

Task IM-7.40: Revaluations and Liquidation

OBSERVATRY Ltd. is a car rental. The business got the register of non-current assets as below:

Observatry Ltd.'s REGISTER of NON-CURRENT ASSETS as at 31.12.20X8				
Asset	acquisition/ revaluation	Acc. depr.	Acc. impairm. losses	Carrying amount
VW Polo	16,000.00	(5,120.00)	0.00	10,880.00
VW UP	12,000.00	(960.00)	0.00	11,040.00
Toyota Yaris Diesel	16,800.00	(8,064.00)	0.00	8,736.00
Mercedes C-class	28,000.00	(8,960.00)	0.00	19,040.00
				49,696.00

Exhibit 1: OBSERVATRY Ltd.'s register of non-current assets

Consider all motor vehicles being bought at the net amounts given by exhibit 1. Depreciation for all motor vehicles is along straight-line method to an extent of 80 % of the cost of acquisition (depreciable amount). Useful life for all cars is 5 years.

All transactions are on cash.

OBSERVATRY Ltd. sells the Toyota Diesel on 1.04.20X9 at 12,000.00 EUR (gross amount). The car is replaced by a Seat Ibiza that is bought for 13,500.00 EUR (gross amount) on 4.04.20X9. The car dealer offers OBSERVATRY Ltd. a cash discount of 5 % once the costs of acquisition exceed 40,000.00 EUR per annum on all acquisitions.

On 1.07.20X9, OBSERVATRY Ltd. buys a VW Touareg at 45,000.00 EUR (gross amount). The VW is bought at the same dealership as the Seat.

On 27.09.20X9, the Mercedes C-class is crashed. After the accident the car's value is estimated to be 8,000.00 EUR. On 1.10.20X9, OBSERVATRY Ltd. repairs the car for 5,000.00 EUR (net amount) and sells it on 4.10.20X9 at 15,000.00 EUR (gross selling price). OBSERVATRY Ltd. replaces the motor vehicle by a new Mercedes C-class diesel that is bought on 8.10.20X9 for 36,000.00 EUR (cost of acquisition). There is no discount on the Mercedes.

On 31.12.20X9 OBSERVATRY Ltd. is liquidated and all cars are sold at 90 % of their current value. (90% of the carrying amount is the net selling price)

Required: Determine for every car the gross selling price as per liquidation and the profit/loss on disposal. Calculate for the Mercedes C-class the impairment loss also. Apply depreciation accurate to the month. It is required to prepare accounts for each and every motor vehicle. Prepare a statement of comprehensive income also.

OBSERVATRY Ltd. ist eine Autovermietung. Das Unternehmen zeigt den unten dargestellten Anlagespiegel.

**Observatry Ltd.'s
Anlagespiegel
zum 31.12.20X8**

VermWert	AK	kum Afa	kum aAfa	Buchwert
VW Polo	16,000.00	(5,120.00)	0.00	10,880.00
VW UP	12,000.00	(960.00)	0.00	11,040.00
Toyota Yaris Diesel	16,800.00	(8,064.00)	0.00	8,736.00
Mercedes C-class	28,000.00	(8,960.00)	0.00	19,040.00
				49,696.00

Exhibit 1: OBSERVATRY Ltd.'s Anlagespiegel

Berücksichtigen Sie, dass alle Fahrzeuge zu dem in Abbildung 1 dargestellten Anschaffungskosten gekauft wurden. Der abschreibungsfähige Betrag für alle Fahrzeuge ist nach linearer Abschreibung zu einem Anteil von 80 % der Anschaffungskosten. Die Nutzungsdauer der Autos ist 5 Jahre.

Alle Geschäftsvorfälle sind bar.

OBSERVATRY verkauft den Toyota Diesel am 1.04.20X9 zu 12.000,00 EUR (brutto). Das Auto wird durch einen Seat Ibiza, der am 4.04.20X9 für 13.500,00 EUR brutto gekauft wird, ersetzt. Der Autohändler bietet OBSERVATRY Ltd. einen Rabatt von 5 % sobald die Anschaffungskosten 40.000,00 EUR pro Jahr übersteigen auf alle Einkäufe.

Am 1.07.20X9 kauft OBSERVATRY Ltd. einen VW Touareg zu 45.000,00 EUR brutto. Der VW wird bei dem gleichen Händler wie der Seat Ibiza angeschafft.

Am 27.09.20X9 wird der Mercedes C-Klasse kaputtgefahren. Nach dem Unfall ist der Schätzwert des Autos 8.000,00 EUR. Am 1.10.20X9 repariert OBSERVATRY Ltd. das Auto für 5.000,00 EUR (netto) und verkauft es am 3.10.20X9 für 15.000,00 EUR (brutto). OBSERVATRY Ltd. ersetzt das Fahrzeug durch einen neuen Mercedes C-Klasse Diesel der am 8.10.20X9 für 36.000,00 EUR gekauft wird (Anschaffungskosten). Es gibt keinen Preisnachlass auf den Mercedes.

