

Aufgabe 7.29: Exercise on Impairment Loss 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 records an impairment loss for the CNC machine on 1.01.20X5 to the extent of 15,000.00 EUR. The machine is repaired one month later on 1.02.20X5 for 12,000.00 EUR. The repair is paid per bank transfer instantly. 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. How much is the profit on disposal and the relevant income taxes thereon?

MERSCHFELD Ltd. ist ein Produktionsunternehmen. Am 1.03.20X4 kauft das Unternehmen eine CNC-Maschine zu 120.000,00 EUR Anschaffungskosten. Die Maschine wird nach linearer Abschreibung über eine Nutzungsdauer von 5 Jahren abgeschrieben. MERSCHFELD Ltds Accountant bucht für die Maschine am 1.01.20X5 einen Impairment Loss in Höhe von 15,000.00 EUR. Die Maschine wird einen Monat später am 1.02.20X5 für 12,000.00 EUR repariert. Die Reparatur wird sofort per Banküberweisung gezahlt. Am 1.01.20X6 wird die CNC-Maschine für 90.000,00 EUR verkauft.

Gefragt: Buchen Sie die CNC-Maschine in allen relevanten T-Konten. Zeigen Sie den Eintrag im Anlagespiegel zum 31.12.20X5 für die Maschine. Der Gesamtsteuersatz für Steuern vom Einkommen und Ertrag ist 30 %. Die Umsatzsteuer ist nicht relevant? Wie hoch ist der Verkaufsgewinn und die darauf entfallenden Steuern?

Solution:

(1) The machine is bought on 1.03.20X4:

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 damaged The impairment loss equals to 15,000.00 EUR. The new amount equals to 75,000.00 EUR. The accountant makes a bookkeeping entry along the net replacement method.

DR Impairment Loss	15,000.00 EUR
DR Acc Impairment	15,000.00 EUR

(4) Depreciation on the CNC machine is along the revalued amount for a remaining useful life of 50 months. Depreciation rate equals to $85,000/50 = 1,700.00 \text{ EUR/m}$. The annual depreciation equals to $12 \times 1,700.00 = 20,400.00 \text{ EUR}$.

DR Depreciation	20,400.00 EUR
CR Acc. Depr.	20,400.00 EUR

(5) The repair doesn't change the value of the CNC machine. The amount is an expense.

DR Repair	12,000.00 EUR
CR Cash/Bank	12,000.00 EUR

(6) After this bookkeeping entry the value of the machine equals to $120,000 - 20,000 - 15,000 - 20,400 = 64,600.00 \text{ EUR}$. 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.	40,400.00 EUR
CR Realization	40,400.00 EUR

DR Acc. Impairment Loss.	15,000.00 EUR
CR Realization	15,000.00 EUR

DR Realization	120,000.00 EUR
CR P, P, E	120,000.00 EUR

The profit on disposal equals to 25,400.00 EUR. The taxes on the profit will be based on the carrying amount along tax law at the date of sales. Taxes amount to: $0.3 \times 25,400 = 7,620.00 \text{ EUR}$.

The register on non-current assets is as below:

Merschfeld Ltd.'s
REGISTER of NON-CURRENT ASSETS
as at 31.12.20X5

Asset	Acquisition costs	Acc. depr.	Acc. impairm. losses	Carrying amount
CNC-machine	120,000.00	(40,400.00)	(15,000.00)	64,600.00
				<u>64,600.00</u>

Exhibit 1: Register of non-current assets as at 31.12.20X5

Observe MERSCHFELD Ltd.'s accounts below:

D	P, P, E	C
(1)	120,000.00	(6c) 120,000.00

D	Cash/Bank	C
...	(1) 120,000.00	
	(5) 12,000.00	
	...	
(6a) 90,000.00		

D	Depreciation - 20X4	C
(2) 20,000.00	c/d 20,000.00	
b/d 20,000.00		

D	Acc depr	C
c/d 20,000.00	(2) 20,000.00	
	c/d 20,000.00	
c/d 40,400.00	(4) 20,400.00	
	40,400.00	
(6b) 40,400.00	b/d 40,400.00	

D	Impairment loss - 20X5	C
(3) 15,000.00	c/d 15,000.00	
b/d 15,000.00		

D	Acc impairment loss	C
(6d) 15,000.00	(3) 15,000.00	

D	Depreciation 20X5	C
(4) 20,400.00	c/d 20,400.00	
b/d 20,400.00		

D	Realization	C
(6c) 120,000.00	(6a) 90,000.00	
c/d 25,400.00	(6b) 40,400.00	
	(6d) 15,000.00	
	145,400.00	
	b/d 25,400.00	

D	Repair	C
(5) 12,000.00	c/d 12,000.00	
b/d 12,000.00		

Exhibit 2: Accounts