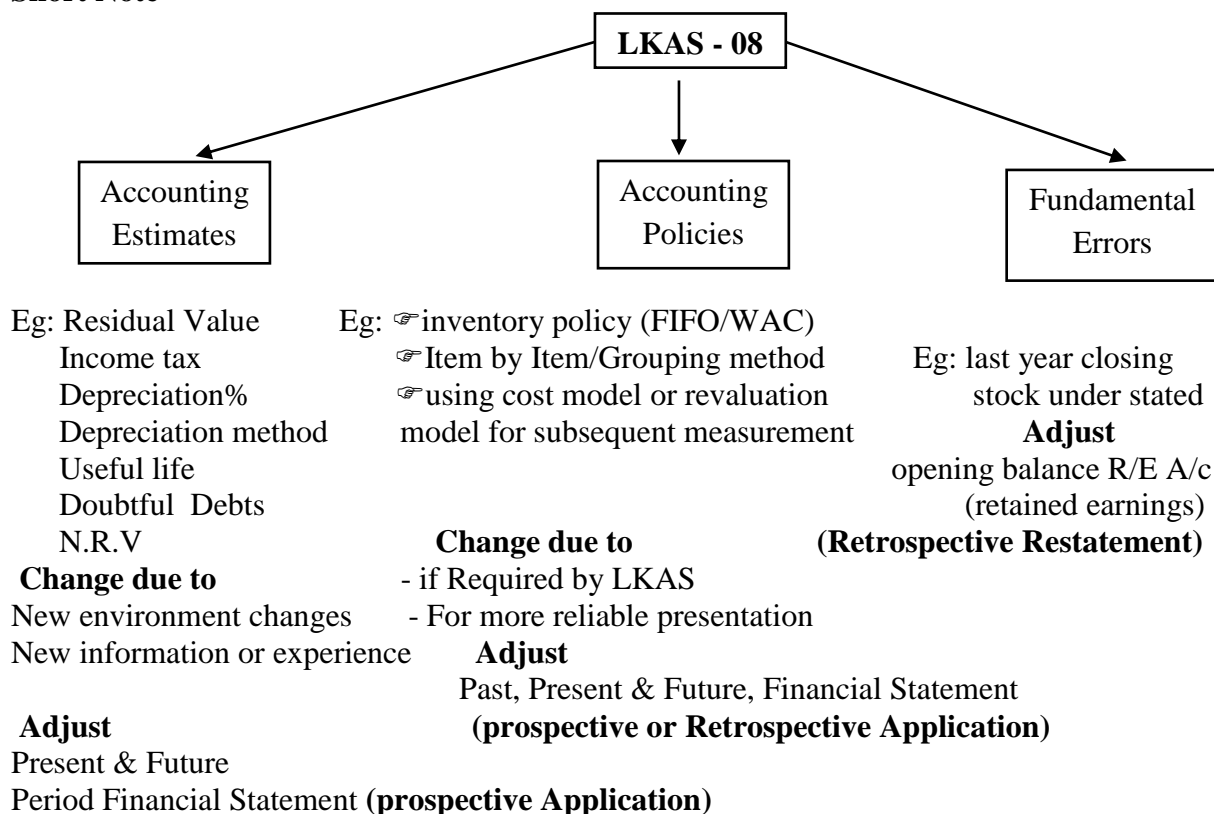
Errors in financial statements can arise on accounts of incorrect recognition, measurement, presentation or disclosure of item in financial statements(LKAS 08)

### Accounting for prior period errors

The entity should correct material errors relating to prior period retrospectively in the first set of financial statements authorized for issue after their discovery.(Retrospective restatement)

**(Important : Accounting for Changes in accounting policies and errors are not discussed for Advanced Level)**

## Short Note



### ☞ ADVANCED LEVEL – 2008

Define Accounting Policies in accordance with LKAS No: 08?

.....  
.....

