2012

3. Revaluation of Fixed Assets

On 1 January 2007 Logan Ltd owned freehold buildings which cost €360,000 and adjacent land which cost €240,000. The company depreciates its buildings at the rate of 2% per annum straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. This property had been purchased on 01/01/2003 and depreciation had been charged against profits in each of these four years (land is not depreciated).

The following details were taken from the firm's books:

Jan 1 2007	Re-valued land and buildings at €700,000. Of this re-valued amount €270,000 was attributable to land.
Jan 1 2008	Sold for €320,000 adjacent land which cost €240,000 but was since re-valued on 01/01/2007.
Jan 1 2009	Purchased buildings for €500,000. During the year 2009, €100,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €50,000 by Logan Ltd for this work.
Jan 1 2010	Re-valued buildings owned at €1,188,000 (a 10% increase in respect of each building).
Jan 1 2011	Sold for €400,000 the buildings owned on 01/01/2007. The remaining buildings were re-valued at €950,000.

Required:

(a) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31 December 2007 to 31 December 2011.
(Bank Account and Profit and Loss Account **not** required.) (52)

(b) (i) Show the relevant extract from the Balance Sheet as at 31/12/2011.
(ii) What factors are taken into account in arriving at an annual depreciation charge?
(8)

(60 marks)

Question 3 – Revaluation of Fixed Assets

52

(a)

Land and Buildings Account

01/01/2007	Balance b/d	600,000 [1]			
01/01/2007	Revaluation Res.	100,000 [1]	31/12/2007	Balance c/d	700,000
		700,000			700,000
01/01/2008	Balance b/d	700,000	01/01/2008	Disposal	270,000 [1]
			31/12/2008	Balance c/d	430,000
		700,000			700,000
01/01/2009	Balance b/d	430,000 [1]			
	Bank	500,000 [1]			
	Bank	100,000 [1]			
	Wages	50,000 [1]	31/12/2009	Balance c/d	1,080,000
		1,080,000			1,080,000
01/01/2010	Balance b/d	1,080,000			
01/01/2010	Revaluation Res	108,000 [2]	03/12/2010	Balance c/d	1,188,000
		1,188,000			1,188,000
01/01/2011	Balance b/d	1,188,000	01/01/2011	Disposal	473,000 [1]
	Revaluation Res	235,000 [3]	31/12/2011	Balance c/d	950,000
		1,423,000			1,423,000
01/01/2012	Balance b/d	950,000			

Provision for Depreciation Account

01/01/2007	Revaluation Res.	28,800 [1]	01/01/2007	Balance b/d	28,800 [2]
31/12/2007	Balance c/d	8,600	31/12/2007	Profit & Loss	8,600 [2]
		37,400			37,400
31/12/2008	Balance c/d	17,200	01/01/2008	Balance b/d	8,600
			31/12/2008	Profit & Loss	8,600 [2]
		17,200			17,200
31/12/2009	Balance c/d	38,800	01/01/2009	Balance b/d	17,200
			31/12/2009	Profit & Loss	21,600 [1]
		38,800			38,800
01/01/2010	Revaluation Res.	38,800 [2]	01/01/2010	Balance b/d	38,800
31/12/2010	Balance c/d	23,760	31/12/2010	Profit & Loss	23,760 [2]
		62,560			62,560
01/01/2011	Disposal	9,460 [2]	01/01/2011	Balance b/d	23,760
	Revaluation Res.	14,300 [3]	31/12/2011	Profit & Loss	19,000 [1]
31/12/2011	Balance c/d	19,000			
		42,760			42,760
			01/01/2012	Balance b/d	19,000

Disposal of Land Account

01/01/2008	Land	270,000 [1]	01/01/2008	Bank	320,000 [1]
31/12/2008	Profit & Loss a/c	50,000 [1]			
		320,000			320,000

