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The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY

අංක 2123/69 - 2019 මැයි 16 වැනි බ්‍රහස්පතින්දා - 2019.05.16
No. 2123/69 - THURSDAY, MAY 16, 2019

(Published by Authority)

PART I : SECTION (I) — GENERAL

Government Notifications

SRI LANKA ACCOUNTING AND AUDITING STANDARDS ACT, No. 15 OF 1995

Publication under Section 4(2)

By virtue of the powers vested in the Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the "Institute"), the Institute has adopted the Amendments to LKAS 1 *Presentation of Financial Statements* and LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with effect from 01st January 2020, published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. This Amendments shall be effective for financial statements covering period commencing on or after the first day of January Two Thousand Twenty.

By Order of the Council,

PRASANNA LIYANAGE,
Secretary.

The Institute of Chartered Accountants of Sri Lanka,
No. 30A,
Malalasekera Mawatha,
Colombo 07,
16th May 2019.

PG 4754 (03/2020)
This Gazette Extraordinary can be downloaded from www.documents.gov.lk

Definition of Material

Amendments to LKAS 1 and LKAS 8

Amendments to LKAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended for an entity that has not adopted the 2018 *Amendments to References to the Conceptual Framework in SLFRSs*, and paragraph 139T is added. New text is underlined and deleted text is struck through.

Definitions

7 ...

***Material*:**

~~**Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**~~

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence ~~economic~~ decisions ~~of~~ made by the primary users of a specific reporting entity's general purpose financial statements~~, and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

~~The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

...

Effective date

...

139T *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 7 of LKAS 1 and paragraph 5 of LKAS 8, and deleted paragraph 6 of LKAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Paragraph 7 is amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in SLFRSs*, and paragraph 139T is added. New text is underlined and deleted text is struck through.

Definitions

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Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

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Effective date

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139T *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 7 of LKAS 1 and paragraph 5 of LKAS 8, and deleted paragraph 6 of LKAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The Council is issuing two versions of its amendments to the definition of material in LKAS 8 to allow early adoption of this amendment independent of the adoption of the Amendments to References to the Conceptual Framework in SLFRSs.

Paragraph 5 is amended for an entity that <u>has not adopted</u> the 2018 *Amendments to References to the Conceptual Framework in SLFRSs*. Paragraph 6 is deleted and paragraph 54H is added. New text is underlined and deleted text is struck through.

Definitions

5 ...

Material **~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~<u>is defined in paragraph 7 of LKAS 1 and is used in this Standard with the same meaning.</u>**

...

6 ~~Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~ <u>[Deleted]</u>

...

Effective date

...

<u>54H</u> <u>*Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 7 of LKAS 1 and paragraph 5 of LKAS 8, and deleted paragraph 6 of LKAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.</u>

Paragraph 5 is amended for an entity that has adopted the 2018 *Amendments to References to the Conceptual Framework in SLFRSs*. Paragraph 6 is deleted and paragraph 54H is added. New text is underlined and deleted text is struck through.

Definitions

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Material **~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~is defined in paragraph 7 of LKAS 1 and is used in this Standard with the same meaning.**

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6 ~~Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~ [Deleted]

...

Effective date

...

54H *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 7 of LKAS 1 and paragraph 5 of LKAS 8, and deleted paragraph 6 of LKAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to other Sri Lanka Accounting Standards

Amendments to the 2011 *Conceptual Framework for Financial Reporting*

The following amendments are a consequence of the amendments to the definition of material in LKAS 1 and LKAS 8. These amendments are applied prospectively at the same time an entity applies the amendments to the definition of material in LKAS 1 and LKAS 8.

Paragraph QC11 is amended. New text is underlined and deleted text is struck through.

Materiality

QC11 Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph OB5) make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Amendments to the 2018 *Conceptual Framework for Financial Reporting*

The following amendments are a consequence of the amendments to the definition of material in LKAS 1 and LKAS 8. These amendments are applied prospectively at the same time an entity applies the amendments to the definition of material in LKAS 1 and LKAS 8.

Paragraph 2.11 is amended. New text is underlined and deleted text is struck through.

Materiality

2.11 Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Amendments to LKAS 10 *Events after the Reporting Period*

Paragraph 21 is amended and paragraph 23C is added. New text is underlined and deleted text is struck through.

Non-adjusting events after the reporting period

21 **If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence ~~the economic~~ decisions that the primary users of general purpose financial statements make on the basis of ~~the~~ those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:**

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

...

Effective date

...

23C *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 21. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of LKAS 1 and paragraphs 5 and 6 of LKAS 8.

Amendments to LKAS 34 *Interim Financial Reporting*

Paragraph 24 is amended and paragraph 58 is added. New text is underlined and deleted text is struck through.

Materiality

...

24 LKAS 1 ~~and LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as~~ defines material ~~if its omission or misstatement could influence the economic decisions of users of the financial statements. LKAS 1~~ information and requires separate disclosure of material items, including (for example) discontinued operations, and LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

....

Effective date

...

58 *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 24. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of LKAS 1 and paragraphs 5 and 6 of LKAS 8.

Amendments to LKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 75 is amended and paragraph 104 is added. New text is underlined and deleted text is struck through.

Restructuring

...

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under LKAS 10 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could reasonably be expected to influence ~~the economic~~ decisions that the primary users of general purpose financial statements make on the basis of ~~the~~ those financial statements, which provide financial information about a specific reporting entity.

...

Effective date

...

104 *Definition of Material* (Amendments to LKAS 1 and LKAS 8), issued in November 2018, amended paragraph 75. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of LKAS 1 and paragraphs 5 and 6 of LKAS 8.