

## Reinstatement of Fully Depreciated Assets

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### Introduction

XYZ Bank is firmly established as a Sri Lanka's premier financial services organization. Today the Bank's portfolio of products and services is diverse and comprehensive, to facilitate commercial banking, personal banking, development financing etc. The XYZ Bank now leads in the local banking industry as the biggest in terms of profit, assets, deposits, advances and foreign currency remittance. Most of entities face many issues and questions during the process of accounting for items of property plant and equipment, including determining an asset's useful life and which depreciation method to employ. With this context, an attempt is made here to examine the accounting treatment with reference to the fully depreciated assets which are still in use in XYZ Bank.

### Discussion of the Issue

The Paragraph 07 of LKAS 16 states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity
- The cost of the item can be measured reliably.

According to the XYZ bank depreciation policy, Depreciation is recognized in Income Statement on a straight line basis over the estimated useful lives of each part of an item of PPE. During the audit it was noted that fully depreciated assets are appearing in the financial statements and they are still in use. If those are still in use, which means they can generate future economic benefit for the XYZ bank and cost can be measured reliably.

#### 32.6 Fully depreciated property, plant and equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as are as follows

As at 31 December	Bank	
	2014 LKR '000	2013 LKR '000
Motor vehicles	547,205	389,929
Computer equipments	2,847,124	2,783,091
Equipment, furniture and fittings	840,822	687,665
Buildings on leasehold lands	139,578	106,721
Plant and machinery	789,087	657,064
	<b>5,163,816</b>	<b>4,624,470</b>

The reporting of a fully depreciated asset will be in two places in the financial position:

- *Cost* : The full acquisition cost of the asset will be listed in the fixed assets line item, within the assets section of the financial position.
- *Depreciation* : The full amount of accumulated depreciation will be listed in the accumulated depreciation contra cost of assets.

As a result, the combination of these assets' costs minus their accumulated depreciation is likely being a net amount of zero.

### **Implication of the Issue**

The absence of any further depreciation expense subsequent to the completion of depreciation for an asset will reduce the amount of depreciation expense reported in the income statement, so that profits will increase by the amount of the depreciation reduction and understate the assets in financial position.

### **Conclusion and Recommendation**

The paragraph 67 of LKAS 16 Property Plant and Equipment states that an asset should be removed from the statement of Financial Position on disposal, or when it is withdrawn from use and no future economic benefits are expected from its use. But In the above scenario those assets are still in use and they can generate future economic benefits to the XYZ Bank. LKAS -16 Property plant and equipment standard is not recommended any treatment for above discussed issue, especially on reinstatement of fully depreciated asset. However the Institute of chartered Accountants of Sri Lanka issued a guideline for the above scenario.

#### *Guideline*

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 considering the following steps.

1. Revalue the fully depreciated asset as the first option of reinstatement 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.
2. If an entity is not willing or unable to revalue the asset 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 and adjust the difference under equity.