According to Sri Lanka accounting Standard No: 16 the change in the useful life of property plant and equipment is considered as a

- (1) Change in accounting policy
  - (2) Change in depreciation method
  - (3) Change in accounting estimate
  - (4) Retrospective adjustment to financial statements
  - (5) Correction of an error
- (.....)

### ☞ ADVANCED LEVEL – 2009

According to Sri Lanka Accounting Standard (LKAS) No: 08 an accounting estimate could change due to two reasons. State these two reasons

- (1) .....
- (2) .....

### ☞ ADVANCED LEVEL – 2011

A company changed the depreciation method from straight-line to reducing balance in the current year. The above change should be adjusted in the financial statements of the:

- (1) Prior periods as it is an accounting policy change
  - (2) Future periods as it is an accounting policy change
  - (3) Future periods as it is a change in accounting estimates
  - (4) Current and future periods as it is a change in accounting estimates
  - (5) Prior periods and current period as it is an accounting policy change
- (.....)

**ADVANCED LEVEL – 2012**

How would the resulting change in the amount of annual depreciation of an asset be recorded in the financial statements when the expected useful life of a building is revised?

- (1) Consider as a change in accounting estimates and adjust the profit or loss of the current and future periods
- (2) Consider as a change in accounting estimates and revise the opening balance of retained earnings
- (3) Consider as an error and revise the opening balance or retained earnings
- (4) Consider as an error and adjust the profit or loss of the current period
- (5) Consider as a change in accounting policy and revise the opening balance of retained earnings

(.....)

**ADVANCED LEVEL – 2008/2013/2016**

State two circumstances under which a firm, could change its accounting policies as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)

- (1) .....
- (2) .....

**ADVANCED LEVEL – 2015**

State whether the following situations of a company would represent a change in accounting estimates as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)

Situation	Accounting Policies, Changes in Accounting Estimates and Errors
A The change in the profit due to the overstatement of opening inventory	.....
B The change in the rate at which doubtful debts are provided on year end debtors balance	.....
C The change in the inventory valuation method from First-in-First-out (FIFO) to weighted average method	.....
D The change in expected useful life of buildings from 30 to 35 years	.....

**ADVANCED LEVEL – 2019**

Which of the following statements are correct as per LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)?

- A - Accounting policies are the specific principles, based, conventions, rules and practices used in the preparation and presentation of financial statements
- B - Changes in accounting estimates arise due to the new information or new development
- C - Prior period errors are corrected retrospectively only if they arise with respect to measurement of elements in the financial statements

- (1) A only
- (2) B only
- (3) A and B only
- (4) B and C only
- (5) All A B and C

