



## Example – Exchange transactions

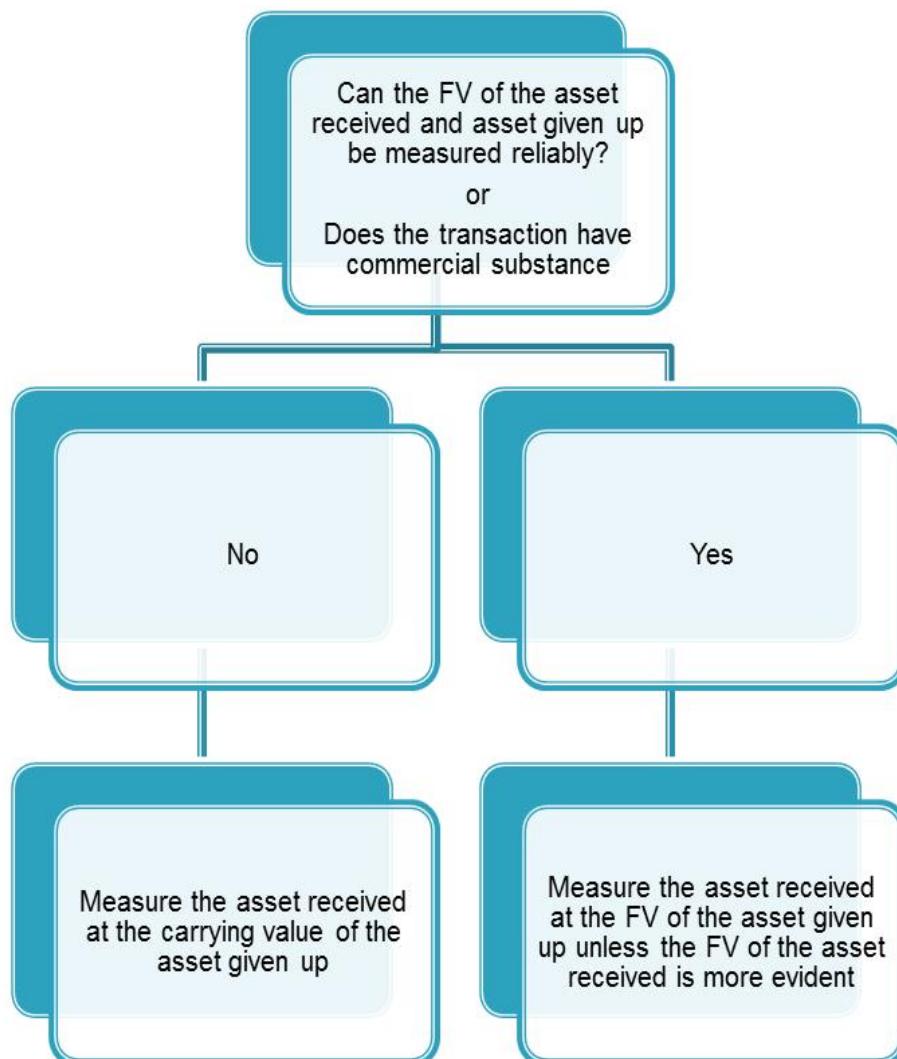
One or more items can be exchanged for a non-monetary item. An entity will **derecognise the asset given up at its carrying amount and capitalise the asset received.**

The **cost of the acquired item** is measured at fair value **unless**:

- (a) the exchange transaction lacks commercial substance or
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

If the FV of both assets can be measured reliably, then measure at the FV of the asset given up unless the FV of the asset received is more evident.

When the FV of neither asset can be determined OR the transaction lacks commercial substance then the asset received is measured at the CA of the asset given up.



## Deferred tax implications

### Asset given up:

SARS will consider the derecognition of the asset given up as a **deemed sale at its fair value**. This will have capital gains tax implications in terms of the 8<sup>th</sup> Schedule of the Income Tax Act.

