



**JMC JAYASEKERA  
MANAGEMENT CENTRE**  
"Pioneers in Professional Education"

# CA – Corporate Level

## Financial Reporting and Governance

Sandeepa Jayasekera

MBA (PIM-SJP), 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.

## Sandeepa Jayasekera

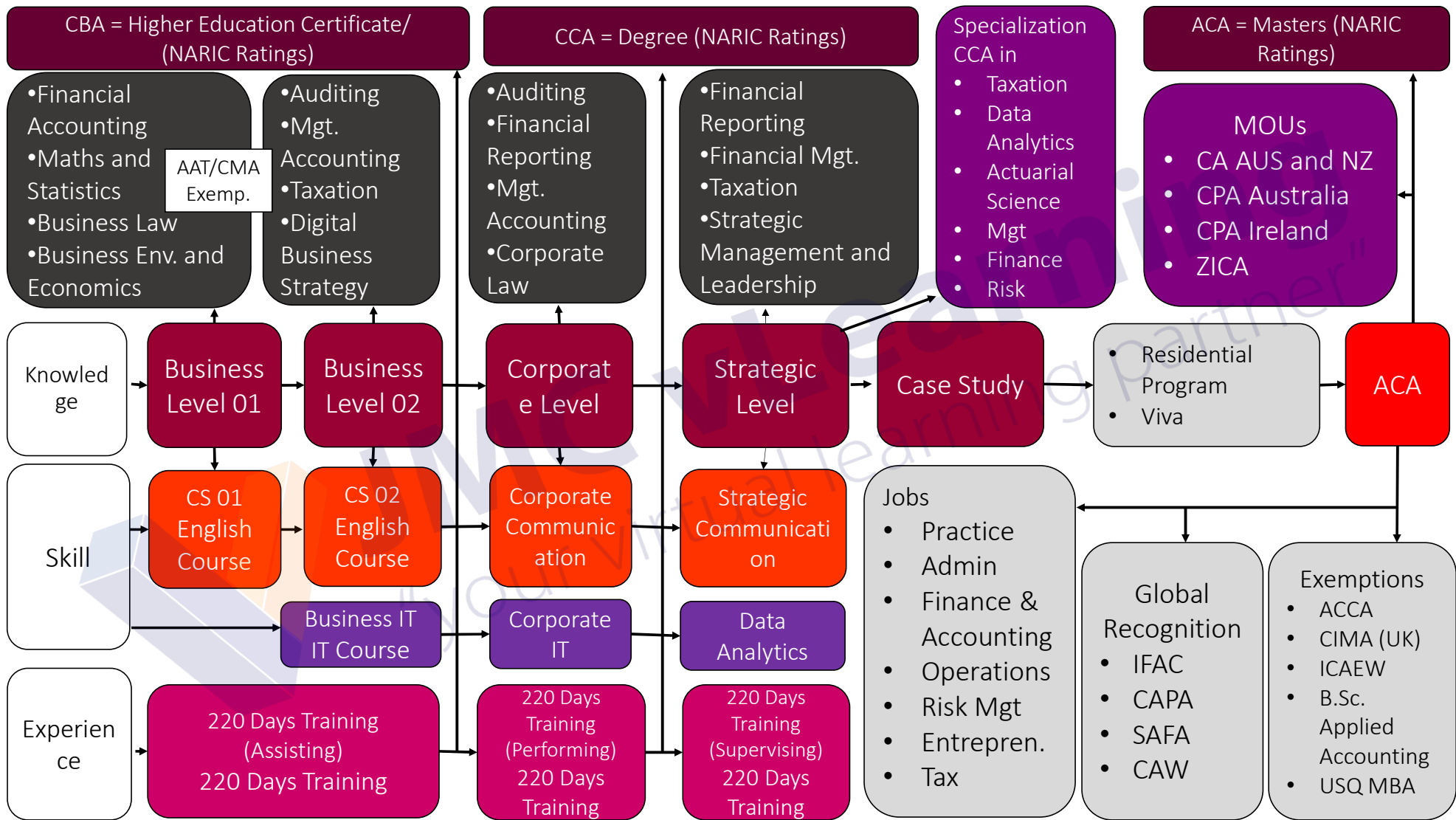


- 11<sup>th</sup> in Sri Lanka in Advanced Level Commerce and 3<sup>rd</sup> in Colombo District
- First Class Degree in Accounting, Sri Jayewardenepura University and Gold Medal for Best Student
- Chartered Accountant (CA Sri Lanka)
- 1<sup>st</sup> in Sri Lanka for the second stage of Chartered Accountancy and the Advanced Financial Reporting Subject Prize in the final stage.
- Chartered Management Accountant in United Kingdom (CIMA-UK)
- Chartered Management Accountant (United Kingdom) 1<sup>st</sup> in Sri Lanka in Final Stage and 11<sup>th</sup> in the world

- Member of the Institute of Accounting Technicians of Sri Lanka (AAT Sri Lanka)
- Member of the Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka)
- Postgraduate Institute of Management (PIM-USJP) Masters Degree in Management
- Chief Executive Officer
- Principal partner
- Senior lecturer
- Author who wrote 'Awarjanayakata Awasarai'
- A motivational speaker and a trainer, conducted more than 100 sessions.



Sandeepa Jayasekera



# FRG Syllabus Overview

Regulatory Framework  
for Financial Reporting

10%

Sri Lanka Accounting  
Standards

50%

Financial Reporting  
Ethics and Governance

5%

Preparation of Financial  
Statements

25%

Financial Statement  
Analysis

10%

Chandima Sir

Sandeepa

# Acc. Standards in Syllabus

LKAS 01 - Presentation of Financial Statements

A

LKAS 02 - Inventories

A

LKAS 07 - Statement of Cash Flows

A

LKAS 08 - Accounting Policies, Changes in Estimates & Errors

A

LKAS 10 - Events after Reporting Date

A

LKAS 16 - Property Plant and Equipment

A

LKAS 37 - Provisions, Contingent Liabilities and Assets

A

Sri Lanka Accounting Standards for Smaller Entities

A

# Acc. Standards in Syllabus

SLFRS 03 - Business Combinations

B

SLFRS 05 - Non-Current Assets Held for Sale

B

SLFRS 09 - Financial Instruments

B

SLFRS 10 - Consolidated Financial Statements

B

SLFRS 11 - Joint Arrangements

B

SLFRS 12 - Disclosures of Interests in Other Entities

B

SLFRS 13 - Fair Value Measurement

B

SLFRS 15 - Revenue with Contracts with Customers

B

# Acc. Standards in Syllabus

SLFRS 16 - Leases

B

LKAS 12 - Income Taxes

B

LKAS 19 - Employee Benefits

B

LKAS 20 - Accounting for Government Grants

B

LKAS 21 - The Effect of Changes in Foreign Exchange

B

LKAS 23 - Borrowing Costs

B

LKAS 24 - Related Party Disclosures

B

LKAS 27 - Separate Financial Statements

B

LKAS 28 - Investment in Associates

B



# Acc. Standards in Syllabus

LKAS 32 - Financial Instruments Presentation

B

LKAS 33 - Earnings per Share

B

LKAS 36 - Impairment of Assets

B

LKAS 38 - Intangible Assets

B

LKAS 39 - Financial Instruments Recog. and Measurement

B

LKAS 40 - Investment Property

B

LKAS 41 - Agriculture

B

SLFRS for SMEs – Accounting Standards for Small & Medium

B

# Acc. Standards in Syllabus

SLFRS 02 - Share Base Payments

SLFRS 07 - Financial Instruments Disclosure

SLFRS 08 - Operating Segments

LKAS 34 - Interim Financial Reporting

C

C

C

C



# Paper Structure

Section 01	20	10 Multiple Choices	Regulatory Framework Standards Ethics
Section 02	40	4 Mini Scenarios (Non-Complex)	SLFRS for SME/Regulatory Framework Standards Ethics Financial Statement Analysis
Section 04	40	2 Complex Scenarios and Applications	Q6 - Consolidation Q7 - Standards Related Complex Application

# Key Acc. Standards

SLFRS 09/07/LKAS 32

Financial Instruments

SLFRS 15

Revenue

SLFRS 16

Leases

SLFRS 13

Fair Value

LKAS 36

Impairment

LKAS 40

Investment Property

LKAS 19

Employee Benefits

# Key Acc. Standards

SLFRS 02

Share Base Payments

SLFRS 08

Operating Segments

LKAS 23

Borrowing Cost

LKAS 38

Intangible Assets

LKAS 37

Provisions, Contingent Liabilities

LKAS 10

Events after Reporting Period

SLFRS for SMEs

Small and Medium Standards

# Important Action Verbs

Advise

Counsel, Inform or Notify in a Manner suited

Apply

Put into a Particular Case

Assess

Judge the Value, Importance or Qualities of

Analyze

Examine in Detail in Order to Discover Essential Features

Compute/  
Calculate

Determine by Computation or Arrive at by Mathematical Means or Processes

Demonstrate

Prove or Show by Adequate Means

Determine

Ascertain or Conclude after Analysis and Consideration

Discuss

Examine in Detail by Argument showing Different Aspects (Pros and Cons)

