Task IM-7.41: Revaluations and Impairment Loss

SCHARPEN AG is a consultancy. The company uses laptop computers and tablet computers. See the register of current assets on asset groups' level as at 1.01.20X4 for details:

SCHARPEN AG's REGISTER of NON-CURRENT ASSET GROUPS as at 1.01.20X4

	acquisition/		Acc. impairm.	
Asset	revaluation	Acc. depr.	losses	Carrying amount
20 Eifone tablets	20,000.00	(10,000.00)	0.00	10,000.00
20 Äzer laptops	12,500.00	0.00	0.00	12,500.00
				22,500.00

Exhibit 1: SCHARPEN AG's register of non-current assets

The useful life of all computers is 4 years. Depreciation is along straight line method with no residual value. Consider all laptops having been subject to a revaluation on 31.12.20X3. The laptops have been bought for 1,000.00 EUR/u on 1.01.20X2.

On 1.07.20X4 an Eifone tablet falls down and is totaled. SCHARPEN AG replaces it by a new one which is bought the same day at 1,200.00 EUR.

Besides depreciation SCHARPEN AG's expenses are 220,000.00 EUR and the revenue is 400,000.00 EUR.

Required: Prepare a statement of comprehensive income and a register of non-current asset groups. Disclose the Retained Earnings account. Ignore VAT.

Solution:

In order to prepare the income statement the accounts as at 1.01.20X4 are to be set up at first.

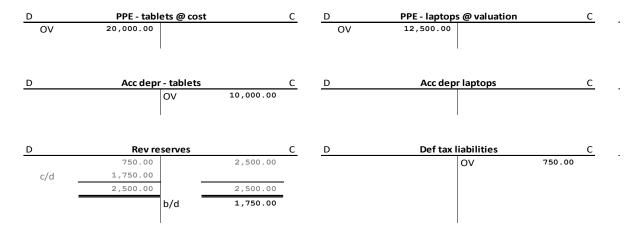


Exhibit 2: Opening amounts

(1) Depreciation on 19 eifones is $19 \times 1,000/4 + 0.5 \times 1,000/4 = 4,875.00$ EUR

DR Depreciation	4,875.00	EUR
CR Acc. Depr	4,875.00	EUR

(2a) Impairment loss for the damaged eifone tablet computer is $(4 - 2.5) \times 1,000/4 = 375.00 \text{ EUR}$

The eifone tablet computer is to be disposed. (This is not required for the solution as there is only a request for the preparation of an income statement. However it is recommended in order to prepare the register of non-current assets.)

(2b) Disposal of the old eifone tablet computer:

DR Acc. Depr	625.00 EUR
DR Acc. IL	375.00 EUR
CR P, P, E Eifone Tablet	1,000.00 EUR

(3) Acquisition of the new eifone tablet computer at 1,200.00 EUR:

DR P, P, E - eifone new	1,200.00 EUR
CR Cash/Bank	1,200.00 EUR

(4) Depreciation on the new eifone tablet computer for half of a year: $0.5 \times 1,200/4 = 150.00 \text{ EUR}$.

DR Depreciation	150.00 EUR
CR Acc. Depr. Eifone New	150.00 EUR

400,000.00 EUR 400,000.00 EUR

(5) Depreciation on the laptop computers along fair value recognition is 12,500/2 = 6,250.00 EUR. Consider the depreciation along tax law being only 10,000/2 = 5,000.00 EUR.

DR Depreciation	6,250.00	EUR
CR Acc. Depr. Laptop	6,250.00	EUR

(6, 7) Depreciation requires to dissolve deferred tax liabilities and revaluation reserves to an extend of 50 %.

,	
DR Def. Tax. Liab	375.00 EUR
CR Revaluation Reserves	375.00 EUR
DR Revaluation Reserves	1,250.00 EUR
CR Retained Earnings	1,250.00 EUR
(8) Other expenses of 220,000.00 are posted on cash	
DR Other Expenses	220,000.00 EUR
CR Cash/Bank	220,000.00 EUR
(9) Revenue of 400,000.00 EUR is considered being on cash.	

