

## **Reinstatement of Fully Depreciated Assets in the Statement of Financial Position**

If an entity uses, for the purpose of deriving economic benefits, fully depreciated assets, then the entity shall bring such assets back on its statement of financial position.

Where the cost and date of acquisition of such assets are known, an entity shall estimate the remaining useful life of such assets and shall reinstate the cost and accumulated depreciation at amounts which would have been reflected in the balance sheet on the date of reinstatement had the entity measured depreciation from date of acquisition of the assets based on the total useful life including the estimated remaining useful life.

Please refer illustration 1

However, if it is impracticable to identify the cost or the date of acquisition of such assets an entity shall, in accordance with SLFRS 1, revalue the asset and consider such value as the deemed cost of the assets at the date of reinstatement and reinstate such value in the statement of financial position and depreciate over the remaining useful life.

### **Illustration 1**

XY PLC acquired a plant on 1<sup>st</sup> April 2000 for Rs 3 Mn and estimated its useful life to be 10 years with no residual value. The plant was in use even by 1<sup>st</sup> April 2012 and the Engineers were of the view that the plant can be used till 31<sup>st</sup> March 2015. XY PLC depreciates all its PPE on straight line basis.

The asset must have been fully depreciated by 31<sup>st</sup> March 2010 and still used in 2010/11 and 2011/12 without charging any depreciation. If the plant can now be used till 31<sup>st</sup> March 2015, then the total useful life of the plant from the beginning should have been 15 years. Accordingly depreciation per year should have been Rs 200,000 instead of Rs 300,000 charged from 1<sup>st</sup> April 2000 to 31<sup>st</sup> March 2010. Accordingly the following amounts can be derived.

As at 1<sup>st</sup> April 2012:

Cost of the plant	Rs 3,000,000
Accumulated Depreciation	Rs 3,000,000
Accumulated Depreciation should have been	Rs 2,400,000

XY PLC may reinstate the plant value as at 1<sup>st</sup> April 2012 as follows

Accumulated Depreciation A/C	Dr	Rs 600,000
Retained Earnings	Cr	Rs 600,000

## **Presentation of Redeemable Preference Shares**

The preparers of financial statements face an issue as to how redeemable preference shares should be presented in the Statement of Financial Position because.

- ❖ Redeemable preference shares form part of the Stated Capital and stated capital with its components should be disclosed in the financial statements according to the Companies Act No. 7 of 2007 of Sri Lanka
- ❖ Redeemable preference shares shall be treated as part of borrowings according to IFRS based Sri Lanka Accounting Standards

Accordingly the Task Force recommends that the redeemable preference shares be presented in the note with reference to equity in the statement of financial position as follows:

### Notes to the Accounts – Equity

Ordinary share capital (different classes to be identified in separate lines)	xxxx
Non distributable reserves (share premium, CRRF)	xxxx
Redeemable preference shares	<u>xxxx</u>
Stated Capital	xxxx
Less Redeemable Preference shares (reclassified as borrowings see note yy)	<u>(xxxx)</u>
Add other reserves	<u>xxxx</u>
Total Equity	<u><u>xxxx</u></u>

Further redeemable preference shares should not be included in the statement of changes of equity