Evaluate

Appraise Meaning or Significance

Explain

State the Meaning or or Reasons for

Recommend

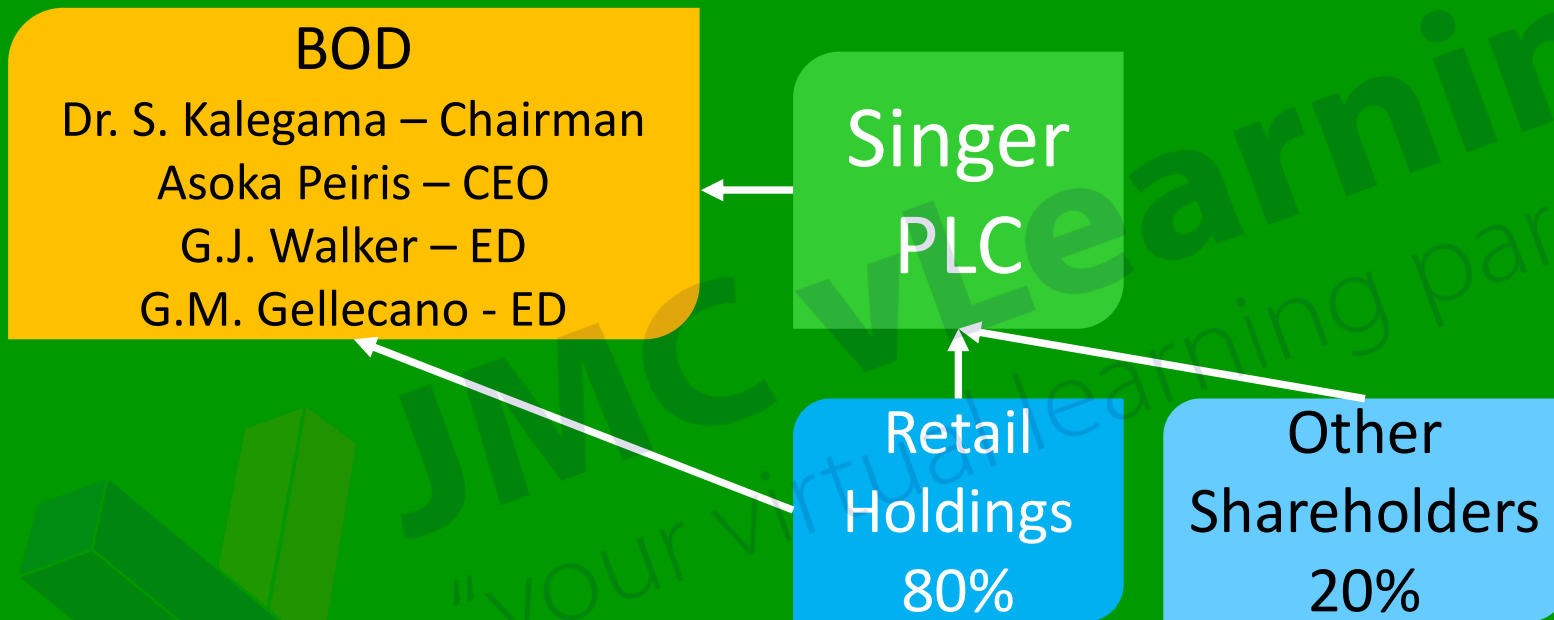
Propose the Best Course of Actions or Choices

