Assignment # 1
Financial Accounting II
MGT 401

Question

Classic Plants International (CPI) acquired a highly sophisticated used plant from Europe on *January 1, 1990*, at an invoice price of Rs. 40,000. The other costs associated with this purchase were:

	Rs.
Freight charges	**2, 500**
Misc. expenses paid for the import of machinery	**3, 500**
Site preparation	**4, 000**
Cost of test run & special staff training	**5, 000**

The plant with economic life of *15 years* was expected to have a useful life of 10 years. CPI has the policy to charge the depreciation under straight line method.
The plant was revaluated by an independent Value on *January 1, 1993* at appraised gross replacement Cost of Rs.70, 000.

Answer:

Draw the criteria under IAS – 16 to capitalize each of the above cost associated with this plant. Also find the total amount of plant to be capitalized in this regard.
Ans. Rs
Invoice price = 40,000
Freight charges = 2, 500
Misc. expenses paid for the import of machinery = 3, 500
Site preparation = 4, 000
Cost of test run & special staff training= 5, 000

2. Describe and show the impact of revaluation of the plant under alternate

method of IAS – 16.
Ans.
Gross carrying Amount
(55000*70000/38500) = 100000
Depreciation
Carrying amount 70000

3. Describe and show the impact of revaluation by passing a journal entry.
Ans.

Entry

Dr Property, plant, and equipment — buildings = 15000
Dr Accumulated amortization = 16500
Cr Other comprehensive income - Revaluation surplus = 31500

4. If this plant is replaced with the similar class of asset costing Rs. 70,000 at the end of 4th year, then what will be the treatment of this plant under IAS 16?

Cost of Plant on end of /Residual life = 700000/7
Costing Value on year $= 70000 - 10000 = 60000$

5. Note down the treatment of "Surplus on Revaluation of Fixed Assets" as described by IAS –16

Fair value – cash equivalent
Rs. 70,000 –Rs. 60,000= Rs. 10,000