FAC3702
Question 15, Tutorial letter 103

Purpose

The purpose of this document is to support the podcast that discusses question 15 of tutorial letter 103. It is therefore recommended that you read and familiarise yourself with the information provided in question 15 before you listen to the podcast.

PART A – Question 1

Step 1 - Financial year of Ngu-X Ltd

1 April 2011 → **31 March 2012**

Step 2 – Read question effectively

1. Read the information in the question
2. Identify the events that affect each asset

Johannesburg property

Purchase date

01-Oct-08

CP Land = 8 000 000
Building = 5 700 000
RV = 5 000 000
Useful life = 20 years / 240 months

18 months have passed

Prior financial year

01-Apr-10

Remaining u/l = 240 - 18 = 222

31-Mar-11

Remaining u/l = 222 - 12 = 210
NRV Land = 2 400 000
Building = 6 400 000

Current financial year

01-Apr-11

10 months

01-Feb-12

2 months

31-Mar-12

Transfer to IP
FV = Land = 2 450 000
Building = 6 500 000

Remember: Revaluations should always take place at the **BEGINNING** of the financial year

Formula to restate NRV from end of the year to beginning of the year:

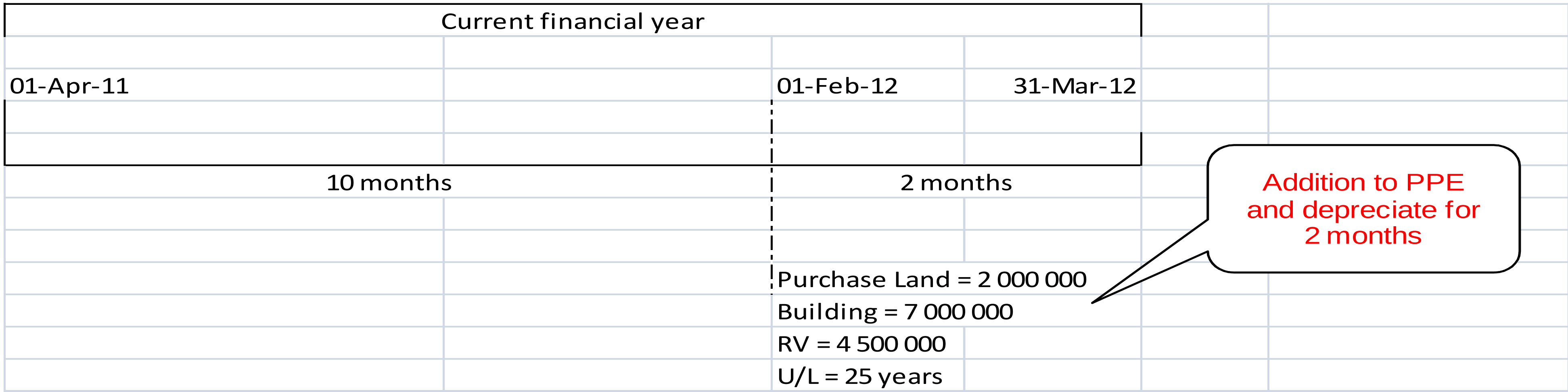
[(NRV at beginning – Residual value)/remaining useful life at end of the year x remaining useful life at beginning of the year] + Residual value

Transfer of owner occupied property (PPE) to Investment property (IP) @ FV

- Apply IAS 16 up to date of change in use (date of transfer).
- Any difference between the **CA** and the **FV** is treated as a REVALUATION according to IAS 16.
- Property will be depreciated up to the date of transfer, and any impairment losses will be recognised to this date.

- **CA @ date of transfer > FV @ that date -**
  - recognise the decrease in **profit /(loss),** unless it is reversal of a prior revaluation
- **CA @ date of transfer < FV @ that date –**
  - If a reversal of **previous Impairment loss** then recognise in **profit /(loss)**
  - Any **remaining portion** of the increase is treated as a **revaluation surplus** (Credit to OCI)

PE property



Current financial year
01-Apr-11
01-Feb-12
31-Mar-12
10 months
2 months
Addition to PPE and depreciate for 2 months
Purchase Land = 2 000 000
Building = 7 000 000
RV = 4 500 000
U/L = 25 years

DVD recording machine

	Current financial year			
01-Mar-09	01-Apr-11		30-Nov-11	31-Mar-12
65 000 units	80 000 units		no depreciation	
CP = 1 800 000				
U/L = 700 000 units			Transfer to NCAHFS	
RV = 300 000			FV less costs = 1 500 000	

Entity shall measure a non-current asset (disposal group) classified as held for sale at the **LOWER** of is carrying amount (**at moment of reclassification**) and fair value less cost to sell. – **The adjustment is an impairment loss.**

Step 3 – Answer the question

1. Start answering the question
2. Before attempting the calculations:
   a. Draw a framework of the PPE note and the NCAHFS note and insert information as far as possible. Example – narrative information, You have thus earned marks before you can get into the detail of the question

DISCLOSURE

Below is an illustration of what the disclosure for Property, plant and equipment **MUST** look like before you attempt calculations. This information was obtained from the question

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2012
Property plant and Equipment

	Land	**Buildings**	**Machine**	**Total**
Carrying amount at the beginning of the year	2 400 000	6 400 000		
Cost	2 400 000		1 800 000	
Accumulated depreciation				
Additions	2 000 000	7 000 000		
Depreciation				
Revaluation				
Derecognition				
Transfer to investment property	(2 450 000)	(6 500 000)		
Transfer to non – current asset held for sale				
Carrying amount at the beginning of the year				
Gross carrying amount/Cost				
Accumulated depreciation				

Valuations were performed on 1 February 2012 by an independent sworn appraiser.

Below is an illustration of what the disclosure for the Non current asset held for sale note **MUST** look like before you attempt calculations. This information was obtained from the question

Non-current assets held for sale

A decision to dispose of the DVD recording machine was taken after a formal detailed disposal plan for the asset was approved. The plan regarding the once-off sale of the assets was at a stage of completion on 28 February 2012**,** where no realistic possibility of withdrawal existed. It is expected that the plan for the sale of the assets will be completed by 10 April 2012 for cash.

Machinery R 1 500 000

An impairment loss of **[Rvalue]** was recognised upon initial classification of the disposal group as held for sale. The impairment loss was included under profit before tax on remeasurement on the face of the statement of profit or loss and other comprehensive income.

If applicable

The total will be the FV less cost to sell at year-