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The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

අංක 1786/1 - 2012 නොවැම්බර් මස 26 වැනි සඳුදා - 2012.11.26

No. 1786/1 - MONDAY, NOVEMBER 26, 2012

(Published by Authority)

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 issued three rulings addressing the specific areas on Bearer Biological Assets, Comparative Figures in the Interim Financial Statements and Application of IFRIC 15- Agreements for the Construction of Real Estate, published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. These rulings shall be effective for financial statements covering period commencing on or after the first day of January Two Thousand Twelve.

By Order of the Council,

ARUNA ALWIS,
Secretary.

The Institute of Chartered Accountants of Sri Lanka,
No. 30A,
Malalasekera Mawatha,
Colombo 07.
21st November, 2012

With the new SLFRS/LKAS and other related interpretations coming in to effect from 1st January, 2012, the Council of the Institute of Chartered Accountants of Sri Lanka has decided to issue the following rulings addressing the specific areas on :—

- * Bearer Biological Assets ;
- * Comparative Figures in the Interim Financial Statements ;
- * Application of IFRIC 15 - Agreements for the Construction of Real Estate.

These rulings are applicable for financial periods beginning on or after 1st January, 2012, and should be applied in line with new SLFRS/LKAS and other related interpretations.

RULING ON BEARER BIOLOGICAL ASSETS

Background :

With the application of Sri Lanka Accounting Standards converged with IFRSs with effect from 1st January, 2012, Sri Lanka Accounting Standard, LKAS 41 - Agriculture will be applied in the local context for fair valuation of biological assets and agricultural produce when they relate to agricultural activity.

The standard defined Agricultural Activity as 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.

Hence this Standard can only be applied where there have been active management of the biological assets covered by the agricultural activity.

Therefore, LKAS 41 does not permit fair valuation of unmanaged biological assets in a plantation.

International Accounting Standard Board (IASB) is reconsidering the fair value treatment for bearer biological assets, where it may allow preparers an option to measure bearer biological assets using LKAS 16.

Discussion :

In view of the IASB considering the granting of above mentioned option for bearer biological assets, Institute of Chartered Accountants of Sri Lanka has decided to grant a similar option to measure bearer biological assets (for example perennial crops such as tea, rubber and coconut ect.) under LKAS 16 - *Property, Plant and Equipment*.

Recommendation :

- * The preparers may measure bearer biological assets (for example perennial crops such as tea, rubber and coconut ect.) using LKAS 16 - *Property, Plant and Equipment*. However the preparers who wish to fair value bearer biological assets under LKAS 41 - *Agriculture* may continue to do so.
- * LKAS 41 - *Agriculture* is only applicable to manage agricultural activity thus does not allow preparers to fair value unmanaged trees in their plantations.

RULING ON THE COMPARATIVE FIGURES IN THE INTERIM FINANCIAL STATEMENTS

With the new SLFRS and LKAS coming into effect from 1st January, 2012, interim results shall be required to be reported by entities in accordance with LKAS 34, Interim Financial Reporting.

Taking into consideration the concerns expressed by most of the entities and the short time frame available for the conversion process, the Institute of Chartered Accountants of Sri Lanka has decided to grant the following alternative options for the entities when preparing the interim financial statements during the first financial year commencing on or after 1st January, 2012 :-

1. Prepare the interim financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), effective from 1st January, 2012 ; or
2. Prepare the interim financial statements in accordance with the Sri Lanka Accounting Standards existed immediately prior to 1st January 2012 (SLASs), with disclosures on impact to the Statement of comprehensive income for the period and Net assets based on SLFRS/LKAS. If determination of that impact is impracticable, and entity shall disclose that fact ; or
3. Prepare the interim financial statements presenting the current period figures based on Sri Lanka Accounting Standards (SLFRS/LKAS) effective from 1st January, 2012, while presenting the comparative figures under the Sri Lanka Accounting Standards existed immediately prior to 1st January, 2012 (SLASs).

However, companies will be required to prepare the financial statements based on full Sri Lanka Accounting Standards (SLFRS/LKAS) for the annual periods beginning on or after 1st January, 2012. (*i.e.* financial statements for the year ended 31st December, 2012 or 31st March, 2013)

RULING ON DEFERRING APPLICATION OF IFRIC 15 - AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE

With the adoption of IFRIC 15, there have been concerns expressed by the entities on the recognition of revenue and associated expenses by entities that undertake the construction of real estate directly or through sub-contractors.

Considering the latest developments in revenue recognition - the five step model, which will bring more clarity on revenue recognition, the Institute of Chartered Accountants of Sri Lanka has decided to grant an option for entities to defer application of IFRIC 15 until the five step model comes into effect. However, the companies who use the above mentioned option should disclose that fact in the financial statements.

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