Aufgabe 7.28: Exercise on Revaluation and Disposal

MERSCHFELD Ltd. is a production firm. On 1.03.20X4 the company buys a CNC machine on 1.03.20X4 at a cost of 120,000.00 EUR. The machine will be depreciated along straight line method over a useful life of 5 years. MERSCHFELD Ltd.'s accountant revalues the CNC machine on 1.01.20X5. The new amount equals to 110,200.00 EUR as at 1.01.20X5 and is based on an expertise dated on the same day. On 1.01.20X6, the CNC machine is sold at 90,000.00 EUR.

Required: Record the CNC machine and all relevant accounts (reserves, deferred taxes) in Taccounts! Show the entry in the register of non-current assets as on 31.12.20X4 for the machine. Income tax rate equals to 30 %. VAT is not relevant. You have to dissolve revaluation reserves and deferred tax liabilities along the depreciation percentage on the revalued amount. How much is the balancing figure in the Revaluation Reserves account and in the Deferred Tax Liabilities account as at 31.12.20X4? How much is the profit on disposal and the relevant income taxes thereon?

Solution:

(1) The machine is bought on 1.03.20X3:

| DR P, P, E@cost | 120,000.00 EUR |
|---------------------|----------------|
| CR Cash/Bank or A/P | 120,000.00 EUR |

(2) Monthly depreciation rate on the CNC machine equals to $120,000/(5 \times 12) = 2,000.00 \text{ EUR}$. Depreciation of 20X3 is over 10 months only. The amount equals to $10 \times 2,000 = 20,000.00 \text{ EUR}$.

| DR Depreciation | 20,000.00 EUR |
|-----------------|---------------|
| CR Acc Depr | 20,000.00 EUR |

(3) At the beginning of the next accounting period the machine gets revalued. The new amount equals to 110,200.00 EUR along a qualified valuation. The accountant makes a bookkeeping entry along the net replacement method.

| DR P, P, E@valuation | 110,200.00 EUR |
|-----------------------------|----------------|
| DR Acc Depr | 20,000.00 EUR |
| CR P, P, E@cost | 120,000.00 EUR |
| CR Revaluation Reserves | 10,200.00 EUR |
| | |
| DR Revaluation Reserves | 3,060.00 EUR |
| CR Deferred Tax Liabilities | 3,060.00 EUR |

(4) Depreciation on the CNC machine is along the revalued amount for a remaining useful life of 50 months. Depreciation rate equals to 110,200/50 = 2,204.00 EUR/m. The annual depreciation equals to $12 \times 2,204.00 = 26,448.00 \text{ EUR}$.

| DR Depreciation | 26,448.00 EUR |
|-----------------|---------------|
| CR Acc. Depr | 26,448.00 EUR |

(4) The annual depreciation of 20X4 equals to 24% of the revalued amount. Accordingly, the deferred tax liabilities and the revaluation reserves are to be dissolved to the extent of 24 %. For deferred tax liabilities the amount equals to $0.24 \times 3,060 = 734.40 \text{ EUR}$. The revaluation reserves get deducted by 24 % as well: $0.24 \times 10,200 \times 2,448.00 \text{ EUR}$.

| DR Deferred Tax Liabilities | 734.40 EUR |
|-----------------------------|--------------|
| CR Revaluation Reserves | 734.40 EUR |
| | |
| DR Revaluation Reserves | 2,448.00 EUR |
| CR Retained Earnings | 2,448.00 EUR |

(5) After this bookkeeping entry the value of the machine equals to 110,200 - 26,448 = 83,752.00 EUR. Before the machine gets sold the deferred taxes and the reserves are dissolved.

| DR Deferred Tax Liabilities | 2,325.60 EUR |
|-----------------------------|----------------|
| CR Revaluation Reserves | 2,325.60 EUR |
| | |
| DR Revaluation Reserves | 7,752.00 EUR |
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(6) Sales of the CNC machine is recorded by a Realization account:

| 90,000.00 EUR |
|----------------|
| 90,000.00 EUR |
| |
| 26,448.00 EUR |
| 26,448.00 EUR |
| |
| 110,200.00 EUR |
| 110,200.00 EUR |
| |

The profit on disposal equals to 6,248.00 EUR.

The taxes on the profit will be based on the carrying amount along tax law at the date of sales. Taxes amount to: $0.3 \ge 90,000 - (120,000 - 22 \ge 2,000) = 4,200.00 \text{ EUR}.$

The register on non-current assets is as below:

Merschfeld Ltd.'s REGISTER of NON-CURRENT ASSETS as at 31.12.20X4

| | | Acc. impairm. | | |
|-------------|-------------|---------------|--------|-----------------|
| Asset | revaluation | Acc. depr. | losses | Carrying amount |
| CNC-machine | 110.200,00 | (26.448,00) | 0,00 | 83.752,00 |
| | | | | 83.752,00 |

Exhibit 1: Register of non-current assets as at 31.12.20X4

Observe MERSCHFELD Ltd.'s accounts below:

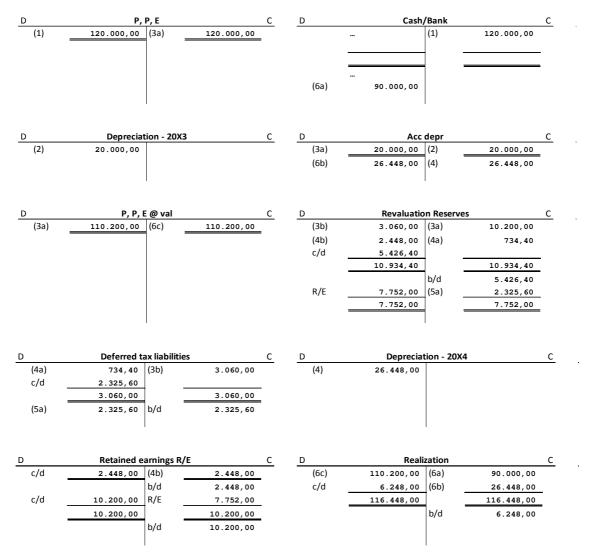


Exhibit 2: Accounts