Disposal of Buildings

01/01/2011	Buildings	473,000 [1]	01/01/2011	Bank	400,000 [1]
				Depreciation	9,460 [1]
				Loss- P & L a/c	63,540 [1]
		473,000			473,000

Revaluation Reserve Account

01/01/2008	Revenue Res.	30,000 [1]	01/01/2007	Land & Buildings	100,000 [1]
01/01/2011	Revenue Res.	167,600 [2]		Provision for Dep.	28,800 [1]
31/12/2011	Balance c/d	327,300 [3]	01/01/2010	Land & Buildings	108,000 [1]
				Provision for Dep.	38,800 [1]
			01/01/2011	Land & Buildings	235,000 [1]
				Provision for Dep.	14,300 [1]
		524,900			524,900
			31/12/2011	Balance b/d	327,300

Revenue Reserve Account

01/01/2008	Revaluation Res	30,000 [1]
01/01/2011	Revaluation Res.	167,600 [1]
		197,600

(b) **8**

(i)

Balance Sheet (extract) as at 31/12/2011

Fixed Assets	€	€	€
Land and Buildings	950,000 [1]	19,000 [1]	931,000
Capital and Reserves			
Revaluation Reserve			327,300 [2]
Revenue Reserve			197,600 [2]

(ii)

Factors used to determine annual depreciation charge. [2]

Cost of asset
Estimated life of asset
Estimated residual/scrap value of asset
Selection of appropriate method of depreciation

Revaluation of Fixed Assets

On 1 January 2004 Lyons Ltd owned freehold buildings which cost €290,000 and adjacent land which cost €210,000. The company depreciates its buildings at the rate of 2% per annum straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. This property had been purchased on 1/1/2000 and depreciation had been charged against profits in each of these four years (land is not depreciated).

The following details were taken from the firm's books:

Jan 1 2004	Re-valued land and buildings at €600,000. Of this revalued amount €240,000 was attributable to land.
Jan 1 2005	Sold for €280,000 land which cost €210,000 but was since re-valued on 1/1/2004.
Jan 1 2006	Purchased buildings for €400,000. During the year 2006, €150,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €50,000 by Lyons Ltd for this work.
Jan 1 2007	Re-valued buildings owned at €1,056,000 (a 10% increase in respect of each building).
Jan 1 2008	Sold for €420,000 the buildings owned on 1/1/2004. The remaining buildings were re-valued at €750,000.

You are required to:

(a) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31 December 2004 to 31 December 2008.
(Bank Account and Profit and Loss Account **not** required) (55)

(b) Show the relevant extract from the Balance Sheet as at 31/12/2008 (5)

(60 marks)

Question 3

15

Land and Buildings Account

01/01/2004	Balance b/d	500,000 [1]			
01/01/2004	Revaluation Res.	100,000 [1]	31/12/2004	Balance c/d	600,000
		600,000			600,000
01/01/2005	Balance b/d	600,000	01/01/2005	Disposal	240,000 [1]
			31/12/2005	Balance c/d	360,000
		600,000			600,000
01/01/2006	Balance b/d	360,000 [1]			
	Bank	400,000 [1]			
	Bank	150,000 [1]			
	Wages	50,000 [1]	31/12/2006	Balance c/d	960,000
		960,000			960,000
01/01/2007	Balance b/d	960,000			
01/01/2007	Revaluation Res	96,000 [2]	3/12/2007	Balance c/d	1,056,000
		1,056,000			1,056,000
01/01/2008	Balance b/d	1,056,000	01/01/2008	Disposal	396,000 [3]
	Revaluation Res.	90,000 [3]	31/12/2008	Balance c/d	750,000
		1,146,000			1,146,000
01/01/2009	Balance b/d	750,000			

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Provision for Depreciation Account

