IFRS for SMEs

NOVEMBER 2021

PRESENTED BY

Justine Lewis CA(SA) and Nelia Joubert CA(SA)

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ABOUT THE PRESENTER

Justine Lewis CA(SA)

Mazars in South Africa| Quality and Risk Management Department

Justine joined the QRM department recently and has completed a number of IFRS for SME consultation requests. Before joining QRM, Justine was part of the assurance team and had significant exposure to clients applying IFRS for SME.

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ABOUT THE PRESENTER

Nelia Joubert CA(SA)

Mazars in South Africa| Quality and Risk Management Department

Nelia has a vast experience consulting on IFRS for SME accounting matters. Her passion for training has allowed her to facilitate training to our local offices.

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WHO WE ARE

The Southern African Institute for Business Accountants NPC is the #1 Professional Body for Accountants and Finance Executives in Africa. With more than 9000 members working as employed or self-employed accountants in all industries we are making business better from the Cape to Cairo.

Our CPD policy is compliant with IFAC IES7.

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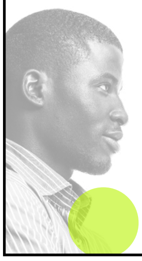
CPD CERTIFICATE



To obtain your CPD certificate complete the questions in the Quiz section. A CPD certificate will automatically be issued when you obtain above 75% within 3 attempts.

Queries regarding your CPD can be send
cpd@saiba.org.za

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QUESTIONS & ANSWERS

Email questions to:

technical@saiba.org.za

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SAIBA PARTNERS

DRAFTWORX
Financial Statements | Working Papers

PRACTICE Ignition

intuit quickbooks.

SmartPractice

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CPD INDEX

1. Difference between IFRS and IFRS for SMEs
2. Revenue: Agent versus principal
3. Cash flow statements: Common mistakes made
4. Property, plant and equipment:
   a. Depreciation of buildings
   b. Useful life reassessment
5. Recap questions

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1. Differences between IFRS and IFRS for SMEs

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Differences between IFRS and IFRS for SMEs – High-level overview

Undue cost and effort

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Let's look at investment property...

When Mr F inherited Company A from his uncle Mr B, he decided that he would hold the property as investment property in Company A (Pty) Ltd and rent it out instead of living there himself.

Who are the users of Mr F's financial statements?
- Management which consists of Mr F and his friend Mr S
- The local 123 Bank; and
- The Revenue Services (Tax authority)

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Should Mr F measure Company A at cost under IFRS for SMEs?

WHAT IF?

Mr S and Mr F manage the property on a 'cash flow basis' . Mr S and Mr F are the only shareholders of Company A (Pty) Ltd and they don't intend to increase the shareholding.

The 123 Bank want to use their own valuation and have said that they wouldn't need to place reliance on Mr F's one anyway.

The Revenue Services doesn't care what the fair value of Company A is until Mr F decides to sell it because that is when they will tax him.

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Differences between IFRS and IFRS for SMEs – High-level overview

Undue cost and effort

No third balance sheet required for restatement

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Differences between IFRS and IFRS for SMEs – High-level overview

Undue cost and effort

No third balance sheet required for restatement

No IFRS 5 equivalent

Look to IFRS for SMEs for guidance

Current vs non-current classification

Discontinued operations

Disclosures relating to assets/group of assets to be sold

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Differences between IFRS and IFRS for SMEs – High-level overview

Undue cost and effort

No third balance sheet required for restatement

No IFRS 5 equivalent

Consolidation
- Difference in exemption from preparing consolidated AFS
- Different control definition

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Differences between IFRS and IFRS for SMEs – High-level overview

Mr L has a 51% shareholding in Castle (Pty) Ltd and Mr G holds the other 49%.

FACTS

- The castle is managed by a board consisting of 7 directors
- Mr L can nominate 4 directors
- Mr G can nominate 3 directors
- Additional directors can be appointed by mutual agreement of the shareholders.

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Differences between IFRS and IFRS for SMEs – High-level overview

SME
Control = parent owns directly or indirectly, more than half of the voting power of an entity.

