

Task IM-7.46: Exercise on Revaluations

(Impairment Loss and Disposal)

GELLERT (Pty) Ltd. is a copy machine service company. It rents out copy machines.

On 3.04.20X7 GELLERT (Pty) Ltd. buys a copy machine at cost of acquisition of 9,800.00 EUR. The supplier offers GELLERT (Pty) Ltd. a discount in case it buys for more than 30,000.00 EUR during that year. In the middle of November, GELLERT (Pty) Ltd. qualifies for the discount which is 8 % based on the selling price. The discount is transferred into GELLERT (Pty) Ltd.'s bank account and applies for the copy machine bought in April, too.

Depreciation on the copy machine is along straight line method over its useful life of 5 years.

In the middle of the year, GELLERT (Pty) Ltd. finds out that copy machine prices increase and the fair value of its copy machine is 10 % over its carrying amount. GELLERT (Pty) Ltd. revalues the copy machine on 30.06.20X8.

On 31.12.20X8 the copy machine is sold at 7,200.00 EUR (gross amount).

Required: Prepare the accounts for the copy machine for the accounting periods 20X7 and 20X8. How much is the profit on disposal for the copy machine. Show the Realisation Account for the copy machine.

Solution:

(1) Acquisition of the copy machine

DR P, P, E	9,800.00 EUR
DR VAT	1,960.00 EUR
CR Cash/Bank	11,760.00 EUR

(2) Recording of the deferred discount. The amount equals to $11,760 \times 8\% = 940.80$ EUR.

DR Cash/Bank	940.80 EUR
CR Discount Received	940.80 EUR

(3) Adjustment of the carrying amount of the copy machine based on the discount. The amount to reduce the copy machine equals to: $940.80 / 120\% = 784.00$ EUR. The VAT portion included in the discount equals to $940.80 - 784 = 156.80$ EUR.

DR Discount Received	940.80 EUR
CR VAT	156.80 EUR
CR P, P, E	784.00 EUR

(4) At the end of the Accounting period 20X7, GELLERT (Pty) Ltd. writes off the copy machine. Depreciation equals to: $0.75\% \times 9,016/5 = 1,352.40$ EUR.

DR Depreciation	1,352.40 EUR
CR Acc. Depr.	1,352.40 EUR

(A) In the next Accounting period, GELLERT (Pty) Ltd. depreciates the machine for half of a year before the revaluation. Depreciation equals to: $0.5 \times 9,016/5 = 901.60$ EUR.

DR Depreciation	901.60 EUR
CR Acc. Depr.	901.60 EUR

(B) Revaluation of the copy machine is at 10 % of its carrying amount. The new value of the machine equals to: $(9,016 - 2,254) \times (1 + 10\%) = 7,438.20$ EUR. The revaluation is along the net replacement bookkeeping entry method:

DR P; P; E @valuation	7,438.20 EUR
DR Acc. Depr.	2,254.00 EUR
CR P; P; E @costs	9,016.00 EUR
CR Revaluation Reserves	676.20 EUR

GELLERT (Pty) Ltd. does not recognise deferred taxes as the copy machine is sold before the balance sheet date.

(C) Depreciation on the revalued machine is based on the remaining useful life. $(5 \times 12) - 9 - 6 = 45$ m. Depreciation for 20X8 equals to: $6 \times 7,438.20/45 = 991.76$ EUR.

DR Depreciation	991.76 EUR
CR Acc. Depr.	991.76 EUR

(D) When selling the copy machine, GELLERT (Pty) Ltd. applies a Realisation Account. The money received from the buyer is 7,200.00 EUR. Its net amount equals to: $7,200/120\% = 6,000.00$ EUR.

DR Cash/Bank	7,200.00 EUR
CR Realisation	7,200.00 EUR
DR Realisation	1,200.00 EUR
CR VAT	1,200.00 EUR

DR Realisation 7,438.20 EUR

CR P, P, E @valuation 7,438.20 EUR

DR Realisation 991.76 EUR

CR Acc. Depr. 991.76 EUR

The loss on disposal equals to 446.44 EUR. See the accounts for details:

D		P, P E	C	D		VAT	C
(1)	9,800.00	(3)	784.00	(1)	1,960.00	(3)	156.80
		c/d	9,016.00			c/d	1,803.20
	<u>9,800.00</u>		<u>9,800.00</u>		<u>1,960.00</u>		<u>1,960.00</u>
b/d	9,016.00	(B)	9,016.00	b/d	1,803.20	()	1,803.20
				c/d	1,200.00	(D)	1,200.00
					<u>3,003.20</u>		<u>3,003.20</u>
						b/d	1,200.00

D		Cash/Bank	C	D		Discount received	C
(2)	940.80	(1)	11,760.00	(3)	156.80	(2)	940.80
c/d	10,819.20			(3)	784.00		
	<u>11,760.00</u>		<u>11,760.00</u>		<u>940.80</u>		<u>940.80</u>
()	1,803.20	b/d	10,819.20				
(D)	7,200.00						

D		Depreciation - 20X7	C	D		Acc depr	C
(4)	1,352.40	c/d	1,352.40	c/d	1,352.40	(4)	1,352.40
b/d	1,352.40		<u>P&L-20X7</u>			b/d	1,352.40
				c/d	2,254.00	(A)	901.60
					<u>2,254.00</u>		<u>2,254.00</u>
				(B)	2,254.00	b/d	2,254.00
				c/d	991.76	(C)	991.76
					<u>3,245.76</u>		<u>3,245.76</u>
				(D)	991.76	b/d	991.76

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

D Depreciation - 20X8 C	
(A)	901.60
(C)	991.76
	<u>1,893.36</u>
b/d	1,893.36
	<u>1,893.36</u>
	P&L 1,893.36

D P, P, E @valuation C	
(B)	7,438.20
(D)	7,438.20

D Revaluation reserves C	
R/E	676.20
(B)	676.20

D Realisation C	
(D)	7,438.20
(D)	1,200.00
	<u>8,638.20</u>
b/d	446.44
	<u>446.44</u>
	P&L 446.44

D Retained earnings R/E C	
c/d	676.20
RR	676.20
b/d	676.20

D Profit and Loss P&L C	
LoD	446.44
Dpr	1,893.36
...	...

Exhibit 1: GELLERT (Pty) Ltd.'s accounts (continued)