01/01/2004	Revaluation Res.	23,200 [2]	01/01/2004	Balance b/d	23,200 [2]
31/12/2004	Balance c/d	7,200	31/12/2004	Profit & Loss	7,200 [2]
		30,400			30,400
31/12/2005	Balance c/d	14,400	01/01/2005	Balance b/d	7,200
			31/12/2005	Profit & Loss	7,200 [2]
		14,400			14,400
31/12/2006	Balance c/d	33,600	01/01/2006	Balance b/d	14,400
			31/12/2006	Profit & Loss	19,200 [2]
		33,600			33,600
01/01/2007	Revaluation Res.	33,600 [2]	01/01/2007	Balance b/d	33,600
31/12/2007	Balance c/d	21,120	31/12/2007	Profit & Loss	21,120 [2]
		54,720			54,720
01/01/2008	Disposal	7,920 [2]	01/01/2008	Balance b/d	21,120
	Revaluation Res.	13,200 [3]	31/12/2008	Profit & Loss	15,000 [2]
31/12/2008	Balance c/d	15,000			
		36,120			36,120
			01/01/2009	Balance b/d	15,000

3

Disposal of Land Account

1/1/2005	Land	240,000 [1]	1/1/2005	Bank	280,000 [1]
31/12/2005	Profit & Loss a/c	40,000 [1]			
		280,000			280,000

4

Disposal of Buildings

1/1/2008	Buildings	396,000 [1]	1/1/2008	Bank	420,000 [1]
	Profit & Loss	31,920 [1]		Depreciation	7,920 [1]
		427,920			427,920

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Revaluation Reserve Account

1/01/2005	Revenue Res.	30,000 [1]	1/1/2004	L & B	100,000 [1]
1/01/2008	Revenue Res.	150,800 [1]		Prov for Dep	23,200 [1]
31/12/2008	Balance c/d	175,200 [2]	1/1/2007	L & B	96,000 [1]
				Prov for Dep	33,600 [1]
			1/1/2008	L & B	90,000 [1]
				Prov for Dep	13,200 [1]
		356,000			356,000
			31/12/2008	Balance b/d	175,200

2

Revenue Reserve Account

			1/1/2005	Reval Res	30,000 [1]
			1/1/2008	Reval Res.	150,800 [1]
					180,800

5

Balance Sheet (extract) as at 31/12/2008

Fixed Assets	€	€	€
Land and Buildings	750,000 [1]	15,000 [1]	735,000 [1]
Capital and Reserves			
Revaluation Reserve			175,200 [1]
Revenue Reserve			180,800 [1]

2007

3. **Revaluation of Fixed Assets**

On 1 January 2002 McGrath Ltd. owned freehold property and land which cost €670,000, consisting of land €240,000 and buildings €430,000. The company depreciates its buildings at the rate of 2% per annum straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. This property had been purchased eight years earlier and depreciation had been charged against profits in each of these eight years (land is not depreciated).

The following details were taken from the firm's books:

Jan 1 2002	Re-valued property at €810,000. Of this revaluation €290,000 was attributable to land.
Jan 1 2003	Sold for €340,000 land which cost €240,000 but was since re-valued on 1/1/2002
Jan 1 2004	Purchased buildings for €470,000. During the year 2004, €150,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €80,000 by McGrath Ltd. for this work.
Jan 1 2005	Re-valued buildings owned at €1,403,000 (a 15% increase in respect of each building).
Jan 1 2006	Sold for €660,000 the buildings owned on 1/1/2002. The remaining buildings were re-valued at €860,000.

You are required to:

(a) Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 2002 to 31 December 2006.
(Bank Account and Profit and Loss Account not required) (55)

(b) Show relevant extract from Balance Sheet as at 31/12/2006 (5)

(60 marks)

