

**Task IM-7.55: Revaluation and Deposit**

PAROW Ltd. is a British trading business. The company resides in York in a property bought on 3.02.20X2 at 500,000.00 GBP. The property includes a building at cost of acquisition of 300,000.00 GBP which are included in the price of property above. No tax on acquisition applies.

The building is written off following straight line method over its useful life of 50 years. The plot is not subjected to depreciation.

At the beginning of 20X7 (1.01.20X7), PAROW Ltd.'s issued capital is 500,000.00 GBP; the earnings reserves are 200,000.00 GBP and the Retained Earnings account shows 94,000.00 GBP. There are no tax liabilities nor dividends payable at that time. On 6.05.20X7, PAROW Ltd. repairs the house's roof for 50,000.00 GBP (net amount, VATable). On 1.10.20X7, property prices increase by 25 % due to a mall opened in the vicinity of PAROW Ltd.'s plot. This applies for the land only; the value of the house stays. On 9.06.20X8, PAROW Ltd. sells the property for 750,000.00 GBP. The sale is not subjected to VAT.

Besides of depreciation, repair and the profit on disposal, PAROW Ltd. records in both years 20X7 and 20X8 a revenue of 1,600,000.00 GBP and operational expenses to the extent of 1,200,000.00 GBP.

For 20X7 no appropriation of profits applies. For 20X8, PAROW Ltd. decides to pay half of the distributable amount to its shareholders. The remainder is added to earnings reserves. The distributable amount does not contain dissolved revaluation reserves. Keep those in the Retained Earnings account (IAS 16.39 and IAS 16.41)!

**Required: Prepare an income statement and a statement of changes in equity for PAROW Ltd. both as at 31.12.20X7 and 31.12.20X8. Assume all payments are made through the Cash/Bank account.**

**Solution:**

Depreciation on the building for 20X2 to 20X6 is amounting to:  $(11 + 4 \times 12) \times 300,000 / (50 \times 12) = \mathbf{29,500.00 \text{ GBP}}$ .

See the opening values for the accounts in exhibit 1! It is assumed that the difference in opening values is recorded as cash/bank to prepare a full balance sheet (not required by task).

D	<b>P, P, E building</b>	C	D	<b>P, P, E land</b>	C
OV	300,000.00		OV	200,000.00	
D	<b>Acc depr ACC</b>	C	D	<b>Issued capital ISS</b>	C
		OV 29,500.00			OV 500,000.00
D	<b>Earnings reserves RES</b>	C	D	<b>Retained earnings R/E</b>	C
		OV 200,000.00			OV 100,000.00
D	<b>Cash/Bank C/B</b>	C			
OV	329,500.00				

**Exhibit 1: Opening values**

(1) The repair is recorded as expense.

<b>DR Repair</b> .....	<b>50,000.00 GBP</b>
<b>DR VAT</b> .....	<b>10,000.00 GBP</b>
<b>CR Cash/Bank</b> .....	<b>60,000.00 GBP</b>

(2) Depreciation on the house is recorded for 20X7:  $12 \times 300,000 / (50 \times 12) = 6,000.00$  GBP.

<b>DR Depreciation</b> .....	<b>6,000.00 GBP</b>
<b>CR Acc Depr</b> .....	<b>6,000.00 GBP</b>

(3, 4) The revaluation of property is only linked to the plot. The value increases from before 200,000.00 GBP to:  $125\% \times 200,000 = 250,000.00$  GBP.

<b>DR P,P,E @val plot</b> .....	<b>250,000.00 GBP</b>
<b>CR P,P,E @cost plot</b> .....	<b>200,000.00 GBP</b>
<b>CR Revaluation reserves</b> .....	<b>50,000.00 GBP</b>

DR Revaluation Reserves .....	15,000.00 GBP
CR Deferred Tax Liab. ....	15,000.00 GBP

(5) Recording operational expenses and (6) revenue:

DR Operational Expenses .....	1,200,000.00 GBP
DR VAT .....	240,000.00 GBP
CR Cash/Bank .....	1,440,000.00 GBP
DR Cash/Bank .....	1,920,000.00 GBP
CR VAT .....	320,000.00 GBP
CR Revenue .....	1,600,000.00 GBP

See the profit calculation in exhibit 2!

