

Aufgabe 7.33: Exercise on Revaluation

(Neubewertung)

ZEHLENDORF Ltd. is founded by a share issue of 20,000 shares at 5.00 EUR face value on 1.01.20X4. ZEHLENDORF Ltd. is an internet service for poster printing. The business buys 10 printers "MegaDruck" on 3.01.20X4 at cost of acquisition of 4,000.00 EUR each. Depreciation is along declining method at 1.67% per month based on the carrying amount at the months' beginning. One printer has problems and is sent back to the supplier on 30.06.20X4. The brand new replacement printer arrives 3 days later at ZEHLENDORF Ltd. The company doesn't get charged for the replacement of the printer. Consider it as a discount.

On the 30.11.20X4 all printers get revalued to 120 % of their carrying amount.

ZEHLENDORF Ltd. works on 400,000 print jobs and earns a profit (without consideration of depreciation) of 7.50 EUR/job.

Required: Prepare the PPE-relevant T-accounts for ZEHENDORF Ltd. in 20X4. Prepare an income statement, a register of non-current assets and a statement of changes in equity under a consideration of 50 %-reserves : 50 %-profit-carried-forward policy for the annual surplus. (No balance sheet and no Statement of cash flows required)

All transactions are on cash.

Solution:

(1) The share issue leads to the bookkeeping entry below:

DR Cash/Bank	100,000.00 EUR
CR Issued Capital	100,000.00 EUR

(2) Acquisition of printers as considered to be posted to one P; P; E-MegaDruck account. The amount is $10 \times 4,000 = 40,000.00$ EUR. The gross amount equals to $40,000 \times 120\% = 48,000.00$ EUR.

DR P, P, E-MegaDruck	40,000.00 EUR
DR VAT	8,000.00 EUR
CR Cash/Bank	48,000.00 EUR

(3) Depreciation for 6 months for all printers leads to a carrying amount of $40,000 \times (1 - 1.67\%)^6 = 36,155.65$ EUR. Accordingly, depreciation amounts to $40,000 - 36,155.65 = 3,844.35$ EUR.

DR Depreciation	3,844.35 EUR
CR Acc. Depr.	3,844.35 EUR

The replacement of the printer doesn't affect the bookkeeping records as the new value of the printer is compensated by the discount received.

(4) Depreciation is resumed in July and the carrying amount as at the end of November 20X4 amounts to $36,155.65 \times (1 - 1.67\%)^5 = 33,235.82$ EUR. Depreciation accordingly is $36,155.65 - 33,235.82 = 2,919.83$ EUR.

DR Depreciation	2,919.83 EUR
CR Acc. Depr.	2,919.83 EUR

(5) After depreciation revaluation takes place. The bookkeeping entry below is along a net replacement bookkeeping. The new carrying amount after depreciation equals to $120\% \times 33,235.82 = 39,882.98$ EUR.

DR Acc. Depr.	6,764.18 EUR
DR P, P, E @valuation	39,882.98 EUR
CR P, P, E @cost	40,000.00 EUR
CR Revaluation Reserves	6,647.16 EUR

(6) ZEHLENDORF Ltd. posts the deferred tax liabilities to an extent of $0.30 \times 6,647.16 = 1,994.15$ EUR.

DR Revaluation Reserves	1,994.15 EUR
CR Def. Tax. Liab.	1,994.15 EUR

(7) ZEHLENDORF Ltd. writes off the printers for December according to their carrying amount. (IFRS): $39,882.98 \times 1.67\% = 666.05$ EUR.

DR Depreciation	666.05 EUR
CR Acc. Depr.	666.05 EUR

(8, 9) Accordingly to the percentage of depreciation there is dissolving of revaluation reserves and deferred tax liabilities required. Dissolving deferred tax liabilities equals to $1,994.15 \times 1.67\% = 33.30$ EUR. Dissolving revaluation reserves equals to $6,647.16 \times 1.67\% = 111.01$ EUR.

DR Def. Tax. Liab.	33.30 EUR
CR Revaluation Reserves	33.30 EUR

DR Revaluation Reserves	111.01 EUR
CR Retained Earnings	111.01 EUR

(10) The profit without consideration of depreciation is $400,000 \times 7.50 = 3,000,000.00$ EUR.

DR Cash/Bank	3,000,000.00 EUR
CR Profit and Loss	3,000,000.00 EUR

With regard to the tax law the December's depreciation is $(40,000 - 6,764.18) \times 1.67\% = 555.04$ EUR. The total annual depreciation for taxation equals then to $6,764.18 + 555.04 = 7,319.22$ EUR.

See commercial accounts as below.

