

SLFRSs for Small & Medium Enterprises

AAT Level III FAR - Financial Reporting

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Reading for MBA (PIM), CA and CIMA Prize Winner



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AAT Level 03

Financial Accounting and Reporting

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B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, MBA (PIM-SJP).

SLFRSs for Small and Medium Enterprises

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Considering the Cost and Preparation Ability factor, the Accounting Standards for Small and Medium Enterprises are Simplified



SMEs

- Does not have Public Accountability
- Publish General Purpose Financials for External Users
- Not an SBE



As per Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, adoption of Accounting Standards is a **legal requirement** for '**Specified Business Enterprises**'.

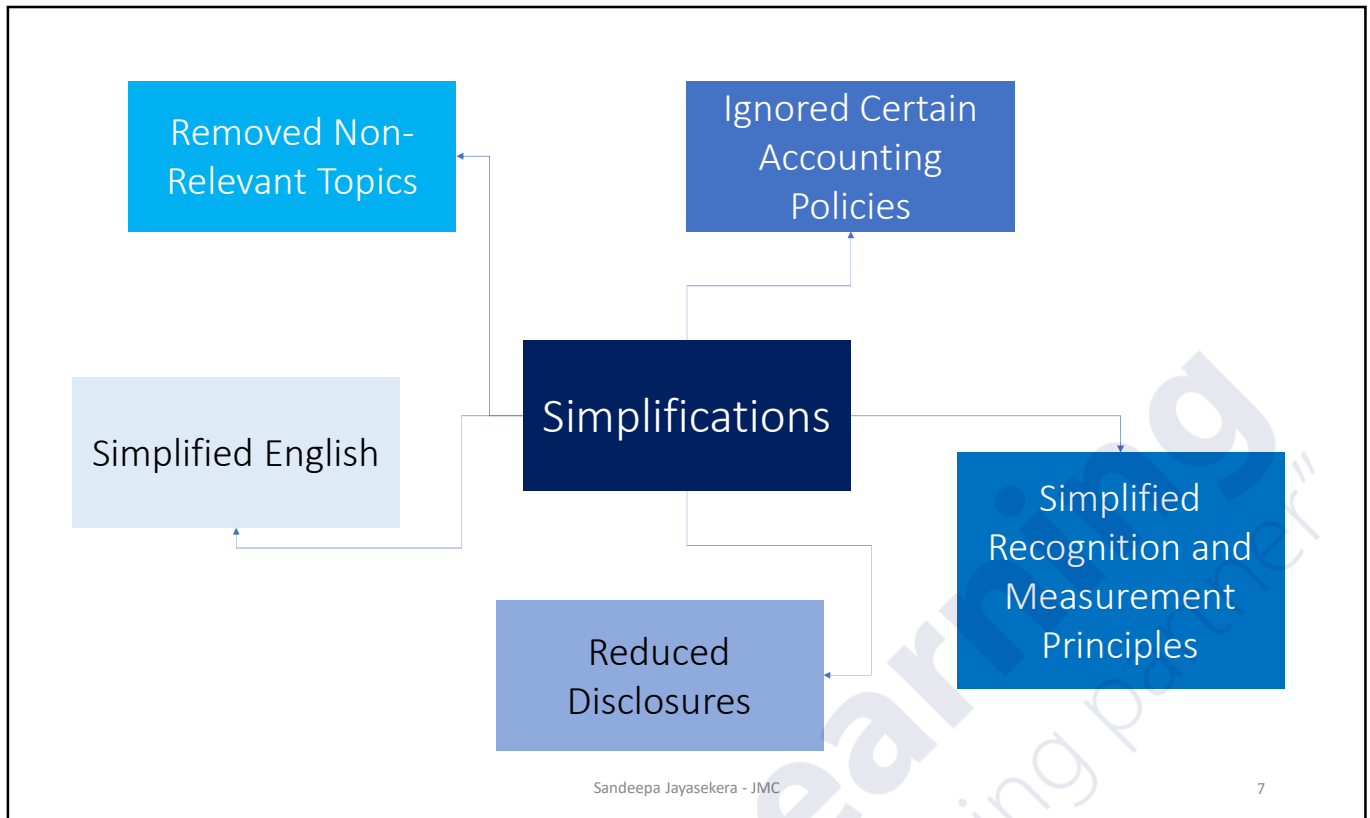
- Banks
- Insurance Companies
- Factoring Companies
- Finance Companies
- Unit Trusts
- Fund Management Companies
- Stockbroker firms
- Stock Exchange
- Listed Companies
- Companies with a turnover in excess of Rs. 500 Mn
- Companies with gross assets in excess of Rs. 300 Mn
- Companies with capital in excess of Rs. 100 Mn
- Companies with bank loans in excess of Rs. 100 Mn
- Public corporations engaged in sale of goods or provision of services