D	P, P, E building	C
OV	300,000.00	c/d 300,000.00
b/d	300,000.00	

D	P, P, E land	C
OV	200,000.00	(3) 200,000.00

D	Acc depr ACC	C
	OV	29,500.00
c/d	35,500.00	(2) 6,000.00
	35,500.00	35,500.00
	b/d	35,500.00

D	Issued capital ISS	C
c/d	500,000.00	OV 500,000.00
		b/d 500,000.00

D	Earnings reserves RES	C
c/d	200,000.00	OV 200,000.00
		b/d 200,000.00

D	Retained earnings R/E	C
	OV	100,000.00
c/d	340,800.00	P7L 240,800.00
	340,800.00	340,800.00
	b/d	340,800.00

D	Cash/Bank C/B	C
OV	329,500.00	(1) 60,000.00
(6)	1,920,000.00	(5) 1,440,000.00
		c/d 749,500.00
	2,249,500.00	2,249,500.00
b/d	749,500.00	

D	Repair-20X7	C
(1)	50,000.00	P7L 50,000.00

D		VAT	C	
(1)	10,000.00	(6)	320,000.00	
(5)	240,000.00			
c/d	70,000.00			
	<u>320,000.00</u>		<u>320,000.00</u>	
		b/d	70,000.00	

D		Depreciation on house-20X7 DPR	C	
(2)	6,000.00	P7L	6,000.00	

D		P,P,E @val plot	C	
(3)	250,000.00	c/d	250,000.00	
b/d	250,000.00			

D		Revaluation reserves RES	C	
(4)	15,000.00	(3)	50,000.00	
c/d	35,000.00			
	<u>50,000.00</u>		<u>50,000.00</u>	
		b/d	35,000.00	

D		Deferred tax liabilities DTL	C	
c/d	15,000.00	(4)	15,000.00	
		b/d	15,000.00	

D		Operational expenses-20X7 OEX	C	
(5)	1,200,000.00	P7L	1,200,000.00	

D		Revenue-20X7 REV	C	
P7L	1,600,000.00	(6)	1,600,000.00	

D		Profit and Loss-20X7 P7L	C	
DPR	6,000.00	REV	1,600,000.00	
OEX	1,200,000.00			
REP	50,000.00			
EBT	344,000.00			
	<u>1,600,000.00</u>		<u>1,600,000.00</u>	
ITL	103,200.00	b/d	344,000.00	
R/E	240,800.00			
	<u>344,000.00</u>		<u>344,000.00</u>	

D		Income tax liabilities ITL	C	
c/d	103,200.00	P7L	103,200.00	
		b/d	103,200.00	

## Exhibit 2: PAROW Ltd.'s accounts 20X7

**Parow Ltd.**  
**STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X7**

	[GBP]
Revenue	1,600,000.00
Other income	
	<u>1,600,000.00</u>
Materials	0.00
Labour	0.00
Depreciation	(6,000.00)
Other expenses	<u>(1,250,000.00)</u>
<b>Earnings before int. &amp; taxes (EBIT)</b>	<b>344,000.00</b>
Interest	
<b>Earnings before taxes (EBT)</b>	<b>344,000.00</b>
Income tax expenses	(103,200.00)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<b>240,800.00</b>

**Exhibit 3: PAROW Ltd.'s income statement**

**Parow Ltd.**  
**STATEMENT of CHANGES in EQUITY**  
**as at 31.12.20X7/8**

	Share capital	Reserves	Retained earnings	total
	[GBP]	[GBP]	[GBP]	[GBP]
as at 1.01.20X7	500,000.00	200,000.00	100,000.00	800,000.00
Profit 20X7			240,800.00	240,800.00
Revaluation		35,000.00		35,000.00
Additions to reserves				0.00
as at 31.12.20X0	500,000.00	235,000.00	340,800.00	1,075,800.00

**Exhibit 4: PAROW Ltd.'s statement of changes in equity**

In the next year, PAROW Ltd. pays income tax and VAT:

(A) Tax payment:

<b>DR Income Tax Liab. ....</b>	<b>103,200.00 GBP</b>
<b>CR Cash/Bank ....</b>	<b>103,200.00 GBP</b>

(B) VAT payment:

<b>DR VAT</b> .....	<b>70,000.00 GBP</b>
<b>CR Cash/Bank</b> .....	<b>70,000.00 GBP</b>

Before selling the property, deferred taxes and revaluation reserves are dissolved.

(C) Dissolving deferred tax liabilities:

<b>DR Deferred Tax Liab.</b> .....	<b>15,000.00 GBP</b>
<b>CR Revaluation Reserves</b> .....	<b>15,000.00 GBP</b>

(D) Dissolving revaluation reserves:

<b>DR Revaluation Reserves</b> .....	<b>50,000.00 GBP</b>
<b>CR Retained earnings</b> .....	<b>50,000.00 GBP</b>

(E) Depreciation on the building for 5 month equals:  $5 \times 300,000 / (12 \times 50) = 2,500.00$  GBP.

