

**Aufgabe QR-7.13: Changes in Depreciation**

(Veränderung der Abschreibung)

GOODWOOD Ltd. is in the pizza business. It makes and delivers pizzas to private customers. They operate 1 delivery van, bought on 4.01.20X2 for a net acquisition price of 21,000.00 EUR. Depreciation method is straight line method over a useful life of 6 years. On 1.01.20X5 GOODWOOD Ltd. changes the depreciation method to arithmetic declining method. The financial statements for taxation stick to straight line method. Consider deferred tax. Income tax rate is 30%, VAT rate is 20%.

**Required: Make all bookkeeping entries and prepare the reconciliation statement as at 31.12.20X5 including comparative information about 20X4.**

**Lösung: (Solution)**

Firstly, the bookkeeping entries for the first years are made:

The initial recognition is

<b>DR P,P,E at cost</b> .....	<b>21,000.00 EUR</b>
<b>DR VAT</b> .....	<b>4,200.00 EUR</b>
<b>CR Bank</b> .....	<b>25,200.00 EUR</b>

Depreciation charge for 20X2 is  $21,000/6 = 3,500.00$  EUR.

<b>DR Depreciation (20X2)</b> .....	<b>3,500.00 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>3,500.00 EUR</b>

Depreciation charge for 20X3:

<b>DR Depreciation (20X3)</b> .....	<b>3,500.00 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>3,500.00 EUR</b>

Depreciation charge for 20X4:

<b>DR Depreciation (20X4)</b> .....	<b>3,500.00 EUR</b>
<b>CR Acc. Depr.</b> .....	<b>3,500.00 EUR</b>

Secondly, the depreciation method is to be changed. The change is to be shown in the financial statements for 20X5 that contain comparative information about 20X4. As at the end of year 20X3 the carrying amount of the car was  $21,000 - 7,000 = 14,000.00$  EUR. Depreciation along the arithmetic declining method is:

- in 20X4:  $4 \cdot 1,400 = 5,600.00$  EUR.
- in 20X5:  $3 \cdot 1,400 = 4,200.00$  EUR
- in 20X6:  $2 \cdot 1,400 = 2,800.00$  EUR
- in 20X7:  $1 \cdot 1,400 = 1,400.00$  EUR.

The comparative information for 20X4 requires to adjust the amount for accumulated depreciation from 10,500.00 EUR to 12,600.00 EUR. The depreciation charge along arithmetic method is higher than along straight line method. The difference in terms of the carrying amount is  $10,500 - 8,400 = 2,100.00$  EUR. The bookkeeping entry in order to adjust the Accumulated Depreciation account is (Consider the adjustment takes place in 20X5!).

<b>DR Depreciation. ....</b>	<b>2,100.00 EUR</b>
<b>CR Acc. Depr. ....</b>	<b>2,100.00 EUR</b>

For reasons of statement for taxation follow straight line method the change in the Accumulated Depreciation account causes deferred tax. It is  $2,100 \cdot 30\% = 630.00$  EUR.

<b>DR Deferred tax ....</b>	<b>630.00 EUR</b>
<b>CR R/E ....</b>	<b>630.00 EUR</b>

In the next year (20X5) depreciation is again higher than along straight line method. Depreciation charge for 20X5 amounts to  $3 \cdot 1,400 = 4,200.00$  EUR. Along straight line method it should be 3,500.00 EUR. The difference  $4,200 - 3,500 = 700.00$  EUR causes deferred taxes to be  $700 \cdot 30\% = 210.00$  EUR.

<b>DR Deferred tax ....</b>	<b>210.00 EUR</b>
<b>CR R/E ....</b>	<b>210.00 EUR</b>

The deferred taxes so far are to be considered as deferred tax income. They are going to be compensated in 20X6 and 20X7.

See the accounts for overview:

<b>PPE at cost</b>		<b>VAT</b>		<b>Bank</b>	
D	C	D	C	D	C
(1) 21.000,00		(1) 4.200,00 c/d 4.200,00		c/d 25.200,00 (1) 25.200,00	
		b/d 4.200,00 Bank 4.200,00		VAT 4.200,00 b/d 25.200,00	
<b>Depr 20X2</b>		<b>Depr 20X3</b>		<b>Depr 20X4</b>	
D	C	D	C	D	C
(2) 3.500,00 P&L 3.500,00		(3) 3.500,00 P&L 3.500,00		(4) 3.500,00 P&L 3.500,00	
<b>Acc. Depr.</b>		<b>R/E</b>		<b>Depr 20X5</b>	
D	C	D	C	D	C
c/d 3.500,00 (2) 3.500,00		...	...	(6) 4.200,00 P&L 6.300,00	
	b/d 3.500,00		(5a) 630,00	(5) 2.100,00	
c/d 7.000,00 (3) 3.500,00					
	b/d 7.000,00	...	...		
c/d 10.500,00 (4) 3.500,00			(6a) 210,00		
	b/d 10.500,00				
c/d 16.800,00 (5) 2.100,00					
	b/d 16.800,00				
c/d 16.800,00 (6) 4.200,00					
	b/d 16.800,00				
<b>Deferred taxes</b>					
D	C				
(5a) 630,00 c/d 630,00					
b/d 630,00					
(6a) 210,00 c/d 840,00					
	b/d 840,00				
b/d 840,00					

## Exhibit 1: Accounts

## RECONCILIATION OF CARRYING AMOUNTS

	20X4	20X5
	[EUR]	[EUR]
Carrying Amount beginning of year	14.000,00	8.400,00
Adjustment	0,00	0,00
Impairment loss	0,00	0,00
Depreciation	(5.600,00)	(4.200,00)
Carrying Amount as at 31.12.	8.400,00	4.200,00

## Exhibit 2: Reconciliation statement