Am 31.12.20X9 wird OBSERVATRY Ltd. liquidiert und alle Autos für 90 % ihres Buchwerts verkauft. (90 % des Buchwerts entspricht dem Nettoverkaufspreis.)

Gefragt: Bestimmen Sie für jedes Auto den Bruttoverkaufspreis bei der Liquidation und den Gewinn/Verlust bei dem Vermögenswertabgangs. Berechnen Sie die ausserplanmäßige Abschreibung für den Mercedes C-Klasse. Wenden Sie die Abschreibung monatsgenau an. Erstellen Sie eine Gewinn- und Verlustrechnung.

Solution

Drawing the accounts can be observed by exhibit 2:

D	PPE VW Polo	C	D	Acc depr VW Polo	C
OV	16,000.00			OV	5,120.00
D	PPE VW UP	C	D	Acc depr VW UP	C
OV	12,000.00			OV	960.00
D	PPE Toyota Yaris diesel	C	D	Acc depr Toyota Yaris diesel	C
OV	16,800.00			OV	8,064.00
D	PPE MB-C	C	D	Acc depr MB C	C
OV	28,000.00			OV	8,960.00

Exhibit 2: Accounts

(1) Sale of the Toyota diesel requires depreciation for 3 months. The amount is $3 \times (16,800 - 3,360) / (5 \times 12) = 672.00$ EUR.

DR Depreciation	672.00 EUR
CR Acc Depr Toyota Yaris Diesel	672.00 EUR

(2) For the sales a realization account is being used.

DR Realization	16,800.00 EUR
CR P, P, E Toyota Diesel	16,800.00 EUR
DR Acc Depr Toyota Diesel	8,736.00 EUR
CR Realization	8,736.00 EUR
DR Cash/Bank	12,000.00 EUR
CR VAT	2,000.00 EUR
CR Realization	10,000.00 EUR

(3) Acquisition of Seat Ibiza

DR P, P, E Seat Ibiza	11,250.00 EUR
DR VAT	2,250.00 EUR
CR Cash/Bank	13,500.00 EUR

(4) Acquisition of VW Touareg

DR P, P, E VW Touareg	37,500.00 EUR
DR VAT	7,500.00 EUR
CR Cash/Bank	45,000.00 EUR

(5) With the acquisition of the VW Touareg OBSERVATRY Ltd. exceeds the 40,000.00 EUR border and is entitled to receive the discount. The discount is $(45,000 + 13,500) \times 5\% = 2,925.00$ EUR.

DR Cash/Bank	2,925.00 EUR
CR Discount Received	2,925.00 EUR

DR Discount	2,925.00 EUR
CR P, P, E VW Touareg	1,875.00 EUR
CR P, P, E Seat Ibiza	562.50 EUR
CR VAT	487.50 EUR

(6) The crash of the Mercedes C-class requires determining its value at first. Depreciation is $9 \times (28,000 - 5,600) / (5 \times 12) = 3,360.00$ EUR.

DR Depreciation	3,360.00 EUR
CR Acc Depr MB C-class	3,360.00 EUR

(7) The car's carrying amount at that time is $28,000 - 12,320 = 15,680.00$ EUR. The impairment loss amounts to $15,680 - 8,000 = 7,680.00$ EUR.

DR Impairment Loss	7,680.00 EUR
CR Acc Depr/IL MB C-class	7,680.00 EUR

(8) Repair of the Mercedes doesn't affect the car's value.

DR Repair	5,000.00 EUR
DR VAT	1,000.00 EUR
CR Cash/Bank	6,000.00 EUR

(9) Sale of the Mercedes C-class

DR Realization	28,000.00 EUR
CR P, P, E MB C-class	28,000.00 EUR
DR Acc Depr MB C-class	20,000.00 EUR
CR Realization	20,000.00 EUR

DR Cash/Bank	15,000.00 EUR
CR VAT	2,500.00 EUR
CR Realization	12,500.00 EUR

(10) Replacement of Mercedes C-class by a new one at 36,000.00 gross selling price.

DR P, P, E MB C-class new	30,000.00 EUR
DR VAT	6,000.00 EUR
CR Cash/Bank	36,000.00 EUR

All cars are depreciated as per 31.12.20X9 and sold thereafter.

(11) Polo

DR Depreciation	2,560.00 EUR
CR Acc Depr VW Polo	2,560.00 EUR

The carrying amount as per 31.12.20X9 is $16,000 - 7,680 = 8,320.00$ EUR. The car is sold at $90\% \times 8,320 = 7,488.00$ EUR.

