

Sri Lanka Accounting Standard–SLFRS 1

First-time Adoption of Sri Lanka Accounting Standards (SLFRSs)

SLFRS 1

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Sri Lanka Accounting Standard–SLFRS 1

First-time Adoption of Sri Lanka Accounting Standards (SLFRSs)

Sri Lanka Accounting Standard SLFRS 1 *First-time Adoption of Sri Lanka Accounting Standards (SLFRSs)* is set out in paragraphs 1–34 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the SLFRS. Definitions of other terms are given in the Glossary for Sri Lanka Accounting Standards. SLFRS 1 should be read in the context of its objective and the *Preface to Sri Lanka Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

- 1 The objective of this SLFRS is to ensure that an entity's *first SLFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with *Sri Lanka Accounting Standards (SLFRSs)*; and
 - (c) can be generated at a cost that does not exceed the benefits.

Scope

- 2 An entity shall apply this SLFRS in:
- (a) its first SLFRS financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with LKAS 34 *Interim Financial Reporting* for part of the period covered by its first SLFRS financial statements.

- 3 An entity's first SLFRS financial statements are the first annual financial statements in which the entity adopts SLFRSs, by an explicit and unreserved statement in those financial statements of compliance with SLFRSs. Financial statements in accordance with SLFRSs are an entity's first SLFRS financial statements if, for example, the entity:
- (a) presented its most recent previous financial statements:
 - (i) in accordance with national requirements that are not consistent with SLFRSs in all respects;
 - (ii) in conformity with SLFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with SLFRSs;
 - (iii) containing an explicit statement of compliance with some, but not all, SLFRSs;
 - (iv) in accordance with national requirements inconsistent with SLFRSs, using some individual SLFRSs to account for items for which national requirements did not exist; or
 - (v) in accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with SLFRSs;
 - (b) prepared financial statements in accordance with SLFRSs for internal use only, without making them available to the entity's owners or any other external users;
 - (c) prepared a reporting package in accordance with SLFRSs for consolidation purposes without preparing a complete set of financial statements as defined in LKAS 1 *Presentation of Financial Statements*; or
 - (d) did not present financial statements for previous periods.
- 4 This SLFRS applies when an entity first adopts SLFRSs. It does not apply when, for example, an entity:
- (a) stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with SLFRSs;

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- (b) presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with SLFRSs; or
 - (c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with SLFRSs, even if the auditors qualified their audit report on those financial statements.
- 5 This SLFRS does not apply to changes in accounting policies made by an entity that already applies SLFRSs. Such changes are the subject of:
- (a) requirements on changes in accounting policies in LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) specific transitional requirements in other SLFRSs.

Recognition and measurement

Opening SLFRS statement of financial position

- 6 An entity shall prepare and present an *opening SLFRS statement of financial position* at the *date of transition to SLFRSs*. This is the starting point for its accounting in accordance with SLFRSs.

Accounting policies

- 7 **An entity shall use the same accounting policies in its opening SLFRS statement of financial position and throughout all periods presented in its first SLFRS financial statements. Those accounting policies shall comply with each SLFRS effective at the end of its first SLFRS reporting period, except as specified in paragraphs 13–19 and Appendices B–E.**
- 8 An entity shall not apply different versions of SLFRSs that were effective at earlier dates. An entity may apply a new SLFRS that is not yet mandatory if that SLFRS permits early application.

Example: Consistent application of latest version of SLFRSs

Background

The end of entity A's first SLFRS reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to SLFRSs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements in accordance with its *previous GAAP* annually to 31 December each year up to, and including, 31 December 20X4.

Application of requirements

Entity A is required to apply the SLFRSs effective for periods ending on 31 December 20X5 in:

- (a) preparing and presenting its opening SLFRS statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new SLFRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that SLFRS in its first SLFRS financial statements.

- 9 The transitional provisions in other SLFRSs apply to changes in accounting policies made by an entity that already uses SLFRSs; they do not apply to a *first-time adopter's* transition to SLFRSs, except as specified in Appendices B–E.
- 10 Except as described in paragraphs 13–19 and Appendices B–E, an entity shall, in its opening SLFRS statement of financial position:
 - (a) recognise all assets and liabilities whose recognition is required by SLFRSs;

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- (b) not recognise items as assets or liabilities if SLFRSs do not permit such recognition;
 - (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with SLFRSs; and
 - (d) apply SLFRSs in measuring all recognised assets and liabilities.
- 11 The accounting policies that an entity uses in its opening SLFRS statement of financial position may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to SLFRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to SLFRSs.
- 12 This SLFRS establishes two categories of exceptions to the principle that an entity's opening SLFRS statement of financial position shall comply with each SLFRS:
- (a) Appendix B prohibits retrospective application of some aspects of other SLFRSs.
 - (b) Appendices C–E grant exemptions from some requirements of other SLFRSs.

