Certificate in Accounting and Finance Stage Examination

Financial Accounting and Reporting

LEARNING LEAGUE

Prepared by
Haleema Lateef

Mock Test: IAS 16 Property, Plant and Equipment
30 marks
55 minutes (including 5 minutes' reading time)

Instructions to examinees:

(i) Answer all **THREE** questions.

(ii) Answer in **black** pen only.

(iii) Show all necessary workings. Narrations for journal entries are not required.

SECTION A

QUESTION 1

The following information pertains to the property, plant and equipment of Rustam Limited (RL) for the year ended 31 December 20X5:

(i) **Office building**

RL acquired an office building on 1 January 20X2 for Rs. 600 million. The building has a useful life of 20 years and nil residual value, and is depreciated on a straight-line basis. RL applies the revaluation model to its buildings, using the net replacement value method, and transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis. The useful life was not changed on revaluation. The building was revalued by an independent valuer as follows:

Revaluation date	Fair value (Rs. in million)
31 December 20X3	648
31 December 20X5	500

(ii) **Plant**

RL applies the cost model to its plant and depreciates it on a straight-line basis with nil residual value. Details of the plants are as follows:

Plant	Date of acquisition	Cost (Rs. in million)	Useful life
A	1 January 20X2	400	10 years
B	1 July 20X3	120	6 years
C	1 October 20X5	180 (plus installation cost of Rs. 20 million)	10 years

Plant B was sold on 31 March 20X5 for Rs. 80 million. Depreciation is charged on a monthly basis from the date of acquisition up to the date of disposal.

Required:

(a) In accordance with IFRSs, prepare a note on 'Property, plant and equipment' for inclusion in RL's financial statements for the year ended 31 December 20X5, showing the building and the plant in separate columns. (Comparative figures and the column for total are not required)

(14 marks)

(b) Calculate the loss on disposal of Plant B and the balance of the revaluation surplus on the building as at 31 December 20X5.

(02 marks)

QUESTION 2

Sultan Limited (SL) has a 31 December year-end. SL purchased a ship on 1 January 20X2 for Rs. 1,000 million. The ship has two significant components, which are depreciated separately on a straight-line basis with nil residual value, as follows:

Component	**Share of cost**	**Useful life**
Hull	60%	25 years
Engines	40%	8 years

On 1 July 20X5, the engines were replaced with new engines costing Rs. 420 million, which were paid in cash. The new engines have a useful life of 8 years and nil residual value. The old engines were scrapped for nil proceeds.

Required:

Prepare journal entries for the year ended 31 December 20X5 in respect of the ship, including depreciation, derecognition of the old engines and recognition of the new engines. (Show all necessary workings)

(08 marks)

QUESTION 3

Madina Limited (ML) applies the revaluation model to its buildings. The finance director of ML is unsure about the treatment of revaluation changes.

Required:

(a) Explain how a revaluation decrease and a later revaluation increase on the same asset are recognised, considering both the case where a revaluation surplus exists and the case where it does not.

(03 marks)

(b) Explain why IAS 16 requires revaluation to be applied to a whole class of assets and how often revaluations must be carried out.

(03 marks)

(THE END)