2007 HL

Question 3 - Solution

(a) 15

Land and Buildings Account

Date	Details	€	Date	Details	€
01/01/02	Balance b/d	670,000 [1]			
01/01/02	Revaluation Res.	140,000 [1]	31/12/02	Balance c/d	810,000
		810,000			810,000
01/01/03	Balance b/d	810,000	01/01/03	Disposal	290,000 [1]
			31/12/03	Balance c/d	520,000
		810,000			810,000
01/01/04	Balance b/d	520,000 [1]	31/12/04	Balance c/d	1,220,000
	Bank	470,000 [1]			
	Bank	150,000 [1]			
	Wages	80,000 [1]			
		1,220,000			1,220,000
01/01/05	Balance b/d	1,220,000	31/12/05	Balance c/d	1,403,000
01/01/05	Revaluation Reserve	183,000 [2]			
		1,403,000			1,403,000
01/01/06	Balance b/d	1,403,000	01/01/06	Disposal	598,000 [3]
01/01/06	Revaluation Reserve	55,000 [3]	31/12/06	Balance c/d	860,000
		1,458,000			1,458,000

21

Provision for Depreciation on Buildings Account

Date	Details	€	Date	Details	€
01/01/02	Revaluation Res.	68,800 [2]	01/01/02	Balance b/d	68,800 [2]
31/12/02	Balance c/d	10,400	31/12/02	Profit and Loss	10,400 [2]
		79,200			79,200
31/12/03	Balance c/d	20,800	01/01/03	Balance b/d	10,400
			31/12/03	Profit and Loss	10,400 [2]
		20,800			20,800
31/12/04	Balance c/d	45,200	01/01/04	Balance b/d	20,800
			31/12/04	Profit and Loss	24,400 [2]
		45,200			45,200
01/01/05	Revaluation Res.	45,200 [2]	01/01/05	Balance c/d	45,200
31/12/05	Balance c/d	28,060	31/12/05	Profit and Loss	28,060 [2]
		73,260			73,260
01/01/06	Disposal	11,960 [2]	01/01/06	Balance b/d	28,060
01/01/06	Revaluation Res.	16,100 [3]	31/12/06	Profit and Loss	17,200 [2]
31/12/06	Balance c/d	17,200			
		42,400			42,400
			01/01/07	Balance b/d	17,200

Question 3 – Solution – (continued)

3

Disposal of Land Account

		€			€
01/01/03	Land and Buildings	290,000 [1]	01/01/03	Bank	340,000 [1]
31/12/03	P & L a/c -(Profit)	50,000 [1]			
		340,000			340,000

4

Disposal of Buildings Account

		€			€
01/01/06	Land and Buildings	598,000 [1]	01/01/06	Depreciation	11,960 [1]
31/12/06	P & L (Profit)	73,960 [1]	01/01/06	Bank	660,000 [1]
		671,960			671,960

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Revaluation Reserve Account

		€			€
01/01/03	Revenue reserve	50,000 [1]	01/01/02	Land and Buildings	140,000 [1]
01/01/06	Revenue reserve	268,000 [1]		Provision for Dep	68,800 [1]
	Balance	190,100 [2]	01/01/05	Land and Buildings	183,000 [1]
				Provision for Dep	45,200 [1]
			01/01/06	Land and Buildings	55,000 [1]
				Provision for Dep	16,100 [1]
		508,100			508,100

2

Revenue Reserve Account

		€
01/01/03	Revaluation reserve	50,000 [1]
01/01/06	Revaluation reserve	268,000 [1]
		318,000

5

Balance Sheet as at 31/12/2006	€	€	€
Fixed Assets			
Land and Buildings	860,000 [1]	17,200 [1]	842,800 [1]
Capital and Reserves			
Revaluation Reserve			[1] 190,000
Revenue reserve			[1] 318,000

2004

3. Revaluation of Fixed Assets

On 1 January 1999 Cavanagh Ltd owned freehold property and land which cost €740,000, consisting of Land €250,000 and Buildings €490,000. The company depreciates its buildings at the rate of 2% per annum using the straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. This property had been purchased ten years earlier and depreciation had been charged against profits in each of these ten years (Land is not depreciated).

