

## **Reinstatement of Fully Depreciated Assets in the Statement of Financial Position**

### **Scope**

This guideline will be applicable only in the following circumstances.

- for the entities which have not taken the steps to adjust the values of the fully depreciated assets by applying IFRS 01( First Time Adoption) and
- for critical and main revenue generating fully depreciated assets which are in use and
- for the period up to 31/03/2016.

*Any subsequent reinstatement of fully depreciated assets ( i.e after the first time adoption) will be accounted in accordance with LKAS 8,Accounting Policies, Changes in Accounting Estimates and Errors.*

### **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.

Please refer illustration 1

### **Illustration 1**

XY PLC acquired a plant on 1<sup>st</sup> April 2000 for Rs 3 Mn and estimated its useful life to be 10 years with no residual value. The plant was in use even by 1<sup>st</sup> April 2012 and the Engineers were of the view that the plant can be used till 31<sup>st</sup> March 2015. XY PLC depreciates all its PPE on straight line basis.

The asset must have been fully depreciated by 31<sup>st</sup> March 2010 and still used in 2010/11 and 2011/12 without charging any depreciation. If the plant can now be used till 31<sup>st</sup> March 2015, then the total useful life of the plant from the beginning should have been 15 years. Accordingly depreciation per year should have been Rs 200,000 instead of Rs 300,000 charged from 1<sup>st</sup> April 2000 to 31<sup>st</sup> March 2010. Accordingly the following amounts can be derived.

As at 1<sup>st</sup> April 2012:

Cost of the plant	Rs 3,000,000
Accumulated Depreciation	Rs 3,000,000
Accumulated Depreciation should have been	Rs 2,400,000

XY PLC may reinstate the plant value as at 1<sup>st</sup> April 2012 as follows

Accumulated Depreciation A/C	Dr	Rs 600,000
Retained Earnings	Cr	Rs 600,000