Exceptions to the retrospective application of other SLFRSs

- 13 This SLFRS prohibits retrospective application of some aspects of other SLFRSs. These exceptions are set out in paragraphs 14–17 and Appendix B.

Estimates

- 14 **An entity's estimates in accordance with SLFRSs at the date of transition to SLFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**

- 15 An entity may receive information after the date of transition to SLFRSs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with LKAS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to SLFRSs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening SLFRS statement of position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4.
- 16 An entity may need to make estimates in accordance with SLFRSs at the date of transition to SLFRSs that were not required at that date under previous GAAP. To achieve consistency with LKAS 10, those estimates in accordance with SLFRSs shall reflect conditions that existed at the date of transition to SLFRSs. In particular, estimates at the date of transition to SLFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 17 Paragraphs 14–16 apply to the opening SLFRS statement of financial position. They also apply to a comparative period presented in an entity's first SLFRS financial statements, in which case the references to the date of transition to SLFRSs are replaced by references to the end of that comparative period.

Exemptions from other SLFRSs

- 18 An entity may elect to use one or more of the exemptions contained in Appendices C–E. An entity shall not apply these exemptions by analogy to other items.
- 19 Some exemptions in Appendices C–E refer to *fair value*. In determining fair values in accordance with this SLFRS, an entity shall apply the definition of fair value in Appendix A and any more specific guidance in other SLFRSs on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

Presentation and disclosure

- 20 This SLFRS does not provide exemptions from the presentation and disclosure requirements in other SLFRSs.

Comparative information

- 21 To comply with LKAS 1, an entity's first SLFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

Non-SLFRS comparative information and historical summaries

- 22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with SLFRSs. This SLFRS does not require such summaries to comply with the recognition and measurement requirements of SLFRSs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by LKAS 1. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
- (a) label the previous GAAP information prominently as not being prepared in accordance with SLFRSs; and
 - (b) disclose the nature of the main adjustments that would make it comply with SLFRSs. An entity need not quantify those adjustments.

Explanation of transition to SLFRSs

- 23 **An entity shall explain how the transition from previous GAAP to SLFRSs affected its reported financial position, financial performance and cash flows.**

Reconciliations

- 24 To comply with paragraph 23, an entity's first SLFRS financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with SLFRSs for both of the following dates:
 - (i) the date of transition to SLFRSs; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
 - (b) a reconciliation to its total comprehensive income in accordance with SLFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
 - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening SLFRS statement of financial position, the disclosures that LKAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to SLFRSs.
- 25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- 26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 27 LKAS 8 does not deal with changes in accounting policies that occur when an entity first adopts SLFRSs. Therefore, LKAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first SLFRS financial statements.

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- 28 If an entity did not present financial statements for previous periods, its first SLFRS financial statements shall disclose that fact.

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening SLFRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity's first SLFRS financial statements shall disclose, for each line item in the opening SLFRS statement of financial position:

- (a) the aggregate of those fair values; and
- (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

- 31 Similarly, if an entity uses a deemed cost in its opening SLFRS statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph D15), the entity's first SLFRS separate financial statements shall disclose:

- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
- (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
- (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with LKAS 34 for part of the period covered by its first SLFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of LKAS 34:
- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under SLFRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with SLFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
 - (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with LKAS 34 for part of the period covered by its first SLFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.
- 33 LKAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, LKAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

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Effective date

34 An entity shall apply this SLFRS if its first SLFRS financial statements are for a period beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies this SLFRS for an earlier period, it shall disclose that fact.

35 [Deleted]

36 [Deleted]

37 [Deleted]

38 [Deleted]

39 [Deleted]

Appendix A

Defined terms

This appendix is an integral part of the SLFRS.

date of transition to SLFRSs	The beginning of the earliest period for which an entity presents full comparative information under SLFRSs in its first SLFRS financial statements .
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
first SLFRS financial statements	The first annual financial statements in which an entity adopts Sri Lanka Accounting Standards (SLFRSs) , by an explicit and unreserved statement of compliance with SLFRSs.
first SLFRS reporting period	The latest reporting period covered by an entity's first SLFRS financial statements .
first-time adopter	An entity that presents its first SLFRS financial statements .
Sri Lanka Accounting Standards (SLFRSs)	Standards and Interpretations adopted by the Council. They comprise: <ul style="list-style-type: none"> (a) Sri Lanka Accounting Standards (SLFRSs); (b) Sri Lanka Accounting Standards (LKASs); and (c) Interpretations adopted by the Council of Institute of Chartered Accountants of Sri Lanka (IFRIC and SIC).
opening SLFRS statement of financial position	An entity's statement of financial position at the date of transition to SLFRSs .
previous GAAP	The basis of accounting that a first-time adopter used immediately before adopting SLFRSs.

