

Task IM-7.54: Exercise on Disposals

(Impairment Loss)

WEESE Ltd. is a South African surf training centre at the Indian Ocean. The company owns 40 surf boards as disclosed on the register of non-current assets as at 31.12.20X5. (not provided by task!). The surf boards are all bought at 17,000.00 ZAR/u (cost of acquisition) on 1.07.20X4. Depreciation is based on declining method at 3%/m.

On 5.01.20X6, WEESE Ltd. buys 10 new surf boards at 18,000.00 ZAR (cost of acquisition). Depreciation method and parameters remain unchanged. On 3.10.20X6, 5 old and 5 new surfboards are totalled when falling from a car trailer on a transport.

WEESE Ltd. sells the remaining surfboards at a gross selling price of 420,000.00 ZAR on 30.12.20X6 as the training centre enters in a kite surfing school at the Atlantic Ocean which is closer to the city.

Required: Determine the register of non-current assets as at 31.12.20X5 and the profit/loss on disposal and record a full income statement for 20X6. Assume the revenue is 800.00 ZAR/h and labour is 400.00 ZAR/h. All available surfboards are rented out for 50 h/month.

WEESE Ltd. ist ein südafrikanisches SurftrainingsCenter am Indischen Ozean. Das Unternehmen besitzt 40 Surfboards, die im Anlagespiegel zum 31.12.20X5 gezeigt werden (nicht in der Aufgabe abgebildet). Alle Surfboards wurden zu 17.000,00 ZAR/Stück am 1.07.20X4 angeschafft. Die Abschreibung erfolgt nach degressiver Abschreibungsmethode zu 3%/Monat.

Am 5.01.20X6 kauft WEESE Ltd. 10 neue Surfboards zu 18.000,00 ZAR/Stück (Anschaffungskosten). Die Abschreibungsmethode und -parameter bleiben unverändert.

Am 3.10.20X6 werden 5 alte und 5 neue Surfboards bei einem Transportunfall beschädigt (Totalschaden).

WEESE Ltd. verkauft die verbleibenden Surfboards zu einem Bruttopreis von 420.000,00 ZAR am 30.12.20X6 weil das Zentrum in eine Kite-Surfing-Schule am Atlantik übersiedelt.

Gefragt: Bestimmen Sie den Anlagespiegel zum 31.12.20X5 und den Gewinn/Verlust beim Verkauf. Erstellen Sie eine komplette Gewinn- und Verlustrechnung für 20X6. Nehmen Sie an, der Umsatz betrage 800,00 ZAR/h und Lohnkosten sind 400,00 ZAR/h. Alle verfügbaren Surfboards werden 50 Stunden/m vermietet.

Solution:

Weese Ltd.'s REGISTER of NON-CURRENT ASSETS as at 31.12.20X5				
Asset	P, P, E @ cost / @ valuation	Acc. depr.	Acc. impairment loss	Carrying amount
40 surfboards 1.07.20X4	680,000.00	(286,993.14)		393,006.86
				0.00
				0.00
Total				393,006.86

Exhibit 1: Register of non-current assets

Depreciation for the period 1.01.-3.10.20X6 for the old surf boards: $393,006.86 - 393,006.86 \times (1 - 3\%)^9 = 94,230.84$ ZAR. Accordingly, the carrying amount is: $39,300.69 - 9,423.08 = 298,776.02$ ZAR.

DR Depreciation	94,230.84 ZAR
CR Acc. Depr.	94,230.84 ZAR

Acquisition of the new surf boards:

DR P, P, E	180,000.00 ZAR
DR VAT	36,000.00 ZAR
CR Cash/Bank	216,000.00 ZAR

Depreciation for the period 1.01.-3.10.20X6 for the new surf boards: $180,000 - 180,000 \times (1 - 3\%)^9 = 43,158.41$ ZAR. Accordingly, the carrying amount is: $180,000 - 43,158.41 = 136,841.59$ ZAR.

DR Depreciation	43,158.41 ZAR
CR Acc Depr	43,158.41 ZAR

The impairment loss is amounting to the full carrying amount of the damaged surf-boards. It is coming down to: $5/40 \times 298,776.02 + 5/10 \times 136,841.59 =$
105,767.80 ZAR.

DR Impairment Loss	105,767.80 ZAR
CR Acc Impairment Loss	105,767.80 ZAR

Depreciation on the remaining old surf boards is amounting to: $35/40 \times 298,776.02 - 35/40 \times 298,776.02 \times (1 - 3\%)^3 =$ **22,829.81 ZAR.**

DR Depreciation	22,829.81 ZAR
CR Acc Depr	22,829.81 ZAR

The carrying amount of the surf boards as at 30.12.20X6 is: $35/40 \times 298,776.02 \times (1 - 3\%)^3 =$ **238,599.21 ZAR.**

Depreciation on the remaining new surf boards is amounting to: $5/10 \times 136,841.59 - 5/10 \times 136,841.59 \times (1 - 3\%)^3 =$ **5,974.98 ZAR.**

DR Depreciation	5,974.98 ZAR
CR Acc Depr	5,974.98 ZAR

The carrying amount of the surf boards as at 30.12.20X6 is: $5/10 \times 136,841.59 \times (1 - 3\%)^3 =$ **62,445.81 ZAR.**

The profit on disposal is amounting to: $420,000/120\% - (238,599.21 + 62,445.81) =$ **48,954.98 ZAR.**

The company's revenue is amounting to: $((40 + 10) \times 9 + (35 + 5) \times 3) \times 50 \times 800 =$ **22,800,000.00 ZAR.** The labour cost is: $((40 + 10) \times 9 + (35 + 5) \times 3) \times 50 \times 800 =$ **11,400,000.00 ZAR.**

Observe the income statement as below:

**Weese Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X6**

	[EUR]
Revenue	22,800,000.00
Other income	48,954.98
	<u>22,848,954.98</u>
Materials	
Labour	(11,400,000.00)
Depreciation	(166,194.04)
Impairment loss	(105,767.80)
Earnings before int. & taxes (EBIT)	<u>11,176,993.14</u>
Interest	
Earnings before taxes (EBT)	<u>11,176,993.14</u>
Income tax expenses	(3,353,097.94)
Deferred taxes	
Earnings after taxes (EAT)	<u>7,823,895.20</u>

Exhibit 2: Weese Ltd.'s income statement

Be aware of the fact, that the net selling price for the surf boards is no revenue. It is no ordinary business of WEESE Ltd. to sell surfboards. Only the profit on disposal is disclosed on the income statement.