

02 March, 2012

Dear Member

With the new SLFRS/LKAS and other related interpretations coming into effect from 1 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 1 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 1 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 defines 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 Standards 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 etc.) 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 managed 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 1 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 1 January 2012 ;

1. Prepare the interim financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), effective from 1 January 2012 ; Or
2. Prepare the interim financial statements in accordance with Sri Lanka Accounting Standards existed immediately prior to 1 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, an 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 1 January 2012, while presenting the comparative figures under the Sri Lanka Accounting Standards existed immediately prior to 1 January 2012 (SLASs).

However, entities 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 1 January 2012. (i.e. financial statements for the year ended 31 December 2012 or 31 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.

Yours faithfully  
THE INSTITUTE OF CHARTERED ACCOUNTANTS  
OF SRI LANKA

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