# Disclosure and Accounting for events after reporting period - LKAS 10

## Events after reporting period

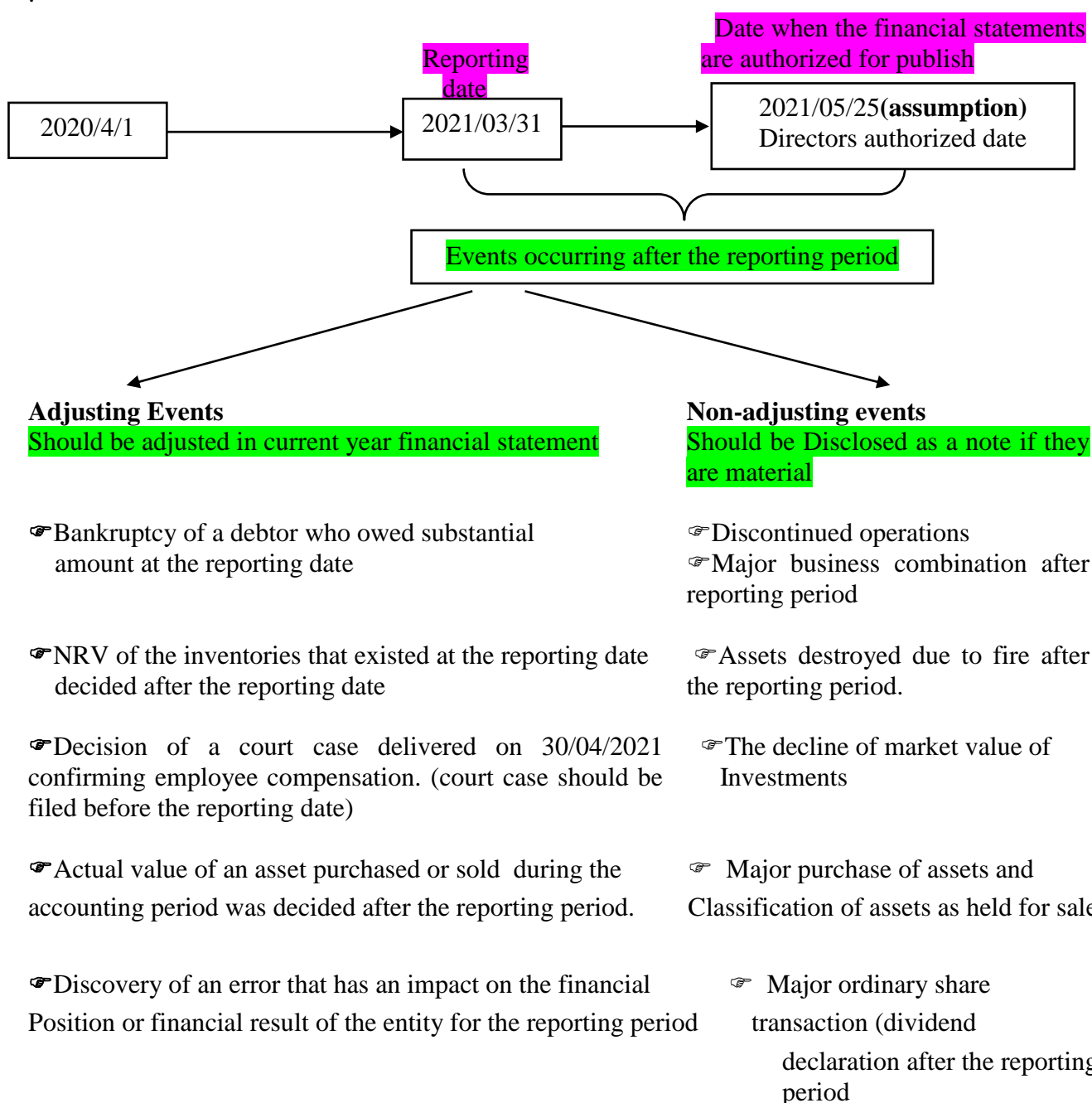
“Are those events, favourable and unfavourable that occur between the end of the reporting period and the date when the financial statements are authorized for issue

## adjusting events

The events that provide further evidence of conditions that existed at the reporting date.

## Non adjusting events

The events that provide evidence after the reporting date



### Going concern

When going concern assumption is no longer valid due to events after reporting period. Change the **basis of preparation of financial statements**. (eg -: assets and liabilities should not be categorized as current and non current)

### ☛ ADVANCED LEVEL – 2008

According to Sri Lanka Accounting Standard No: 12 the adjusting events after the Balance sheet date are Defined as events that

- (1) Indicate conditions arisen after the balance sheet date
- (2) Provide evidence of conditions existed at the balance sheet date
- (3) Provide the best estimate of the amount to be increased after the balance sheet date
- (4) Provide relevant information of transactions occurred after the balance sheet date.
- (5) Provide reliable information of transactions occurred after the balance sheet date  
(.....)

