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## CL 02 – Financial Reporting and Governance

# SLFRS for SMEs

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## Big GAAP / little GAAP divide

Accounting needs  
of Larger publicly  
accountable  
companies



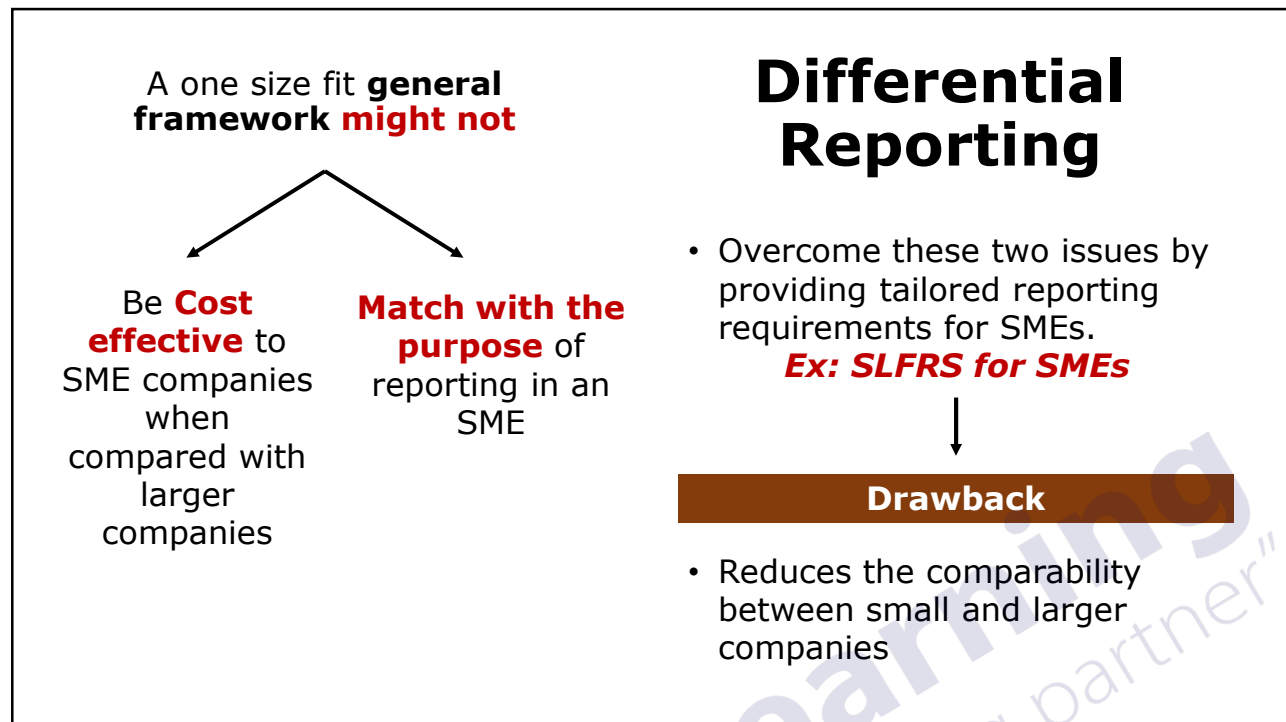
Accounting needs  
of Smaller private  
companies

