

Task A7.61: Exercise on Revaluations

RICHWOOD Ltd. is an Australian courier service. On 2.01.20X4, RICHWOOD Ltd. acquires a car – VW-Caddy at 25,000.00 AUD cost of acquisition. The car has a useful life of 4 years and the residual value (salvage value) is amounting to 5,000.00 AUD. RICHWOOD Ltd. applies straight-line method for depreciation.

On 1.04.20X5, the VW-Caddy is involved in an accident. Its value thereafter is 16,550.00 AUD. The repair takes place on 4.07.20X5 at 5,500.00 AUD cost. On 6.07.20X5, a certified appraiser estimates the car's value to be 20,000.00 AUD. RICHWOOD Ltd. sells the car on 1.10.20X5 at a net selling price of 19,500.00 AUD. Besides of the car activities, RICHWOOD Ltd. earns a cash profit of 400,000.00 AUD.

Required: Make all Bookkeeping entries for the car and record an impairment loss followed by revaluation and disposal of the asset. Prepare an income statement. Ignore VAT!

Solution:

Observe the accounts.

D		P, P, E@ cost		C		D		Cash/Bank C/B		C		D		Depreciation-20X4 DPR		C					
(1)		25,000.00		(R) 25,000.00		c/d		25,000.00		(1)		25,000.00		(2)		5,000.00		P4L		5,000.00	
						(L)		19,500.00		b/d		25,000.00									
						(O)		400,000.00		(D)		5,500.00									
D		Accumulated depreciation ACC		C		D		Profit and Loss-20X4		C		D		Retained earnings R/E		C					
c/d		5,000.00		(2) 5,000.00		DPR		5,000.00		NL		5,000.00		P4L		5,000.00		c/d		5,000.00	
				b/d										b/d		5,000.00		(I)		250.00	
														DTI		750.00		(K)		2,250.00	
c/d		7,300.00		(C)		1,050.00								c/d		270,800.00		R/E		274,050.00	
		7,300.00				7,300.00										276,550.00				276,550.00	
(R)		7,300.00		b/d		7,300.00												b/d		270,800.00	

Exhibit 1: Accounts

**Richwood Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X5**

	[AUD]
"Cash Profit"	400,000.00
Other income	1,000.00
	<u>401,000.00</u>
Materials	
Labour	
Depreciation	(4,000.00)
Other expenses	(5,500.00)
	<u>391,500.00</u>
Earnings before int. & taxes (EBIT)	391,500.00
Interest	
	<u>391,500.00</u>
Earnings before taxes (EBT)	391,500.00
Income tax expenses	(118,200.00)
Deferred tax income	750.00
	<u>274,050.00</u>
Earnings after taxes (EAT)	274,050.00

Exhibit 2: Income statement