### ☛ ADVANCED LEVEL – 2009

The directors of a company authorized its financial statements on 20.04.2009. Mark a tick (✓) in the appropriate column to indicate whether the following events relevant to this company require an adjustment or not in the financial statements for the year ended 31.12.2008

	Events	Required	Not required
1	The value of short term investments declined by Rs. 1 000 000 on 10.02.2009 due to the continuous decline in the market price	.....	.....
2	The goods which were included in stocks as at 31.12.2008 at a cost of Rs. 600 000 was sold for Rs. 400 000 on 02.01.2009 due to technological obsolescence	.....	.....

All material events occurred between the balance sheet date and the date on which directors authorize the financial statements should be adjusted in the financial statements  
(.....)

### ☛ ADVANCED LEVEL – 2011

Directors of a company signed the financial statements for the year ended 31.03.2011 on 30.06.2011. The financial statements were approved by the shareholders at the Annual General Meeting held on 15.07.2011. The information on the following events are given

- A - Office equipment amounting to Rs. 250 000 has damaged on 20.05.2011 due to floods  
B - The judgment delivered on 15.06.2011 in relation to a case filed by a customer against the company in 2009. It made the company liable for a compensation of Rs. 150 000  
C - A customer who had a balance of Rs. 300 000 as at 31.03.2011 was declared bankrupt on 05.07.2011. The company has already made a full provision for this at the balance sheet date.

Which of the above events require adjustments in the financial statements for the year ending 31.03.2011?

- (1) A only  
(2) A and B only  
(3) B only  
(4) B and C only  
(5) All A B and C

(.....)

### ☛ ADVANCED LEVEL – 2012

Madura PLC financial statements for the year ending 31.03.2012 were authorized by its directors on 30.06.2012. During the period between 01.04.2012 and 30.06.2012 the following events took place in the company.

- A - An announcement of plan to discontinue the operations of a business unit which was incurring losses continuously.
- B - Bankruptcy of a debtor who owed a substantial amount as at the balance sheet date
- C - Decline in the value of short-term investments owing to a drop in the market prices
- D - Decision of a court case that confirmed recognition of a liability as at the balance sheet date

Which of the above events should be adjusted on the balance sheet date?

- (1) A and C only
- (2) B and D only
- (3) A B and D only
- (4) B C and D only
- (5) All A B C and D

(.....)

### ☛ ADVANCED LEVEL – 2013

Financial statements of Nandana PLC for the year ending 31.03.2013 were authorized by the directors on 31.05.2013. The Annual General Meeting of the Company was held on 15.06.2013. The following events took place in relation to the company after 31.03.2013.

- A-Decline in the market value of its investments in companies listed on the Colombo Stock Exchange from 01.04.2013 to 20.04.2013
- B -Decision of a court case delivered on 30.04.2013 confirming that the company is liable to pay compensation to a major customer who had filed a case against the company on 01.10.2012
- C -Declaration of a final dividend of Rs. 2 per share on 10.06.2013 for the year ending 31.03.2013
- D -Sale of inventory on 25.05.2013 at a price lower than its cost at 31.03.2013

Which of the above events should be adjusted in the financial statements as at 31.03.2013?

- (1) A and C only
- (2) A and D only
- (3) B and D only
- (4) B C and D only
- (5) All A B C and D only

(.....)

### ☛ ADVANCED LEVEL – 2014

The accounting year of a company ended on 31.03.2014. The directors authorized the issue of financial statements on 30.06.2014. The annual general meeting of the company was held on 15.07.2014.

The following events took place in relation to the company after 31.03.2014.

- A -A debtor with a balance of Rs. 500 000 as at 31.03.2014 was declared bankrupt on 30.04.2014
- B -A debtor with a balance of Rs. 800 000 as at 31.03.2014 was declared bankrupt on 10.07.2014
- C -The inventory valued at a cost Rs. 600 000 as at 31.03.2014 was sold for Rs. 550 000 on 10.04.2014
- D -The market value of investments had reduced by Rs. 300 000 during the period 30.04.2014 to 30.06.2014

Which of the above events should be adjusted in the financial statements as at 31.03.2014?

- (1) A and B only
- (2) A and C only
- (3) B and C only
- (4) A C and D only
- (5) B C and D only

(.....)

