**SOLUTION 1**

In accordance with IAS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the asset should be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>List price</td>
<td>$82,000</td>
</tr>
<tr>
<td>Less: trade discount (10%)</td>
<td>($8,200)</td>
</tr>
<tr>
<td>Import duty</td>
<td>$73,800</td>
</tr>
<tr>
<td>Delivery fees</td>
<td>$2,050</td>
</tr>
<tr>
<td>Electrical installation costs</td>
<td>$9,500</td>
</tr>
<tr>
<td>Pre-production testing</td>
<td>$4,900</td>
</tr>
<tr>
<td>Total amount to be capitalised at 1 March</td>
<td>$91,750</td>
</tr>
</tbody>
</table>

The maintenance contract of $7,000 is an expense and therefore should be spread over a five-year period in accordance with the accruals concept and taken to the income statement. If the $7,000 has been paid in full, then some of this cost will represent a prepayment.

In addition the settlement discount received of $3,690 ($73,800 x 5%) is to be shown as other income in the income statement.

**SOLUTION 2**

This is an example of a self-constructed asset. All costs to get the store to its present location and condition for its intended use should be capitalised. All of the expenditure listed in the question, with the exception of general overheads would qualify for capitalisation.

The interest on the loan should also be capitalised from 1 April 2009 as in accordance with IAS 23 it meets the definition of a qualifying asset. The recognition criteria for capitalisation appears to be met ie activities to prepare the asset for its intended use are in progress, expenditure for the asset is being incurred and borrowing costs are being incurred. Capitalisation of the interest on the loan must cease when the asset is ready for use, ie 1 January 2010. At this point any remaining interest for the period should be charged as a finance cost in the income statement.

**Property, plant and equipment**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold land</td>
<td>$4,500</td>
</tr>
<tr>
<td>Architect fees</td>
<td>$620</td>
</tr>
<tr>
<td>Site preparation</td>
<td>$1,650</td>
</tr>
<tr>
<td>Materials</td>
<td>$7,800</td>
</tr>
<tr>
<td>Direct labour costs</td>
<td>$11,200</td>
</tr>
<tr>
<td>Legal fees</td>
<td>$2,400</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>$1,500</td>
</tr>
<tr>
<td>Total to be capitalised</td>
<td>$29,670</td>
</tr>
</tbody>
</table>

**Income statement impact**

With regards to the income statement this should be charged with:

- General overheads of $940,000
- Remaining interest for Jan–Mar which is now an expense $500,000 (25,000 x 8% x 9 /12) and;

- Depreciation of the store. Even though the asset has not yet been brought into use, IAS 16 states depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Note: depreciation cannot be calculated in this question as information surrounding useful economic life has not been provided – this is for illustrative purposes only. Depreciation is covered later in this article.

**SOLUTION 3**

The $18,000 should be capitalised as part of the cost of the asset as the revenue earning capacity of the machine has significantly increased, which could in turn lead to the inflow of additional economic benefit and the cost of the upgrade can be reliably measured.

**SOLUTION 4**

**Income statement extract**

Depreciation expense

**Statement of financial position extract**

Plant

- (200,000 – 50,000 – 37,500) = $112,500

Working for depreciation:

- 31/03/09 Cost of $200,000
- Depreciation – 25% ($50,000)
- Carrying value $150,000

- 31/03/10 Carrying value of $150,000
- Depreciation – 25% ($37,500)
- Carrying value $112,500

**SOLUTION 5**

**31 March 2008**

At the date of acquisition the cost of the asset of $120,000 would be capitalised. The asset should then be depreciated for the years to 31 March 2008/2009 as:

*Cost – residual value = 120,000 – 20,000 = $10,000 per annum*

*Useful economic life 10 years*

**Income statement extract 2008**

Depreciation

**Statement of financial position extract 2008**

Machine

- (120,000 – 10,000) = $110,000

**31 March 2009**

**Income statement extract 2009**

Depreciation

**Statement of financial position extract 2009**

Machine

- (120,000 – 20,000) = $100,000
31 March 2010
As the residual value and useful economic life estimates have changed during the year ended 2010, the depreciation charge will need to be recalculated. The carrying value will now be spread according to the revised estimates.

Depreciation charge:
\[
\frac{100,000 - 15,000}{5 \text{ years}} = $17,000 \text{ per annum}
\]

*Income statement extract 2010*

| Depreciation | $17,000 |

*Statement of financial position extract 2010*

| Machine | (100,000 – 17,000) | $83,000 |

**SOLUTION 6**

Land and buildings
\[
(65,000 – 20,000)/50 \text{ years}) = 900
\]

Fixtures and fittings
\[
(24,000/10 \text{ years}) = 2,400
\]

Lifts
\[
(11,000/20 \text{ years}) = 550
\]

Total property depreciation
\[
3,850
\]

**SOLUTION 7**

Gain on revaluation:

Carrying value of non-current asset at revaluation date
\[
(100,000 – (100,000/40 \text{ years x 2 years})) = 95,000
\]

Valuation
\[
120,000
\]

Gain on revaluation
\[
25,000
\]

Double entry:

Dr Building cost
\[
(120,000 – 100,000) = 20,000
\]

Dr Accumulated depreciation
\[
(100,000/40 \text{ years x 2 years}) = 5,000
\]

Cr Revaluation reserve
\[
25,000
\]

**SOLUTION 8**

Loss on revaluation:

Carrying value of non-current asset at revaluation date
\[
108,000
\]

Valuation
\[
95,000
\]

Loss on revaluation
\[
13,000
\]

Double entry:

Dr Revaluation reserve
\[
(\text{to maximum of original gain}) = 10,000
\]

Dr Income statement
\[
3,000
\]

Cr Non-current asset
\[
13,000
\]

The revaluation gain or loss must be disclosed in both the statement of changes in equity and in other comprehensive income.

