

**Task IM-7.39: Exercise on Depreciation and Revaluation**

LAGGENBECK (Pty) Ltd. is in the pizza delivery service industry and runs a business car VW Polo. The car was bought on 2.01.20X3 for 31,500.00 EUR (gross amount). Depreciation is along declining method at 20% per annum of the carrying amount.

On 1.01.20X5 LAGGENBECK presents the statement of financial position as shown below:

Laggenbeck (Pty) Ltd.'s STATEMENT of FINANCIAL POSITION as at 1.01.20X5			
A			C, L
<i>Non-current assets</i>	[EUR]	<i>Owners' capital</i>	[EUR]
P, P, E	100,000.00	Share capital	100,000.00
Intangibles		Reserves	55,000.00
Financial assets		R/E	
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	20,000.00	Interest bear liab	
A/R		A/P	
Prepaid expenses		Provisions	
Cash/Bank	35,000.00	Tax liabilities	
	<b>155,000.00</b>		<b>155,000.00</b>

**Exhibit 1:** LAGGENBECK (Pty) Ltd.'s statement of financial position

The business car is part of the item of property, plant, and equipment.

The selling prices for new cars of the Polo's kind increase by 3,000.00 EUR (gross amount) at the beginning of 20X5. LAGGENBECK (Pty) Ltd.'s accountant revalues the business car as at 1.01.20X5 accordingly by a gross replacement bookkeeping entry.

During 20X5 LAGGENBECK earned a revenue 100,000.00 EUR and had expenses at 40,000.00 EUR (depreciation not included). Both items are cash relevant.

**Required:** You are required to prepare a statement of financial position and an income statement for LAGGENBECK (Pty) Ltd. as at 31.12.20X5. Prepare an entry for the VW Polo in the register of non-current assets. Ignore depreciation on assets other than the business car.

**Solution:**

The calculation of the carrying amount for the VW Polo requires setting up a Property, Plant, and Equipment account and an Accumulated Depreciation account. The bookkeeping entries for the VW Polo were so far as below:

(A) Acquisition of the car on 2.01.20X3

<b>DR P, P, E - VW Polo</b> .....	<b>26,250.00 EUR</b>
<b>DR VAT</b> .....	<b>5,250.00 EUR</b>
<b>CR Cash/Bank</b> .....	<b>31,500.00 EUR</b>

(B) Depreciation on VW Polo on 31.12.20X3

<b>DR Depreciation</b> .....	<b>5,250.00 EUR</b>
<b>CR Acc. Depr. - VW Polo</b> .....	<b>5,250.00 EUR</b>

(a) Depreciation on VW Polo on 31.12.20X4

<b>DR Depreciation</b> .....	<b>4,200.00 EUR</b>
<b>CR Acc. Depr. - VW Polo</b> .....	<b>4,200.00 EUR</b>

Accordingly the accounts as at the beginning of the accounting period 20X5 have the following amounts.

D	P, P, E - VW Polo	C
OV	26,250.00	

D	P, P, E - others	C
OV	83,200.00	

D	Acc Depr - VW Polo	C
c/d	5,250.00	(B) 5,250.00
		b/d 5,250.00
c/d	4,200.00	(a) 4,200.00
	4,200.00	9,450.00
		b/d 9,450.00

D	Inventory	C
OV	20,000.00	

D	Cash/Bank	C
OV	35,000.00	

D	Share capital	C
	OV	100,000.00

D	Reserves	C
	OV	55,000.00

### Exhibit 2: LAGGENBECK (Pty) Ltd.'s accounts

For the revaluation the accountant makes a gross replacement bookkeeping entry. The carrying amount along the new cost of acquisition would have been  $(26,250 + 2,500) \times (1 - 20\%)^2 = \mathbf{18,400.00 \text{ EUR}}$ . The entry in the Accumulated Depreciation account is  $(26,250 + 2,500) - 18,400 - 9,450 = \mathbf{900.00 \text{ EUR}}$ .

(1) Gross replacement bookkeeping entry on 1.01.20X5

<b>DR P, P, E at val - VW Polo</b> .....	<b>28,750.00 EUR</b>
<b>CR P, P, E at cost - VW Polo</b> .....	<b>26,250.00 EUR</b>
<b>CR Acc. Depr. - VW Polo</b> .....	<b>900.00 EUR</b>
<b>CR Revaluation Reserves</b> .....	<b>1,600.00 EUR</b>

(2) Rising provisions for deferred taxes to an extent of  $1,600 \times 30\% = 480.00$  EUR on 1.01.20X5

<b>DR Revaluation Reserves</b> .....	<b>480.00 EUR</b>
<b>CR Provisions</b> .....	<b>480.00 EUR</b>

(3) Depreciation on the VW Polo is at 20 % (of its carrying amount):  $18,400 \times 20\% = 3,680.00$  EUR on 31.12.20X5

<b>DR Depreciation</b> .....	<b>3,680.00 EUR</b>
<b>CR Acc. Depr. - VW Polo</b> .....	<b>3,680.00 EUR</b>

(4) Accordingly to the depreciation the provisions and revaluation reserves are dissolved to the Retained Earnings account.