### ☛ ADVANCED LEVEL – 2015

The financial statements of Nalanda PLC for the year ending 31.03.2015 were authorized by the directors on 15.05.2015. The Annual General Meeting of the company was held on 30.05.2015. The following events took place in the company after 31.03.2015.

- A -A debtors who owed Rs. 750 000 as at 31.03.2015 was declared bankrupt on 20.04.2015
- B -Inventory with a cost of Rs. 800 000 as at 31.03.2015 was sold for Rs. 720 000 on 30.04.2015
- C -The judgment of a court case was delivered on 25.05.2015 confirming a liability of Rs. 500 000 as at 31.03.2015.
- D -A final dividend of Rs. 3 per ordinary share was declared on 15.05.2015

Which of the above events should be adjusted in the financial statement of the company for the year ending 31.03.2015 as per LKAS 10 (Events after the reporting period)?

- (1) A and B only                      (2) C and D only                      (3) A B and C only
- (4) B C and D only                      (5) All A B C and D

(.....)

### ☛ ADVANCED LEVEL – 2016

The financial statements of Isuru PLC for the year ending 31.03.2016 were authorized by the directors on 15.06.2016. The following events took place in the company during the period 31.03.2016 to 15.06.2016.

- A -Announcement of plan to discontinue a segment of the business from 15.04.2016, which is expected to save Rs. 600 000 annually
- B -Destruction of a main production plant by fire on 20.04.2016 causing a loss of Rs. 1 000 000.
- C -Bankruptcy of a debtor on 3.05.2016 who had a balance of Rs. 750 000 arising from a credit sale made on 30.04.2016.
- D -Declaration of the final dividend of Rs. 300 000 for ordinary shareholders on 15.06.2016

Which of the above events are considered as non-adjusting events for the year ending 31.03.2016 as per LKAS 10 (Events after the Reporting Period)

- (1) A and B only                      (2) B and C only                      (3) A C and D only
- (4) B C and D only                      (5) All A B C and D

(.....)

### ☛ ADVANCED LEVEL – 2017

The financial statements of Amila PLC for the year ending 31.03.2017 were authorized by the directors on 30.06.2017. The following events took place in the company from 31.03.2017 to 30.06.2017.

- A -Decline in the market value of an investment of the company continuously from 01.05.2017
- B -Declaration of the bankruptcy of a debtor by a court of law on 19.05.2017 who had purchased goods on credit on 01.03.2017
- C -Destruction of inventory that had been in existence for 31.03.2017 due to a fire occurred on 30.05.2017
- D -Receipts of a letter from the government on 20.06.2017 informing that land owned by the business as at 31.03.2017 will be acquire in order to construct a road



Which of the above events are considered as non adjusting events in the financial statements of the company for the year ending 31.03.2017 as per LKAS 10 (Events After the Reporting period)?

- (1) A and B only                      (2) A and D only                      (3) A C and D only  
(4) B C and D only                      (5) All A B C and D

(.....)

#### ☛ ADVANCED LEVEL – 2018

The financial statements of Anjula PLC for the year ending 31.03.2018 were authorized by the directors on 15.05.2018 and the annual general meeting of the company was held on 30.05.2018. The following events took place in the company after 31.03.2018

A-A building costing of Rs. 1 000 000 was destroyed due to a fire that occurred on 10.04.2018

B-A debtor who owed Rs. 500 000 was declared bankrupt on 05.05.2018. This debtor's balance arose due to a sale of goods on 05.04.2018. Statement of Financial Position

C-A tax estimate of Rs. 400 000 payable for the vehicles imported on 31.03.2018 was informed to the company by the Sri Lanka Customs on 10.05.2018

Which of the above events should be adjusted for,, in the financial statements of this company for the year ending 31.03.2018 as per LKAS 10 (Events after the Reporting Period)?

- (1) A only                      (2) B only                      (3) C only  
(4) A and B only                      (5) B and C only

(.....)

