FA 3.1

E 10-2

		GST	
Cash	114 000	− 6000	108 000
Freight			2000
Moving			3100
Wage			4000
Material			500
Plumbing			800
Grant			(25 000)
			100,600

Construction			
Material	200 000	× 98%	196 000
Labour			190 000
Overhead	directly	attributable	30 000
Install			4400
			420 400

E10-24

IFRS — FV

Investment property

	B/S	P+L
2011	50	0
2012	60	10
2013	63	3
2014	58	(5)

Cost $\frac{50M - 5M}{20} = 2.25$

2011	50	
2012	47.75	(2.25)
2013	45.5	(2.25)
2014	43.25	(2.25)

E 10-23

	Cost	Acc Dep'n	CV
2011	100,000	4000	96000
2012	100,000	8,000	92000
2013	100,000	12,000	88000

JE

		2011	2012	2013
Dep'n Exp		4000	4000	4000
	Acc Dep	4000	4000	4000

		FV	CV
2013	Revaluation	90,000	88000

Net Change Model

Bldg			10,000
Acc Dep'n		12000	
	OCI - revaluation		2000

Result

Bldg	88,000
Acc Dep'n	0
NBV	88,000

2013 Revaluation - Proportional Method

Cost		FV	
100,000		102,273	
- 12,000		12273	
88,000	88%	90,000	88%

Bldg 2273
Acc Dep'n 273
OCI revaluation 2000

2014 - 2016 $\frac{90,000}{22} = 4091$

	2014	2015	2016
Dep'n Exp	4091	4091	4091
Acc Dep'n	4091	4091	4091

	Net	Prop	FV
Cost	90,000	102273	
Acc Dep'n	12,273	24546	
	77,727	77,727	75000

Net OCI revaluation 2000
Writedown 727
Bldg 15000
Acc Dep'n 2273

Proportional	102273		98685
	24546		23685
	77727	76%	75000

Bldg		3584
Acc Depr	861	
OCI revaluation	2000	
Writedown	727	

E 10-26

1)	Bldg	15M	100%
	Acc Dep^n	12M	80%
		3M	20%

Acc Dep^n		800 000	
	Bldg		1,000,000
Loss on replace		200,000	
Bldg		2,500,000	
	Cash		2.500 000

2	R+M	5700	
	Cash		5700

3 Need to estimate cost of old heating system

eg based on roof $\frac{2.5}{1}$ = 2.5x

700,000 ÷ 2.5 = 280,000

Acc Dep^n		224 000	
	Bldg		280,000
Loss on replace		56000	
Bldg		700,000	
	Cash		700 000

4	R + M	44000	
	Cash		44000

E 10-29

I = p x r x t

I = (p x t) x r

wtd avg expend		(p x t)
360,000	x 10/12	= 300,000
600 000	x 7/12	= 350,000
1,500,000	x 6/12	= 750,000
1.500,000	x 1/12	= 25000
		1525000
Specific construction loan		= 3,000.000

Use % attributable to loan

1,525,000 x 12% = 183,000

If there was an excess (general borrowing were used) then the following calculation is required

4 M	x 13%	520,000
1.6M	x 10%	160,000
5.6M		680 000

680,000 / 5,600,000 = 12,14%

183,000 reduced by invest income
of 49,000 = 134000

Allocate out to components

Total	Bldg Structure	Roof	Services HVAC
360,000	360000	~~0~~	~~0~~
600,000	600,000	~~0~~	~~0~~
1,500,000	1,100,000	400,000	
1,500,000	800,000	~~0~~	700,000
3960,000	2860000	400.000	700.000
100%	72.2%	10.1%	17.7%

Bldg - structure	96748	
- roof	13534	
services	23718	
Int. exp		134000

P 10 8

	C	S	B	Sh
Cost	160,000	120,000	147000	160,000
Acc Dep	50,000	45000	71000	75000
NBV	110,000	75 000	76000	85000
FMV	92000	69000	92000	00,000

C

1) Cash 23000
Acc Dep 50,000
Equip 160,000
Loss 18000
Equip 69000

2) Equip 110,000
Acc Dep 50 000
Equip 160 000

S

Equip 92000
Cash 23000
Acc Dep 45000
Equip 120,000
Loss 6000

Equip 76000
Acc Dep 71000
Equip 147000

IFRS recoverable amt
↑ of fai value + value in use
if CU > recoverable amt
would have to write down.

3

C

Equip	118000		
Cash		8000	
Acc Dep	50000		
Equip		160,000	

S

Equip	77,000		
Acc Dep	75000		
Cash	8000		
Equip		160000	

Same point re CV vs recoverable amount

4 C

Equip	185000		
Loss	18000		
Acc Dep	50,000		
Equip		160,000	
Cash		93000	

A

Cash	93000		
Inv. usd	92000		
COGS	130,000		
Sales		185000	
Inv New		130,000	

EXERCISE 11-7

(a) 2011 Straight-line $\frac{\$315,000 - \$15,000}{10 \text{ years}} = \$30,000/\text{year}$

(b) 2011 Output $\frac{\$315,000 - \$15,000}{240,000 \text{ total units}} = \$1.25/\text{output unit}$

25,500 units X $1.25 = $31,875

(c) 2011 Working hours $\frac{\$315,000 - \$15,000}{25,000 \text{ total hours}} = \$12.00/\text{hour}$

2,650 hours X $12.00 = $31,800

(d) Declining balance 2010: 1/10 X 2 = 20%.

