

## **Recognition of pawned gold articles in financial statements**

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### **Introduction**

The issue was identified during the analysis of gaps between LKASs/SLFRSs and SLASs in the year of transition to the new accounting standards. The gaps were identified between the requirement and the current practice and recommendations were also provided.

Company X is operating in the Finance Industry. The major business activities are taking deposits, granting loans, pawning etc.

### **Discussion of the Issue**

The inventory includes an item called Finished Gold Jewelry; the gold bars made out of melted gold. The Company X has melted the pawned gold articles which were not been redeemed by the owners on time.

The unredeemed pawned articles are recognized as inventory after 13 months from the date of pawning. Once the redeemable period is over, the articles with good condition are sold in the company premises and other articles are melted and made gold bars.

The interest on advance granted on unredeemed pawned articles is recognized in inventory as Removed Stock Accrued.

**Requirement –**

- *An asset is a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity.*

**-Accounting Framework-**

- *26. (1) every pledge which is not redeemed within the period of redemption may be disposed of by sale by public auction but shall not be disposed of otherwise, and the regulations in the fourth Schedule shall be observed with reference to the sale.*

**-Pawning Ordinance; Chapter 99-****Conclusion and Recommendations**

The company has not been complied with the legal requirements related to the gold industry. Further, the company can consider the articles as their assets once they are put to auction sale and remained unsold only.  
Recommendations;

- a) The Finished Gold Inventory (asset) should be transferred back to loans and advances and ;
- b) The interest accrued on removed Stock accrued should be transferred back to interest on advance under loans and advances.