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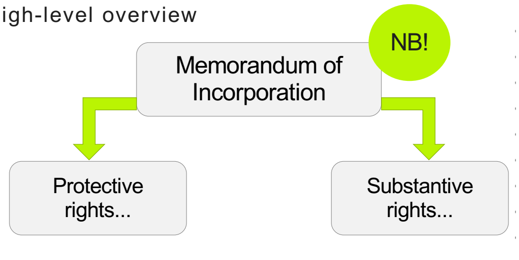
Differences between IFRS and IFRS for SMEs – High-level overview



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Differences between IFRS and IFRS for SMEs – High-level overview

IFRS
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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Differences between IFRS and IFRS for SMEs – High-level overview

Mr L has control over the following decisions which require majority voting rights:

•Decisions about capital investments
•Decisions about financing
•Approval of the operational budgets

Mr G has 'veto' rights in terms of the:
- appointment of the managing director
- appointment of the operations director
- appointment of persons in senior managerial positions
- determination of the company's remuneration policy
- declaration of dividends

Does this CLEARLY DEMONSTRATE that Mr L does not have control under the IFRS for SME?

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Differences between IFRS and IFRS for SMEs – High-level overview

Power of the investee

What are the relevant activities?

And who make decisions about these activities?

Would our conclusion be different under full IFRS

?

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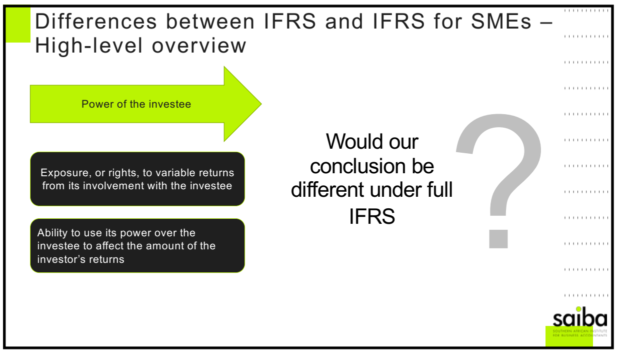
Differences between IFRS and IFRS for SMEs – High-level overview
Power of the investee
Exposure, or rights, to variable returns from its involvement with the investee
Ability to use its power over the investee to affect the amount of the investor's returns
Would our conclusion be different under full IFRS
?
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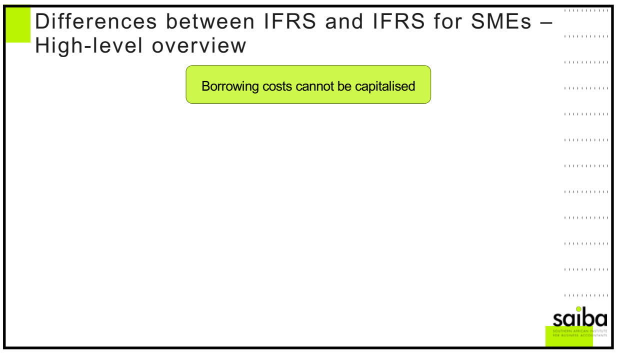
Differences between IFRS and IFRS for SMEs – High-level overview
Borrowing costs cannot be capitalised
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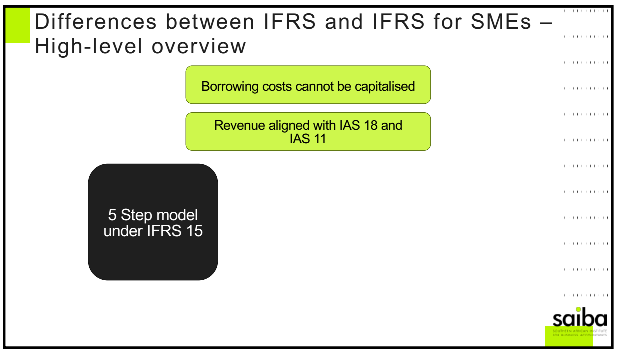
Differences between IFRS and IFRS for SMEs – High-level overview
Borrowing costs cannot be capitalised
Revenue aligned with IAS 18 and IAS 11
5 Step model under IFRS 15
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Differences between IFRS and IFRS for SMEs – High-level overview

INTEGRATED ANNUAL REPORT

For the year ended 28 February 2015

WILDERNESS HOLDINGS

Notes to the consolidated annual financial statements

for the year ended 28 February

3. Revenue

	2015 P'000	2014 P'000
3.1 Impact of adoption of IFRS 15		
Revenue under IAS 18	**1 505 790**	1 401 206
Adjustment due to adoption of IFRS 15	**561 204**	557 918
Revenue as reported under IFRS 15	**944 586**	843 288

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Differences between IFRS and IFRS for SMEs – High-level overview

Borrowing costs cannot be capitalised

Revenue aligned with IAS 18 and IAS 11

5 Step model under IFRS 15

Contract costs

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Differences between IFRS and IFRS for SMEs – High-level overview

Borrowing costs cannot be capitalised

Revenue aligned with IAS 18 and IAS 11

5 Step model under IFRS 15

Contract costs

Right of return

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Right of return

Mr F sells tools to his customers with a lifetime right of return, at any point if they present him with a receipt, he will refund their money in full.