Appendix B

Exceptions to the retrospective application of other SLFRSs

This appendix is an integral part of the SLFRS.

- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6), and
 - (c) non-controlling interests (paragraph B7).

Derecognition of financial assets and financial liabilities

- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in LKAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after 1 January 2012. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before 1 January 2012, it shall not recognise those assets and liabilities in accordance with SLFRSs (unless they qualify for recognition as a result of a later transaction or event).
- B3 Notwithstanding paragraph B2, an entity may apply the derecognition requirements in LKAS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply LKAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by LKAS 39, at the date of transition to SLFRSs, an entity shall:
- (a) measure all derivatives at fair value; and

- (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.
- B5 An entity shall not reflect in its opening SLFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with LKAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with SLFRSs, provided that it does so no later than the date of transition to SLFRSs.
- B6 If, before the date of transition to SLFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in LKAS 39 the entity shall apply paragraphs 91 and 101 of LKAS 39 to discontinue hedge accounting. Transactions entered into before the date of transition to SLFRSs shall not be retrospectively designated as hedges.

Non-controlling interests

- B7 A first-time adopter shall apply the following requirements of LKAS 27 prospectively from the date of transition to SLFRSs:
- (a) the requirement in paragraph 28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
 - (b) the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
 - (c) the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of SLFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply SLFRS 3 retrospectively to past business combinations, it shall also apply LKAS 27 in accordance with paragraph C1 of this SLFRS.

Appendix C

Exemptions for business combinations

This appendix is an integral part of the SLFRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to SLFRSs.

- C1 A first-time adopter may elect not to apply SLFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to SLFRSs). However, if a first-time adopter restates any business combination to comply with SLFRS 3, it shall restate all later business combinations and shall also apply LKAS 27 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to SLFRSs, and it shall also apply LKAS 27 from 30 June 20X6.
- C2 An entity need not apply LKAS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to SLFRSs. If the entity does not apply LKAS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.
- C3 An entity may apply LKAS 21 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to SLFRSs; or
 - (b) all business combinations that the entity elects to restate to comply with SLFRS 3, as permitted by paragraph C1 above.
- C4 If a first-time adopter does not apply SLFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:

- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.
- (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to SLFRSs that were acquired or assumed in a past business combination, other than:
 - (i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and
 - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with SLFRSs in the separate statement of financial position of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

- (c) The first-time adopter shall exclude from its opening SLFRS statement of financial position any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under SLFRSs. The first-time adopter shall account for the resulting change as follows:
 - (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with LKAS 38 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from equity in accordance with previous GAAP, see (g)(i) and (i) below).

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- (ii) the first-time adopter shall recognise all other resulting changes in retained earnings.*
- (d) SLFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening SLFRS statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.
- (e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with SLFRSs at that date. If SLFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening SLFRS statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that SLFRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as LKAS 17 *Leases* would require the acquiree to do in its SLFRS statement of financial position. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to SLFRSs, the acquirer shall recognise that contingent liability at that date unless LKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have

* Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

been recognised separately under SLFRS 3, that asset or liability remains in goodwill unless SLFRSs would require its recognition in the financial statements of the acquiree.

- (g) The carrying amount of goodwill in the opening SLFRS statement of financial position shall be its carrying amount in accordance with previous GAAP at the date of transition to SLFRSs, after the following two adjustments:
- (i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).
 - (ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply LKAS 36 in testing the goodwill for impairment at the date of transition to SLFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by LKAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to SLFRSs.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to SLFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:
- (i) to exclude in process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with LKAS 38 in the statement of financial position of the acquiree);
 - (ii) to adjust previous amortisation of goodwill;
 - (iii) to reverse adjustments to goodwill that SLFRS 3 would not permit, but were made in accordance with previous GAAP

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because of adjustments to assets and liabilities between the date of the business combination and the date of transition to SLFRSs.

- (i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity:
 - (i) it shall not recognise that goodwill in its opening SLFRS statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
 - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.
- (j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that SLFRSs would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to SLFRSs between:
 - (i) the parent's interest in those adjusted carrying amounts; and
 - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
- (k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

C5 The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Appendix D

Exemptions from other SLFRSs

This appendix is an integral part of the SLFRS.

