

## **Error Classification of elements included in statement of Financial Position**

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### **Introduction**

STAR Development (Pvt) Ltd is a Small & Medium enterprise. It has two subsidiaries and main business activity of this company is lease out their property under operating lease, and main income of company is rental income. STAR Development (Pvt) Ltd has classified their property (Land and building) as property plant and equipment in financial statements.

### **Discussion of the issue**

As per Section 16.2 of SLFRS for SME (extract from LKAS 40) investment property can be defined as follows. Investment property is property (Land or building or part of building or both) held by the owner or held by the lessee under finance lease to earn rentals or for capital appreciation or both, rather than

- a) Use in the production or supply of goods or services or for administrative purposes.
- b) Sales in the ordinary course of business.

When preparing financial statement, they have violated following accounting Disclosure concept and Materiality concept.

Further, there are no qualitative characteristics of information in financial statement because the company has not been done faithful representation of elements in financial statement. Therefore, the company should classify their property as investment property in statement of financial position.

Further; as per Section 10.19 (extract from LKAS 8) accounting errors are omissions from, and misstatements in, the entity's

financial statements for one or more prior periods arising from a failure to use or misuse of reliable information that:

- a) Was available when financial statements for those periods were authorized for issue; and
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Further, according to above definition, Investment property classification as property plant and equipment can be identified as prior year accounting error.

### **Conclusions and Recommendations**

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decision.

Therefore as per section 16 of SLFRSs for SMEs, the company should recognize, present and disclose their property as investment Property in financial statements, and they should prepare financial statement by referring relevant accounting standards.

Further the company should disclose the following about prior period error.

- a) The nature of the prior period error
- b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
- c) To the extent practicable, the amount of the correction at the beginning of the earliest prior presented.