Based on history of returns, generally 10% of these tools are returned – Mr F expects that this would continue in future.

Mr F sells 10 tools for R100 each, the cost of these tools is R80 each.

How do we account for this?

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Right of return

IFRS

Debit: Bank	R 1,000
Credit: Revenue (90%)	(R 900)
Credit: Refund liability	(R 100)

Debit: Cost of sales (90%)	R 720
Debit: Right of return asset	R 80
Credit: Inventory	(R 800)

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Right of return

IFRS

Debit: Bank	R 1,000
Credit: Revenue (90%)	(R 900)
Credit: Refund liability	(R 100)

Debit: Cost of sales (100%)	R 800
Credit: Inventory	(R 800)

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Differences between IFRS and IFRS for SMEs – High-level overview

- Borrowing costs cannot be capitalised
- Revenue aligned with IAS 18 and IAS 11
- Government grants

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Differences between IFRS and IFRS for SMEs – High-level overview

In January 2020 Mr F received CU500,000 from the 123 Bank government as an incentive to establish farming operations in a designated development zone.

The incentive is conditional on:

- ✓ The farm being established in the specified development zone
- ✓ The farm must meet certain specifications; and
- ✓ Agricultural activities on this farm land must have started on or before 31 December 2021.

On 31 January 2021 all the conditions above were met.

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Differences between IFRS and IFRS for SMEs – High-level overview

IFRS for SMEs

Will the accounting treatment of this grant change based on whether Mr F received it for the purchase of farming assets or to reimburse him for expenses relating to the running of farming operations?

YES

NO

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Differences between IFRS and IFRS for SMEs – High-level overview

IFRS for SMEs

Same question, would we need to consider whether the grant relates to the purchase of assets or related to expenditure?

YES

NO

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Differences between IFRS and IFRS for SMEs – High-level overview

IFRS for SMEs

What must Mr F do with the CU500,000 when he receives it in January 2020?

Recognise as deferred income liability?

OR

Recognise as income immediately through profit/loss?

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Differences between IFRS and IFRS for SMEs – High-level overview

IFRS for SMEs

When will Mr F be able to recognise the CU500,000 as income?

Systematically over the period in which the farming operation is established

OR

Recognise once all the performance conditions have been met (31 January 2021)

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Differences between IFRS and IFRS for SMEs – High-level overview

How do we account for this grant under IFRS?

We need to establish whether the grant relates to acquisitions of assets or to reimbursement of costs.

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Differences between IFRS and IFRS for SMEs – High-level overview

We need to establish whether the grant relates to acquisition of assets or to reimbursement of costs

Mr F received this grant on condition he acquires farming machinery

OPTION 1

Raise a liability (Deferred income)

OPTION 2

Deduct from carrying value of the farming machinery

Mr F received this grant on condition he acquires farming machinery

PAST COSTS INCURRED

Recognise immediately in P/L

CURRENT/ FUTURE COSTS

Recognise income in period where costs incurred

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Differences between IFRS and IFRS for SMEs – High-level overview

FULL IFRS

When will Mr F be able to recognise the CU500,000 as income?

Condition of the grant is to purchase a tractor

Versus

Condition of the grant is for the running of the farming operations

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Differences between IFRS and IFRS for SMEs – High-level overview

FULL IFRS

Mr F received this grant on condition he acquires farming machinery

- OPTION 1: Raise a liability (Deferred income)
- OPTION 2: Deduct from carrying value of the farming machinery

→ Recognise the grant income over the useful life of the tractor to which it relates

Mr F received CU500,000 to reimburse for costs incurred in running his farming operations

→ CURRENT/ FUTURE COSTS: Recognise income in period where costs incurred

→ Recognise the grant income over the useful life of the tractor to which it relates

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Differences between IFRS and IFRS for SMEs – High-level overview

- Borrowing costs cannot be capitalised
- Revenue aligned with IAS 18 and IAS 11
- Government grants
- Financial instruments