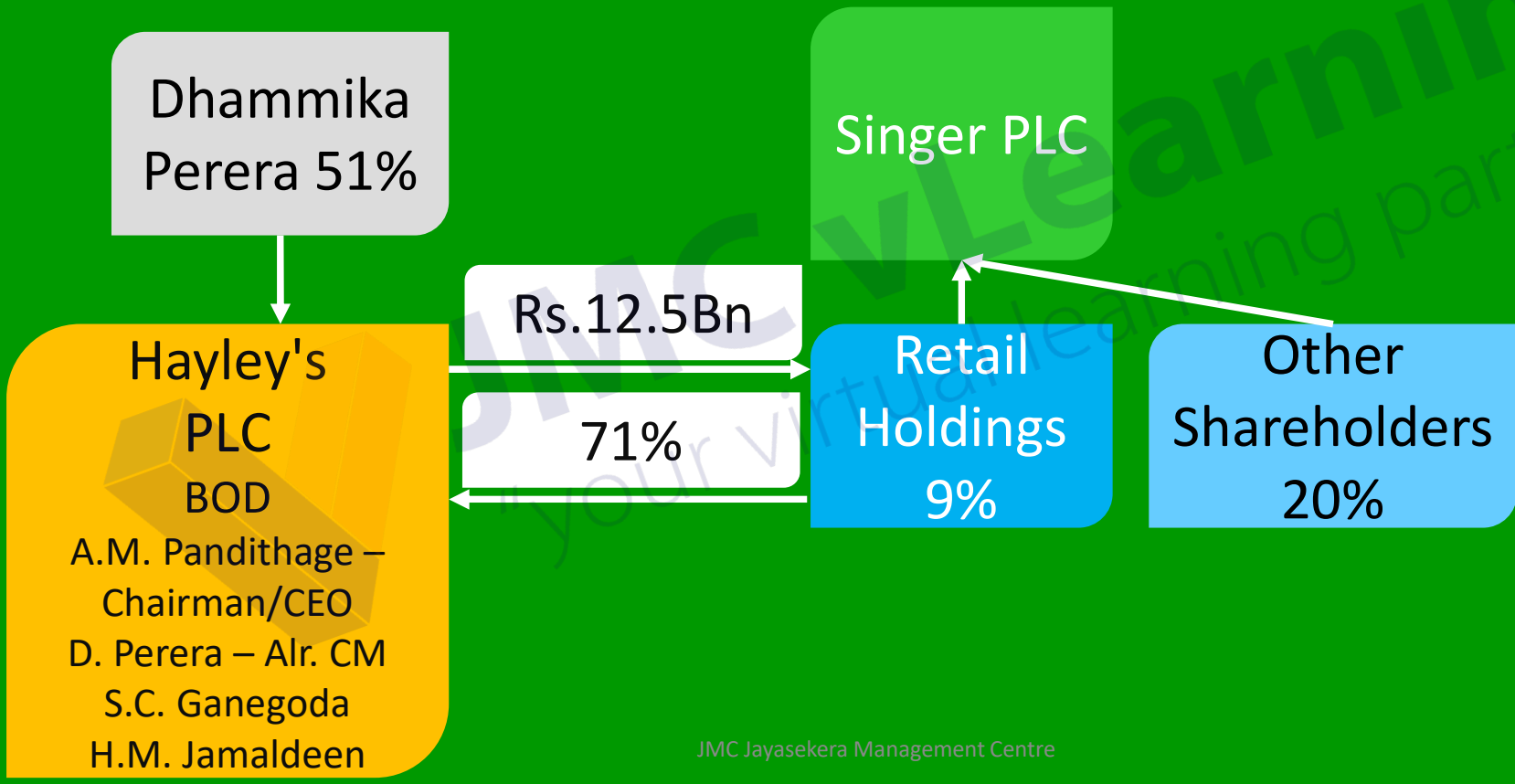
# Consolidation Introduction

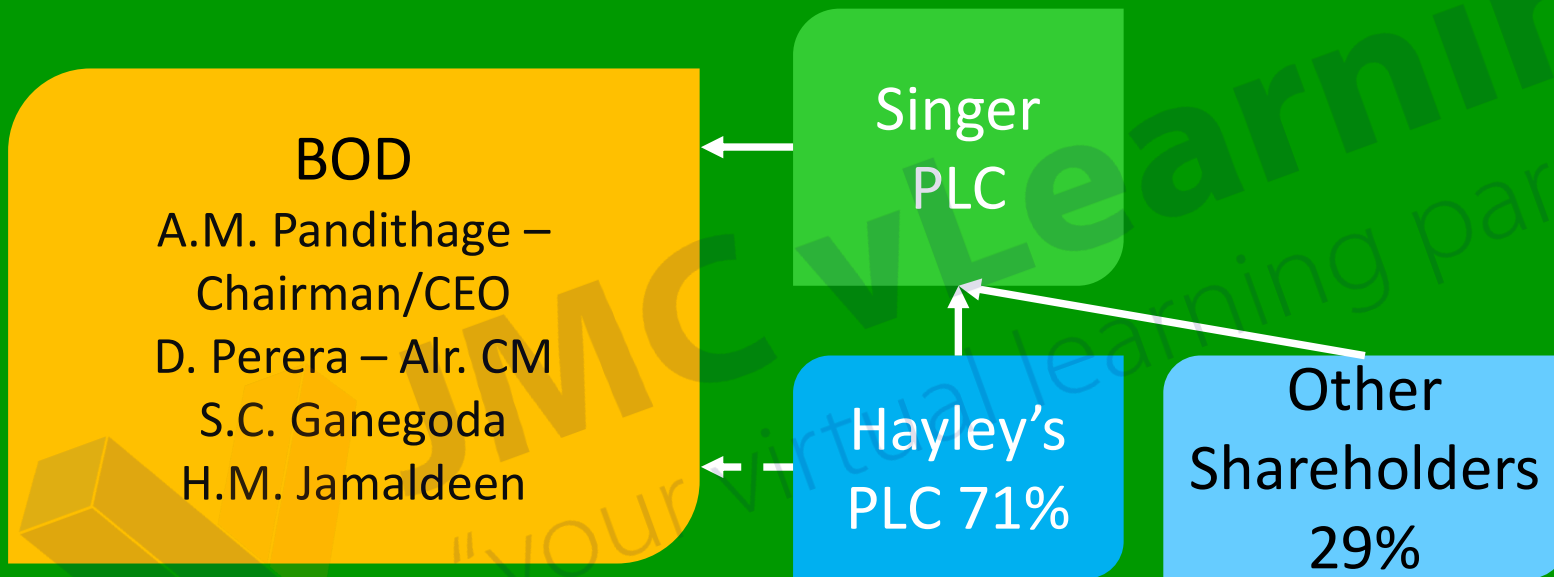


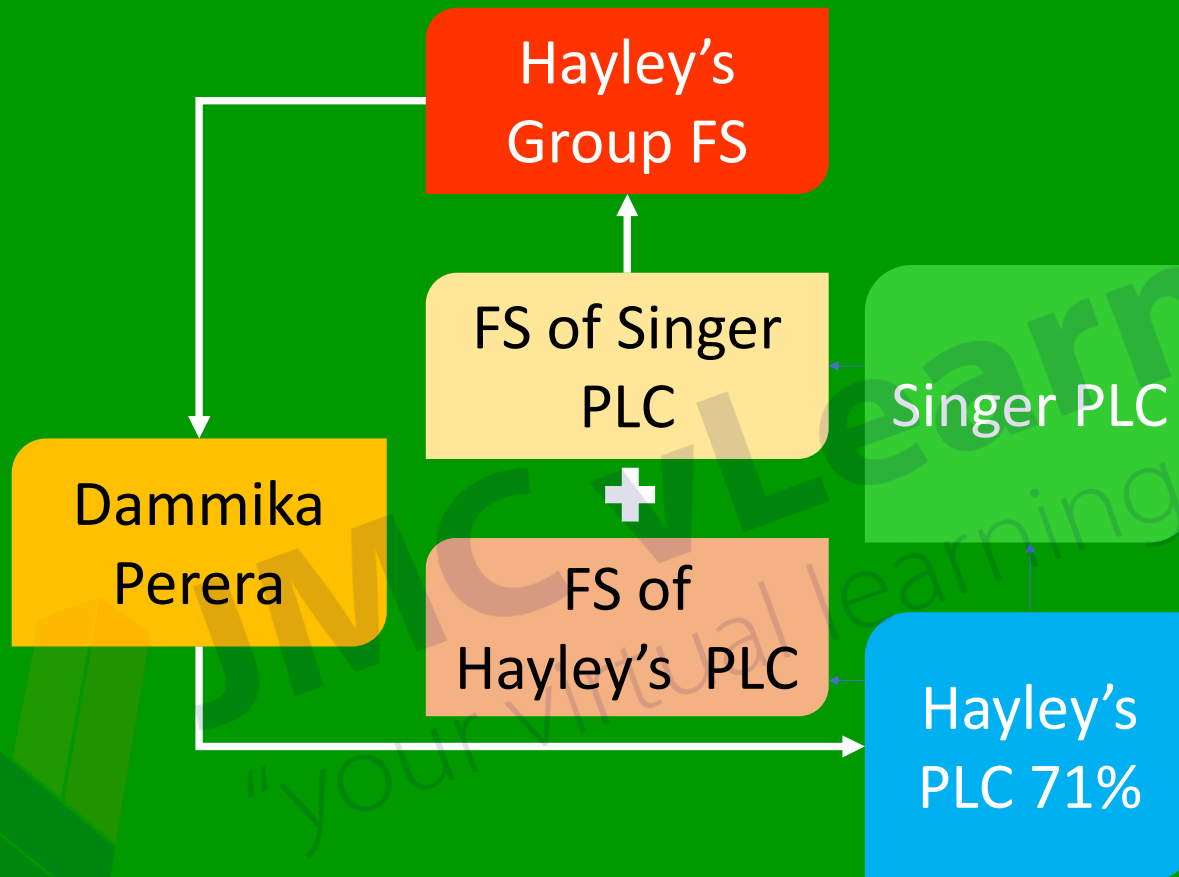
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# Hayleys to acquire Singer Sri Lanka for Rs.12.5bn

14 September 2017 07:01 am - 3 - 15747

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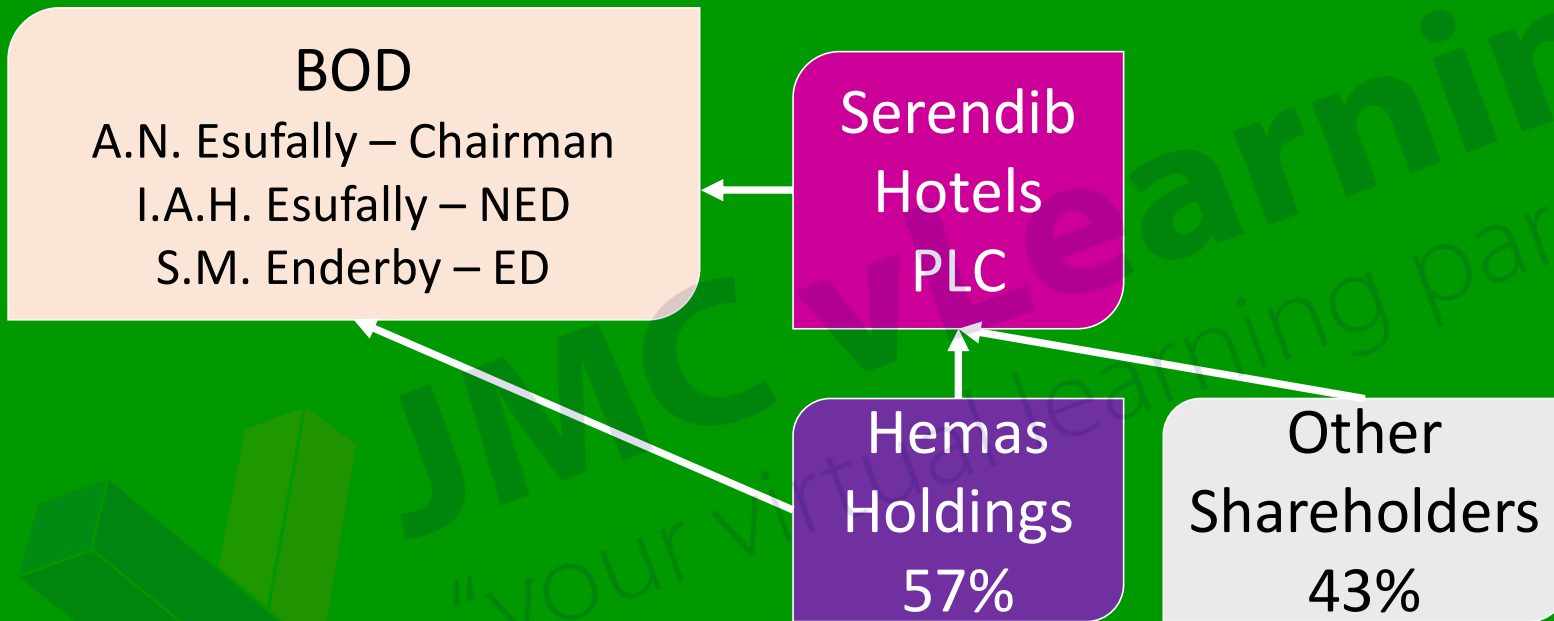


