

Task IM-7.50: Exercise on Revaluations

(Impairment Loss and after Revaluation)

MAURITZ (Pty) Ltd. is a bus transportation business. On 3.01.20X2, MAURITZ (Pty) Ltd. revalues a bus that is 6 years old along net replacement method. The new value equals to 28,000.00 EUR. At the time of revaluation, MAURITZ (Pty) Ltd. recorded a revaluation reserve of 2,800.00 EUR (after deduction of deferred liabilities) and a deferred tax liability to the extent of 1,200.00 EUR. The bus is depreciated along declining method at 2 %/m. Dissolve revaluation reserves and deferred tax liabilities proportional to the decrease in value

MAURITZ (Pty) Ltd. records 230,000.00 EUR revenues and expenses (excluding depreciation) to the extent of 145,000.00 EUR. Consider both being on cash basis.

Required: Prepare a statement of profit and loss and other comprehensive income for MAURITZ (Pty) Ltd. Be aware that taxation is calculated along German tax law and is $30\% \times \text{EBT}_{\text{tax}}$. Ignore VAT! Disclose the Retained Earnings account.

Solution:

(OV) Recording the bus without revaluation: $28,000 - 2,800 - 1,200 = 24,000.00 \text{ EUR}$.

(1) Revaluation, only the PPE@val account and the Revaluation Reserves account is relevant.

DR P, P, E @val	28,000.00 EUR
DR Acc Depr	XX,XXX.XX EUR
CR P, P, E @cost	XX,XXX.XX EUR
CR Revaluation Reserves	4,000.00 EUR

(2) Disclosure of deferred tax liabilities: $30\% \times 4,000 = 1,200.00 \text{ EUR}$.

DR Revaluation Reserves	1,200.00 EUR
CR Deferred Tax Liabilities	1,200.00 EUR

(3) Recording depreciation: $28,000 - 28,000 \times (1 - 2\%)^{12} = 6,027.93 \text{ EUR}$.

DR Depreciation	6,027.93 EUR
CR Acc Depreciation	6,027.93 EUR

(4) Recording revenue

DR Cash/Bank	230,000.00 EUR
CR Revenue	230,000.00 EUR

(5) Recording other expenses

DR Other Expenses	145,000.00 EUR
CR Cash/Bank	145,000.00 EUR

By depreciation, the asset's value decreases by $1 - 0.98^{12} = 21.53\%$.

(6) Dissolving Deferred tax liabilities: $1,200 \times 21.53\% = 258.36 \text{ EUR}$.

DR Deferred tax liabilities	258.36 EUR
CR Revaluation Reserves	258.36 EUR

(7) Dissolving revaluation reserves: $4,000 \times 21.53\% = 861.20 \text{ EUR}$.

DR Revaluation Reserves	861.20 EUR
CR Retained Earnings	861.20 EUR

Observe the profit calculation below. The deferred tax income therein equals to $78,972.07 \times 30\% - 23,949.96 = 258.34 \text{ EUR}$.

P, P, E @cost				P, P, E @valuation			
D			C	D			C
OV	24,000.00	(1)	24,000.00	(1)	28,000.00	c/d	28,000.00
				b/d	28,000.00		
Revaluation reserves				Deferred tax liabilities			
D			C	D			C
(2)	1,200.00	(1)	4,000.00	(6)	258.36	(2)	1,200.00
(7)	861.20	(6)	258.36	c/d	941.64		
c/d	2,197.16				1,200.00		1,200.00
	4,258.36		4,258.36			b/d	941.64
		b/d	2,197.16				
Depreciation				Acc depr			
D			C	D			C
(3)	6,027.93	P&L	6,027.93	c/d	6,027.93	(3)	6,027.93
						b/d	6,027.93

Exhibit 1: Accounts

D		Cash/Bank	C
OV ...	(5)	145,000.00	
(4)		230,000.00	

D		Revenue	C
P&L	230,000.00	(4)	230,000.00

D		Other expenses	C
(5)	145,000.00	P&L	145,000.00

D		Profit and Loss (IFRS)	C
DPR	6,027.93	REV	230,000.00
OE	145,000.00		
EBT	78,972.07		
	230,000.00		230,000.00
ITL	23,949.96	b/d	78,972.07
R/E	55,280.45	DTI	258.34
	79,230.41		79,230.41

D		Profit and Loss (EStG)	C
DPR	5,166.80	REV	230,000.00
OE	145,000.00		
EBT	79,833.20		
	230,000.00		230,000.00
ITL	23,949.96	b/d	79,833.20
R/E	55,883.24		
	79,833.20		79,833.20

D		Income tax liabilities	C
c/d	23,949.96	P&L	23,949.96
			23,949.96

D		Retained earnings R/E	C
DTI	258.34	(7)	861.20
c/d	55,883.31	P&L	55,280.45
	56,141.65		56,141.65

D		name	C
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Exhibit 1: Accounts (continued)