**SOLUTION 9**

*Statement of comprehensive income extract for the year ended 31 March 2010*

| Depreciation expense | $000 |
| Other comprehensive income: | |
| Revaluation gain | 12,000 |

*Statement of financial position extract as at 31 March 2010*

| Non-current assets | $000 |
| Property | (20,000 – 400) |
| Revaluation reserve | (12,000 – 200) |

*Statement of changes in equity extracts*

| Revaluation reserve | Retained earnings |
| $000 | $000 |
| Revaluation gain | 12,000 |
| Reserves transfer | (200) |

**Workings:**

Gain on revaluation:

Carrying value of non-current asset at revaluation date
\[
(10,000 – ((10,000 – 2,000)/40 \text{ years x 10 years})) = 8,000
\]

Valuation
\[
20,000
\]

Gain on revaluation
\[
12,000
\]

Double entry:

Dr Property
\[
(20,000 – 10,000) = 10,000
\]

Dr Accumulated depreciation
\[
((10,000 – 2,000)/40 \text{ years x 10 years}) = 2,000
\]

Cr Revaluation reserve
\[
12,000
\]

Depreciation charge for year to 31 March 2010:

Dr depreciation expense
\[
(20,000 – 8,000)/30 \text{ years}) = 400
\]

Cr Accumulated depreciation
\[
400
\]

Reserves transfer:

Historical cost depreciation charge
\[
((10,000 – 2,000)/40 \text{ years}) = 200
\]

Revaluation depreciation charge
\[
400
\]

Excess depreciation to be transferred
\[
200
\]

Dr Revaluation reserve
\[
200
\]

Cr Retained earnings
\[
200
\]
Working paper:
Note: Revaluation takes place part way through the year and therefore depreciation must first be charged for the period 1 April 09 – 30 September 09, then the revaluation can be recorded and then depreciation needs to be charged for the period 1 October 2009 – 31 March 2010.

(W1) Depreciation 1 April–30 September 2009
2,000,000 x 6/12 = $20,000
50 years

(W2) Revaluation
The carrying value of the asset at 1 October 2009 can now be found and revalued.

Carrying value of non-current asset at revaluation date
(2,000,000 – (400,000 – 20,000))
1,580,000
Valuation of non-current asset
2,200,000
Gain on revaluation
620,000

Double entry:
Dr NCA cost (2,200,000 – 2,000,000) 200,000
Dr Accumulated depreciation 420,000
Cr Revaluation reserve 620,000

(W3) Depreciation 1 October – 31 March 2010
2,200,000 x 6/12 = $27,500
40 years

SOLUTION 10
Statement of comprehensive income extract 31 March 2010
Depreciation charge 2,500

Other comprehensive income:
Revaluation gain 10,500

Statement of financial position extract 31 March 2010
Building at valuation 98,000

Statement of changes in equity extract
Revaluation reserve
Revaluation gain 10,500

Working paper:
Note: revaluation takes place at year end, therefore a full year of depreciation must first be charged.

(W1) Depreciation year ended 31 March 2010
100,000 = $2,500
40 years

(W2) Revaluation
The carrying value of the asset at 31 March 2010 can now be found and revalued.

Carrying value of non-current asset at revaluation date
(100,000 – (100,000/40 years x 5 years))
87,500
Valuation of non-current asset
98,000
Gain or loss on revaluation
10,500

Double entry:
Dr Accumulated depreciation 12,500
Cr NCA cost 2,500
Cr Revaluation reserve 10,500

SOLUTION 11
Statement of comprehensive income extract 31 March 2010
Depreciation charge
(20,000 (W1) + 27,500 (W2)) 47,500

Other comprehensive income:
Revaluation gain 620,000

Statement of financial position extract 31 March 2010
Office block (carrying value at 31 March):
Valuation 2,200,000
Depreciation (27,500)
Carrying value 2,172,500

Statement of changes in equity extract
Revaluation reserve
Revaluation gain 620,000

SOLUTION 12
Statement of comprehensive income extract 31 March 2010
Depreciation charge
(16,000 – 8,000) 8,000
Disposal proceeds 5,000
Loss on disposal 3,000

Working paper:
Note: Revaluation takes place part way through the year and therefore depreciation must first be charged for the period 1 April 09 – 30 September 09, then the revaluation can be recorded and then depreciation needs to be charged for the period 1 October 2009 – 31 March 2010.

(W1) Depreciation 1 April–30 September 2009
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(2,000,000 – (400,000 – 20,000))
1,580,000
Valuation of non-current asset
2,200,000
Gain on revaluation
620,000

Double entry:
Dr NCA cost (2,200,000 – 2,000,000) 200,000
Dr Accumulated depreciation 420,000
Cr Revaluation reserve 620,000

(W3) Depreciation 1 October – 31 March 2010
2,200,000 x 6/12 = $27,500
40 years

SOLUTION 12
Statement of comprehensive income extract 31 March 2010
Depreciation charge
(20,000 (W1) + 27,500 (W2)) 47,500

Other comprehensive income:
Revaluation gain 620,000

Statement of financial position extract 31 March 2010
Office block (carrying value at 31 March):
Valuation 2,200,000
Depreciation (27,500)
Carrying value 2,172,500

Statement of changes in equity extract
Revaluation reserve
Revaluation gain 620,000

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Statement of financial position extract 31 March 2010
Office block (carrying value at 31 March):
Valuation 2,200,000
Depreciation (27,500)
Carrying value 2,172,500

Statement of changes in equity extract
Revaluation reserve
Revaluation gain 620,000