

**Task IM-7.41: Revaluations and Impairment Loss**

SCHARPEN AG is a consultancy. The company uses laptop computers and tablet computers. See the register of current assets on asset groups' level as at 1.01.20X4 for details:

<b>SCHARPEN AG's</b>				
<b>REGISTER of NON-CURRENT ASSET GROUPS</b>				
<b>as at 1.01.20X4</b>				
<b>Asset</b>	<b>acquisition/ revaluation</b>	<b>Acc. depr.</b>	<b>Acc. impairm. losses</b>	<b>Carrying amount</b>
20 Eifone tablets	20,000.00	(10,000.00)	0.00	10,000.00
20 Äzer laptops	12,500.00	0.00	0.00	12,500.00
				<u>22,500.00</u>

**Exhibit 1:** SCHARPEN AG's register of non-current assets

The useful life of all computers is 4 years. Depreciation is along straight line method with no residual value. Consider all laptops having been subject to a revaluation on 31.12.20X3. The laptops have been bought for 1,000.00 EUR/u on 1.01.20X2.

On 1.07.20X4 an Eifone tablet falls down and is totaled. SCHARPEN AG replaces it by a new one which is bought the same day at 1,200.00 EUR.

Besides depreciation SCHARPEN AG's expenses are 220,000.00 EUR and the revenue is 400,000.00 EUR.

**Required: Prepare a statement of comprehensive income and a register of non-current asset groups. Disclose the Retained Earnings account. Ignore VAT.**

**Solution:**

In order to prepare the income statement the accounts as at 1.01.20X4 are to be set up at first.

D		PPE - tablets @ cost		C	
	OV	20,000.00			
D		Acc depr - tablets		C	
			OV	10,000.00	
D		Rev reserves		C	
		750.00		2,500.00	
c/d		1,750.00			
		2,500.00		2,500.00	
			b/d	1,750.00	
D		PPE - laptops @ valuation		C	
	OV	12,500.00			
D		Acc depr laptops		C	
D		Def tax liabilities		C	
			OV	750.00	

Exhibit 2: Opening amounts

(1) Depreciation on 19 eifones is  $19 \times 1,000/4 + 0.5 \times 1,000/4 = 4,875.00$  EUR

<b>DR Depreciation .....</b>	<b>4,875.00 EUR</b>
<b>CR Acc. Depr. ....</b>	<b>4,875.00 EUR</b>

(2a) Impairment loss for the damaged eifone tablet computer is  $(4 - 2.5) \times 1,000/4 = 375.00$  EUR

<b>DR Impairment Loss .....</b>	<b>375.00 EUR</b>
<b>CR Acc. IL .....</b>	<b>375.00 EUR</b>

The eifone tablet computer is to be disposed. (This is not required for the solution as there is only a request for the preparation of an income statement. However it is recommended in order to prepare the register of non-current assets.)

(2b) Disposal of the old eifone tablet computer:

<b>DR Acc. Depr. ....</b>	<b>625.00 EUR</b>
<b>DR Acc. IL .....</b>	<b>375.00 EUR</b>
<b>CR P, P, E Eifone Tablet .....</b>	<b>1,000.00 EUR</b>

(3) Acquisition of the new eifone tablet computer at 1,200.00 EUR:

<b>DR P, P, E - eifone new .....</b>	<b>1,200.00 EUR</b>
<b>CR Cash/Bank .....</b>	<b>1,200.00 EUR</b>

(4) Depreciation on the new eifone tablet computer for half of a year:  $0.5 \times 1,200/4 = 150.00$  EUR.

<b>DR Depreciation .....</b>	<b>150.00 EUR</b>
<b>CR Acc. Depr. Eifone New .....</b>	<b>150.00 EUR</b>

(5) Depreciation on the laptop computers along fair value recognition is  $12,500/2 = 6,250.00$  EUR. Consider the depreciation along tax law being only  $10,000/2 = 5,000.00$  EUR.

<b>DR Depreciation</b> .....	<b>6,250.00 EUR</b>
<b>CR Acc. Depr. Laptop</b> .....	<b>6,250.00 EUR</b>

(6, 7) Depreciation requires to dissolve deferred tax liabilities and revaluation reserves to an extend of 50 %.

<b>DR Def. Tax. Liab.</b> .....	<b>375.00 EUR</b>
<b>CR Revaluation Reserves</b> .....	<b>375.00 EUR</b>

<b>DR Revaluation Reserves</b> .....	<b>1,250.00 EUR</b>
<b>CR Retained Earnings</b> .....	<b>1,250.00 EUR</b>

(8) Other expenses of 220,000.00 are posted on cash

<b>DR Other Expenses</b> .....	<b>220,000.00 EUR</b>
<b>CR Cash/Bank</b> .....	<b>220,000.00 EUR</b>

(9) Revenue of 400,000.00 EUR is considered being on cash.

