

**Aufgabe QR-7.19: Wertaufholung und Realisation Account**

(Reversal Impairment Loss and Realization Account)

SUNNINGDALE Ltd. is in the food retail business. For the delivery of the goods SUNNINGDALE uses a delivery van. They bought recently a new one (1.05.20X3) for 24,000.00 EUR net of VAT (Consider the gross price to be paid). SUNNINGDALE intends to use the van for 5 years and agreed in a finance leasing contract. The annual lease rate is 5,600.00 EUR and rate of interest is 7.6%. At 4.01.20X4 SUNNINGDALE's van gets involved in a car crash and the bookkeeper makes a bookkeeping entry for an impairment loss 12,000.00 EUR. On 2.02.20X4 the car is repaired for 6,500.00 EUR (net amount) and a qualified value estimates the value of the car after repair (5.02.20X4) to be 10,000.00 EUR. SUNNINGDALE sells the car on 1.05.20X4 for 10,500.00 EUR (net amount). Use straight line method for depreciation and consider the residual value to be 3,900.00 EUR.

**Required: Make all bookkeeping entries for the van in 20X3 and 20X4. Use the realization account for the sale of the car and for the calculation of the gain/loss on disposal.**

**Lösung: (Solution)**

(1) Acquisition of the car:

<b>DR P, P, E</b> .....	<b>24,000.00 EUR</b>
<b>DR VAT</b> .....	<b>4,800.00 EUR</b>
<b>CR Lease Obligations</b> .....	<b>24,000.00 EUR</b>
<b>CR Bank</b> .....	<b>4,800.00 EUR</b>

(2) Depreciation for 20X3:  $8 \cdot (24,000 - 3,900) / 12 \cdot 5 = 2,680.00 \text{ EUR}$ .

<b>DR Depr.</b> .....	<b>2,680.00 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>2,680.00 EUR</b>

(3) Lease payment in 20X3. Interest is  $8/12 \cdot 24,000 \cdot 7.6\% = 1,216.00 \text{ EUR}$ ; pay-off is  $2/3 \cdot 5,600 - 1,216 = 2,517.33 \text{ EUR}$ .

<b>DR Interest</b> .....	<b>1,216.00 EUR</b>
<b>DR Lease Obligations</b> .....	<b>2,517.33 EUR</b>
<b>CR Bank</b> .....	<b>3,733.33 EUR</b>

(4) Transfer next year's pay-off payment to short term liabilities.  $5,600 - (24,000 - 2,517.33) \cdot 7.6\% = 3,967.31 \text{ EUR}$ .

<b>DR Lease Obligations</b> .....	<b>3,967.31 EUR</b>
<b>CR Short-term Liabilities</b> .....	<b>3,967.31 EUR</b>

(5) Lease rate for 20X4, interest to be  $(24,000 - 2,517.33) \cdot 7.6\% = 1,632.68$  EUR:

<b>DR Short-term Liabilities</b> .....	<b>3,967.32 EUR</b>
<b>DR Interest-20X4</b> .....	<b>1,632.68 EUR</b>
<b>CR Bank</b> .....	<b>5,600.00 EUR</b>

(6) Refund from taxing authorities:

<b>DR Bank</b> .....	<b>4,800.00 EUR</b>
<b>CR VAT</b> .....	<b>4,800.00 EUR</b>

(7) Impairment loss

<b>DR IL</b> .....	<b>12,000.00 EUR</b>
<b>CR Acc. IL</b> .....	<b>12,000.00 EUR</b>

(8) Adjusted monthly depreciation is:  $(24,000 - 3,900 - 2,680 - 12,000)/(60 - 8) = 104.23$  EUR.

<b>DR Depr.</b> .....	<b>104.23 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>104.23 EUR</b>

(9) Repair of the van is to be expensed:

<b>DR Repair</b> .....	<b>6,500.00 EUR</b>
<b>DR VAT</b> .....	<b>1,300.00 EUR</b>
<b>CR Bank</b> .....	<b>7,800.00 EUR</b>

(10) Subsequent valuation. The assets amount without impairment loss would have been  $51 \cdot (24,000 - 3,900)/60 + 3,900 = 20,985.00$  EUR. This is the upper bound for a reversal of an impairment loss. The valuer estimates the car to be worth 10,000.00 EUR. The reversal impairment loss amounts to:  $10,000 - (24,000 - 2,680 - 12,000 - 104.23) = 784.23$  EUR.

<b>DR Acc. IL</b> .....	<b>784.23 EUR</b>
<b>CR Reversal IL</b> .....	<b>784.23 EUR</b>

(11) Depreciation of the van for 3 month:  $3 \cdot (10,000 - 3,900)/(60 - 8 - 1) = 358.82$  EUR.