#### ☛ ADVANCED LEVEL – 2019

The financial statements of Tharaka PLC for the year ending 31.03.2019 were authorized by the directors on 20.06.2019. Following events had taken place in the company during the period 31.03.2019 to 20.06.2019.

A - A trade debtor who owed Rs. 500 000 as at 31.03.2019 was declared bankrupt on 28.05.2019

B - The value of investments of shares in quoted public companies as at 31.03.2019 Declined by Rs. 1, 000 000 as at 20.06.2019

C - The judgment of the court case, which had been filed against the company on 05.04.2019 was delivered on 01.06.2019 ordering to pay a penalty of Rs. 4 000 000 to the government

Which of the above events should be adjusted in the financial statements of the company as at 31.03.2019 as per LKAS 10 (Events after the reporting Period)?

- (1) A only                      (2) B only                      (3) A and B only  
(4) A and C only                      (5) B and C only

(.....)

# Discloses and accounting for provisions, contingent liabilities and contingent assets according to Sri Lanka Accounting standard - LKAS 37

## Provision (Adjusted in financial statements)

Eg: Provision for warranty } Only liability provisions  
Provision for compensation } Are considered in LKAS 37

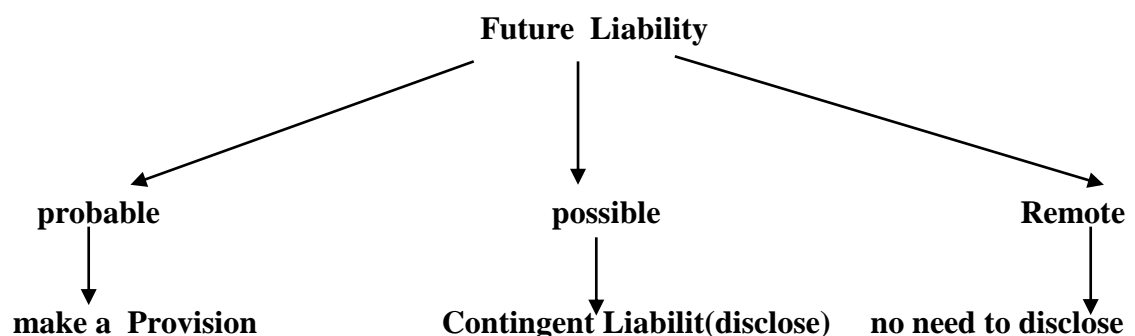
Provision is a liability of uncertain timing or amount. Legal or constructive obligation.

**Characteristics:** Present obligation ( Legal or constructive obligation).  
Reliable estimate  
Probable outflow

## Contingent liability(Disclose as a note)

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events wholly within the control of the entity.

**Characteristics:** possible obligation  
Cannot estimate reliably



## Contingent Assets

Could not be recognized as an asset on the statement of financial position. Disclose only if there is a probability of an inflow of economic benefit.( according to prudence concept)

### ☞ ADVANCED LEVEL – 2006

State two conditions that should be fulfilled for the recognition of particular item as a contingent liability in accordance with SLAS 36.

- (1) .....
- (2) .....

### ☞ ADVANCED LEVEL – 2007

Accounting to Sri Lanka Accounting Standards No: 37 a provision should be recognized as a ..... in the Financial statements

State the accounting treatment for contingent liabilities according to Sri Lanka Accounting Standard No: 37

.....  
 .....

**☛ ADVANCED LEVEL – 2008**

Which of the following conditions should be satisfied to make provision as per Sri Lanka Accounting Standard No: 36?

- (1) Possible obligation, probable transfer of future economic benefits and reliable estimate
- (2) Present obligation, probable transfer of future economic benefits and reliable estimate
- (3) Obligation, ability to pay and reliable estimate
- (4) Materiality probable transfer of future economic benefits and ability to pay
- (5) Possible obligation materiality and relevance (.....)