<b>DR Depreciation</b> .....	<b>2,500.00 GBP</b>
<b>CR Acc Depr.</b> .....	<b>2,500.00 GBP</b>

(F, G) Recording operational expenses and revenue:

<b>DR Operational expenses</b> .....	<b>1,200,000.00 GBP</b>
<b>DR VAT</b> .....	<b>240,000.00 GBP</b>
<b>CR Cash/Bank</b> .....	<b>1,440,000.00 GBP</b>
 <b>DR Cash/Bank</b> .....	 <b>1,920,000.00 GBP</b>
<b>CR VAT</b> .....	<b>320,000.00 GBP</b>
<b>CR Revenue</b> .....	<b>1,200,000.00 GBP</b>

Observe the accounts for the disposal (Realisation account) and profit calculation as well as the appropriation thereof in exhibit 5!

D		P, P, E building	C	
OV	300,000.00	c/d	300,000.00	
b/d	300,000.00	(J)	300,000.00	

D		P, P, E land	C	
OV	200,000.00	(3)	200,000.00	

D		Acc depr ACC	C	
		OV	29,500.00	
c/d	35,500.00	(2)	6,000.00	
	35,500.00		35,500.00	
		b/d	35,500.00	
c/d	38,000.00	(E)	2,500.00	
	38,000.00		38,000.00	
(K)	38,000.00	b/d	38,000.00	

D		Issued capital ISS	C	
c/d	500,000.00	OV	500,000.00	
		b/d	500,000.00	

D		Earnings reserves RES	C	
c/d	200,000.00	OV	200,000.00	
		b/d	200,000.00	
c/d	598,825.00	RES	417,825.00	
	598,825.00		617,825.00	
		b/d	598,825.00	

D		Retained earnings R/E	C	
		OV	100,000.00	
c/d	340,800.00	P7L	240,800.00	
	340,800.00		340,800.00	
RES	417,825.00	b/d	340,800.00	
S4D	417,825.00	(D)	50,000.00	
	835,650.00	P8L	444,850.00	
			835,650.00	

D		Cash/Bank C/B	C	
OV	329,500.00	(1)	60,000.00	
(6)	1,920,000.00	(5)	1,440,000.00	
		c/d	749,500.00	
	2,249,500.00		2,249,500.00	
b/d	749,500.00	(A)	103,200.00	
(G)	1,920,000.00	(B)	70,000.00	
(H)	750,000.00	(F)	1,440,000.00	
		c/d	1,806,300.00	
	3,419,500.00		3,419,500.00	
b/d	1,806,300.00			

D		Repair-20X7	C	
(1)	50,000.00	P7L	50,000.00	

D		VAT	C	
(1)	10,000.00	(6)	320,000.00	
(5)	240,000.00			
c/d	70,000.00			
	<u>320,000.00</u>		<u>320,000.00</u>	
(B)	70,000.00	b/d	70,000.00	
(F)	240,000.00	(G)	320,000.00	
c/d	80,000.00			
	<u>390,000.00</u>		<u>390,000.00</u>	
		b/d	80,000.00	

D		Depreciation on house-20X7 DPR	C	
(2)	6,000.00	P7L	6,000.00	

D		P,P,E @val plot	C	
(3)	250,000.00	c/d	250,000.00	
b/d	250,000.00	(I)	250,000.00	

D		Revaluation reserves RES	C	
(4)	15,000.00	(3)	50,000.00	
c/d	35,000.00			
	<u>50,000.00</u>		<u>50,000.00</u>	
(D)	50,000.00	b/d	35,000.00	
	<u>50,000.00</u>	(C)	15,000.00	
			<u>50,000.00</u>	

D		Deferred tax liabilities DTL	C	
c/d	15,000.00	(4)	15,000.00	
(C)	15,000.00	b/d	15,000.00	

D		Operational expenses-20X7 OEX	C	
(5)	1,200,000.00	P7L	1,200,000.00	

D		Revenue-20X7 REV	C	
P7L	1,600,000.00	(6)	1,600,000.00	

D		Profit and Loss-20X7 P7L	C	
DPR	6,000.00	REV	1,600,000.00	
OEX	1,200,000.00			
REP	50,000.00			
EBT	344,000.00			
	<u>1,600,000.00</u>		<u>1,600,000.00</u>	
ITL	103,200.00	b/d	344,000.00	
R/E	240,800.00			
	<u>344,000.00</u>		<u>344,000.00</u>	



D	Income tax liabilities ITL	C
c/d	103,200.00	P7L 103,200.00
(A)	103,200.00	b/d 103,200.00
c/d	190,650.00	P8L 190,650.00
	<u>293,850.00</u>	<u>293,850.00</u>
		b/d 190,650.00

