

## Classification of Non-Current Asset as Held for Sale

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### Introduction

XYZ (Pvt) Ltd is a subsidiary of ABC (Pvt) Ltd which is the main agent of A&B PLC. The company has been acted as an agent for selling Easy Cash, Reloads and Dongles of A&B PLC. The head office is located in Colombo 03 and there are 44 outlets in Sri Lanka. The company has a building which was occupied as the main outlet and store which is located in Colombo 04. Later it was unoccupied and management has decided to sell that unoccupied land and building.

But the company has recognized in the statement of financial position as a Non-Current Asset. The asset had been depreciated and depreciation has been charged to Income Statement as well.

### Discussion of the Issue

As per the SLFRS 05 – “Non-Current Assets Held for Sale & Discontinued Operations” to classified under asset Held for Sale, its carrying value should be recoverable principally through the sale transaction rather than its continuing use.

According to the SLFRS 05, the asset must be available for immediate sale in its present condition, Management has planned to sell the asset, an active programme to locate a buyer and complete the plan must have been initiated. Sale should be expected to complete within one year from the date of classification. If those criteria have been satisfied, at that point the non-current asset can be identified as non-current asset held for sale. A non-Current Asset which is classified as Held for Sale cannot be depreciated from the date of the classification is made.

The management of XYZ Pvt Ltd has decided to sell the land and building which is located unoccupied warehouse and they have taken necessary steps such as published advertisement to search a buyer and board resolution also has been passed. Therefore above mentioned land and building should be classified as Non-Current Asset Held for Sale. Accordingly, land and building should be recorded separately under current assets in Statement of Financial Position and classified that land and building as held for sale, it should not be depreciated.

### Implication of the Issue

<b>Line Items</b>	<b>Implication on financial statements due to the current practice of the company</b>
Non-Current Assets	Non-Current Assets have been overstated

Current Asset	Current Assets have been understated
Depreciation	The company has charged depreciation on the building after the held for sale classification also. Due that reason profit has been understated.

### **Conclusion and Recommendation**

When analyze all the relevant information regarding above scenario, the company should measure the Land and Building as held for sale at lower of its Carrying Value or Fair Value less cost to sell and it should be recorded under current asset in statement of financial position. And also depreciation should be ceased from the classification onwards.