

**Task IM-7.49: Exercise on Revaluations****(Impairment Loss and Disposal)**

SCHLIER (Pty) Ltd. is a tool rental shop. On 3.04.20X3, SCHLIER (Pty) Ltd. revalues a power drill hammer at 1,800.00 EUR along net replacement method. At that time of revaluation, SCHLIER (Pty) Ltd. recorded a revaluation reserve of 315.00 EUR (after deduction of deferred liabilities) and a deferred tax liability to the extent of 135.00 EUR.

The power drill hammer has a total useful life of 4 years and no salvage value. The power drill hammer got a remaining useful life after revaluation of 1.5 years (= 18 months). Depreciation is along straight line method.

On the 29.06.20X3, the power drill hammer is sold at 1,700.00 EUR net selling price.

**Required (3<sup>rd</sup> semester):** Calculate the profit/loss on disposal and show the total profit calculation and the Retained Earnings account as at 31.12.20X3 along IFRSs. Assume the opening value of the Retained Earnings account on 1.01.20X2 is 0.00 EUR and besides the revaluation, deferred tax income and profit/loss on disposal entries, SCHLIER (Pty) Ltd. earns a pretax profit of 65,000.00 EUR in 20X3.

**Required (1<sup>st</sup> semester):** Ignore the sale of the drilling hammer and prepare a register of non-current assets as at the end of the Accounting period 20X3.

SCHLIER (Pty) Ltd. ist eine Werkzeugvermietung. Am 3.04.20X3, bewertet SCHLIER (Pty) Ltd. einen Schlagbohrhammer neu (nach der Net Replacement Method) zu 1.800,00 EUR. Zu diesem Zeitpunkt bucht SCHLIER (Pty) Ltd. eine Neubewertungsrücklage von 315.00 EUR (nach Abzug der latenten Steuern) und eine latente Steuerschuld (provision) von 135,00 EUR.

Der Schlagbohrhammer hat eine Gesamtnutzungsdauer von 4 Jahren und keinen Restwert nach dem Ende der Nutzungsdauer. Der Schlagbohrhammer hat nach der Neubewertung noch eine Nutzungsdauer von 1,5 Jahren (= 18 Monate). Die Abschreibung erfolgt nach linearer Abschreibungsmethode.

Am 29.06.20X3 wird der Schlagbohrhammer zu einem Nettopreis von 1.700,00 EUR verkauft.

**Gefragt (3<sup>rd</sup> semester):** Bestimmen Sie den Verkaufserlös und erstellen Sie eine vollständige Gewinn- und Verlustrechnung und das Retained Earnings Konto zum 31.12.20X3 nach IFRSs. Nehmen Sie an, dass der Anfangsbestand im Retained Earnings Konto am 1.01.20X2 0,00 EUR ist und dass unabhängig von den Vorgängen der Neubewertung, der latenten Steuern und des Verkaufserlöses SCHLIER (Pty) Ltd. einen Vorsteuergewinn von 65.000,00 EUR in 20X3 erwirtschaftet.

**Required (1<sup>st</sup> semester):** Es findet kein Verkauf des Schlagbohrhammers statt. Erstellen Sie einen Anlagespiegel zum Ende der Abrechnungsperiode 20X3.

**Solution:**

(OV) Recording the drill hammer. The original value of the hammer is linked to the fact that it had a value of 1,350.00 EUR after 2.5 years. This means depreciation is 30 months. Accordingly, the hammer got an opening value of  $1,350 / (18/48) = 3,600.00 \text{ EUR}$ . In 20X3, there is a depreciation to the extent of 3 months.

(1) Revaluation

(2) Deferred taxes

(3) Depreciation in 20X3 when the drilling hammer is deployed for 3 months. Depreciation equals to:  $3 \times 1,800 / 18 = 300.00 \text{ EUR}$ . Depreciation along the tax law is lower. It equals to:  $3 \times 3,600 / 48 = 225.00 \text{ EUR}$ . This results in a deferred tax income of:  $30\% \times (300 - 225) = 22.50 \text{ EUR}$ .

<b>DR Depreciation</b> .....	<b>300.00 EUR</b>
<b>CR Acc Depr</b> .....	<b>300.00 EUR</b>

(4, 5) The portion of depreciation is a percentage of  $300/1,800 = 16.67\%$ . SCHLIER (Pty) Ltd. dissolves 16.67 % of the deferred tax liabilities and the revaluation reserves which gives a reduction of  $16.67\% \times 135 = 22.50 \text{ EUR}$  on deferred tax liabilities and  $16.67\% \times 450 = 75.00 \text{ EUR}$  on revaluation reserves (the amount is based on the revaluation reserves before deferred taxes are deducted):

<b>DR Deferred Tax Liabilities</b> .....	<b>22.50 EUR</b>
<b>CR Revaluation Reserves</b> .....	<b>22.50 EUR</b>
 <b>DR Revaluation Reserves</b> .....	 <b>75.00 EUR</b>
<b>CR Retained Earnings</b> .....	<b>75.00 EUR</b>

(6) Sale of the drilling hammer by Realisation account. The gross amount equals to  $1,700 \times 120\% = 2,040.00 \text{ EUR}$ .

