

**Task A7.57: Exercise on Impairment Loss**

SLADE PLC. is a British aircraft rental company. SLADE PLC. is registered for VAT reduction. SLADE PLC. discloses an aircraft Cessna-172 bought on 5.07.20X4 at 243,000.00 GBP (gross amount). The plane is written off based on straight line method with consideration of a residual value of 100,000.00 GBP for the parts. Its useful life is 20 years. Consider the entire aircraft as one single asset, meaning no major spare parts are shown separately. The entire plane is written off as a whole.

During major parts inspection on 5.07.20X8, SLADE PLC. replaces the cockpit instruments by an Electronic Flight Information System EFIS (glass cockpit). The new EFIS costs 27,000.00 GBP (gross amount), but SLADE Ltd. receives a 5 % discount. Also, the EFIS increases the residual value of the plane by 8 %.

The major parts inspection service is recorded as repair (Ignore IAS 1.14) and costs 5,700.00 GBP (gross amount, no discount on repairs). After the major parts inspection, SLADE PLC. sells the replaced instruments that were carried at an amount of 8,200.00 GBP (included in the carrying amount of the plane) at 12,000.00 GBP (gross amount).

Besides of the major parts inspection and the replacement of the cockpit instruments, SLADE PLC. recorded operational costs of 60,000.00 GBP and rental income of 150,000.00 GBP (net amounts).

**Required: Prepare an income statement as at 31.12.20X8 and a register of non-current assets for SLADE PLC. as at 31.12.20X7 and 31.12.20X8 (no comparative data required). Disclose therein the plane at the cost of acquisition as at the time of the completed replacement of the cockpit instruments based on IAS 1.13.**

Solution:

**SLADE PLC's  
REGISTER of NON-CURRENT ASSETS  
as at 31.12.20X7**

Asset	P, P, E @ cost / @ valuation	Acc. depr.	Acc. impairment loss	Carrying amount
Cessna 172	202,500.00	(17,937.50)		184,562.50
Asset 2				0.00
Asset 3				0.00
<b>Total</b>				<b>184,562.50</b>

**Exhibit 1:** Register of non-current assets (20X7)

Depreciation in 20X8 before the MPI:  $0.5 \times (202,500 - 100,000) / 20 = \mathbf{2,562.50 \text{ GBP}}$ .

The MPI costs  $5,700 / 120\% = \mathbf{4,750.00 \text{ GBP}}$  and is recorded as an expense for the income statement.

The change in valuation is based on the increase in value due to the EFIS. The increase is  $27,000 \times (1 - 5\%) / 120\% - 8,200 = \mathbf{13,175.00 \text{ GBP}}$ . The amount is added to the carrying amount of the aircraft as at 5.07.20X8. The cost of acquisition is now:  $184,562.50 - 2,562.50 + 13,175 = \mathbf{195,175.00 \text{ GBP}}$ .

The depreciation of the aircraft is based on straight line method. The remaining useful life is 16 years and the residual value is:  $(1 + 8\%) \times 100,000 = 108,000.00 \text{ GBP}$ . Hence depreciation is amounting to:  $0.5 \times (195,175 - 108,000) / 16 = \mathbf{2,724.22 \text{ GBP}}$ .

**SLADE PLC's**  
**REGISTER of NON-CURRENT ASSETS**  
**as at 31.12.20X8**

<b>Asset</b>	<b>P, P, E @ cost / @ valuation</b>	<b>Acc. depr.</b>	<b>Acc. impairment loss</b>	<b>Carrying amount</b>
Cessna 172	195,175.00	(2,724.22)		192,450.78
Asset 2				0.00
Asset 3				0.00
<b>Total</b>				<b>192,450.78</b>

For the income statement the profit on disposal needs to be calculated. It is amounting to:  $12,000 / 120\% - 8,200 = \mathbf{1,800.00 \text{ GBP}}$ .

**Slade PLC's  
STATEMENT of PROFIT & LOSS  
and OTHER COMPREHENSIVE INCOME  
for the year ended 31.12.20X8**

	[GBP]
Revenue	150,000.00
Other income	1,800.00
	<u>151,800.00</u>
MPI expenses	(4,750.00)
Labour	
Depreciation	(5,286.72)
Other expenses	(60,000.00)
<b>Earnings before int. &amp; taxes (EBIT)</b>	<u>81,763.28</u>
Interest	
<b>Earnings before taxes (EBT)</b>	<u>81,763.28</u>
Income tax expenses	(24,528.98)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<u>57,234.30</u>

**Exhibit 3:** Income statement (20X8)