DR Realization	16,000.00 EUR
CR P, P, E VW Polo	16,000.00 EUR
DR Acc Depr VW Polo	7,680.00 EUR
CR Realization	7,680.00 EUR
DR Cash/Bank	8,985.60 EUR
CR VAT	1,497.60 EUR
CR Realization	7,488.00 EUR

(12) VW UP

DR Depreciation	1,920.00 EUR
CR Acc Depr VW UP	1,920.00 EUR

The carrying amount as per 31.12.20X9 is $12,000 - 2,880 = 9,120.00$ EUR. The car is sold at $90\% \times 9,120 = 8,208.00$ EUR.

DR Realization	12,000.00 EUR
CR P, P, E VW UP	12,000.00 EUR

DR Acc Depr VW UP	2,880.00 EUR
CR Realization	2,880.00 EUR
DR Cash/Bank	9,849.60 EUR
CR VAT	1,641.60 EUR
CR Realization	8,208.00 EUR

(13) Seat Ibiza

Depreciation on the Seat Ibiza is along its cost of acquisition. The cost of acquisition is net amount less discount. The costs of acquisition for the Seat Ibiza are $11,250 - 562.50 = 10,687.50$ EUR. Depreciation is only for 9 months as the car was bought on 1.04.20X9: $9 \times (10,687.50 - 2,137.5) / (5 \times 12) = 1,282.50$ EUR.

DR Depreciation	1,282.50 EUR
CR Acc Depr VW Polo	1,282.50 EUR

The carrying amount as per 31.12.20X9 is $10,687.50 - 1,282.50 = 9,405.00$ EUR. The car is sold at $90\% \times 9,405 = 8,464.50$ EUR.

DR Realization	10,687.50 EUR
CR P, P, E Seat Ibiza	10,687.50 EUR
DR Acc Depr Seat Ibiza	1,282.50 EUR
CR Realization	1,282.50 EUR
DR Cash/Bank	10,157.40 EUR
CR VAT	1,692.90 EUR
CR Realization	8,464.50 EUR

(14) VW Touareg

Depreciation on the VW Touareg is along its cost of acquisition. The cost of acquisition is net amount less discount. The costs of acquisition for the VW Touareg are $37,500 - 1,875 = 35,625.00$ EUR. Depreciation is only for 6 months as the car was bought on 1.07.20X9: $6 \times (35,625 - 7,125) / (5 \times 12) = 2,850.00$ EUR.

DR Depreciation	2,850.00 EUR
CR Acc Depr VW Touareg	2,850.00 EUR

The carrying amount as per 31.12.20X9 is $35,625 - 2,850 = 32,775.00$ EUR. The car is sold at $90\% \times 32,775 = 29,497.50$ EUR.

DR Realization	35,625.00 EUR
CR P, P, E VW Touareg	35,625.00 EUR
DR Acc Depr VW Touareg	2,850.00 EUR
CR Realization	2,850.00 EUR
DR Cash/Bank	35,397.00 EUR
CR VAT	5,899.50 EUR
CR Realization	29,497.50 EUR

(15) Mercedes C-class diesel

Depreciation on the Mercedes C-class diesel is only for 5 months as the car was bought on 8.10.20X9: $3 \times (36,000 - 7,200) / (5 \times 12) = 2,400.00 \text{ EUR}$.

DR Depreciation	1,440.00 EUR
CR Acc Depr MB C-class diesel	1,440.00 EUR

The carrying amount as per 31.12.20X9 is $36,000 - 1,440 = 34,560.00 \text{ EUR}$. The car is sold at 90% x $34,560 = 31,104.00 \text{ EUR}$.

DR Realization	36,000.00 EUR
CR P, P, E MB C-class diesel	36,000.00 EUR
DR Acc Depr MB C-class diesel	1,440.00 EUR
CR Realization	1,440.00 EUR
DR Cash/Bank	37,324.80 EUR
CR VAT	6,220.80 EUR
CR Realization	31,104.00 EUR

D PPE VW Polo C	
OV	16,000.00
(11)	16,000.00

D Acc depr VW Polo C	
(11)	7,680.00
(11)	2,560.00
	7,680.00

D PPE VW UP C	
OV	12,000.00
(12)	12,000.00

D Acc depr VW UP C	
(12)	2,880.00
(12)	1,920.00
	2,880.00

D PPE Toyota Yaris diesel C	
OV	16,800.00
(2)	16,800.00

D Acc depr Toyota Yaris diesel C	
(2)	8,736.00
(1)	672.00
	8,736.00

D PPE MB-C C	
OV	28,000.00
(9)	28,000.00

D Acc depr/IL MB C C	
c/d	12,320.00
(9)	20,000.00
	20,000.00

D Depreciation C	
(1)	672.00
(6)	3,360.00
(11)	2,560.00
(12)	1,920.00
(13)	1,282.50
(14)	2,850.00
(15)	1,440.00
	14,084.50
	P&L 14,084.50

