

Effect of misrecognition of assets

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Introduction

Agma Company is a construction company, undertaking constructions of Roads, Bridges & Buildings all over the country. This is concerned with their recognition and maintaining of accounting records of Property Plant & Equipment (PPE) at their Projects. Agma Company maintains their accounting records regarding PPE as per the LKAS 16 (Property Plant and Equipment). Further they handle centralized accounting system in the head office of Company.

Discussion of the Issue

Due to wide spread of projects all over the country, it becomes difficult to monitor the transactions regarding PPE and capitalize them. As an example, the Project Managers sometimes purchase assets (Machineries & Furniture) using their site petty cash. Thus they may not record correctly in the Assets Register Maintained at the Head office. Likewise it affected to the Financial Position as well as the depreciation expense of the company's books.

Because of this incorrect recognition of assets, the company accounts has been showed a lower value of depreciation expense. This situation over estimated the profit of the company. Also the PPE figure shown in the statement of financial position was under estimated. Accordingly, the cost of the site was also shown an incorrect figure. Finally, it

affected adversely on the working capital shown in the company's accounts.

If we consider another side of this issue, the company facilitated the Regional Officer (RE) and other government representatives with some assets for their use at site offices. But those assets have not been returned as the project was over. This also affected a loss to the company.

Conclusions and Recommendations

- According to this analysis, company should consider more about the adjustments of fixed assets.
- Company should establish a policy in purchasing assets. It will be more appropriate to purchase assets through head office.
- Also the sites should maintain an assets register and that must be cross-checked with the head office assets register.
- The depreciation regarding the assets of the sites should also be identified in the accounts.
- After the end of the project, company should have a policy to return back the assets used and revalue them. Then these assets can be transferred to a new site.