

Aufgabe 7.28: Exercise on Revaluation and Disposal

MERSCHFELD Ltd. is a production firm. On 1.03.20X4 the company buys a CNC machine on 1.03.20X4 at a cost of 120,000.00 EUR. The machine will be depreciated along straight line method over a useful life of 5 years. MERSCHFELD Ltd.'s accountant revalues the CNC machine on 1.01.20X5. The new amount equals to 110,200.00 EUR as at 1.01.20X5 and is based on an expertise dated on the same day. On 1.01.20X6, the CNC machine is sold at 90,000.00 EUR.

Required: Record the CNC machine and all relevant accounts (reserves, deferred taxes) in T-accounts! Show the entry in the register of non-current assets as on 31.12.20X4 for the machine. Income tax rate equals to 30 %. VAT is not relevant. You have to dissolve revaluation reserves and deferred tax liabilities along the depreciation percentage on the revalued amount. How much is the balancing figure in the Revaluation Reserves account and in the Deferred Tax Liabilities account as at 31.12.20X4? How much is the profit on disposal and the relevant income taxes thereon?

Solution:

(1) The machine is bought on 1.03.20X3:

DR P, P, E@cost	120,000.00 EUR
CR Cash/Bank or A/P	120,000.00 EUR

(2) Monthly depreciation rate on the CNC machine equals to $120,000 / (5 \times 12) = 2,000.00$ EUR. Depreciation of 20X3 is over 10 months only. The amount equals to $10 \times 2,000 = 20,000.00$ EUR.

DR Depreciation	20,000.00 EUR
CR Acc Depr	20,000.00 EUR

(3) At the beginning of the next accounting period the machine gets revalued. The new amount equals to 110,200.00 EUR along a qualified valuation. The accountant makes a bookkeeping entry along the net replacement method.

DR P, P, E@valuation	110,200.00 EUR
DR Acc Depr.	20,000.00 EUR
CR P, P, E@cost	120,000.00 EUR
CR Revaluation Reserves	10,200.00 EUR
 DR Revaluation Reserves	 3,060.00 EUR
CR Deferred Tax Liabilities	3,060.00 EUR

(4) Depreciation on the CNC machine is along the revalued amount for a remaining useful life of 50 months. Depreciation rate equals to $110,200 / 50 = 2,204.00$ EUR/m. The annual depreciation equals to $12 \times 2,204.00 = 26,448.00$ EUR.

DR Depreciation	26,448.00 EUR
CR Acc. Depr.	26,448.00 EUR

(4) The annual depreciation of 20X4 equals to 24% of the revalued amount. Accordingly, the deferred tax liabilities and the revaluation reserves are to be dissolved to the extent of 24 %. For deferred tax liabilities the amount equals to $0.24 \times 3,060 = 734.40$ EUR. The revaluation reserves get deducted by 24 % as well: $0.24 \times 10,200 = 2,448.00$ EUR.

DR Deferred Tax Liabilities	734.40 EUR
CR Revaluation Reserves	734.40 EUR

DR Revaluation Reserves	2,448.00 EUR
CR Retained Earnings	2,448.00 EUR

(5) After this bookkeeping entry the value of the machine equals to $110,200 - 26,448 = 83,752.00$ EUR. Before the machine gets sold the deferred taxes and the reserves are dissolved.

DR Deferred Tax Liabilities	2,325.60 EUR
CR Revaluation Reserves	2,325.60 EUR

DR Revaluation Reserves	7,752.00 EUR
CR Retained Earnings	7,752.00 EUR

(6) Sales of the CNC machine is recorded by a Realization account:

DR Cash/Bank	90,000.00 EUR
CR Realization	90,000.00 EUR

DR Acc. Depr.	26,448.00 EUR
CR Realization	26,448.00 EUR

DR Realization	110,200.00 EUR
CR P, P, E@valuation	110,200.00 EUR

The profit on disposal equals to 6,248.00 EUR.

The taxes on the profit will be based on the carrying amount along tax law at the date of sales. Taxes amount to: $0.3 \times 90,000 - (120,000 - 22 \times 2,000) = 4,200.00$ EUR.

The register on non-current assets is as below:

**Merschfeld Ltd.'s
REGISTER of NON-CURRENT ASSETS
as at 31.12.20X4**

Asset	revaluation	Acc. depr.	Acc. impairm. losses	Carrying amount
CNC-machine	110.200,00	(26.448,00)	0,00	83.752,00
				<u>83.752,00</u>

Exhibit 1: Register of non-current assets as at 31.12.20X4

Observe MERSCHFELD Ltd.'s accounts below:

D	P, P, E	C	D	Cash/Bank	C
(1)	<u>120.000,00</u>	(3a)	<u>120.000,00</u>	(1)	<u>120.000,00</u>
			(6a)	<u>90.000,00</u>	
D	Depreciation - 20X3	C	D	Acc depr	C
(2)	<u>20.000,00</u>	(3a)	<u>20.000,00</u>	(2)	<u>20.000,00</u>
		(6b)	<u>26.448,00</u>	(4)	<u>26.448,00</u>
D	P, P, E @ val	C	D	Revaluation Reserves	C
(3a)	<u>110.200,00</u>	(6c)	<u>110.200,00</u>	(3b)	<u>3.060,00</u>
				(3a)	<u>10.200,00</u>
				(4b)	<u>2.448,00</u>
				(4a)	<u>734,40</u>
				c/d	<u>5.426,40</u>
					<u>10.934,40</u>
				b/d	<u>5.426,40</u>
				R/E	<u>7.752,00</u>
				(5a)	<u>2.325,60</u>
					<u>7.752,00</u>
D	Deferred tax liabilities	C	D	Depreciation - 20X4	C
(4a)	<u>734,40</u>	(3b)	<u>3.060,00</u>	(4)	<u>26.448,00</u>
c/d	<u>2.325,60</u>				
	<u>3.060,00</u>				
(5a)	<u>2.325,60</u>	b/d	<u>2.325,60</u>		
D	Retained earnings R/E	C	D	Realization	C
c/d	<u>2.448,00</u>	(4b)	<u>2.448,00</u>	(6c)	<u>110.200,00</u>
		b/d	<u>2.448,00</u>	(6a)	<u>90.000,00</u>
c/d	<u>10.200,00</u>	R/E	<u>7.752,00</u>	(6b)	<u>26.448,00</u>
	<u>10.200,00</u>		<u>10.200,00</u>		<u>116.448,00</u>
		b/d	<u>10.200,00</u>	b/d	<u>6.248,00</u>

Exhibit 2: Accounts