

Aufgabe QR-7.6: Änderung der Nutzungsdauer**(Changes in Accounting Policies)**

(This task refers to the changes in accounting policy required along IAS 8. Read page 155ff. for further consideration. The task is similar to task 7.4, but the reason for changing depreciation is different.)

MECKLENBECK Ltd. is in the movie making industry. For their new film they acquired a new movie camera and paid 12,000.00 EUR on 1.01.20X5. Consider VAT rate to be 20%. MECKLENBECK estimates to use camera 3 years and sell it after that period for 4,000.00 EUR (net amount) on the internet marked for used cameras. Assume they sell camera on 1.01.20X8, so it is included in bookkeeping records as end of year 20X7. Depreciation follows straight line method.

At the end of 20X6 MECKLENBECK Ltd's accountant notices that the useful life for the camera is too low. After consultation of an expert she adjusts it to 6 years.

Pls. provide the recognition of the camera for financial statements as at 31.12.20X6 and as at 31.12.20X7. In particular the comparison data are required for this task! Assume the national tax law does not allow to extent useful life and follows the original amount 3 years. Income tax rate is 30%. You need tax rate to compute deferred taxes.

Lösung: (Solution)

In 20X5 camera is bought and there is straight line depreciation under consideration of residual value to be 4,000.00 EUR.

(1) Acquisition

DR P, P, E	10,000.00 EUR
DR VAT	2,000.00 EUR
CR Bank	12,000.00 EUR

(2) Depreciation charge is $(10,000 - 4,000) / 3 = 2,000.00$ EUR.

DR Depr.	2,000.00 EUR
CR Acc. Depr.	2,000.00 EUR

During Accounting period 20X6 the accountant learns that useful life is to be changed. Along IAS 8 the change in accounting policy is to be pulled forward to 20X5 and to be shown as comparable information. Despite, financial statements for 20X5 remain unchanged.

New depreciation charge is $(10,000 - 4,000) / 6 = 1,000.00$ EUR. For that reason bookkeeping entry is:

(3) Depreciation in 20X6 along IFRSs

DR Depr.	1,000.00 EUR
CR Acc. Depr.	1,000.00 EUR

Now, financial statements show depreciation to be 1,000.00 EUR for both years (!) along display as at 31.12.20X6. To adjust accumulated depreciation account you have to make the following bookkeeping entry:

(adj) Adjustment

DR Acc. Depr.	1,000.00 EUR
CR Retained Earnings	1,000.00 EUR

The adjustment and the different depreciation charge require raising a provision for deferred taxes in 20X6: As you have changed bookkeeping entries for both years (for 20X5 by adjustment, for 20X6 by different depreciation charge) there is a timely difference to be considered between commercial financial statements' profit and tax basis. The difference amounts to 2,000.00 EUR.

(4) Making a bookkeeping entry for a provision for deferred taxes. The amount is $2,000 \cdot 30\% = 600.00$ EUR.

DR Deferred tax expenses	600.00 EUR
CR Deferred tax income	600.00 EUR

The new carrying amount at end of year 20X6 is derived from P, P, E account and accumulated depreciation account: $10,000 - 1,000 - 1,000 = 8,000.00$ EUR.

Preparing financial statements for 20X7 the new useful life is relevant. Depreciation charge is 1,000.00 EUR and for taxation it is 2,000.00 EUR.

(5) Depreciation in 20X7

DR Depr.	1,000.00 EUR
CR Acc. Depr.	1,000.00 EUR

Now, again profit for commercial financial statements exceeds taxable profit, so there is a further provision to be raised.

(6) Raising provision:

DR Deferred tax expenses	300.00 EUR
CR Provision	300.00 EUR

The accounts as at 31.12.20X7 look as below. Note, these are the accounts for bookkeeping records along IFRSs financial statements.

P, P, E		VAT		Bank	
D	C	D	C	D	C
(1) 10.000,00	c/d 10.000,00	(1) 2.000,00	c/d 2.000,00	c/d 12.000,00	(1) 12.000,00
b/d 10.000,00		b/d 2.000,00	Bank 2.000,00	VAT 2.000,00	b/d 12.000,00
				c/d 10.000,00	
				12.000,00	12.000,00
				b/d 10.000,00	

Acc Depr		Depr		Provision	
D	C	D	C	D	C
(adj) 1.000,00	(2) 2.000,00	(2) 2.000,00	P&L-X5 2.000,00	(4) 600,00	
	(3) 1.000,00	(3) 1.000,00	P&L-X6 1.000,00	(6) 300,00	
c/d 3.000,00	(5) 1.000,00	(5) 1.000,00	P&L-X7 1.000,00		
3.000,00	b/d 3.000,00				

Tax exp		R/E		P&L 20X7	
D	C	D	C	D	C
(4) 600,00	P&L-X6 600,00	P&L-05 2.000,00	c/d 2.000,00	Depr 1.000,00	R/E 1.300,00
(6) 300,00	P&L-X7 300,00	b/d 2.000,00	(adj) 1.000,00	Tax exp 300,00	
		P&L-06 1.600,00	c/d 2.600,00	1.300,00	1.300,00
		3.600,00	3.600,00		
		2.600,00			
		P&L-X7 1.300,00	c/d 3.900,00		
		3.900,00	3.900,00		
		b/d 3.900,00			

Exhibit 1: Accounts

The register of fixed assets shows the amounts as at 31.12.20X7:

**MECKLENBECK Ltd.'s
REGISTER OF NON-CURRENT ASSETS
as at 31.12.20X7**

Item	Cost/ Valuation [EUR]	Acc. Depreciation [EUR]	Acc. Impairment Loss [EUR]	Carrying Amount [EUR]
Camera	10.000,00	(3.000,00)	0,00	7.000,00

Exhibit 2: Register of fixed assets

RECONCILIATION OF CARRYING AMOUNTS

	20X7 [EUR]	20X6 [EUR]	20X5 [EUR]
Carrying Amount beginning of year	8.000,00	8.000,00	10.000,00
Adjustment	0,00	1.000,00	0,00
Impairment loss	0,00	0,00	0,00
Depreciation	(1.000,00)	(1.000,00)	(2.000,00)
Carrying Amount as at 31.12.	7.000,00	8.000,00	8.000,00

Exhibit 3: Reconciliation statement of carrying amounts

The comparison of financial statements as at 31.12.20X7 is as follows:

	old (useful life = 3 y)	new (useful life = 6 y)	B/S difference	I/S difference
31.12.20X5	8.000,00	8.000,00	0,00	
31.12.20X6	6.000,00	8.000,00	2.000,00	(2.000,00)
31.12.20X7	4.000,00	7.000,00	3.000,00	(1.000,00)

Exhibit 4: Comparison without deferred taxes.