<b>DR Depr.</b> .....	<b>358.82 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>358.82 EUR</b>

(12) Sale of the van via Realization Account:

DR Bank .....	12,600.00 EUR
CR VAT .....	2,100.00 EUR
CR Realization .....	10,500.00 EUR
DR Acc. Depr. ....	3,143.83 EUR
CR Realization .....	3,143.83 EUR
DR Acc. IL .....	11,215.77 EUR
CR Realization .....	11,215.77 EUR
DR Realization .....	24.000.00 EUR
CR P,P,E .....	24.000.00 EUR
DR Realization .....	859.60 EUR
CR Gain on Disposal .....	859.60 EUR

See exhibit 1 for the accounts.

D	PPE	C
(1)	24,000.00	c/d 24,000.00
b/d	24,000.00	(12d) 24,000.00

D	VAT	C
(1)	4,800.00	c/d 4,800.00
b/d	4,800.00	(6) 5,600.00
(9)	1,300.00	(12a) 2,100.00
c/d	1,600.00	
	7,700.00	
	b/d	1,600.00

D	Depr-20X3	C
(2)	2,680.00	P&L 2,680.00

D	Short-term Liab	C
c/d	3,967.31	(4) 3,967.31
(5)	3,967.32	b/d 3,967.31

D	Lease Obl	C
(3)	2,517.33	(1) 24,000.00
(4)	3,967.31	
c/d	17,515.36	
	24,000.00	
	b/d	17,515.36

D	Bank	C
c/d	8,533.33	(1) 4,800.00
	8,533.33	(3) 3,733.33
(6)	5,600.00	b/d 10,400.00
(12a)	12,600.00	(5) 5,600.00
c/d	3,733.33	(9) 7,800.00
	21,933.33	
	b/d	3,733.33

D	Acc. Depr.	C
c/d	2,680.00	(2) 2,680.00
(12b)	3,143.05	b/d 2,680.00
		(8) 104.23
		(11) 358.82
	3,143.05	

D	Interest-20X3	C
(3)	1,216.00	P&L 1,216.00

D	Interest-20X4	C
(5)	1,632.68	P&L 1,632.68

D	IL	C
(7)	12,000.00	P&L 12,000.00

D	Acc. IL	C
(10)	784.23	(7) 12,000.00
(12c)	11,215.77	
	12,000.00	

D	Depr.-20X4	C
(8)	104.23	P&L 463.05
(11)	358.82	
	463.05	

D	Repair-20X4	C
(9)	6,500.00	P&L 6,500.00

D	Reversal IL	C
P&L	784.23	(10) 784.23

D	Realization	C
(12d)	24,000.00	(12a) 10,500.00
		(12b) 3,143.05
(12e)	858.82	(12c) 11,215.77
	24,858.82	

D	Gain on Disp.	C
P&L	858.82	(12e) 858.82

## Exhibit 1: Accounts

Before posting the car the business should have checked the application of IAS 17.20. Here, the present value of the lease payments amounts to  $5,600 \cdot (1.076^5 - 1) / (0.076 \cdot 1.076^5) = 22,596.90$  EUR.

For that reason the bookkeeping entries are:

(1) Acquisition of the car:

DR P, P, E	22,596.90 EUR
DR R/E	1,403.10 EUR
DR VAT	4,800.00 EUR
CR Lease Obligations	24,000.00 EUR
CR Bank	4,800.00 EUR

(2) Depreciation for 20X3:  $8 \cdot (22,596.9 - 3,900) / 12 \cdot 5 = 2,492.92$  EUR.

<b>DR Depr.</b> .....	<b>2,492.92 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>2,492.92 EUR</b>

(3) Lease payment in 20X3. Interest is  $8/12 \cdot 24,000 \cdot 7.6\% = 1,216.00$  EUR; pay-off is  $2/3 \cdot 5,600 - 1,216 = 2,517.33$  EUR.

<b>DR Interest</b> .....	<b>1,216.00 EUR</b>
<b>DR Lease Obligations</b> .....	<b>2,517.33 EUR</b>
<b>CR Bank</b> .....	<b>3,733.33 EUR</b>

(4) Transfer next years pay-off payment to short term liabilities.  $5,600 - (24,000 - 2,517.33) \cdot 7.6\% = 3,967.32$  EUR.

<b>DR Lease Obligations</b> .....	<b>3,967.31 EUR</b>
<b>CR Short-term Liabilities</b> .....	<b>3,967.32 EUR</b>

(5) Lease rate for 20X4, interest to be  $(24,000 - 2,517.33) \cdot 7.6\% = 1,632.68$  EUR:

<b>DR Short-term Liabilities</b> .....	<b>3,967.32 EUR</b>
<b>DR Interest-20X4</b> .....	<b>1,632.68 EUR</b>
<b>CR Bank</b> .....	<b>5,600.00 EUR</b>

(6) Refund from taxing authorities:

<b>DR Bank</b> .....	<b>4,800.00 EUR</b>
<b>CR VAT</b> .....	<b>4,800.00 EUR</b>

(7) Impairment loss

<b>DR IL</b> .....	<b>12,000.00 EUR</b>
<b>CR Acc. IL</b> .....	<b>12,000.00 EUR</b>

(8) Adjusted monthly depreciation is:  $(22,596.9 - 3,900 - 2,492.92 - 12,000) / (60 - 8) = 80.85$  EUR.