D1 An entity may elect to use one or more of the following exemptions:

- (a) share-based payment transactions (paragraphs D2 and D3);
- (b) insurance contracts (paragraph D4);
- (c) fair value or revaluation as deemed cost (paragraphs D5–D8);
- (d) leases (paragraph D9);
- (e) employee benefits (paragraphs D10 and D11);
- (f) cumulative translation differences (paragraphs D12 and D13);
- (g) investments in subsidiaries, jointly controlled entities and associates (paragraphs D14 and D15);
- (h) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs D16 and D17);
- (i) compound financial instruments (paragraph D18);
- (j) designation of previously recognised financial instruments (paragraph D19);
- (k) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph D20);
- (l) decommissioning liabilities included in the cost of property, plant and equipment (paragraph D21);
- (m) financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements* (paragraph D22); and
- (n) borrowing costs (paragraph D23).

An entity shall not apply these exemptions by analogy to other items.

Share-based payment transactions

D2 [Deleted]

D3 [Deleted]

Insurance contracts

D4 A first-time adopter may apply the transitional provisions in SLFRS 4 *Insurance Contracts*. SLFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

Fair value or revaluation as deemed cost

D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to SLFRSs at its fair value and use that fair value as its deemed cost at that date.

D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to SLFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) fair value; or
- (b) cost or depreciated cost in accordance with SLFRSs, adjusted to reflect, for example, changes in a general or specific price index.

D7 The elections in paragraphs D5 and D6 are also available for:

- (a) investment property, if an entity elects to use the cost model in LKAS 40 *Investment Property* and
- (b) intangible assets that meet:
 - (i) the recognition criteria in LKAS 38 (including reliable measurement of original cost); and
 - (ii) the criteria in LKAS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

- D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatization or initial public offering. It may use such event-driven fair value measurements as deemed cost for SLFRSs at the date of that measurement.

Leases

- D9 A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to SLFRSs contains a lease on the basis of facts and circumstances existing at that date.

Employee benefits

- D10 In accordance with LKAS 19 *Employee Benefits*, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to SLFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to SLFRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.
- D11 An entity may disclose the amounts required by paragraph 120A(p) of LKAS 19 as the amounts are determined for each accounting period prospectively from the date of transition to SLFRSs.

Cumulative translation differences

- D12 LKAS 21 requires an entity:
- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
 - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if

SLFRS 1

applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to SLFRSs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to SLFRSs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to SLFRSs and shall include later translation differences.

Investments in subsidiaries, jointly controlled entities and associates

D14 When an entity prepares separate financial statements, LKAS 27 requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:

- (a) at cost or
- (b) in accordance with LKAS 39.

D15 If a first-time adopter measures such an investment at cost in accordance with paragraph D14, it shall measure that investment at one of the following amounts in its separate opening SLFRS statement of financial position:

- (a) cost determined in accordance with LKAS 27 or
- (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value (determined in accordance with LKAS 39) at the entity's date of transition to SLFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.

Assets and liabilities of subsidiaries, associates and joint ventures

- D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to SLFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
 - (b) the carrying amounts required by the rest of this SLFRS, based on the subsidiary's date of transition to SLFRSs. These carrying amounts could differ from those described in (a):
 - (i) when the exemptions in this SLFRS result in measurements that depend on the date of transition to SLFRSs.
 - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in LKAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

- D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Compound financial instruments

- D18 LKAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of LKAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this SLFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to SLFRSs.

Designation of previously recognised financial instruments

- D19 LKAS 39 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:
- (a) an entity is permitted to make an available-for-sale designation at the date of transition to SLFRSs.
 - (b) an entity is permitted to designate, at the date of transition to SLFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of LKAS 39 at that date.

Fair value measurement of financial assets or financial liabilities at initial recognition

- D20 [Deleted]

Decommissioning liabilities included in the cost of property, plant and equipment

- D21 IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost

of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to SLFRSs. If a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to SLFRSs in accordance with LKAS 37;
- (b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) calculate the accumulated depreciation on that amount, as at the date of transition to SLFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with SLFRSs.

Financial assets or intangible assets accounted for in accordance with IFRIC 12

D22 A first-time adopter may apply the transitional provisions in IFRIC 12.

Borrowing costs

D23 [Deleted]

Appendix E

Short-term exemptions from SLFRSs

This appendix is an integral part of the LKAS.

[Appendix reserved for future possible short-term exemptions].