D	Depreciation-20X8 DPR	C
(E)	<u>2,500.00</u>	P8L <u>2,500.00</u>

D	Operational expenses-20X8 OEX	C
(F)	<u>1,200,000.00</u>	P8L <u>1,200,000.00</u>

D	Revenue-20X8 REV	C
P8L	<u>1,600,000.00</u>	(G) <u>1,600,000.00</u>

D	Profit and Loss-20X8 P8L	C
OEX	1,200,000.00	REV 1,600,000.00
DPR	2,500.00	PoD 238,000.00
EBT	<u>635,500.00</u>	
	<u>1,838,000.00</u>	<u>1,838,000.00</u>
ITL	190,650.00	b/d 635,500.00
R/E	<u>444,850.00</u>	
	<u>635,500.00</u>	<u>635,500.00</u>

D	Realisation	C
(I)	250,000.00	(H) 750,000.00
(J)	300,000.00	(K) 38,000.00
c/d	<u>238,000.00</u>	
	<u>788,000.00</u>	<u>788,000.00</u>
PoD	238,000.00	b/d 238,000.00

D	Shareholders for dividend S4D	C
c/d	<u>417,825.00</u>	R/E <u>417,825.00</u>
		b/d 417,825.00

### Exhibit 5: Accounts 20X8

See below the income statement for 20X8:

**Parow Ltd.**  
**STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X7/8**

	[GBP]
Revenue	1,600,000.00
Other income	238,000.00
	<u>1,838,000.00</u>
Materials	0.00
Labour	0.00
Depreciation	(2,500.00)
Other expenses	<u>(1,200,000.00)</u>
<b>Earnings before int. &amp; taxes (EBIT)</b>	<b>635,500.00</b>
Interest	
<b>Earnings before taxes (EBT)</b>	<u><b>635,500.00</b></u>
Income tax expenses	(190,650.00)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<u><b>444,850.00</b></u>

**Exhibit 6: Income statement**

Next, we show the statement of changes in equity for both Accounting periods in exhibit 7.

**Parow Ltd.**  
**STATEMENT of CHANGES in EQUITY**  
**as at 31.12.20X7/8**

	Share capital	Reserves	Retained earnings	total
	[GBP]	[GBP]	[GBP]	[GBP]
as at 1.01.20X7	500,000.00	200,000.00	100,000.00	800,000.00
Profit 20X7			240,800.00	240,800.00
Revaluation		35,000.00		35,000.00
Additions to reserves				0.00
as at 31.12.20X7	500,000.00	235,000.00	340,800.00	1,075,800.00
Profit 20X8			444,850.00	444,850.00
Revaluation		(35,000.00)	50,000.00	15,000.00
Dividends			(417,825.00)	(417,825.00)
Additions to reserves		417,825.00	(417,825.00)	0.00
as at 31.12.20X8	500,000.00	617,825.00	0.00	1,117,825.00

**Exhibit 7: Statement of changes in equity**

Although it is not required, you will find below the balance sheets for 20X7 and 20X8:

Parow Ltd.			
STATEMENT of FINANCIAL POSITION			
as at 31.12.20X7			
A			C, L
<i>Non-current assets</i>	[GBP]	<i>Equity</i>	[GBP]
P, P, E	514,500.00	Share capital	500,000.00
Intangibles		Reserves	235,000.00
Financial assets		Retained earnings	340,800.00
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory		Long-term liab.	
Acc. receivables A/R		Short-term liab. A/P	70,000.00
Prepaid expenses		Provisions	15,000.00
Cash/Bank	749,500.00	Income tax liab.	103,200.00
<b>Total assets</b>	<b>1,264,000.00</b>	<b>Total equity and liab.</b>	<b>1,264,000.00</b>

**Exhibit 8:** Balance sheet 20X7

Parow Ltd.			
STATEMENT of FINANCIAL POSITION			
as at 31.12.20X8			
A			C, L
<i>Non-current assets</i>	[GBP]	<i>Equity</i>	[GBP]
P, P, E	0.00	Share capital	500,000.00
Intangibles		Reserves	617,825.00
Financial assets		Retained earnings	0.00
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory		Long-term liab.	
Acc. receivables A/R		Short-term liab. A/P	497,825.00
Prepaid expenses		Provisions	0.00
Cash/Bank	1,806,300.00	Income tax liab.	190,650.00
<b>Total assets</b>	<b>1,806,300.00</b>	<b>Total equity and liab.</b>	<b>1,806,300.00</b>

**Exhibit 9:** Balance sheet 20X8