<b>DR Provisions</b> .....	<b>96.00 EUR</b>
<b>CR Revaluation Reserves</b> .....	<b>96.00 EUR</b>
<b>DR Revaluation Reserves</b> .....	<b>320.00 EUR</b>
<b>CR Retained Earnings</b> .....	<b>320.00 EUR</b>

(5) Posting revenue on 30.06.20X5

<b>DR Cash/Bank</b> .....	<b>120,000.00 EUR</b>
<b>CR VAT</b> .....	<b>20,000.00 EUR</b>
<b>CR Cash/Bank</b> .....	<b>100,000.00 EUR</b>

(6) Posting other expenses on 30.06.20X5

<b>DR Other Expenses</b> .....	<b>40,000.00 EUR</b>
<b>DR VAT</b> .....	<b>8,000.00 EUR</b>
<b>CR Cash/Bank</b> .....	<b>48,000.00 EUR</b>

Along the tax law there is no revaluation allowed. The taxable profit is  $100,000 - 40,000 - (26,250 - 9,450) \times 20\% = 56,640.00$  EUR. Income taxes along the 10-20-30 rule are  $56,640 \times 30\% = 16,992.00$  EUR. The earnings after taxes along the tax law are  $56,640 - 16,992 = 39,648.00$  EUR.

The deferred tax income amounts to  $16,992 - 56,320 \times 30\% = \mathbf{96.00 \text{ EUR}}$ .

Observe the profit calculation in the commercial accounts in exhibit 3:

D <b>P, P, E @ cost - VW Polo</b> C			
OV	26,250.00	(1)	26,250.00

D <b>P, P, E - others</b> C			
OV	83,200.00		

D <b>Acc Depr - VW Polo</b> C			
c/d	5,250.00	(B)	5,250.00
		b/d	5,250.00
c/d	4,200.00	(a)	4,200.00
	4,200.00		9,450.00
		b/d	9,450.00
		(1)	900.00
c/d	14,030.00	(3)	3,680.00
	14,030.00		14,030.00
		b/d	14,030.00

D <b>Inventory</b> C			
OV	20,000.00		

D <b>Cash/Bank</b> C			
OV	35,000.00	(6)	48,000.00
(5)	120,000.00	c/d	107,000.00
	155,000.00		155,000.00
b/d	107,000.00		

D <b>Share capital</b> C			
		OV	100,000.00

D <b>Reserves</b> C			
		OV	55,000.00

D <b>P, P, E @ val - VW Polo</b> C			
(1)	28,750.00	c/d	28,750.00
b/d	28,750.00		

D <b>Revaluation Reserves</b> C			
(2)	480.00	(1)	1,600.00
(4b)	320.00	(4a)	96.00
c/d	896.00		
	1,696.00		1,696.00
		b/d	896.00

D <b>Provisions</b> C			
(4a)	96.00	(2)	480.00
c/d	384.00		
	480.00		480.00
		b/d	384.00

D <b>Depreciation</b> C			
(3)	3,680.00	P&L	3,680.00

D <b>Retained Earnings</b> C			
DTI	96.00	(4b)	320.00
c/d	39,648.00	R/E	39,424.00
	39,744.00		39,744.00
		b/d	39,648.00

D <b>Revenue</b> C			
P&L	100,000.00	(5)	100,000.00

D <b>VAT</b> C			
(6)	8,000.00	(5)	20,000.00
c/d	12,000.00		
	20,000.00		20,000.00
		b/d	12,000.00

Exhibit 3: LAGGENBECK (Pty) Ltd.'s accounts

Other expenses				Profit and Loss			
D			C	D			C
(6)	40,000.00	P&L	40,000.00	exp	40,000.00	Rev	100,000.00
				depr	3,680.00		
				EBT c/d	56,320.00		
					100,000.00		100,000.00
				IT	16,992.00	b/d	56,320.00
				R/E	39,424.00	DTI	96.00
					56,416.00		56,416.00

  

Tax liabilities			
D			C
c/d	16,992.00	P&L	16,992.00
		b/d	16,992.00

**Exhibit 3:** LAGGENBECK (Pty) Ltd.'s accounts (continued)

The financial statement follow:

**Laggenbeck (Pty) Ltd.'s  
REGISTER of NON-CURRENT ASSETS  
as at 31.12.20X5**

Asset	revaluation	Acc. depr.	Acc. impairm. losses	Carrying amount
VW Polo	28,750.00	(14,030.00)	0.00	14,720.00
Other assets	83,200.00	...	...	83,200.00
				97,920.00

**Exhibit 4:** LAGGENBECK (Pty) Ltd.'s register of non-current assets

**Laggenbeck (Pty) Ltd.'s**  
**STATEMENT of COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X5**

	[EUR]
Revenue	100,000.00
Other income	100,000.00
Materials	
Labour	
Depreciation	3,680.00
Other expenses	40,000.00
Earnings before int and taxes (EBIT)	56,320.00
Interest	
<b>Earnings before taxes (EBT)</b>	<b>56,320.00</b>
Income tax expenses	16,992.00
Deferred taxes	(96.00)
<b>Earnings after taxes (EAT)</b>	<b>39,424.00</b>

**Exhibit 5:** LAGGENBECK (Pty) Ltd.'s income statement

**Laggenbeck (Pty) Ltd.'s**  
**STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X5		C, L	
Non-current assets		[EUR]		Owners' capital	
P, P, E		97,920.00		[EUR]	
Intangibles				Share capital	100,000.00
Financial assets				Reserves	55,896.00
				R/E	39,648.00
Current assets				Liabilities	
Inventory		20,000.00		Interest bear liab	
A/R				A/P	12,000.00
Prepaid expenses				Provisions	384.00
Cash/Bank		107,000.00		Tax liabilities	16,992.00

**Exhibit 6:** LAGGENBECK (Pty) Ltd.'s statement of financial position