

# **Recognition of the Power Plant as a Non-Current Assets Held for Sale**

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## **Introduction:**

XYZ (Pvt) Ltd is Sri Lanka's first privately owned fabric intensive free trade zone. It is the leader in industrial multi facility connectivity empowering the apparel and fabric manufacturing industry, the best supply chain solution in sustainable industrial eco system. This company provides different types of shared services to other apparel companies as well inside the park and we can categorize these shared services according to five types such as power, water, biological chemical effluent treatment, accommodation and supply chain.

This factory was operated earlier by Kaloon Lanka (Pvt) Ltd which was a Korean based company. However in 2006 XYZ (Pvt) Ltd acquired this premises and continue the operations under a 99 years lease agreement with the Board of Investment (BOI). Once they acquired the company, there were different types of assets which were recognized in their new SOFP. These assets are related to the non-current assets, capital working progress and current assets. However if a company does have any intention to sell an asset a set of criteria should be fulfilled according to SLFRS 5-Assets held for sale [Paragraph 2] standard, there after we have to classify that asset as Assets held for sale.

## **Discussion of the Issue**

At the time XYZ (Pvt) Ltd acquired the company; 11.2MV diesel power plant was situated within the premises. However company didn't have any intention to use this power plant and tried out different options to sell or transfer the ownership of this plant to a local or an international buyer.

These are the set of options XYZ (Pvt) Ltd has been deliberately trying out to sell this machine.

- The ministry of power and energy decided to refurbish the power plant and enter into a power purchase agreement ("PPA") with the company. But that plan didn't work out.
- Company tried to refurbish the power plant and to generate power or to run it as a backup in an emergency (alternative).
- In 2011 the company approached Ceylon Electricity Board in order to enter into a power purchase agreement with the CEB. Initially the CEB was in-favor of the company's proposal, But after some economic effects (increase in prices of furnace oil), the CEB decided not to engage in the purchase of power for the national grid which is generated by thermal generators. So they couldn't finalize to sell this power plant.

- XYZ (Pvt) Ltd decided to sub lease the generator to a third party. In this situation company tried to engage with CEB in Jaffna. But due to the higher cost of the plant it did not succeed.

However at the end of the 2014, the Board of directors of the company decided to sell the power plant to a local or an international buyer. From the beginning, the machine was classified as a **capital working progress under Non-Current Assets**. But once the machine was decided to sell or to transfer, we have to transfer it to **Assets held for Sale** as per the standard.

According to SLFRS 5 if a non-current asset fulfilling set of criteria's, the company should have to classify it as "Assets held for Sale". This classification is not an accounting policy choice, it is mandatory when certain conditions are applied, namely if the asset in question is available for immediate sale and sale is highly probable.

The term "available for immediate sale" emphasizes that the sale should take place without any delays and that for a sale to be highly probable at the reporting date the entity must have a plan to sell. In SLFRS 5 there are five conditions to be complied with a highly probable sale.

- The appropriate level of management is committed to the selling plan.
  - ✓ Board of directors of XYZ (Pvt) is highly committed to sell this power plant.
- The asset(s) are being actively marketed.
  - ✓ The company has channeled its advertising campaigns regarding this power plant through newspapers and internet.
- The assets are on the market at a price that is reasonable in relation to their estimated current fair values.
  - ✓ The company is going to sell this power plant for a value of USD 1Million.
- The completion of the sales transaction is expected within one year from the initial date of classification.
- Either significant changes or a withdrawal from the selling plan is unlikely.

The power plant which is related to the issue satisfies two major requirements such as available for immediate sale and sale is highly probable stated in "Assets held for Sale" and fulfills all the sub categories too. Therefore we need to adjust it according to proper requirements mentioned in the standards.

### **Implication of the Issue**

According to the current practice followed by the company, they have calculated the depreciation annually. So this has led to reduce the profits of the company and show inaccurate information in the final financial statements. Not only that the values of the non-current assets have been also increased due to this wrong classification, mislead the stakeholders of the company.

## Conclusion and Recommendation

The power plant which belongs to the XYZ (Pvt) Ltd should be classified as Assets held for Sale and should not mention under the category of capital working progress. If the entity meets the held for sale classification criteria, it should be **measured at the lower of their carrying amounts** (which are not depreciated or amortized) or **their fair value less cost of sale**. So once we identify this power plant as assets held for sale we should do the following adjustments to the accounts according to our opinion.

- Identify the power plant at the lower of their carrying value and fair value less cost of sale.
- Transfer the assets from capital working progress to the assets held for sale category.

**Once we will adjust the classification error according to the standard we should disclose it like this.**

Statement of Financial Position	
<b>Non-Current Assets</b>	
<b>Current Assets</b>	
<b>Assets Held for Sale</b>	400000USD

- Stop calculating depreciation for the power plant after recognizing it as assets held for sale.
- This non-current asset should be classified as held for sale separately from other assets in the statement of financial position.

So we need to classify this power plant according to the 'assets held for sale' standard and prepare financial statements accordingly which is in compliance with Sri Lanka Accounting Standards to provide effective and reliable information to the users of financial information to make optimal economic decisions.