

Task IM-7.45: Exercise on Revaluations**(Impairment Loss and Disposal)**

PIESCHEN (Pty) Ltd. is a burger restaurant. On 1.04.20X1, PIESCHEN (Pty) Ltd. installs a deep freeze chamber in its kitchen and pays 120,000.00 EUR therefor. The amount contains VAT at a VAT rate of 20 %. Depreciation on the freeze chamber is along declining method at 1 %/month.

On 1.01.20X4 PIESCHEN (Pty) Ltd. revalues the freeze chamber. The fair value at this stage is 75,000.00 EUR. Further depreciation is along declining method at 1 %/month.

On 1.07.20X4 PIESCHEN (Pty) Ltd. the chamber's electrical unit catches fire which damages the freezing chamber badly. Depreciation stops at the time of the impairment. PIESCHEN (Pty) Ltd. sells parts of the freezing chamber at a net selling price of 8,500.00 EUR to a döner restaurant on 1.2.20X5. The remaining parts are scrap and disposed. The amount paid by the buyer indicates the fair value of the freezing chamber as at 31.12.20X5.

Required: Prepare a register of non-current assets as at 31.12.20X4. No comparative information of the previous accounting period required. Dissolve revaluation reserves and deferred tax liabilities pro rata with regard to the level of depreciation and impairment loss on the asset on 1.07.20X4 in one step. Calculate deferred taxes based on an income tax rate of 30 %. How much is the balancing figure in the Retained Earnings account as at 31.12.20X4?

Solution:

(1) Acquisition of the freezing chamber at cost of acquisition of 100,000.00 EUR.

DR P, P, E	100,000.00 EUR
DR VAT	20,000.00 EUR
CR Cash/Bank	120,000.00 EUR

Note, there is no recording of bookkeeping entries (2), (3) and (4) required for this task.

(2) Depreciation on the freezing chamber during 20X1: The remaining amount equals to $100,000 \times (1 - 0.01)^9 = 91,351.72$ EUR. Depreciation equals to $100,000 - 91,351.72 = 8,648.28$ EUR.

(3) Depreciation on the freezing chamber during 20X2: The remaining amount equals to $91,351.72 \times (1 - 0.01)^{12} = 80,972.78$ EUR. Accordingly to this amount, depreciation for 20X2 equals to $91,351.72 - 80,972.78 = 10,378.94$ EUR.

(4) Depreciation on the freezing chamber during 20X3: The remaining amount equals to $80,972.78 \times (1 - 0.01)^{12} = 71,773.05$ EUR. Accordingly to this amount, depreciation for 20X3 equals to $80,972.78 - 71,773.05 = 9,199.73$ EUR.

The balancing figure in the Accumulated Depreciation account equals to $8,648.28 + 10,378.94 + 9,199.73 = 28,226.95$ EUR. The carrying amount equals to $100,000 - 28,226.95 = 71,773.05$ EUR.

(5) The revaluation of the freezing chamber is along the net replacement method:

D	P, P, E @valuation	C
(5)	75,000.00	c/d 75,000.00
b/d	75,000.00	

D	Depreciation 20X4	C
(7)	4,388.99	c/d 4,388.99
b/d	4,388.99	

D	Revaluation reserves	C
(6)	968.09	(5) 3,226.95
c/d	2,258.86	
	3,226.95	3,226.95
(10)	2,856.82	b/d 2,258.86
c/d	259.09	(9) 857.05
	3,115.91	3,115.91
		b/d 259.09

D	Deferred tax liabilities	C
(9)	857.05	(6) 968.09
c/d	111.04	
	968.09	968.09
		b/d 111.04

D	Impairment loss	C
(8)	62,111.01	c/d 62,111.01
b/d	62,111.01	

D	Acc IL	C
c/d	62,111.01	(8) 62,111.01
		b/d 62,111.01

D	Retained earnings R/E	C
P&L	66,500.00	(10) 2,856.82
		c/d 63,643.18
	66,500.00	66,500.00
b/d	63,643.18	

D	Profit and Loss P&L	C
Depr	4,388.99	NL c/d 66,500.00
IL	62,111.01	66,500.00
	66,500.00	66,500.00
b/d	66,500.00	R/E 66,500.00

Exhibit 1: Accounts (continued)

**Pieschen (Pty.) Ltd.'s
REGISTER of NON-CURRENT ASSETS
as at 31.12.20X4**

Asset	Revaluation	Acc. depr.	Acc. impairm. losses	Carrying amount
Freezing chamber	75,000.00	(4,388.99)	(62,111.01)	8,500.00
				8,500.00

Exhibit 2: Register on non-current assets as at 31.12.20X1