

Task IM-7.15: Exercise on Revaluations

(Impairment Loss and Disposal)

KÜKENKAMP (Pty) Ltd. is a street restaurant service company. It runs a restaurant in a kitchen truck.

On 3.01.20X1 KÜKENKAMP (Pty) Ltd. buys a truck at 180,000.00 EUR cost of acquisition and installs a kitchen for 90,000.00 EUR. The kitchen truck got a useful life of 10 years. After the useful life the residual value is estimated to be 20,000.00 EUR. KÜKENKAMP (Pty) Ltd. applies straight line method for depreciation.

On 1.07.20X3, the value of the truck is estimated to be 222,000.00 EUR. At the same time, the residual value is estimated to be still 30,000.00 EUR. The remaining useful life is not subject to change. KÜKENKAMP (Pty) Ltd.'s Accountant revalues the truck. The truck is sold on 31.12.20X3 at a net selling price of 215,000.00 EUR.

Besides the truck bookkeeping entries, KÜKENKAMP (Pty) Ltd. earns a gross profit (record revenue without expenses) of 100,000.00 EUR.

Required: Prepare all accounts for the truck in 20X3. Record the sale by a Realisation account. No consideration of IAS 8 required! Calculate the profit on disposal and the income taxed thereon.

(2) Record the sale in the tax accounts.

Solution:

(1) Depreciation on the truck until 30.06.20X3: $50\% \times (270,000 - 20,000) / 10 = 12,500.00 \text{ EUR}$.

DR Depreciation	12,500.00 EUR
CR Acc. Depr.	12,500.00 EUR

(2) Recording the revaluation along the net replacement bookkeeping method:

DR P, P, E @val	222,000.00 EUR
DR Acc. Depr.	62,500.00 EUR
CR P, P, E @cost	270,000.00 EUR
CR Revaluation Reserves	14,500.00 EUR

(3) Consideration of deferred taxes: $14,500 \times 30\% = 3,750.00 \text{ EUR}$.

DR Revaluation Reserves	4,350.00 EUR
CR Deferred Tax Liabilities	4,350.00 EUR

(4) The next (2nd half year) depreciation expenses equal to: $50\% \times (222,000 - 30,000) / 7.5 = 12,800.00 \text{ EUR}$.

DR Depreciation	12,800.00 EUR
CR Acc. Depr.	12,800.00 EUR

(5, 6) At the time of disposal the revaluation reserves and deferred taxes are dissolved.

DR Deferred Tax Liabilities	3,750.00 EUR
CR Revaluation Reserves	3,750.00 EUR

DR Revaluation Reserves	12,500.00 EUR
CR Retained Earnings	12,500.00 EUR

(7) Recording revenue. The gross amount equals to $100,000 \times 20\% = 120,000.00$ EUR.

DR Cash/Bank	120,000.00 EUR
CR VAT	20,000.00 EUR
CR Revenue	100,000.00 EUR

Check for the disposal the Realisation Account.

D	P, P, E		C
OV	<u>270,000.00</u>	(2)	<u>270,000.00</u>

D	Acc depr		C
(2)	<u>62,500.00</u>	OV	<u>50,000.00</u>
		(1)	<u>12,500.00</u>
	<u>62,500.00</u>		<u>62,500.00</u>
Rea"	<u>12,800.00</u>	(4)	<u>12,800.00</u>

D	Depreciation		C
(1)	<u>12,500.00</u>	P&L	<u>25,300.00</u>
(4)	<u>12,800.00</u>		
	<u>25,300.00</u>		<u>25,300.00</u>

D	Revenue		C
		(7)	<u>100,000.00</u>

D	P, P, E @val	C
(2)	<u>222,000.00</u>	Rea" <u>222,000.00</u>

D	Revaluation reserves	C
(3)	4,350.00	(2) 14,500.00
(6)	14,500.00	(5) 4,350.00
	18,850.00	18,850.00

D	Deferred tax liab		C
(5)	<u>4,350.00</u>	(3)	<u>4,350.00</u>

D	Retained earnings R/E		C
DTI	4,350.00	(6)	14,500.00
c/d	66,500.00	R/E	56,350.00
	70,850.00		70,850.00
		b/d	66,500.00

D	Realisation	C
Rea'	43,000.00	Rea 258,000.00
Rea''	222,000.00	Rea''' 12,800.00
EBT	5,800.00	
	<u>270,800.00</u>	<u>270,800.00</u>
P&L	5,800.00	b/d 5,800.00

D	Cash/Bank		C
(7)	120,000.00		
Rea	258,000.00	c/d	378,000.00
	<u>378,000.00</u>		<u>378,000.00</u>
b/d	378,000.00		

D	VAT		C
		(7)	20,000.00
c/d	63,000.00	Rea'	43,000.00
	63,000.00		63,000.00
		b/d	63,000.00

D		Profit and Loss		C
Dpr	25,300.00	PoD	5,800.00	
EBT	80,500.00	Rev	100,000.00	
	105,800.00		105,800.00	
Tax	28,500.00	R/E	80,500.00	
R/E	56,350.00	DTI	4,350.00	
	84,850.00		84,850.00	

Exhibit 1: KÜKENKAMP (Pty) Ltd.'s accounts

Along tax law the profit on disposal is $215,000.0 - (270,000 - 75,000) = \mathbf{20,000.00 \text{ EUR}}$. The income taxes thereon equal to: $20,000 \times 30\% = \mathbf{6,000.00 \text{ EUR}}$.

See below the tax accounts:

D		P&L taxation	C		D		Realisation	C	
Dpr	25,000.00	PoD	20,000.00		Rea	270,000.00	Rea'	75,000.00	
EBT	95,000.00	Rev	100,000.00		Rea'	43,000.00	Rea	258,000.00	
	120,000.00		120,000.00		c/d	20,000.00			
ITL	28,500.00	b/d	95,000.00			333,000.00		333,000.00	
R/E	66,500.00				PoD	20,000.00	b/d	20,000.00	
	95,000.00		95,000.00						

Exhibit 2: Accounts for taxation