D		Cash/Bank	C
(1)	100,000.00	(2)	48,000.00
(10)	3,600,000.00	c/d	3,652,000.00
	<u>3,700,000.00</u>		<u>3,700,000.00</u>
b/d	3,652,000.00		

D		Issued capital	C
c/d	100,000.00	(1)	100,000.00
	<u>100,000.00</u>	b/d	100,000.00

D		PPE @cost	C
(2)	40,000.00	(5)	40,000.00

D		VAT	C
(2)	8,000.00	(10)	600,000.00
c/d	592,000.00		
	<u>600,000.00</u>	b/d	592,000.00

D		Depreciation	C
(3)	3,844.35		
(4)	2,919.83		
(7)	666.05	P&L	7,430.23
	<u>7,430.23</u>		<u>7,430.23</u>

D		Acc depr	C
(3)	3,844.35		
(4)	2,919.83		
c/d	6,764.83		
	<u>6,764.83</u>	b/d	6,764.18
(5)	6,764.18		
c/d	666.05	(7)	666.05
	<u>7,430.23</u>	b/d	<u>7,430.88</u>
			666.05

D		PPE @val	C
(5)	39,882.98	c/d	39,882.98
b/d	39,882.98		

D		Rev res	C
(6)	1,994.15	(5)	6,647.16
(9)	111.01	(8)	33.30
c/d	4,575.30		
	<u>6,680.46</u>	b/d	<u>6,680.46</u>
			4,575.30

D		Def tax liabilities	C
(8)	33.30	(6)	1,994.15
c/d	1,960.85		
	<u>1,994.15</u>	b/d	<u>1,994.15</u>
			1,960.85

D		Retained Earnings (R/E)	C
DTI	33.30	(9)	111.01
c/d	2,094,876.55	R/E	2,094,798.84
	<u>2,094,909.85</u>		<u>2,094,909.85</u>
Earn res	1,047,438.27	b/d	2,094,876.55
c/d	1,047,438.28		
	<u>2,094,876.55</u>	b/d	<u>2,094,876.55</u>
			1,047,438.28

Exhibit 1: Accounts

Profit and Loss account (IFRS)				Profit and Loss account (Taxation)			
D			C	D			C
Depr	7,430.23	(10)	3,000,000.00	Depr	7,319.22	(10)	3,000,000.00
EBT	2,992,569.77			EBT	2,992,680.78		
	<u>3,000,000.00</u>		<u>3,000,000.00</u>		<u>3,000,000.00</u>		<u>3,000,000.00</u>
ITL	897,804.23	b/d	2,992,569.77	ITL	897,804.23	b/d	2,992,680.78
R/E	2,094,798.84	DTI	33.30	R/E	2,094,876.55		
	<u>2,992,603.07</u>		<u>2,992,603.07</u>		<u>2,992,680.78</u>		<u>2,992,680.78</u>

Income tax liab				Earnings reserves			
D			C	D			C
c/d	897,804.23	P&L	897,804.23	c/d	1,047,438.27	R/E	1,047,438.27
		b/d	897,804.23			b/d	1,047,438.27

Exhibit 1: Accounts (continued)

**Zehlendorf Ltd.'s
REGISTER OF NON-CURRENT ASSETS
as at 31.12.20X4**

Item	Cost/ Valuation [EUR]	Acc. Depreciation [EUR]	Acc. Impairment Loss [EUR]	Carrying Amount [EUR]
Printers	39,882.98	(666.05)	0.00	39,216.93
				<u>39,216.93</u>

Exhibit 2: Register of non-current assets

RECONCILIATION OF CARRYING AMOUNTS

	20X4 [EUR]	20X3 [EUR]
Carrying Amount beginning of year	40,000.00	
Revaluation	6,647.16	
Impairment loss	0.00	
Depreciation	<u>(7,430.23)</u>	
Carrying Amount as at 31.12.	<u>39,216.93</u>	

Exhibit 3: Reconciliation statement

**Zehlendorf Ltd.'s
STATEMENT OF CHANGES IN EQUITY
for 20X4**

	Issued capital	Earnings reserves	Revaluation reserves	Retained Earnings	Total Shareholders' Equity
Equity as at 1.01.20X4	100,000.00	0.00	0.00	0.00	100,000.00
Profit 20X4				2,094,798.84	2,094,798.84
Revaluation reserves +			4,653.01		4,653.01
Deferred tax income				(33.30)	(33.30)
Dissolving revaluation reserves			(77.71)	111.01	33.30
Appropriation of Profit		1,047,438.27		(1,047,438.27)	0.00
Equity as at 31.12.20X7	100,000.00	1,047,438.27	4,575.30	1,047,438.28	2,199,451.85

Exhibit 4: Statement of changes in equity