(7) Dissolving of deferred tax liabilities

(8) Dissolving of revaluation reserves

Besides the depreciation the profit is 65,000.00 EUR.

Observe the accounts for the calculation:

D		P, P, E	C
OV	<u>3,600.00</u>	(1)	<u>3,600.00</u>

D		Acc depr	C
(1)	<u>2,250.00</u>	OV	<u>2,025.00</u>
		(0)	<u>225.00</u>
	<u>2,250.00</u>		<u>2,250.00</u>

D		P, P, E @valuation	C
(1)	<u>1,800.00</u>	(6)	<u>1,800.00</u>

D		Rev Res	C
(2)	<u>135.00</u>	(1)	<u>450.00</u>
c/d	<u>315.00</u>		<u>450.00</u>
	<u>450.00</u>		
(5)	<u>75.00</u>	b/d	<u>315.00</u>
		(4)	<u>22.50</u>
(8)	<u>375.00</u>	(7)	<u>112.50</u>
	<u>450.00</u>		<u>450.00</u>

D		Deferred taxes	C
(4)	<u>22.50</u>	(2)	<u>135.00</u>
(7)	<u>112.50</u>		
	<u>135.00</u>		<u>135.00</u>

D		Depreciation	C
(0)	<u>225.00</u>		
(3)	<u>300.00</u>	c/d	<u>525.00</u>
	<u>525.00</u>		<u>525.00</u>
b/d	<u>525.00</u>	P&L	<u>525.00</u>

## Exhibit 1: Accounts

D		Acc depr	C	
(6)	300.00	(3)	300.00	

D		Retained earnings	C	
DTI	135.00	(5)	75.00	
		R/E	45,272.50	
c/d	45,587.50	(8)	375.00	
	45,722.50		45,722.50	
		b/d	45,587.50	

D		Profit and Loss	C	
Dpr1	225.00	Rev	65,000.00	
Dpr2	300.00	PoD	200.00	
EBT	64,675.00			
	65,200.00		65,200.00	
ITL	19,537.50	b/d	64,675.00	
R/E	45,272.50	DTI	135.00	
	64,810.00		64,810.00	

D		Profit and Loss TAXATION	C	
Dpr	225.00	Rev	65,000.00	
Dpr	225.00	PoD	575.00	
EBT	65,125.00			
	65,575.00		65,575.00	
ITL	19,537.50	b/d	65,125.00	
R/E	45,587.50			

D		Realisation	C	
(6)	1,800.00	(6)	300.00	
(6)	340.00	(6)	2,040.00	
c/d	200.00			
	2,340.00		2,340.00	
PoD	200.00	b/d	200.00	

D		Realisation TAXATION	C	
(6)	3,600.00	(6)	2,475.00	
(6)	340.00	(6)	2,040.00	
c/d	575.00			
	4,515.00		4,515.00	
PoD	575.00	b/d	575.00	

D		Cash/Bank	C	
(6)	2,040.00	c/d	2,040.00	
b/d	2,040.00			

D		VAT	C	
c/d	340.00	(6)	340.00	
		b/d	340.00	

Exhibit 1: Accounts (continued)

**Schlier (Pty) Ltd.'s  
REGISTER of NON-CURRENT ASSETS  
as at 31.12.20X3**

Asset	P, P, E @ cost / @ valuation	Acc. depr.	Acc. impairment loss	Carrying amount
Drilling Hammer	1,800.00	(900.00)		900.00
Asset 2				0.00
Asset 3				0.00
<b>Total</b>				<b>900.00</b>

Exhibit 2: Register of non-current assets

In case the drilling hammer is not sold, depreciation is to be considered from revaluation onwards. This is a period of 9 months.

D		Profit and Loss		C	D		Profit and Loss TAXATION		C
Dpr1	225.00	Rev	65,000.00		Dpr	225.00	Rev	65,000.00	
Dpr2	900.00				Dpr	675.00			
EBT	63,875.00				EBT	64,100.00			
	65,000.00		65,000.00			65,000.00		65,000.00	
ITL	19,230.00	b/d	63,875.00		ITL	19,230.00	b/d	64,100.00	
R/E	44,712.50	DTI	67.50		R/E	44,870.00			
	63,942.50		63,942.50						