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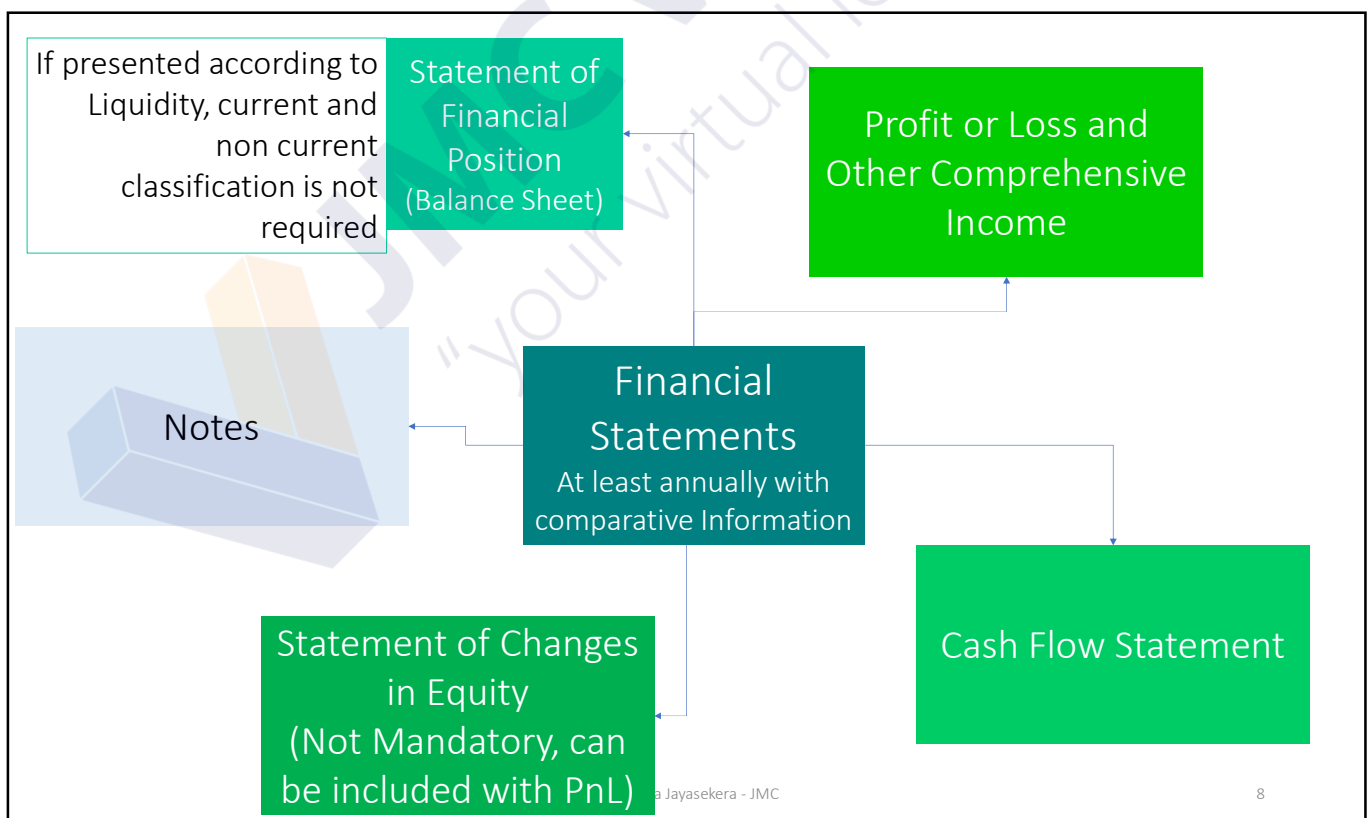
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Simplifications of
Financial
Statements