Solutions

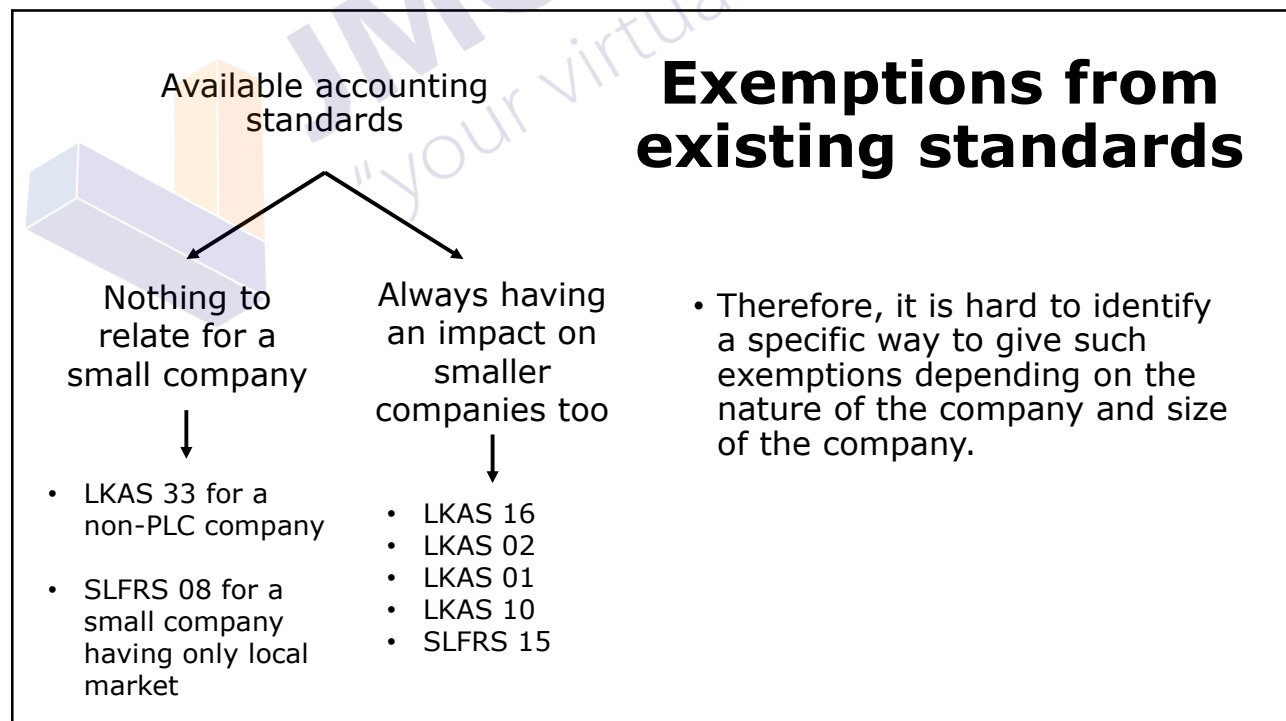
Differential  
Reporting

Providing  
Exemptions from  
existing standards

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## Eligibility to use the SLFRS for SMEs

- The SLFRS for SMEs may be used by entities that meet the **definition of an SME** as provided in the standard and are **not** a Specified Business Entity (**SBE**)

An entity **has public accountability** if:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market.*
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.*
  - Ex- Banks and financial institutions*

an entity that:

- (a) Does not have **public accountability**
- (b) Published general purpose financial statements for **external users**

- Owners who are not a part of management*
- Existing and potential creditors*

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## SBEs are not permitted to use SLFRS for SMEs

Important

- Companies licensed under the Banking Act No 30 of 1988
- Companies authorised under the Control of Insurance Act No 25 of 1962 to carry on insurance business
- Companies carrying on leasing business
- Factoring companies
- Companies registered under the Finance Companies Act No 78 of 1988
- Fund management companies
- Companies listed in a Stock Exchange
- Public corporations engaged in the sale of goods or the provision of services
- Companies licensed under the Securities and Exchange Commission Act No 36 of 1987,
  - To operate unit trusts
  - As stocker brokers/dealers
  - To operate a stock exchange (Ex-CSE)

