Aufgabe 7.30: Exercise on Revaluations
(Neubewertung, Impairment loss)

GÖXE Ltd. is a service rendering company. GÖXE Ltd. buys a van on 1.01.20X4 at acquisition costs of 45,000.00 EUR. The car is to be written off along straight line method over 5 years and the residual value equals to 5,000.00 EUR.
On the 1.01.20X5 the car gets revalued as a motor vehicle expert estimates the value at 40,000.00 EUR.
On the 3.01.20X6 the car gets involved in a car crash and its value drops to 20,000.00 EUR. At this stage you can dissolve all revaluation reserves as the car gets sold thereafter. The car gets sold for 20,500.00 EUR immediately. Besides the car bookkeeping entries the company records a profit before taxes of 100,000.00 EUR (on cash).
Required: Prepare an income statement for the accounting period 20X6.

Solution
(1) Acquisition of the car.
(2) Depreciation along straight line method. The depreciation equals to (45,000 – 5,000)/5 = **8,000.00 EUR**.
(A) Revaluation
(B) Recording deferred tax liabilities: (40,000 – (45,000 – 8,000)) x 30% = **900.00 EUR**.
(C) Adjusted depreciation equals to (40,000 – 5,000)/4 = **8,750.00 EUR**.
(D1, D2) Dissolving revaluation reserves after depreciation to an extent of 8,750/40,000 = **21.88%**. The deferred tax liabilities to be dissolved amount to 21.88% x 900 = **196.92 EUR**. The revaluation reserves dissolved equal to 21.88% x 3,000 = **656.40 EUR**.
(a1, a2) Dissolving remaining revaluation reserves: 3,000 x (1 - 21.88%) = **2,343.60 EUR**.
(b) The impairment loss equals to 40,000 – 8,750 – 20,000 = **11,250.00 EUR**.
(c) Sale of the car at 20,500.00 EUR.
(d) Profit before taxes without car bookkeeping entries: 100,000.00 EUR
Bookkeeping entries for taxation contain another impairment loss. However, the profit on disposal is the same as the remaining amount and the net selling price is the same. Along tax law the car's value immediately before the crash was 45,000 – 2 x 8,000 = **29,000.00 EUR**. Accordingly the impairment loss equals to 29,000 – 20,000 = **9,000.00 EUR**.
The deferred tax income amounts to 89,250 x 30% - 27,450 = **-675.00 EUR**.
Observe the accounts for profit calculation and the income tax calculation:

P, P, E @cost

D			C
(1)	45,000.00	c/d	45,000.00
b/d	45,000.00	(A)	45,000.00

Cash/Bank

D			C
c/d	45,000.00	(1)	45,000.00
(c1)	20,500.00	b/d	45,000.00
(d)	100,000.00	c/d	75,500.00
	120,500.00		120,500.00
b/d	75,500.00		

Depr 20X4

D			C
(2)	8,000.00	P&L	8,000.00

Acc depr

D			C
c/d	8,000.00	(2)	8,000.00
(A)	8,000.00	b/d	8,000.00
c/d	8,750.00	(C)	8,750.00
	16,750.00		16,750.00
(c2)	8,750.00	b/d	8,750.00

P, P, E @valuation

D			C
(A)	40,000.00	(c4)	40,000.00

Revaluation reserves

D			C
(B)	900.00	(A)	3,000.00
(D2)	656.40	(D1)	196.92
c/d	1,640.52		
	3,196.92		3,196.92
(a2)	2,343.60	b/d	1,640.52
		(a1)	703.08
	2,343.60		2,343.60

Deferred tax liabilities

D			C
(D1)	196.92	(B)	900.00
c/d	703.08		
	900.00		900.00
(a1)	703.08	b/d	703.08

Depr - 20X5

D			C
(C)	8,750.00	P&L	8,750.00

R/E

D			C
P&L X4	8,000.00	c/d	8,000.00
b/d	8,000.00	(D2)	656.40
P&L X5	8,750.00	c/d	16,093.60
	24,750.00		24,750.00
b/d	16,093.60	(a2)	2,343.60
DTI	675.00	R/E	62,475.00
c/d	48,050.00		
	64,818.60		64,818.60
		b/d	48,050.00

Impairment loss - 20X6

D			C
(b)	11,250.00	P&L	11,250.00

Acc IL

D			C
(c3)	11,250.00	(b)	11,250.00

Realization account

D			C
(c4)	40,000.00	(c1)	20,500.00
		(c2)	8,750.00
PoD	500.00	(c3)	11,250.00
	40,500.00		40,500.00

Profit and Loss P&L

D			C
IL	11,250.00	PoD	500.00
EBT c/d	89,250.00	P&L	100,000.00
	100,500.00		100,500.00
ITL	27,450.00	b/d	89,250.00
R/E	62,475.00	DTI	675.00
	89,925.00		89,925.00

Profit and Loss P&L for taxation

D			C
IL	9,000.00	PoD	500.00
EBT c/d	91,500.00	P&L	100,000.00
	100,500.00		100,500.00
ITL	27,450.00	b/d	91,500.00
R/E	64,050.00		
	91,500.00		91,500.00

"Profit without car"

D			C
P&L	100,000.00	(d)	100,000.00

Income tax liabilities ITL

D			C
c/d	27,450.00	P&L	27,450.00
		b/d	27,450.00

R/E

D			C
P&L X4	8,000.00	c/d	8,000.00
b/d	8,000.00		
P&L X5	8,000.00	c/d	16,000.00
	16,000.00		16,000.00
b/d	16,000.00	R/E	64,050.00
c/d	48,050.00		
	64,050.00		64,050.00
		b/d	48,050.00

Realization account taxation

D			C
(c4)	45,000.00	(c1)	20,500.00
		(c2)	16,000.00
PoD	500.00	(c3)	9,000.00
	45,500.00		45,500.00

Exhibit 1: Accounts