Are Small & medium enterprises allowed to revaluation?

U.H.N.Dilhara & R.M.S.Bandara
uhndilhara@yahoo.com & samanb@kln.ac.lk

Introduction

Dill & Sons Company does not have public interest and publish general purpose Financial Statements for external users. Hence the company is categorized under Small Medium Enterprise. The client has performed revaluation at the beginning of the 2012/2013 accounting period. According to that, the company identified revalued amount as their opening balance of property plant and Equipment.

Discussion of the Issue

Company categorizing under Small &Medium Enterprise, they cannot perform revaluation after the transition date based on Sec 35.10 (d) of Sri Lanka Financial Reporting Standard for Small and Medium sized Entities.

According to Sec 10 Accounting policies, Estimates and Errors, Accounting policies are the specific principles, bases, Conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The above revaluation is an accounting policy change relates due to requirement of SLFRS adoption.

Further the Client has changed useful lives of the assets while their revaluation and indicate as Accounting estimate change based on section 10.15 in SLFRS for SME.

Conclusions and Recommendations

The client has violated Section 35.10 (d) of SLFRS for SME. According to that we cannot obtain reasonable assurance of

accuracy, Completeness, existence of property, plant and equipment because the client has performed revaluation to impossible date and identified revalue amounts as their opening balances of 2012/2013 accounting period. Therefore, it was not accurate and non- applicable to Sec 35.10 (d).
Hence it is recommended to backdate the revaluation as at transition date. (Transition date on 01.04.2011)
As a result of changing accounting policy, retained earnings forthe first time adoption year was understated, due to non-adjusting revaluation on the transition date.
As per Section 35.8 of SLFRS for SME, it is recommended to adjust retrospectively directly to retained earnings (or, if appropriate, another category of Equity) on the date of transition.
According to useful life changes, the company has to charge additional depreciation to Comprehensive income Statement for the first time adoption year (2011/2012). Therefore, it should be adjusted prospectively. Then additional depreciation should be charged to 2011/12 statement of Comprehensive income and then adjust to retained earnings on 2011/2012 accounting period.