There will be a recoupment of previous tax allowances at 28% and a capital gain on any value received above the cost of the asset.

### Asset received

SARS will recognize it at its fair value on the date of receipt.

## EXAMPLE – Adapted from Tutorial letter 501

Bob Ltd entered into the following exchange transactions during the year ended 30 June 20.10:

### **Transaction 1**

A motor vehicle with a carrying amount of R100 000 (Cost R150 000, accumulated depreciation R50 000) in the records of Bob Ltd and a fair value of R120 000 was exchanged for a light delivery vehicle of Zaz Ltd with a fair value of R125 000. The fair values of both vehicles can readily be determined since there is an active market for used vehicles.

### **Transaction 2**

A machine of Bob Ltd with a carrying amount of R90 000 (Cost R120 000, accumulated depreciation R30 000) was exchanged for a machine of Yk Ltd which is carried in Yk's records at R80 000. The fair values of neither of the machines could be readily determined.

### **Transaction 3**

A computer network system of Bob Ltd with a carrying amount of R160 000 (Cost R200 000, accumulated depreciation R40 000) was exchanged for furniture with a carrying amount of R170 000 in the records of Xi! Ltd. The fair value of the network system cannot be determined readily as this item is seldom sold in its entirety, but based on probabilities the fair value is estimated at R150 000. The fair value of the furniture is R165 000 and is readily determinable because an active market exists for these used assets.

### **Transaction 4**

Bob Ltd exchanged a truck with a carrying value of R200 000 (Cost R220 000, accumulated depreciation R20 000) for a similar truck with the same age and condition of WOW Ltd. The truck of Bob Ltd has blue stripes painted on the sides and the other truck has silver stripes which is more to the liking of the managing director of Bob Ltd. The fair value of the blue striped truck is R210 000 and that of the silver striped truck is R220 000, which indicates that the silver striped truck is more popular.



## REQUIRED

1. Prepare the **journal entries** to account for the above transactions in the accounting records of Bob Ltd for year ended 30 June 20.10.

Your answer must comply with the requirements of International Financial Reporting Standards.

### Note:

- **No** abbreviations for general ledger accounts can be used.
- Journal narrations are **not** required.



## SOLUTION

### Transaction 1

*Rule: Measure at FV. Since the fair value of both assets can be determined, measure at the fair value of the asset given up.*

Therefore the delivery vehicle will be measured at R120 000. (IAS 16.26)

	Debit R	Credit R
Motor vehicle (received)	120 000	
Cost: Motor vehicle (given up)		150 000
Accumulated depreciation (asset given up)	50 000	
Profit on exchange of motor-vehicle		20 000

Capitalisation of MV received

Derecognition of MV given up

### Transaction 2

*Rule: Measure at FV. Since the fair value of neither asset can be determined, measure at the carrying value of the asset given up*

The acquired machine will be measured at R90 000, the carrying amount of the machine given up. (IAS 16.24)

	Debit R	Credit R
Machinery (received)	90 000	
Cost Machinery (given up)		120 000
Accumulated depreciation	30 000	

### Transaction 3

*Rule: Measure at FV. Since the fair value of the asset received is more readily determinable, measure at the fair value of the asset received*

The furniture will be measured at R165 000, its fair value, since it is more readily determinable than the fair value of the asset given up. (IAS 16.26 (last part).)

	Debit R	Credit R
Furniture (received)	165 000	
Cost: Computer system (given up)		200 000
Accumulated depreciation	40 000	
Profit on exchange transaction		5 000

### Transaction 4

*Rule: Measure at FV but the transaction lacks commercial substance, therefore measure at the carrying value of the asset given up*

The silver stripe truck will be measured at R200 000. This transaction is without commercial substance and the carrying amount of the blue stripe truck given up is used as the cost of the acquired truck. (IAS 16.24, 25)

	Debit R	Credit R
Delivery vehicle (received)	200 000	
Cost: Delivery vehicle (given up)		220 000
Accumulated depreciation	20 000	