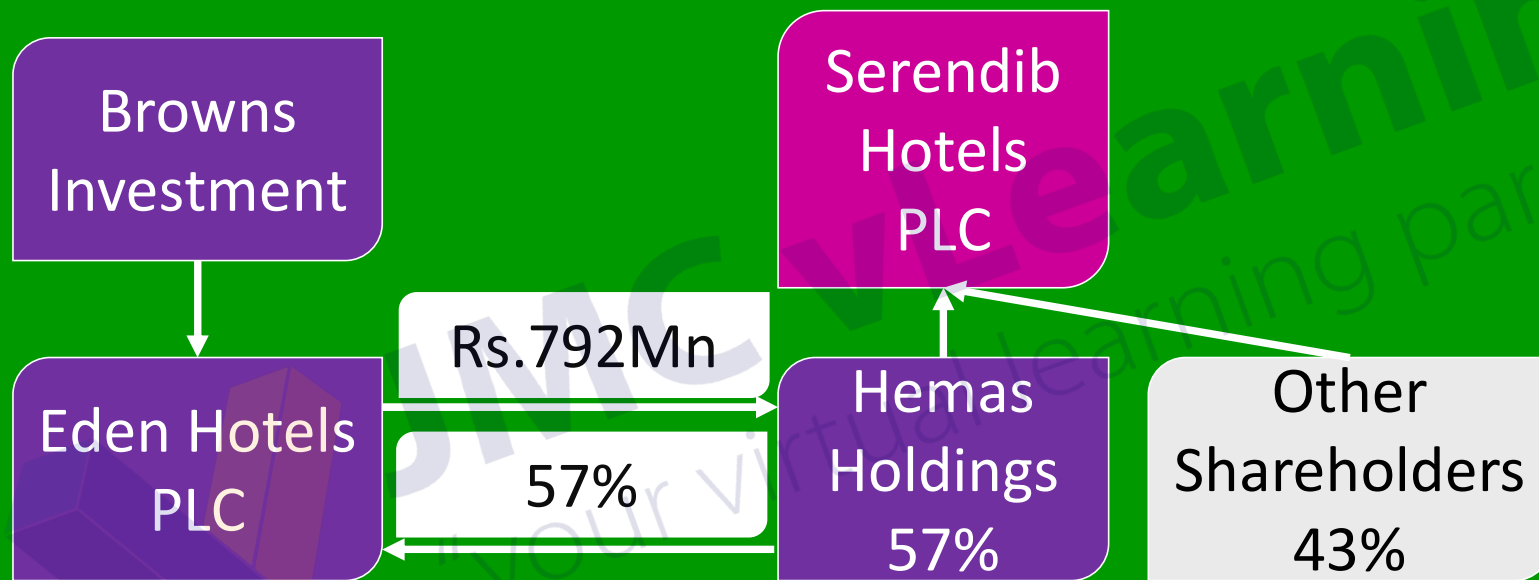
Diversified conglomerate Hayleys PLC, continuing with its buying spree, yesterday struck a mega deal to acquire a 71 percent stake in leading consumer durables retailer Singer (Sri Lanka) PLC (SSL) in a whopping Rs.12.5 billion deal.

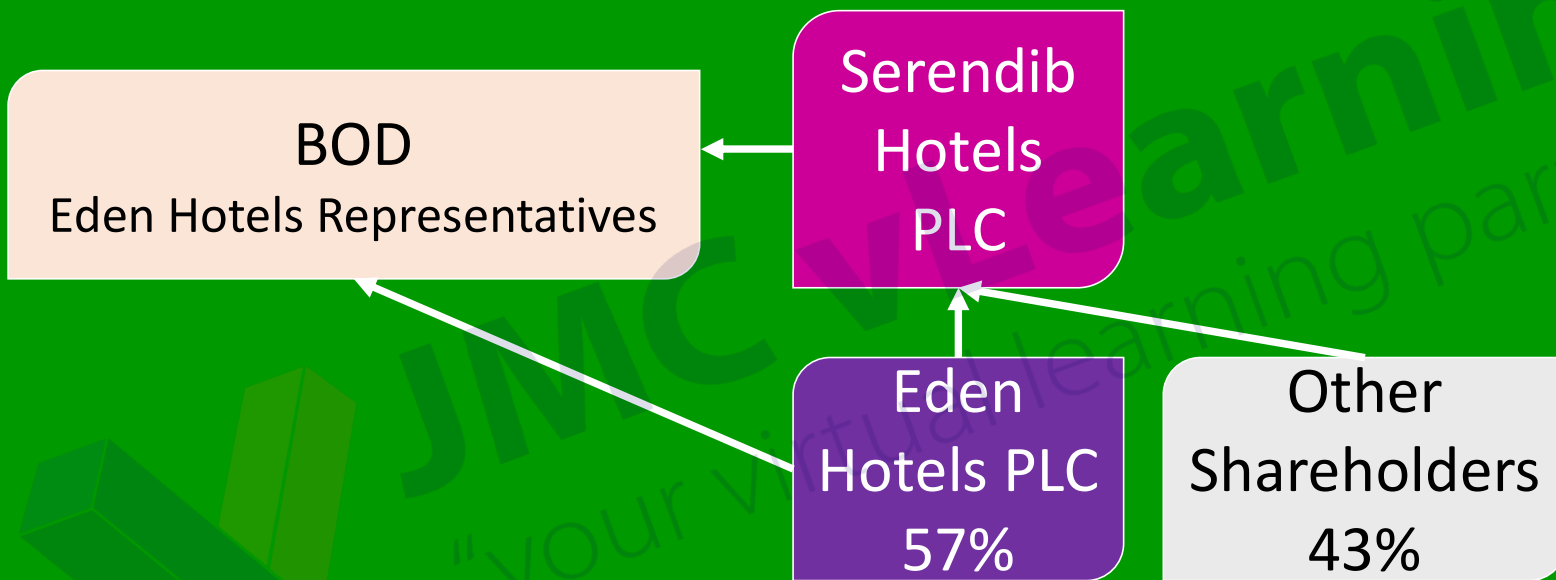
The Hayleys group, controlled by business magnate Dhammika Perera, last month acquired Sri Lanka Shipping Company Limited, in its quest to become Sri Lanka's largest shipping and maritime company, for Rs.4.9 billion.

Hayleys yesterday said it entered into an agreement with Retail Holdings (Sri Lanka) B.V. (RHSL) to purchase its 231.8 million shares constituting 61.73 percent in SSL by itself and its nominee at a price of Rs.47 per share. Hayleys has also entered into a further agreement to purchase, either by itself or through its nominee, the balance shareholding of 35.5 million shares constituting of 9.47 percent held by RHSL in SSL, within a period of 12 to 15 months from the date of the initial transaction, at the option of RHSL at a price of Rs.47 a share.

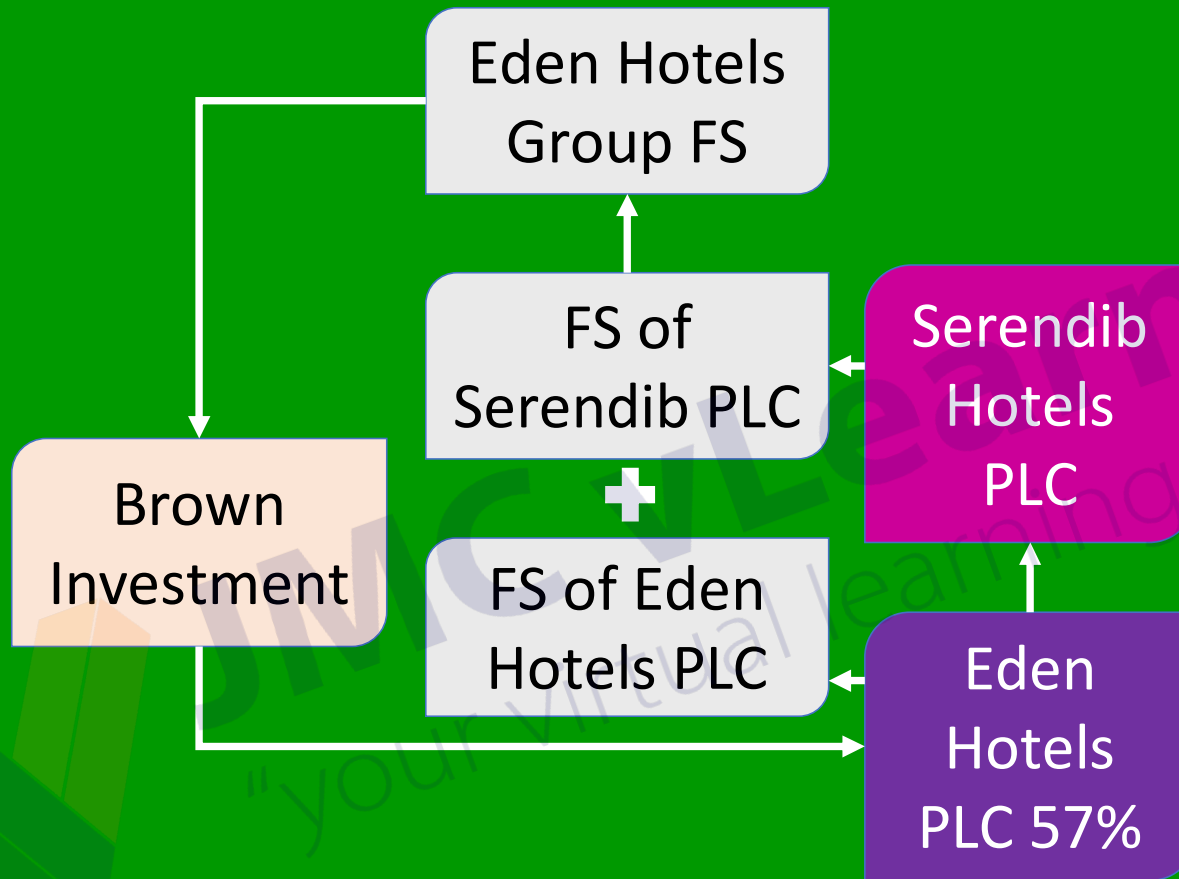
SSL's net asset value per share as at June 30, 2017 stood at Rs.20.22











# LOLC Group acquires Serendib Hotels from Hemas for Rs.792mn

16 December 2020 09:32 am 0 - 832

A A A

- **LOLC says acquisition is aimed at capturing post-COVID growth in tourism business**
- **Hemas says divestment is part of group's portfolio direction and focuses on uplifting return on equity from core segments**

LOLC Holdings PLC's strategic investment arm, Browns Investments PLC (BI), yesterday acquired the controlling stake of 55.65 percent of Serendib Hotel PLC, a subsidiary of Hemas Group, for a consideration of Rs.792 million.