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Similarities in Accounting Standards for Small and Medium Enterprises

- Provisions and contingencies
- Hyperinflation accounting
- Events after the end of the reporting period

Omitted Topics in Accounting Standards for Small and Medium Enterprises

- Earnings per share
- Interim financial reporting
- Segment reporting
- Classification for non-current assets as held for sale

Differences in Accounting Standards for Small and Medium Enterprises

Point	Sri Lanka Accounting Standards	SLFRSs for SMEs
Scope	Applicable for Specified Business Enterprises (Accounting and Auditing Standards Act 15 of 1995)	Applicable for SMEs. SMEs do not publish financials and there's no Public Accountability
Financial Statement Components	Statement of Financial Position, Profit or Loss and Other Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity and Disclosures	All 5 are applicable. However, if movement in Retained Earnings can be included in PnL, the Statement of Changes in Equity can be removed.

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Differences in Accounting Standards for Small and Medium Enterprises

Point	Sri Lanka Accounting Standards	SLFRSs for SMEs
Intangible Asset Revaluation Model	Yes	No
NCI at Fair Value	Yes	No
Borrowing Cost of Qualifying assets	Capitalized	Charged to Profit or Loss

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Differences in Accounting Standards for Small and Medium Enterprises

Point	Sri Lanka Accounting Standards	SLFRSs for SMEs
Research and Development Cost	Research cost charged to PnL If recognition Criteria is met, Development Cost can be Capitalized	Charged to Profit or Loss
Goodwill and Intangibles with Indefinite Useful Life	Annually check for Impairment	Check for Impairment when there's an indication. These are always amortised over their estimated useful life (or ten years if it cannot be estimated).

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Differences in Accounting Standards for Small and Medium Enterprises

Point	Sri Lanka Accounting Standards	SLFRSs for SMEs
Defined Benefit Plans	Actuarial Valuation method is applied	Projected Credit Unit method can be applied
Financial Instruments	Accounted as per SLFRS 09	Financial instruments meeting specified criteria are measured at cost or amortised cost. All others are measured at fair value through profit or loss.
Annual review of residual value, useful life and dep. Method.	Must	No need, unless there's an indication.

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Differences in Accounting Standards for Small and Medium Enterprises

Point	Sri Lanka Accounting Standards	SLFRSs for SMEs
Investments in Associates and Joint Ventures	Measured using Equity method.	<p>The cost model, equity model and fair value model are permitted as an accounting policy choice that should be applied to the whole class of associates or jointly-controlled entities.</p> <p>An entity using the cost model must measure an investment for which there is a published price using the fair value model.</p>

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2021 July Question 04

ABC (Pvt) Ltd., a medium scale enterprise which follows Sri Lanka Accounting Standards for small and Medium Sized Enterprises (SMEs) has prepared the draft financial statements for the year ended 31st March 2021.

However, the following concerns were observed in the financial statements.

- (1) Borrowing cost which is applicable for the construction of the building has been capitalized to cost of that building.
- (2) Inventories are valued at cost or Net Realizable Value whichever is less.

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2021 July Question 04

- (3) The useful lifetime of office equipment has been changed during the year. Impact of this has been adjusted for prior years retrospectively.

You are required to:

Explain the validity of each of the above accounting treatments as per the Sri Lanka Accounting Standards for Small and Medium Sized Enterprises (SMEs). (05 marks)

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Answer

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2022 July Question 02

ABC (Pvt) Ltd. commenced its operations in 2018 and the entity is classified as a Small and Medium sized entity. Perera, a Financial Consultant has been approached by the company to clarify on the following matters.

(a) The company has changed its method of depreciation from reducing balance method to straight-line method with effect from 01st April 2021. Impact of such change to the accumulated depreciation was Rs. 1.2 Million.

(b) The company constructed a new factory building of Rs. 31 Million and it was financed through a term loan. Borrowing cost up to the completion of construction of the building was Rs. 1.2 Million.

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(c) The company anticipates to change the valuation method of raw materials to First-In-First-Out (FIFO) method from Weighted Average Method (WAM).

You are required to:

Explain how each of the above matters could be considered in the books of accounts of ABC (Pvt) Ltd. in compliance with the SLFRS for SMEs. (05 marks)

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Answer



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