<b>DR Cash/Bank</b> .....	<b>400,000.00 EUR</b>
<b>CR Revenue</b> .....	<b>400,000.00 EUR</b>

Observe the accounts to get the full picture and to understand the calculation of profit:

D		PPE - tablets @ cost	C
OV	20,000.00	(2b)	1,000.00
		c/d	19,000.00
	<u>20,000.00</u>		<u>20,000.00</u>
b/d	19,000.00		

D		PPE - laptops @ valuation	C
OV	12,500.00	c/d	12,500.00
b/d	<u>12,500.00</u>		

D		Acc depr - tablets	C
(2b)	625.00	OV	10,000.00
c/d	14,250.00	(1)	4,875.00
	<u>14,875.00</u>		<u>14,875.00</u>
		b/d	14,250.00

D		Acc depr laptops	C
c/d	6,250.00	(5)	6,250.00
	<u>6,250.00</u>	b/d	6,250.00

D		Rev reserves	C
	750.00		2,500.00
c/d	1,750.00		
	<u>2,500.00</u>		<u>2,500.00</u>
(7)	1,250.00	b/d	1,750.00
c/d	875.00	(6)	375.00
	<u>2,125.00</u>		<u>2,125.00</u>
		b/d	875.00

D		Def tax liabilities	C
(6)	375.00	OV	750.00
c/d	375.00		
	<u>750.00</u>		<u>750.00</u>
		b/d	375.00

## Exhibit 3: Accounts

<b>Depreciation</b>			
D			C
(1)	4,875.00	P&L	11,275.00
(4)	150.00		
(5)	6,250.00		
	<u>11,275.00</u>		<u>11,275.00</u>
<b>Impairment loss</b>			
D			C
(2a)	375.00	c/d	375.00
b/d	375.00		
<b>Acc IL</b>			
D			C
(2b)	375.00	(2a)	375.00
<b>P, P, E ifone new</b>			
D			C
(3)	1,200.00	c/d	1,200.00
b/d	1,200.00		
<b>Cash/Bank</b>			
D			C
(9)	400,000.00	(3)	1,200.00
		(8)	220,000.00
		c/d	178,800.00
	<u>400,000.00</u>		<u>400,000.00</u>
b/d	178,800.00		
<b>Acc depr ifone new</b>			
D			C
c/d	150.00	(4)	150.00
		b/d	150.00
<b>R/E</b>			
D			C
DTI	375.00	(7)	1,250.00
c/d	118,720.00	R/E	117,845.00
	<u>119,095.00</u>		<u>119,095.00</u>
		b/d	118,720.00
<b>Other expenses</b>			
D			C
(8)	220,000.00	P&L	220,000.00
<b>Revenue</b>			
D			C
P&L	400,000.00	(9)	400,000.00
<b>P&amp;L</b>			
D			C
OE	220,000.00	Rev	400,000.00
P&L	11,275.00		
IL	375.00		
EBT	168,350.00		
	<u>400,000.00</u>		<u>400,000.00</u>
ITL	50,880.00	b/d	168,350.00
R/E	117,845.00	DTI	375.00
	<u>168,725.00</u>		<u>168,725.00</u>
<b>Income tax liabilities</b>			
D			C
c/d	50,880.00	P&L-tax	50,880.00
		b/d	50,880.00
<b>P&amp;L</b>			
D			C
OE	220,000.00	Rev	400,000.00
P&L	10,025.00		
IL	375.00		
EBT	169,600.00		
	<u>400,000.00</u>		<u>400,000.00</u>
ITL	50,880.00	b/d	169,600.00
R/E	118,720.00		
	<u>169,600.00</u>		<u>169,600.00</u>

Exhibit 3: Accounts (continued)

The statement of comprehensive income must contain deferred tax income as the laptops have been re-valued:

**Scharpen AG's  
STATEMENT of COMPREHENSIVE INCOME  
for the year ended 31.12.20X4**

	[EUR]
Revenue	400,000.00
Other income	400,000.00
Materials	0.00
Impairment loss	375.00
Depreciation	11,275.00
Other expenses	220,000.00
Earnings before int and taxes (EBIT)	168,350.00
Interest	0.00
<b>Earnings before taxes (EBT)</b>	<b>168,350.00</b>
Income tax expenses	50,880.00
Deferred taxes [exp/(income)]	(375.00)
<b>Earnings after taxes (EAT)</b>	<b>117,845.00</b>

**Exhibit 4:** Statement of comprehensive income

The register of non-current assets distinguishes between the old and the new tablets:

**Scharpen AG's  
REGISTER of NON-CURRENT ASSET Groups  
as at 31.12.20X4**

Asset	cost/revaluation	Acc. depr.	Acc. impairm. losses	Carrying amount
19 eifone tablets	19,000.00	(14,250.00)	0.00	4,750.00
1 eifone tablet new	1,200.00	(150.00)	0.00	1,050.00
20 Äzer laptops	12,500.00	(6,250.00)	0.00	6,250.00
				<u>12,050.00</u>

**Exhibit 5:** Register on non-current assets

The statement of financial position is not required by the task.

**Scharpen AG's  
STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X4		C, L	
<i>Non-current assets</i>		[EUR]		<i>Owners' capital</i>	[EUR]
P, P, E	12,050.00			Share capital	20,000.00 *
Intangibles				Reserves	875.00
Financial assets				R/E	118,720.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory				Interest bear liab	
A/R				A/P	
Prepaid expenses				Def tax liab	375.00
Cash/Bank	178,800.00			Tax liabilities	50,880.00
		<b>190,850.00</b>			<b>190,850.00</b>

**Exhibit 6:** Statement of financial position

\* The amount for the issued capital is derived from the opening amounts. The accounts in exhibit 1 are in total debit balanced by 20,000.00 EUR.