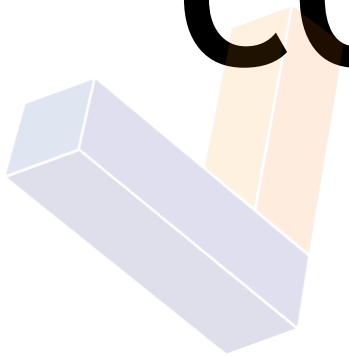
With this acquisition, BI will hold 56.67 percent of voting shares and 53.48 percent of non-voting shares of Serendib.

BI's subsidiary leisure company, Eden Hotel Lanka PLC, made the investment.

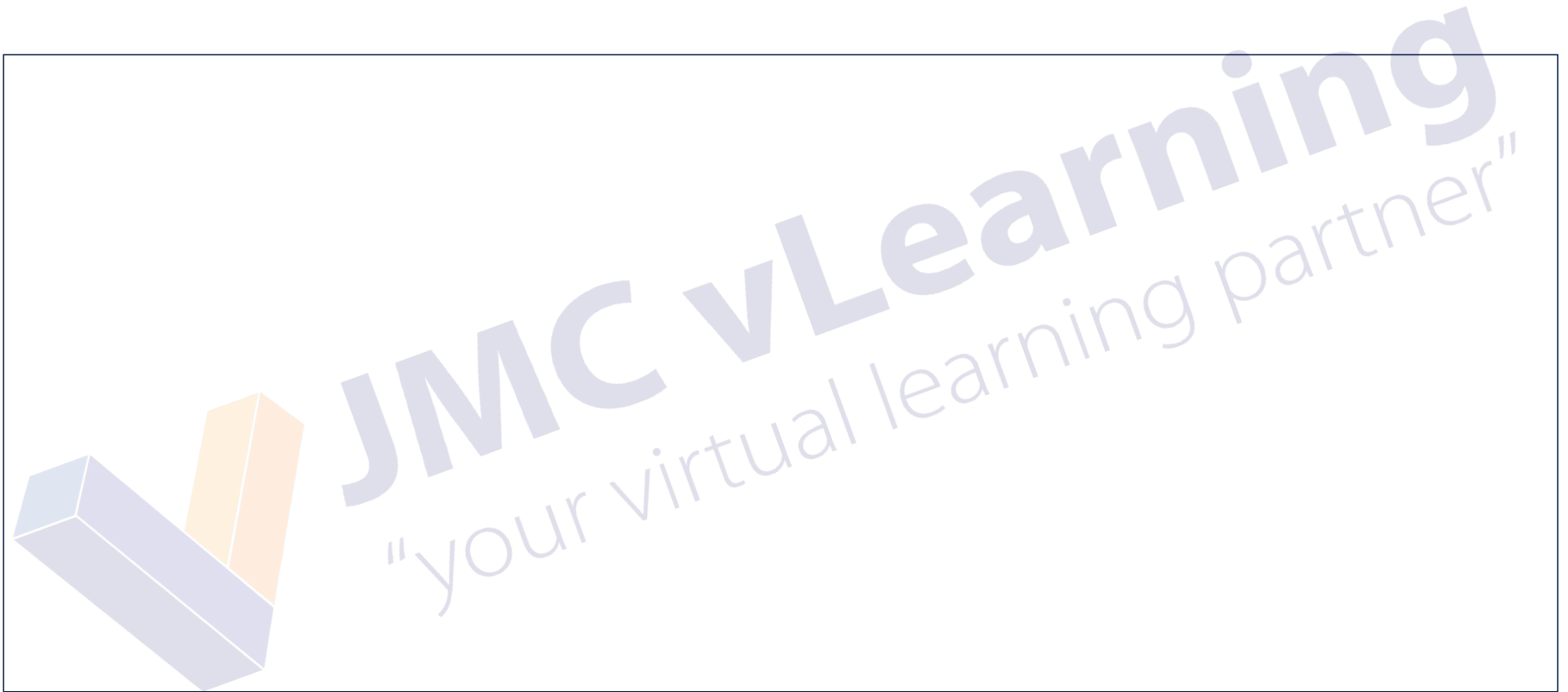
The voting shares, which amounted to 42.8 million, were bought at Rs.14.20 per share, for a consideration of Rs.608 million, while the non-voting shares, amounting to 19.2 million, were bought at Rs.9.60 a share.