State whether a contingent asset should be recognized in the financial statements as per Sri Lanka Accounting Standard No: 37 State one accounting concept upon which your answer was based on.

.....  
 .....

**☛ ADVANCED LEVEL – 2009**

As per Sri Lanka Accounting Standards (LKAS) 37 a contingent liability should be recognized (.....)

**☛ ADVANCED LEVEL – 2012**

Which of the following would be disclosed as contingent liabilities of an entity?

- A - A loan obtained from a financial institution
- B - An unresolved lawsuit against the entity
- C - An agreement to act as a guarantor for a loan obtained by another firm
- D - An overdrawn balance of the bank account
- (1) A and B only (2) A and C only (3) B and C only
- (4) A B and D only (5) A B and C only (.....)

**☛ ADVANCED LEVEL – 2013**

Which of the following events would amount to the recognition of a provision for a liability in the financial statements of a company?

- A - Sold goods with a one year warranty, under which defective items are repaired
- B - Made provision for doubtful debts on the trade debtors balance at the year end
- C - Although there is no legal requirement, the environmental pollution caused due to the production process needs to be minimized
- (1) A only (2) B only (3) A and C only
- (4) B and C only (5) All A B and C only (.....)

**☛ ADVANCED LEVEL – 2014**

State whether the following statements are true or false as per the relevant Sri Lanka Accounting Standards indicating with “✓” mark in the appropriate column

Statement	True	False
A Provision is a liability of uncertain timing or amount	.....	.....
B Contingent liabilities are recognized in the financial statements of a firm	.....	.....
C Changes in accounting estimates are adjusted in the financial statements of a firm in the current and future accounting periods.	.....	.....
D Determination of the accounting policies of a firm is always at the discretion of its management	.....	.....

☛ **ADVANCED LEVEL – 2015**

Which of the following items are recognized as provisions in the Statement of Financial Position of a Company as per LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets)?

- A - Provision for doubtful debts
  - B - Provision for a compensation claimed by employees
  - C - Provision for depreciation
  - D - Provision for warranty claims
- (1) A and D only                      (2) B and D only                      (3) A B and C only  
(4) B C and D only                      (5) All A B C and D

(.....)

☛ **ADVANCED LEVEL – 2016**

A store selling electrical items has a policy of refunding the price for goods purchased by customers when there are defects. However, there is no such legal obligation. State the three criteria that should be satisfied to recognize a provision in this situation in terms of LKAS 37 (Provision, Contingent Liabilities and Contingent Assets)

- (1) .....  
(2) .....  
(3) .....

☛ **ADVANCED LEVEL – 2017**

Which of the following condition/s should be satisfied in the recognition of a provision in accordance with LKAS 37 (Provision Contingent Liabilities and Contingent Assets)?

- A -An entity has a present legal or constructive obligation resulting from a past event
- B -There is probable outflow of resources embodying economic benefits to settle the obligation
- C -A reliable estimate can be made of the amount of the obligation

- (1) A only                      (2) C only                      (3) A and B only                      (4) B and C only                      (5) All A B and C

(.....)

☛ **ADVANCED LEVEL – 2018**

State whether the following statements are true (T) or false (F) according to Sri Lanka Accounting Standards

	Statement	T/F
A	Provisions are ‘possible obligations’ with uncertain timing or amount	.....
B	Contingent liabilities are disclosed in the notes to the financial statements	.....
C	Year and inventory is valued at cost and net realizable value, whichever is lower	.....
D	Changes in accounting estimates are accounted for retrospectively	.....

☛ **ADVANCED LEVEL – 2019**

Select the correct term indicated in parent basis below to denote the future of characteristics of provisions and other liabilities as per LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets)

	Characteristics	Provisions	Other Liabilities
A	Existence of a present obligation (Yes/No)		
B	Amount payable on settlement (Certain/Uncertain)		
C	Timing of settlement (Certain/Uncertain)		