<b>DR Depr.</b> .....	<b>80.85 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>80.85 EUR</b>

(9) Repair of the van is to be expensed:

<b>DR Repair</b> .....	<b>6,500.00 EUR</b>
<b>DR VAT</b> .....	<b>1,300.00 EUR</b>
<b>CR Bank</b> .....	<b>7,800.00 EUR</b>

(10) Subsequent valuation. The assets amount without impairment loss would have been  $51 \cdot (22,596.9 - 3,900)/60 = 15,892.37$  EUR. This is the upper bound for a reversal of an impairment loss. The valuer estimates the car to be worth 10,000.00 EUR. The reversal impairment loss amounts to:  $10,000 - (22,596.9 - 2,492.92 - 12,000 - 80.85) = 1,076.87$  EUR.

<b>DR Acc. IL</b> .....	<b>1,076.87 EUR</b>
<b>CR Reversal IL</b> .....	<b>1,076.87 EUR</b>

(11) Depreciation of the van for 3 month:  $3 \cdot (10,000 - 3,900)/(60 - 8 - 1) = 358.82$  EUR.

<b>DR Depr.</b> .....	<b>358.82 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>358.82 EUR</b>

(12) Sale of the van via Realization Account:

<b>DR Bank</b> .....	<b>12,600.00 EUR</b>
<b>CR VAT</b> .....	<b>2,100.00 EUR</b>
<b>CR Realization</b> .....	<b>10,500.00 EUR</b>
<b>DR Acc. Depr.</b> .....	<b>2,932.59 EUR</b>
<b>CR Realization</b> .....	<b>2,932.59 EUR</b>
<b>DR Acc. IL</b> .....	<b>10,923.13 EUR</b>
<b>CR Realization</b> .....	<b>10,923.13 EUR</b>
<b>DR Realization</b> .....	<b>22,596.90 EUR</b>
<b>CR P,P,E</b> .....	<b>22,596.90 EUR</b>
<b>DR Realization</b> .....	<b>1,758.82 EUR</b>
<b>CR Gain on Disposal</b> .....	<b>1,758.82 EUR</b>

See exhibit 2 for the accounts.

D		PPE	C
(1)	22.596,90	c/d	22.596,90
b/d	22.596,90	(12d)	22.596,90

D		VAT	C
(1)	4.800,00	c/d	4.800,00
b/d	4.800,00	(6)	5.600,00
(9)	1.300,00	(12a)	2.100,00
c/d	1.600,00		
	7.700,00		7.700,00
		b/d	1.600,00

D		Depr-20X3	C
(2)	2.492,92	P&L	2.492,92

D		Short-term Liab	C
c/d	3.967,31	(4)	3.967,31
(5)	3.967,31	b/d	3.967,31

D		Lease Obl	C
(3)	2.517,33	(1)	24.000,00
(4)	3.967,31		
c/d	17.515,36		
	24.000,00		24.000,00
		b/d	17.515,36

D		Bank	C
c/d	8.533,33	(1)	4.800,00
	8.533,33	(3)	3.733,33
(6)	5.600,00	b/d	8.533,33
(12a)	12.600,00	(5)	5.600,00
c/d	3.733,33	(9)	7.800,00
	21.933,33		21.933,33
		b/d	3.733,33

D		Acc. Depr.	C
c/d	2.492,92	(2)	2.492,92
(12b)	2.932,59	b/d	2.492,92
		(8)	80,85
		(11)	358,82
	2.932,59		2.932,59

D		Interest-20X3	C
(3)	1.216,00	P&L	1.216,00

D		Interest-20X4	C
(5)	1.632,68	P&L	1.632,68

D		IL	C
(7)	12.000,00	P&L	12.000,00

D		Acc. IL	C
(10)	1.076,87	(7)	12.000,00
(12c)	10.923,13		
	12.000,00		12.000,00

D		Depr.-20X4	C
(8)	80,85	P&L	439,67
(11)	358,82		
	439,67		439,67

D		Repair-20X4	C
(9)	6.500,00	P&L	6.500,00

D		Reversal IL	C
P&L	1.076,87	(10)	1.076,87

D		Realization	C
(12d)	22.596,90	(12a)	10.500,00
		(12b)	2.932,59
(12e)	1.758,82	(12c)	10.923,13
	24.355,72		24.355,72

D		Gain on Disp.	C
P&L	1.758,82	(12e)	1.758,82

D		R/E	C
(1)	1.403,10	c/d	1.403,10
b/d	1.403,10		

## Exhibit 2: Accounts