# CA - Corporate Level CONSOLIDATION



# What is Consolidation?



# Why Companies Acquire Another Company?

Synergies

Integrate

- Horizontally
- Vertically

Reduce Risk

- Conglomerate

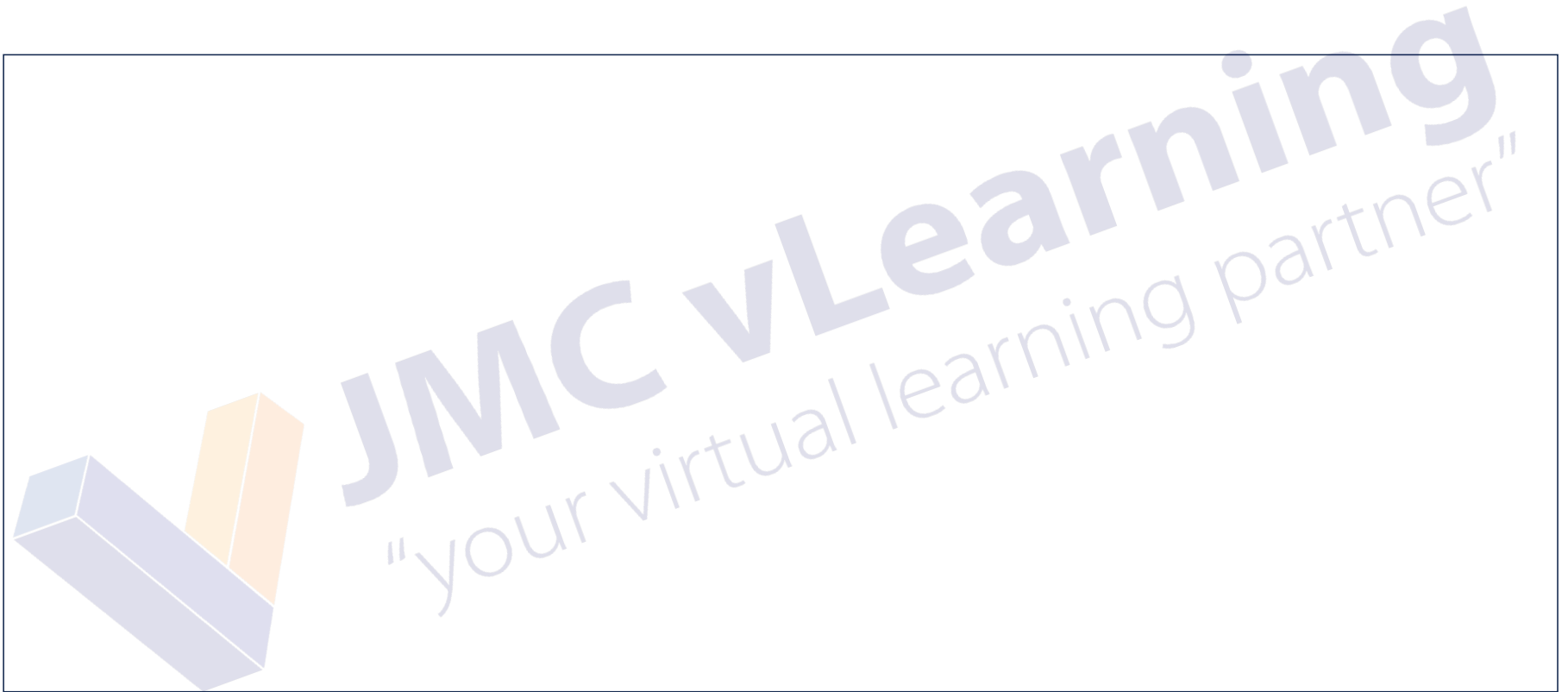
Economies of Scale

To Use Strategic Resources such as Intellectual Properties

To Turnaround Opportunities

When Target is Undervalued

# Real Life Examples





Reebok



2005

\$3.8Bn

Dominate USA  
Female Sports  
Wear

P/E = 13.4  
Times

Failure



**P&O** **Nedlloyd**

**MÆRSK**

2005

Euro 2.3Bn

Increase  
Market Share  
to 18%

162 Vessels

Market Share  
Grew to 14%





2010

\$19.6Bn

Hostile  
Takeover

Kraft  
2<sup>nd</sup> Largest Food  
Manufacturer

Dominate  
Confectionary  
Market

facebook®



WhatsApp

2014

\$19Bn

WhatsApp  
Turnover \$450Mn  
55 Employees  
350Mn Customers

Emphasis  
Combined Future  
Cash Flows

WhatsApp today  
2Bn Customers



**SINGER**

2017

Rs.12.5Bn  
71%

P/E 16 Years

Dominate FMCG  
Market  
Mega Mall  
Concept

Overvalued  
Consideration

**HEXAS**



2018

Rs.5.7Bn  
75.1%

1300  
Employees

Conglomerate  
Risk  
Mitigation

Distribution  
Synergies

# Syllabus Overview

## Prepare Consolidated

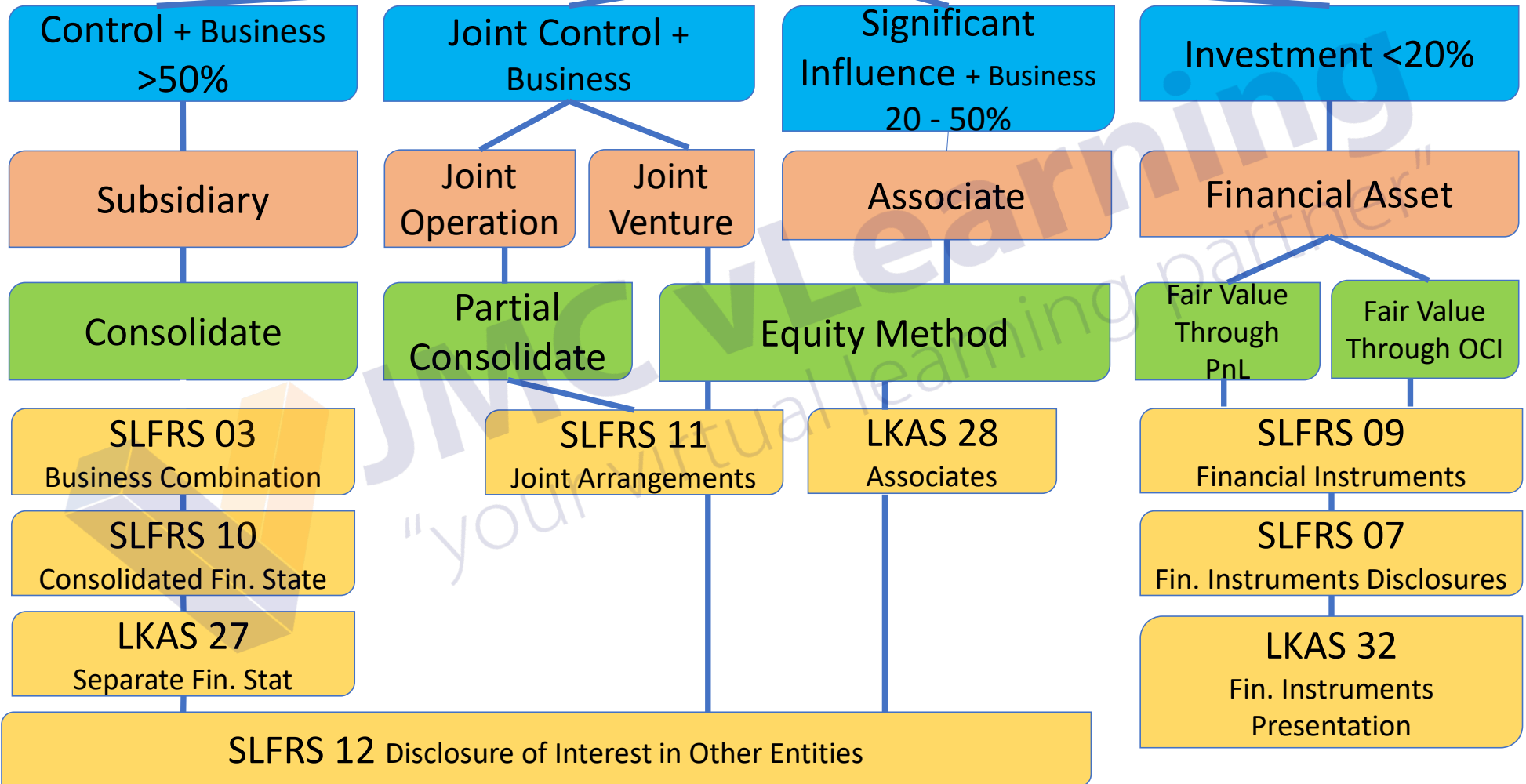
- Statement of Financial Position
  - Profit or Loss
- } 1 or 2 Subsidiaries and an Associate or Joint Venture

## Emphasis on

- Concepts (Goodwill/Non-Controlling Interest/Intercompany/Unrealized Profits/Dividends/Fair Value)
- Standards (LKAS 27/LKAS 28/SLFRS 03/SLFRS 10/SLFRS 11/SLFRS 12)
- Disclosures
- Applying professional judgement in Certain Accounting treatments