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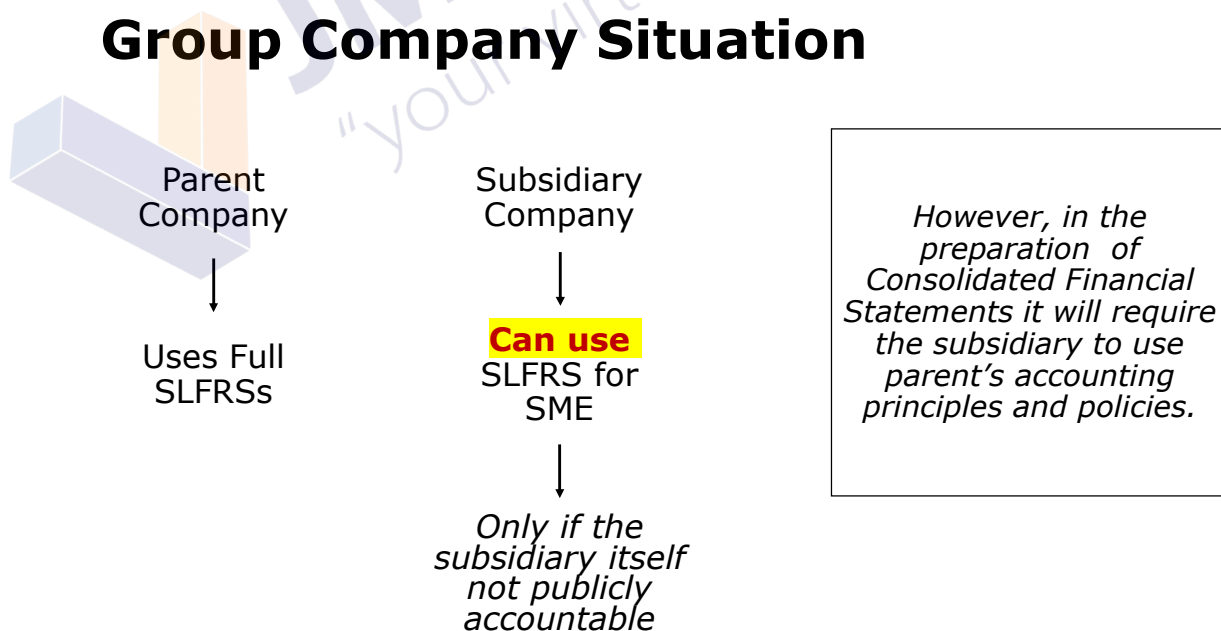
## 2022 June Past Paper

Which of the following entities can adopt SLFRS for small and medium-sized entities (SLFRS for SMEs) in preparing its financial statements?

- A. Ceylon Unit Trust
- B. CEPT Stockbrokers (Pvt) Ltd
- C. ABC Bank
- D. City Hotels (Pvt) Ltd

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## Group Company Situation



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## Content of the SLFRS for SMEs

- It is designed to facilitate financial reporting by small and medium-sized entities in a number of ways:
  1. Some topics are **omitted** because they are not relevant to typical SMEs
  2. Some accounting treatments in full SLFRSs are not available because a **simpler method** is applied instead
  3. Many of the recognition and measurement requirements of SLFRS are **simplified**
  4. There are substantially **fewer disclosures**
  5. The **language** and explanations used are simplified

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## 1. Selection of accounting policies

- For situations where the SLFRS for SMEs does not provide specific guidance, it **provides a hierarchy for determining a suitable accounting policy**. An SME must consider, in descending order:
  - The guidance in the SLFRS for SMEs on similar and related issues
  - The definitions, recognition criteria and measurement concepts in Section 2 Concepts and Pervasive Principles of the standard
- *The entity also **has the option of considering the requirements and guidance in full SLFRSs** dealing with similar topics. However, it is under no obligation to do this, or to consider the pronouncements of other standard setters.*

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## 2. Overlap with full SLFRSs

- Guidance in the SLFRS for SMEs is **equivalent** to that in the full SLFRSs.
- ✓ Provisions and contingencies
- ✓ Hyperinflation accounting
- ✓ Events after the end of the reporting period

## 3. Omitted topics

- SLFRS for SMEs **does not address** the following topics.
- ✓ Earnings per share
- ✓ Interim financial reporting
- ✓ Segment reporting
- ✓ Classification for non-current assets (or disposal groups) as held for sale