The following details were taken from the firm's books:

Jan 1	1999	Re-valued property at €870,000. Of this revaluation €300,000 was attributable to land.
Jan 1	2000	Sold for €330,000 land which cost €250,000 but was since re-valued on 1/1/1999
Jan 1	2001	Purchased buildings for €450,000. During the year 2001, €120,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €60,000 by Cavanagh Ltd for this work.
Jan 1	2002	Re-valued buildings owned at €1,320,000 (a 10% increase in respect of each building).
Jan 1	2003	Sold for €700,000 the buildings owned on 1/1/1999. The remaining buildings were re-valued at €800,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 1999 to 31 December 2003 **(Bank Account and Profit and Loss Account not required).**

(60 marks)

QUESTION 3 - Solution

(a)

20

Land and Buildings Account

		€			€
1/1/99	Balance b/d	740,000 ❷			
1/1/99	Revaluation Res.	130,000 ❷	31/12/99	Balance c/d	870,000
		870,000			870,000
1/1/00	Balance b/d	870,000	01/02/00	Disposal	300,000 ❶
			31/12/00	Balance c/d	570,000
		870,000			870,000
1/1/01	Balance b/d	570,000 ❶	31/12/01	Balance c/d	1,200,000
	Bank	450,000 ❷			
	Bank	120,000 ❷			
	Wages	60,000 ❷			
		1,200,000			1,200,000
1/1/02	Balance b/d	1,200,000	31/12/02	Balance c/d	1,320,000
1/1/02	Revaluation Res	120,000 ❷			
		1,320,000			1,320,000
1/1/03	Balance b/d	1,320,000	01/02/03	Disposal	627,000 ❸
1/1/03	Revaluation Res	107,000 ❸	31/12/03	Balance c/d	800,000
		1,427,000			1,427,000

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Provision for Depreciation on Buildings Account

		€			€
1/1/99	Revaluation Res.	98,000 ❷	1/1/99	Balance b/d	98,000 ❹
31/12/99	Balance c/d	11,400	31/12/99	Profit and Loss	11,400 ❷
		109,400			109,400
31/12/00	Balance c/d	22,800	1/1/00	Balance b/d	11,400
			31/12/00	Profit and Loss	11,400 ❷
		22,800			22,800
31/12/01	Balance c/d	46,800	1/1/01	Balance b/d	22,800
			31/12/01	Profit and Loss	24,000 ❷
		46,800			46,800
1/1/02	Revaluation Res.	46,800 ❷	1/1/02	Balance c/d	46,800
31/12/02	Balance c/d	26,400	31/12/02	Profit and Loss	26,400 ❷
		73,200			73,200
1/1/03	Disposal	12,540 ❷	1/1/03	Balance b/d	26,400
1/1/03	Revaluation Res.	13,860 ❸	31/12/03	Profit and Loss	16,000 ❷
31/12/03	Balance c/d	16,000			
		42,400			42,400
			1/1/03	Balance b/d	16,000

3

Disposal of Land Account

		€			€
1/1/00	Buildings	300,000 ❶	1/1/00	Bank	330,000 ❶
31/12/00	P & L (Profit)	30,000 ❶			
		330,000			330,000

4

Disposal of Buildings Account

		€			€
1/1/03	Buildings	627,000 ❶	1/1/03	Depreciation	12,540 ❶
31/12/03	P & L (Profit)	85,540 ❶	1/1/03	Bank	700,000 ❶
		712,540			712,540

8

Revaluation Reserve Account

		€			€
1/1/99	Revenue reserve	50,000 ❶	1/1/99	Land and Buildings	130,000 ❶
1/1/03	Revenue reserve	269,200 ❶		Provision for Dep	98,000 ❶
	Balance	196,460	1/1/02	Land and Buildings	120,000 ❶
				Provision for Dep	46,800 ❶
			1/1/03	Land and Buildings	107,000 ❶
				Provision for Dep	13,860 ❶
		515,660			515,660

2

Revenue Reserve Account

		€			€
			1/1/99	Revenue reserve	50,000 ❶
			1/1/03	Revenue reserve	269,200 ❶

3. **Revaluation of Fixed Assets**

On 1 January 1996 Quick Ltd owned a building which had cost £350,000. The company depreciates its assets at the rate of 2% straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and nil depreciation in the year of disposal. This building had been purchased eight years earlier and depreciation had been charged against profits in each of these eight years.