2010: 20% X $315,000 X 8/12 = $42,000

2011: 20% X ($315,000 – $42,000) = $54,600

OR

1st full year (20% X $315,000) = $63,000

2nd full year [20% X ($315,000 – $63,000)] = $50,400

2010 Depreciation 8/12 X $63,000 = $42,000

2011 Depreciation 4/12 X $63,000 = $21,000

8/12 X $50,400 = 33,600

$54,600

(e) **10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 +**
2 + 1 = 55

OR $\frac{n\,(n+1)}{2} = \frac{10\,(11)}{2} = 55$

			Allocated to	
Sum-of-the-years'-digits		**Total**	**2010**	**2011**
Year 1	**10/55 X $300,000* =**	**$54,545**	**$36,363**	**$18,182**
2	**9/55 X $300,000 =**	**$49,091**		**32,727**
			$36,363	**$50,909**

2011: $50,909 = (4/12 of 1st year of machine's life plus 8/12 of 2nd year of machine's life).

***Cost of $315,000 less residual value of $15,000**

EXERCISE 11-17 (15-20 minutes)

(a) $2,800,000 ÷ 40 = $70,000

(b)

Loss on Disposal of Plant Assets	**95,000**	
Accumulated Depreciation—Building		
($190,000 X 20/40)	**95,000**	
Building		**190,000**
Building – Roof*	**370,000**	
Cash		**370,000**

***Componentized asset capitalized separately from the building as it is a separate component with an expected different pattern of benefits and depreciation (expected different useful life and residual value).**

Note: The most appropriate entry (and as required under IFRS) would be to remove the old roof and record a loss on disposal, because the cost of old roof is given.

(c) No entry necessary.

EXERCISE 11-17 (Continued)

(d)	**(Assume the cost of old roof is removed)**	
	Building ($2,800,000 – $190,000 + $370,000)	**$2,980,000**
	Accumulated Depreciation ($70,000 X 20 – $95,000)	**1,305,000**
		1,675,000
	Remaining useful life	**25 years**
	Depreciation—2011 ($1,675,000 ÷ 25)	**$ 67,000**

EXERCISE 11-20 (20-25 minutes)

(a) Assuming private company following Canadian private entity GAAP – Cost Recovery Impairment Model

(1) December 31, 2011

Loss on Impairment	**1,800,000**	
Accumulated Impairment Losses—Equipment.....		**1,800,000**

The recovery test indicates that impairment has occurred since the carrying amount exceeds the undiscounted future net cash flows. The impairment loss is then calculated as follows:

Cost	**$9,000,000**
Accumulated depreciation	**1,000,000**
Carrying amount	**8,000,000**
Fair value	**6,200,000**
Impairment loss	**$1,800,000**

(2) December 31, 2012

Depreciation Expense	**1,550,000**	
Accumulated Depreciation—Equipment		**1,550,000**

New carrying amount	**$6,200,000**
Useful life	**4 years**
Depreciation per year	**$1,550,000**

(3) No entry necessary. Recovery of any impairment loss is not permitted for entities using the cost recovery model for assets held for use or to be disposed of other than by sale.

EXERCISE 11-20 (Continued)

(b) Assuming public company following IFRS – Rational Entity Impairment Model

(1) The asset's recoverable amount is $6,350,000 (the higher of its value in use (i.e. discounted future net cash flows) ($6,350,000) and its fair value less costs to sell ($6,200,000).

The recovery test indicates that impairment has occurred since the carrying amount exceeds the recoverable amount. The impairment loss is then calculated as follows:

Cost	**$9,000,000**
Accumulated depreciation	**1,000,000**
Carrying amount	**8,000,000**
Recoverable amount	**6,350,000**
Impairment loss	**$1,650,000**

December 31, 2011

Loss on Impairment	**1,650,000**	
Accumulated Impairment Losses—Equipment.....		**1,650,000**

(2) **December 31, 2012**

Depreciation Expense	**1,587,500**	
Accumulated Depreciation—Equipment		**1,587,500**

New carrying amount	**$6,350,000**
Useful life	**4 years**
Depreciation per year	**$1,587,500**

EXERCISE 11-20 (Continued)

(b) (Continued)

(3) Under IAS 36, the reversal of a previous impairment loss amount is limited. The specific asset cannot be increased in value to more than what its carrying amount would have been, net of depreciation, if the original impairment loss had never been recognized.

December 31, 2011 pre-impairment loss carrying amount	**$8,000,000**
2012 depreciation based on pre-impairment carrying amount ($8,000,000 ÷ 4 years)	**2,000,000**
December 31, 2012 pre-impairment carrying amount	**$6,000,000**

The December 31, 2012 carrying amount would have been $6,000,000 if the impairment had not occurred; this is the maximum carrying amount which can be reflected for the equipment in the December 31, 2012 balance sheet.

Actual December 31, 2011 carrying amount	**$6,350,000**
Actual 2012 depreciation (based on impairment) ....(a)	**1,587,500**
Indicated December 31, 2012 carrying amount	**4,762,500**
December 31, 2012 pre-impairment carrying amount	**6,000,000**
Recovery of previously recognized impairment .....(b)	**$1,237,500**

Thus, the net effect on the 2012 net income (loss) is a net decrease of $350,000 [= (a) – (b)]. The asset cannot be restored to its indicated December 31, 2011 balance of $6,350,000 as this

exceeds the carrying amount that would have existed at this date had the impairment in 2011 never been recognized.

December 31, 2012

Accumulated Impairment Losses—Equipment	**1,237,500**	
Recovery of Impairment Loss		**1,237,500**