# Holistic View

## Equity Investments



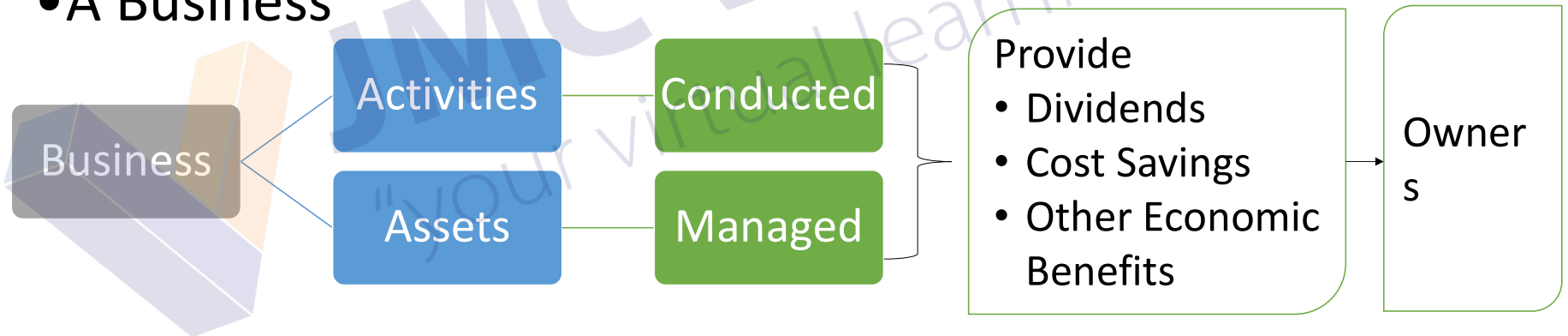
# Consolidation Theory



# Definitions

## Business Combination (Para 03 of SLRFS 03)

- Transaction
- Where a Parent
- Obtain Control of
- A Business





# Definitions

## Parent

- Entity Which
- Controls Subsidiary

## Subsidiary

- Entity Which is
- Under the Control of Parent

## Non-Controlling Interest

- Equity
- Not Attributable to Parent

## Acquisition Date

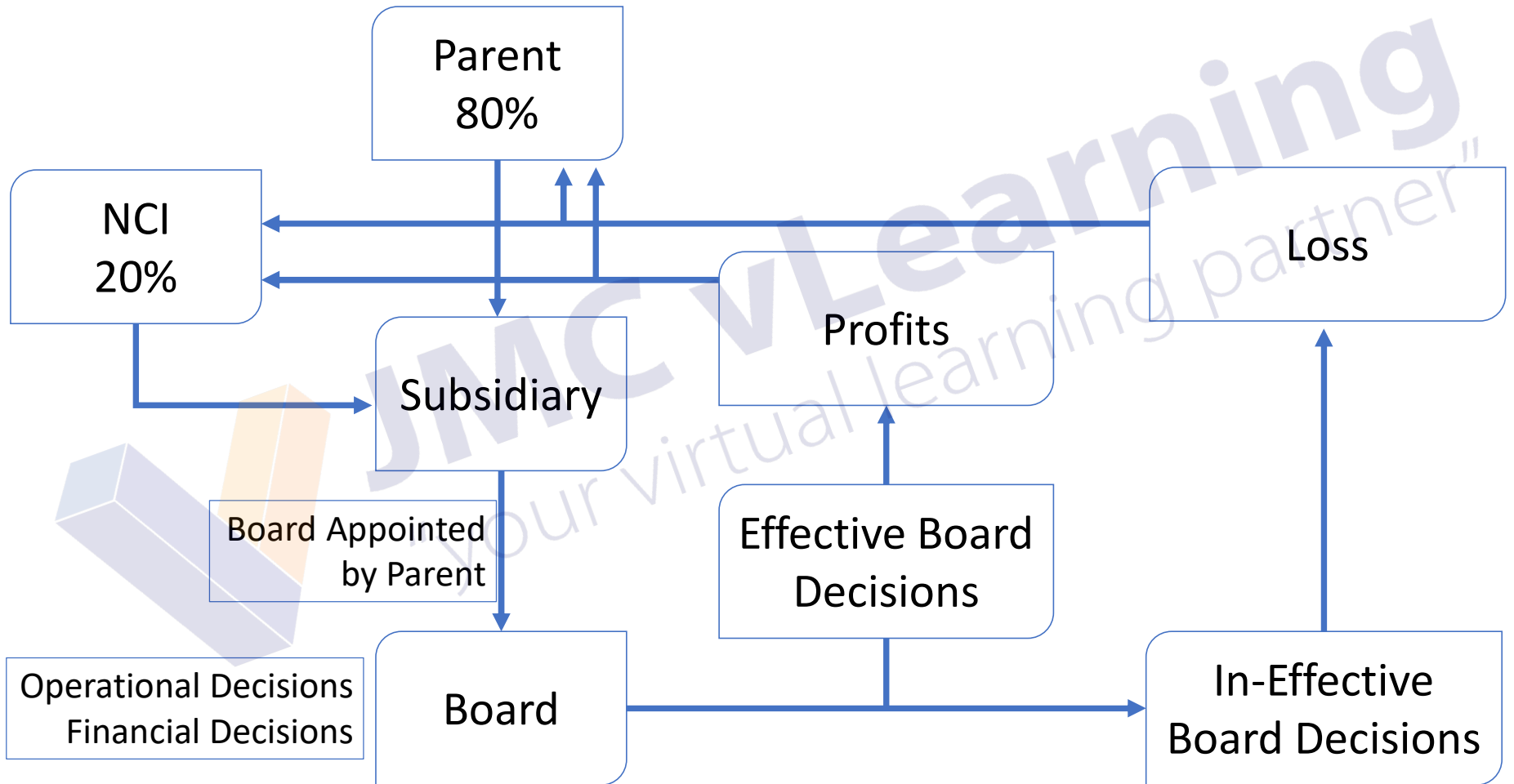
- Date on Which
- Control was Obtained
  - Consideration Transfer Day or
  - Agreement Day

# Definitions

## Control

- Parent Controls Subsidiary
- When Parent is exposed to, or has rights over variable returns
- From its involvement with the subsidiary and
- Has the ability to affect those returns through its power over the investee

# Control



# 03 Elements in Control

## Power

- Existing Right
- Gives Current Ability
- To Direct Relevant **Activities**
  - Operations
  - Finance

## Exposure to Variable Returns

- Profits
- Losses

## Link between Power and Return

- Effective Decisions Lead to Profits
- Ineffective Decisions Lead to Losses

# Protective Rights Does Not Give Power

## Protective Rights

- Rights Designed
- To Protect Interest of Party Holding the Right
- Does Not provide Power
- To Direct Relevant Activities

## Example

- Franchiser can Take Actions to Protect Brand
- Can't Direct Franchisee's Operations and Finance

# Methods of Acquiring Control

More than 50% Voting Ordinary Shares

De-Facto Control



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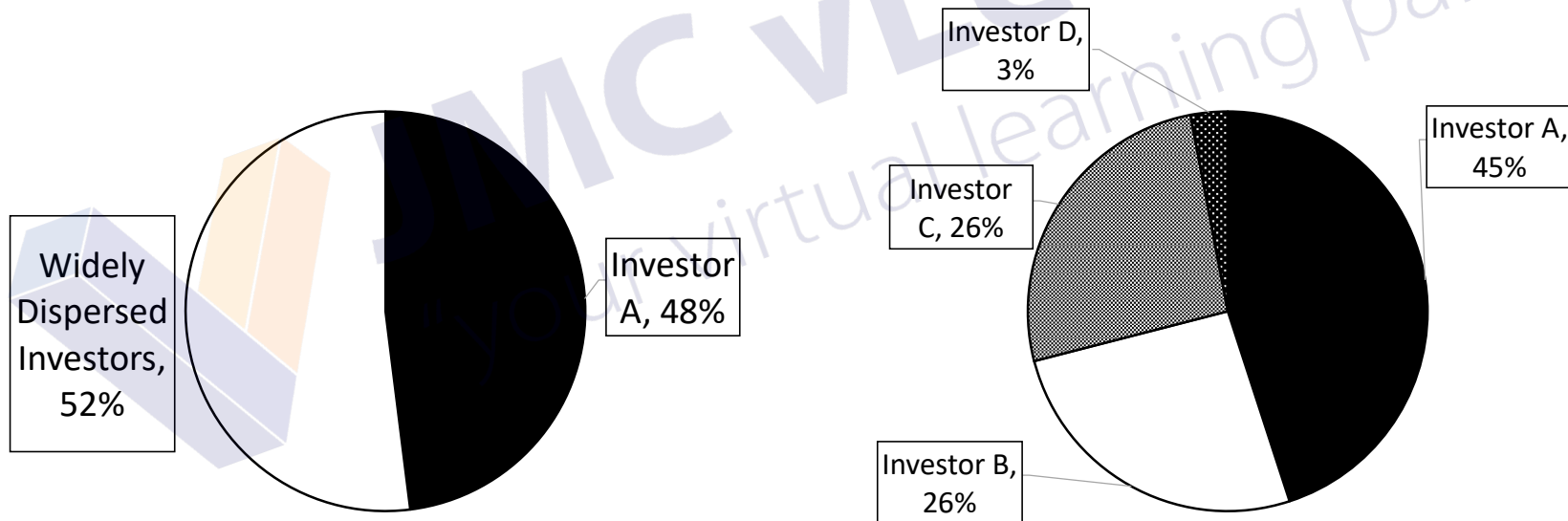
# De-Facto Control

Less than 50% Voting Ordinary Shares but Control is Obtained

- Agreement or Parliament Act
- Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders
- Voting Patterns
- Potential Voting Rights

# De-Facto Control

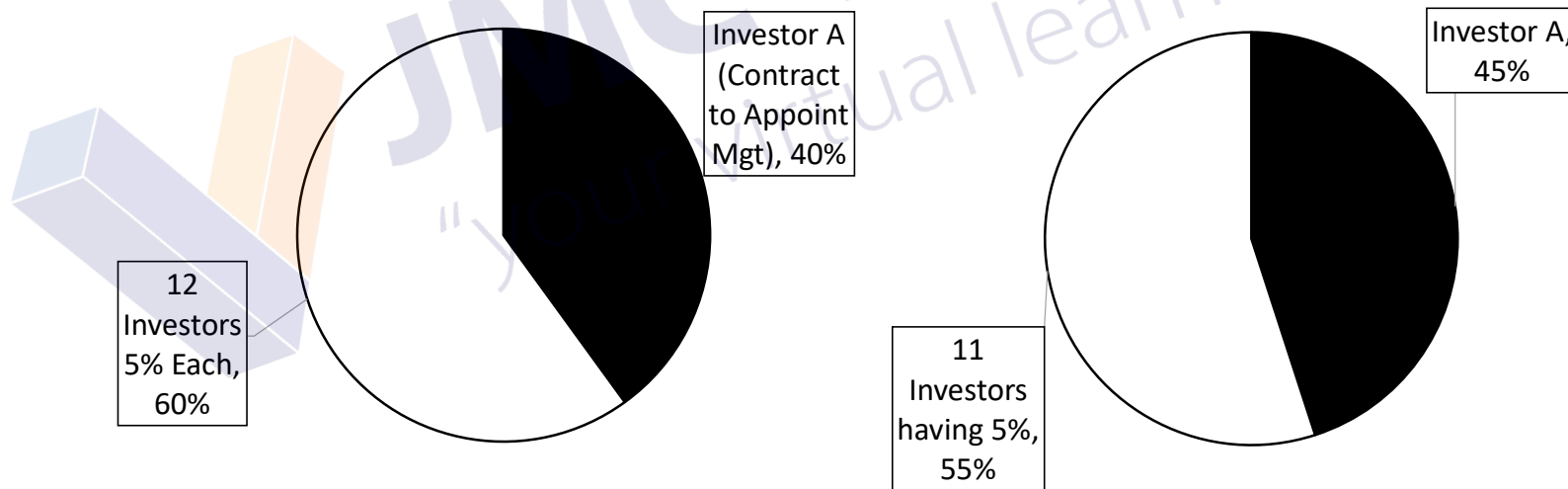
Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders





# De-Facto Control

Size of Voting Rights Compared to Size and Dispersion of Other Vote Holders



If Parent Controls a  
Subsidiary, Preparation of  
Consolidated Financials for  
Parent's Group is a Must!