The following details were taken from the firm's books:

Jan 1 1996	Revalued building at £480,000.
Jan 1 1998	Purchased additional building for £240,000. During 1998, £60,000 was paid to a building contractor for an extension to this recently purchased building. The company's own employees also worked on the extension and they were paid wages amounting to £20,000 by Quick Ltd for this work.
Jan 1 1999	Revalued buildings owned at £880,000 (a 10% increase in respect of each building).
Jan 1 2000	Sold for £550,000 the building owned on 1/1/1996. The remaining building was revalued at £400,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 1996 to 31 December 2000. (Bank Account and Profit and Loss **not** required). **(60 marks)**

Question 3 – Revaluation of Fixed Assets

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Buildings Account

Date	Details	£	Date	Details	£
1/1/96	Balance b/d	❷ 350,000			
1/1/96	Revaluation Res.	❷ 130,000	31/12/96	Balance c/d	480,000
		480,000			480,000
1/1/98	Balance b/d	❶ 480,000	31/12/98	Balance c/d	800,000
1/1/98	Bank	❷ 240,000			
	Bank	❷ 60,000			
	Wages	❷ 20,000			
		800,000			800,000
1/1/99	Balance b/d	800,000	31/12/99	Balance c/d	880,000
1/1/99	Revaluation Res	❷ 80,000			
		880,000			880,000
1/1/00	Balance b/d	880,000	1/1/00	Disposal	❹ 528,000
1/1/00	Revaluation Reserve	❹ 48,000	31/12/00	Balance c/d	400,000
		928,000			928,000

Provision for Depreciation on Buildings Account

Date	Details	£	Date	Details	£
1/1/96	Revaluation Res.	❷ 56,000	1/1/96	Balance b/d	❹ 56,000
31/12/96	Balance c/d	9,600	31/12/96	Profit and Loss	❷ 9,600
		65,600			65,600
31/12/97	Balance c/d	19,200	1/1/97	Balance b/d	9,600
			31/12/97	Profit and Loss	❷ 9,600
		19,200			19,200
31/12/98	Balance c/d	35,200	1/1/98	Balance b/d	19,200
			31/12/98	Profit and Loss	❷ 16,000
		35,200			35,200
1/1/99	Revaluation Res.	❷ 35,200	1/1/99	Balance c/d	35,200
31/12/99	Balance c/d	17,600	31/12/99	Profit and Loss	❷ 17,600
		52,800			52,800
1/1/00	Disposal	❷ 10,560	1/1/00	Balance b/d	17,600
1/1/00	Revaluation Res.	❹ 7,040	31/12/00	Profit and Loss	❷ 8,000
31/12/00	Balance c/d	8,000			
		25,600			25,600
			1/12/01	Balance b/d	8,000

Question 3 - (continued)

Disposal of Buildings Account

		£			£
1/1/00	Buildings	❷ 528,000	1/1/00	Depreciation	❷ 10,560
31/12/00	P & L (Profit)	❶ 32,560	1/1/00	Bank	❷ 550,000
		560,560			560,560

Revaluation Reserve Account

		£			£
1/1/00	Revenue reserve	❶ 262,800	1/1/96	Land and Buildings	❶ 130,000
				Provision for Dep	❶ 56,000
			1/1/99	Land and Buildings	❶ 80,000
				Provision for Dep	❶ 35,200
			1/1/00	Land and Buildings	❶ 48,000
				Provision for Dep	❶ 7,040

Revenue Reserve Account

		£
1/1/00	Revenue res-buildings	❶ 262,800