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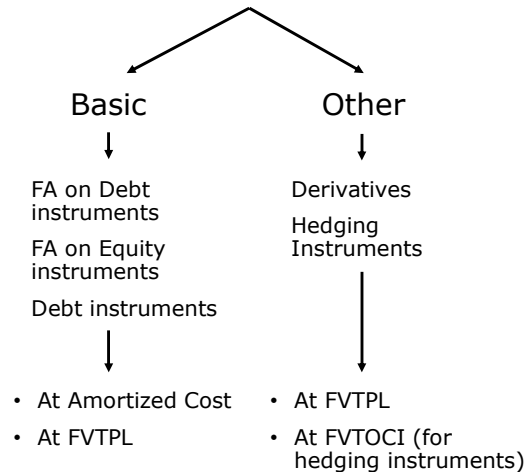
## 4. Options in full SLFRS not in the SLFRS for SMEs

- Certain **topics are not omitted** from the SLFRS for SMEs, however **accounting treatment** prescribed or allowed by the relevant full SLFRS **is omitted**
  - ✓ The revaluation model for intangible assets
  - ✓ If the fair value of investment properties can be measured reliably without undue cost or effort, then investment property must be measured at fair value; otherwise historical cost is used
  - ✓ Options for government grants
  - ✓ Measurement of the non-controlling interest in consolidated financial statements at fair value

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## 5. Principal recognition and measurement simplifications

### 5.1 – Financial Instruments



### 5.2 – Goodwill and other indefinite-life intangibles

- An impairment test is only performed if there are indications of impairment (rather than annually).
- These assets are always amortized over their estimated useful life (or ten years if it cannot be estimated)

### 5.3 – Research and development costs and borrowing costs

- Need to be charged as *expenses*.

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### 5.4 – Property, plant and equipment and intangibles

- No need to review residual value, useful life and depreciation method unless there is an indication that they have changed since the most recent reporting date

### 5.5 – Investments in associates and jointly controlled entities

- 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.
- An entity using the cost model must measure an investment for which there is a published price using the fair value model.

### 5.6 – Non-current assets held-for-sale

- There is no separate held-for-sale classification; holding an asset or group of assets for sale is an indicator of impairment.

### 5.7 – Biological assets

- SMEs are to use the cost-depreciation-impairment model unless the fair value is readily determinable, in which case the fair value through profit or loss model is required.

### 5.8 – Equity-settled share-based payment

- If observable market prices are not available to measure the fair value of the equity-settled share-based payment, the directors' best estimate is used.

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### **5.9 – Defined benefit pension plan**

- A simplified calculation of the plan obligation is allowed if measurement using the projected unit credit method involves undue cost or effort.

### **5.10 – Exchange differences**

- An exchange difference that is recognised initially in other comprehensive income is not reclassified in profit or loss on disposal of the investment in a foreign subsidiary.
- This treatment is less burdensome than that required under full SLFRSs because it eliminates the need for tracking exchange differences after initial recognition.

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## **6. Presentation of financial statements**

1. An entity is not required to present a statement of financial position at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements as required under LKAS 1.
2. An entity is permitted to present a single statement of income and retained earnings in place of separate statements of comprehensive income and changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.
3. All deferred tax assets and liabilities are classified as non-current assets or liabilities.

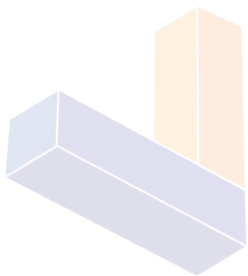
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## 7. Reduced disclosure requirements

- The disclosure requirements of the SLFRS for SMEs are substantially reduced compared to those in full SLFRS.
- Certain disclosures have been omitted for two main reasons:
  - They relate to topics or accounting policy options in full SLFRS that are omitted or simplified in the SLFRS for SMEs.
  - They are not considered appropriate based on users' needs and cost-benefit considerations.

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