Observe the accounts to get the full picture and to understand the calculation of profit:

DR Cash/Bank

CR Revenue

D	PPE - tablets @ co	ost C	D	PPE - laptops @ valuation	on C
OV	20,000.00 (2b)	1,000.00	OV	12,500.00 c/d	12,500.00
_	c/d	19,000.00	b/d	12,500.00	
-	20,000.00	20,000.00			
b/d	19,000.00				
)	Acc depr - table	ts C	D	Acc depr laptops	C
(2b)	625.00 OV	10,000.00	c/d	6,250.00 (5)	6,250.00
c/d	14,250.00 (1)	4,875.00		b/d	6,250.00
-	14,875.00	14,875.00			
	b/d	14,250.00			
	l J	,			
)	Rev reserves	C	<u>D</u>	Def tax liabilities	C
			<u>D</u> (6)	Def tax liabilities 375.00 OV	C
c/d	Rev reserves	C			<u> </u>
	Rev reserves	C	(6)	375.00 OV	<u> </u>
	Rev reserves 750.00 1,750.00	C	(6)	375.00 OV 375.00	750.00
c/d	Rev reserves 750.00 1,750.00 2,500.00	2,500.00 2,500.00	(6)	375.00 OV 375.00 750.00	750.00
(7)	Rev reserves 750.00 1,750.00 2,500.00 1,250.00 b/d	2,500.00 2,500.00 1,750.00	(6)	375.00 OV 375.00 750.00	750.00

Exhibit 3: Accounts

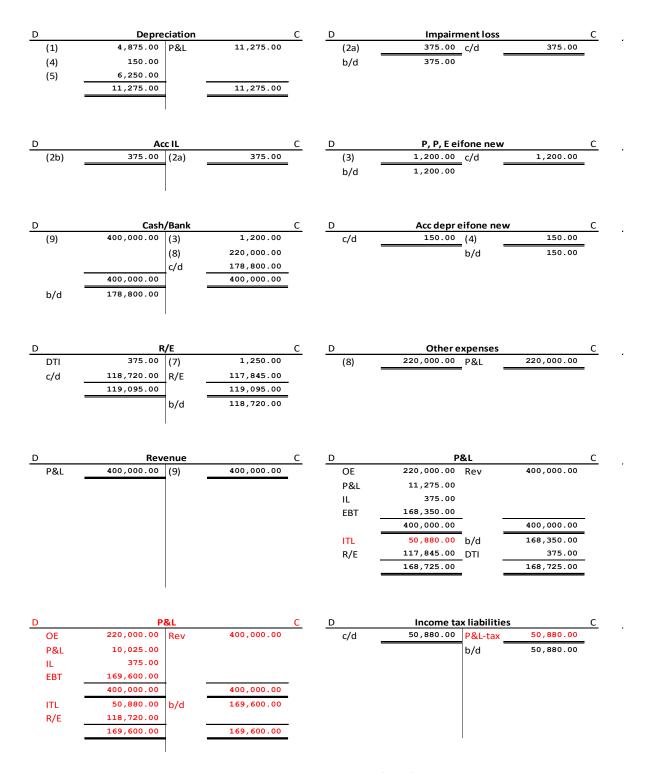


Exhibit 3: Accounts (continued)

The statement of comprehensive income must contain deferred tax income as the laptops have been revalued:

Scharpen AG's
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X4

ioi the year chaca 31.1	2.20/14
	[EUR]
Revenue	400,000.00
Otherincome	
	400,000.00
Materials	0.00
Impairment loss	375.00
Depreciation	11,275.00
Other expenses	220,000.00
Earnings before int and taxes (EBIT)	168,350.00
Interest	0.00
Earnings before taxes (EBT)	168,350.00
Income tax expenses	50,880.00
Deferred taxes [exp/(income)]	(375.00)
Earnings after taxes (EAT)	117,845.00

Exhibit 4: Statement of comprehensive income

The register of non-current assets distinguishes between the old and the new tablets:

Scharpen AG's REGISTER of NON-CURRENT ASSET Groups as at 31.12.20X4

Acc. impairm.

Asset	cost/revaluation	Acc. depr.	losses	Carrying amount
19 eifone tablets	19,000.00	(14,250.00)	0.00	4,750.00
1 eifone tablet new	1,200.00	(150.00)	0.00	1,050.00
20 Äzer laptops	12,500.00	(6,250.00)	0.00	6,250.00
				12,050.00

Exhibit 5: Register on non-current assets

The statement of financial position is not required by the task.

Scharpen AG's STATEMENT of FINANCIAL POSITION

as at 31.12.20X4				C, L
Non-current assets	[EUR]	Owners' capital	[EUR]	
P, P, E	12,050.00	Share capital	20,000.00	*
Intangibles		Reserves	875.00	
Financial assets		R/E	118,720.00	
Current assets		Liabilities		
Inventory		Interest bear liab		
A/R		A/P		
Prepaid expenses		Def tax liab	375.00	
Cash/Bank	178,800.00	Tax liabilities	50,880.00	
-	190,850.00	_	190,850.00	_

Exhibit 6: Statement of financial position

^{*} The amount for the issued capital is derived from the opening amounts. The accounts in exhibit 1 are in total debit balanced by 20,000.00 EUR.