# Exemptions for Preparing Consolidated Financials

**All of following criteria needs to be fulfilled**

- Owners agree for not preparing Consolidated Financials
- Absence of Quoted Debt or Equity Instruments
- Not in the Process of getting Listed
- Ultimate or Intermediate Parent prepares and publish Consolidated FS

# Investment Entities are exempted from consolidation

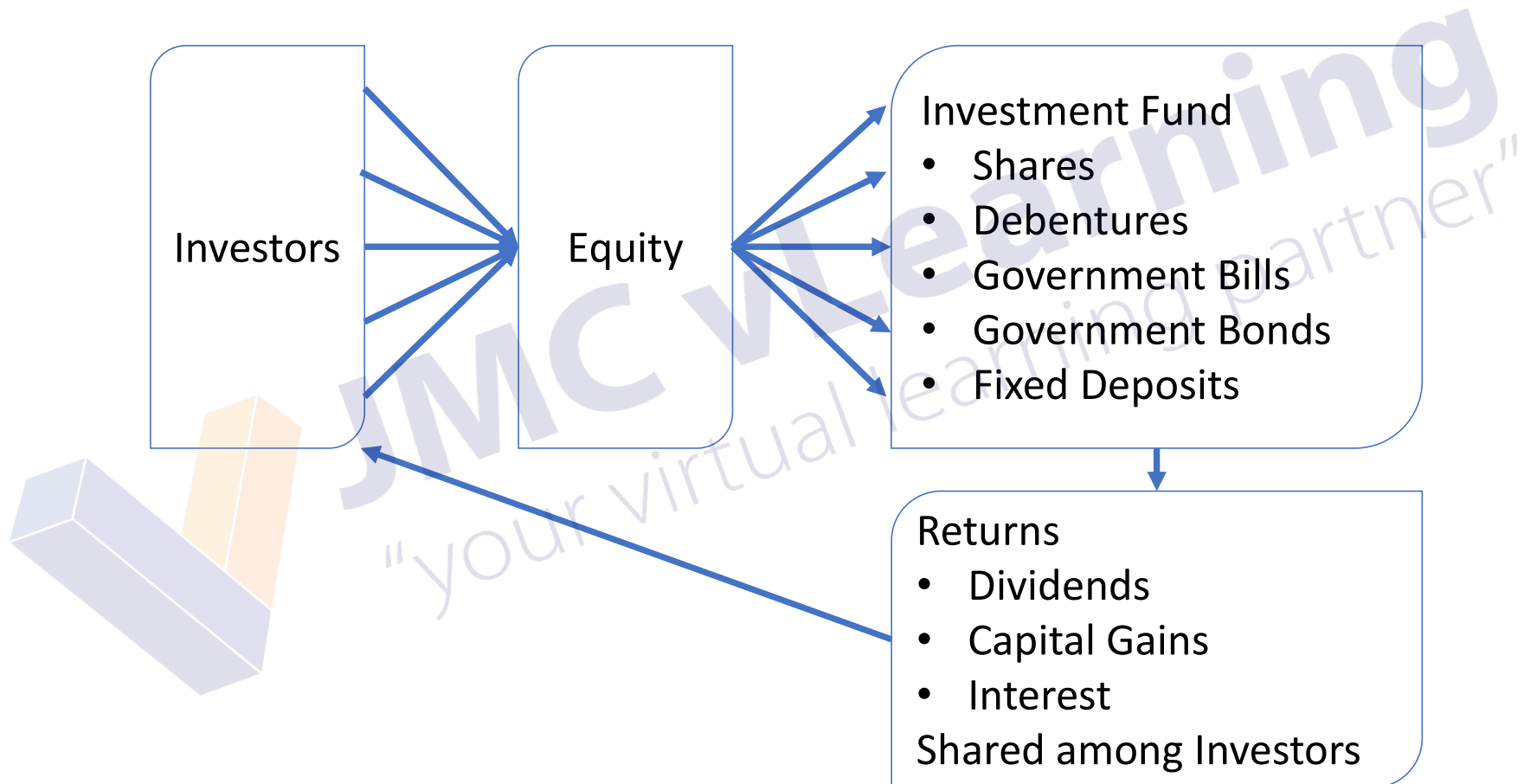
## What is an Investment Entity?

- Obtains funds from investors and manage
- Business purpose is to earn returns from capital appreciation, investment income, or both, and
- Measures and evaluates the performance of all of its investments on a fair value basis.

## Examples

- Investment Funds
- Mutual Funds
- Asset Management Companies
- Venture Capital Companies

# Investment Entity



# Accounting Treatment for Investment Entities

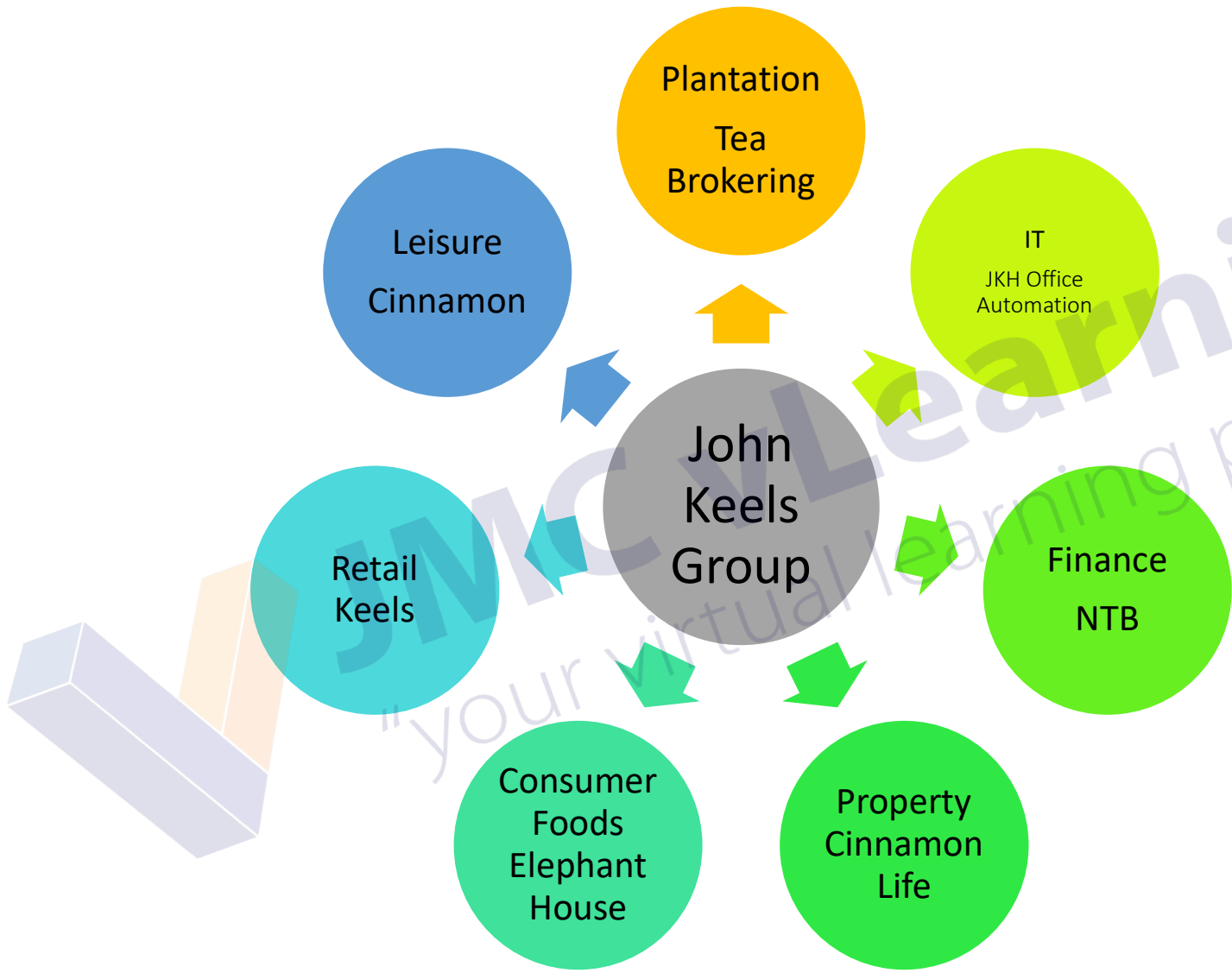
## Objective of Investments by Investment Entity

- Earn an Investment Income
- Not to Control
- Performance Depend on Fair Value of Investment Portfolio

SLFRS 09 – Fair Value through Profit or Loss Applied

# Do We Need to Consolidate All Subsidiaries in a Group?







Console All  
Subsidiaries

Including

Subsidiaries  
held for Sale

Subsidiaries  
Dissimilar in  
Nature



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# What if Subsidiary Year End is Different to Parent's Year End?



Year End Difference

Less than 03 Months

Ignore and Consolidate

Adjust Significant Transactions

More than 03 Months

Subsidiary Needs to Prepare

Separate Financials for Consolidation Purpose

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What if Subsidiary's Accounting Policies are Different with Parent's Accounting Policies?

## Uniform Accounting Policies shall be Applied

### If there's a Difference, Adjustments Made

- Hayley's group apply cost method for buildings.
- Subsidiaries with Revaluation model have to reverse the revaluation effect