D Realization Toyota Yaris diesel C	
(2)	16,800.00
P&L	1,936.00
	18,736.00

D Cash/Bank C	
(2)	12,000.00
(5)	2,925.00
(9)	15,000.00
(11)	8,985.60
(12)	9,849.60
(13)	10,157.40
(14)	35,397.00
(15)	37,324.80
	131,639.40
b/d	23,939.40

D VAT C	
(3)	2,250.00
(4)	7,500.00
(8)	1,000.00
(10)	7,200.00
	21,939.90
c/d	3,989.90
	25,929.80

Exhibit 3: Accounts

Profit and Loss Account			
D			C
Polo	832.00	Toy dies	1,936.00
UP	912.00	MB C	4,500.00
Seat	940.50		
Touareg	3,277.50		
MB C d	3,456.00		
Imp Loss	7,680.00		
Repair	5,000.00		
Depr	14,084.50	NLoss	29,746.50
	<u>36,182.50</u>		<u>36,182.50</u>

Discount received			
D			C
(5)	<u>2,925.00</u>	(5)	<u>2,925.00</u>

PPE Seat Ibiza			
D			C
(3)	11,250.00	(5)	562.50
		(13)	10,687.50
	<u>11,250.00</u>		<u>11,250.00</u>

Acc depr Seat Ibiza			
D			C
(13)	<u>1,282.50</u>	(13)	<u>1,282.50</u>

PPE VW Tourareg			
D			C
(4)	37,500.00	(5)	1,875.00
		(14)	35,625.00
	<u>37,500.00</u>		<u>37,500.00</u>

Acc depr VW Touareg			
D			C
(14)	<u>2,850.00</u>	(14)	<u>2,850.00</u>

Impairment loss			
D			C
(7)	<u>7,680.00</u>	P&L	<u>7,680.00</u>

Repair			
D			C
(8)	<u>5,000.00</u>	P&L	<u>5,000.00</u>

Realisation MB C-class			
D			C
(9)	28,000.00	(9)	20,000.00
P&L	4,500.00	(9)	12,500.00
	<u>32,500.00</u>		<u>32,500.00</u>

Realization VW Polo			
D			C
(11)	16,000.00	(11)	7,680.00
		(11)	7,488.00
		P&L	832.00
	<u>16,000.00</u>		<u>16,000.00</u>

PPE MB C-class diesel			
D			C
(10)	<u>36,000.00</u>	(15)	<u>36,000.00</u>

Acc depr C-class new			
D			C
(15)	<u>1,440.00</u>	(15)	<u>1,440.00</u>

Realization VW UP			
D			C
(12)	12,000.00	(12)	2,880.00
		(12)	8,208.00
		P&L	912.00
	<u>12,000.00</u>		<u>12,000.00</u>

Realization Seat Ibiza			
D			C
(13)	10,687.50	(13)	1,282.50
		(13)	8,464.50
		P&L	940.50
	<u>10,687.50</u>		<u>10,687.50</u>

Realization VW Touareg			
D			C
(14)	35,625.00	(14)	2,850.00
		(14)	29,497.50
		P&L	3,277.50
	<u>35,625.00</u>		<u>35,625.00</u>

Realization MB C-class diesel			
D			C
(15)	36,000.00	(15)	1,440.00
		(15)	31,104.00
		P&L	3,456.00
	<u>36,000.00</u>		<u>36,000.00</u>

Exhibit 3: Accounts (continued)

**OBSERVATRY Ltd.'s
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X9**

	[EUR]
Revenue	0.00
Other income	0.00
Repairs	5,000.00
Impairment loss	7,680.00
Depreciation	14,084.50
Loss on disposal	2,982.00
Earnings before int and taxes (EBIT)	(29,746.50)
Interest	0.00
Earnings before taxes (EBT)	(29,746.50)
Income tax expenses	0.00
Deferred taxes	0.00
Earnings after taxes (EAT)	(29,746.50)

Exhibit 4: OBSERVATRY Ltd.'s income statement

In order to cross check the results take a look at the balance sheet. To keep the example simple we assume the amount of cars was mirrored by the issued capital at the beginning of 20X9:

**Observatry Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X9**

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Owners' capital</i>	[EUR]
P, P, E		Share capital	49,696.00
Intangibles		Reserves	
Financial assets		R/E	(29,746.50)
<i>Current assets</i>		<i>Liabilities</i>	
Inventory		Interest bear liab	
A/R		A/P	3,989.90
Prepaid expenses		Provisions	
Cash/Bank	23,939.40	Tax liabilities	
	23,939.40		23,939.40

Exhibit 5: Pro-forma balance sheet in order to check results