

ACC2100 / ACF2100 Financial Accounting

Topic 5 Property, Plant and Equipment: Lecture Examples

At 30 June 2016, Payback Ltd reported equipment as follows:

Equipment (at cost)	\$ 500 000
Accumulated Depreciation	<u>(150 000)</u>
	<u>350 000</u>

The equipment consisted of two machines, Machine A and Machine B. Machine A had cost \$300 000 and had a carrying amount of \$180 000 at 30 June 2016, and Machine B had cost \$200 000 and was carried at \$170 000. Both machines are measured using the cost model, and depreciated on a straight-line basis over a 10-year period.

On 31 December 2016, the directors of Payback Ltd decided to change the basis of measuring the equipment from the cost model to the revaluation model. Machine A was revalued to \$180 000 with an expected useful life of 6 years, and Machine B was revalued to \$155 000 with an expected useful life of 5 years.

At 30 June 2017, Machine A was assessed to have a fair value of \$163 000 with an expected useful life of 5 years, and Machine B's fair value was \$143 500 with an expected useful life of 4 years.

The tax rate is 30%.

Required

Prepare the journal entries during the period 1 July 2016 to 30 June 2017 in relation to the equipment.

Solution

31 December 2016 – Change from cost model to revaluation model

Machine A (Revaluation increase)

Depreciation expense – Machine A	Dr
Accumulated depreciation	Cr
(\$300 000 x 10% x 0.5)	

CA = 300 000 – 120 000 – 15 000 =

FV =

Revaluation increase =

Accumulated depreciation – Machine A	Dr
Machine A	Cr

(Writing the asset down to carrying amount)

Machine A	Dr
Gain on revaluation of machinery (OCI)	Cr

(Revaluation of asset)

Income tax expense (OCI)	Dr
Deferred tax liability	Cr

(Tax-effect of revaluation \$15 000 x 30%)

Gain on revaluation of machinery (OCI)	Dr
Income tax expense (OCI)	Cr
Asset revaluation surplus – Machine A	Cr

(Accumulation of net revaluation gain in equity)

Machine B (Revaluation decrease)

Depreciation expense – Machine B	Dr
Accumulated depreciation	Cr

(\$200 000 x 10% x 0.5)

CA = 200 000 – 30 000 – 10 000 =
 FV =
 Revaluation decrease =

Accumulated depreciation – Machine B	Dr
Machine B	Cr

(Writing the asset down to carrying amount)

Loss on revaluation decrease (P/L)	Dr
Machine B	Cr

(Revaluation of asset)

30 June 2017

Machine A (Reversing previous increase)

Depreciation expense – Machine A	Dr
Accumulated depreciation	Cr

(1/6 x ½ x \$180 000)

CA = 180 000 – 15 000 =

FV =

Revaluation decrease =

Accumulated depreciation – Machine A	Dr
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Machine A	Cr
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(Writing down to carrying amount)

Loss on revaluation of machinery (OCI)	Dr
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Machine A	Cr
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(Revaluation downwards)

Deferred tax liability	Dr
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Income tax expense (OCI)	Cr
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(Tax-effect of revaluation decrement on asset previously revalued upwards)

Asset revaluation surplus – Machine A	Dr
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Income tax expense (OCI)	Dr
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Loss on revaluation of machinery (OCI)	Cr
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(Reduction in accumulated equity due to revaluation decrease)

Machine B (Reversing previous decrease)

Depreciation expense – Machine B	Dr
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Accumulated depreciation	Cr
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(1/5 x 1/2 x \$155 000)

CA = 155 000 – 15 500 =

FV =

Revaluation increase =

Accumulated depreciation – Machine B	Dr
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Machine B	Cr
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(Writing down to carrying amount)

Machine B	Dr
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Gain on revaluation of machinery (P/L)	Cr
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(Revaluation of asset)