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Differences between IFRS and IFRS for SMEs – High-level overview

Accounting options for investments in associates and jointly controlled entities

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Differences between IFRS and IFRS for SMEs – High-level overview

Intangible assets

- Development costs expensed
- All assets have finite useful life
- Revaluation model not allowed

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Differences between IFRS and IFRS for SMEs – High-level overview

Business combinations
- Capitalised costs
- Amortisation of goodwill

Calculation: IFRS

Total amount paid:	R100,000
LESS: Consulting fee (included):	(R10,000)
	R90,000
Fair value of net assets	(R70,000)
Goodwill	R20,000

Calculation: IFRS for SMEs

Total amount paid:	R100,000
Consulting fees are capitalised*	-
	R100,000
Fair value of net assets	(R70,000)
Goodwill	R30,000

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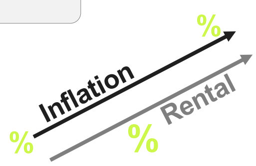
Differences between IFRS and IFRS for SMEs – High-level overview

Business combinations
- Costs must be included
- Goodwill is amortised over its useful life

Leases



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Differences between IFRS and IFRS for SMEs – High-level overview

Under IFRS for SMEs do you recognise a right-of-use asset for an operating lease?

Yes or No?

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Let us do an example | IFRS for SMEs

Year 1	1,200,000.00	[CU100k X 12 months]	
Year 2	1,380,000.00	[CU1.2m X 1.15 rental escalation]	
Year 3	1,587,000.00	[CU1.38m X 1.15 rental escalation]	
TOTAL	4,167,000.00		
Straight-lined rental	**115,750.00**	[CU4.167m / 36 month lease term]	

Each month Frodo's operating lease expense must be CU115,750

Year 1

Dr: Operating lease expense	1,389,000.00		[CU115,750 X 12months]
Cr: Bank		- 1,200,000.00	[CU100,000 X 12months]
Cr: Operating lease liability		- 189,000.00	Balance

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Let us do an example | IFRS

CF Y0		-	
CF Y1	-	1,200,000.00	[CU100k X12 months]
CF Y2	-	1,380,000.00	[CU1.2m X 1.15 rental escalation]
CF Y3	-	1,587,000.00	[CU1.38m X 1.15 rental escalation]
i		10%	[Interest rate implicit in the lease]
NPV	-	3,554,151.03	[Use excel to compute net present value]

Year 1

Dr	Right of use asset	3,554,151.03	
Cr	Lease liability		- 3,554,151.03

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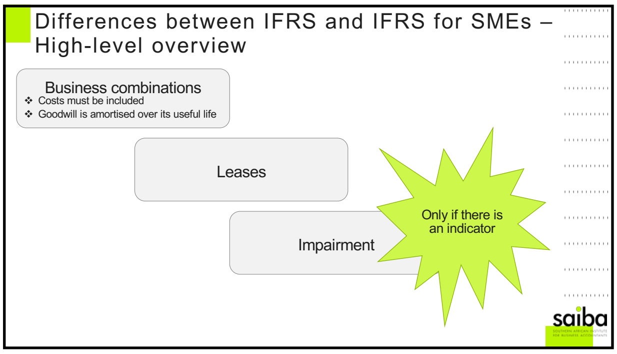
Differences between IFRS and IFRS for SMEs –
High-level overview
Business combinations
Costs must be included
Goodwill is amortised over its useful life
Leases
Impairment
Only if there is an indicator
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COMFORT
BREAK
SEE YOU IN 5 MINUTES
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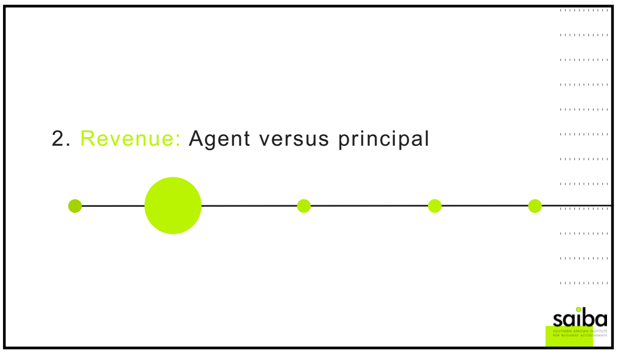
2. Revenue: Agent versus principal
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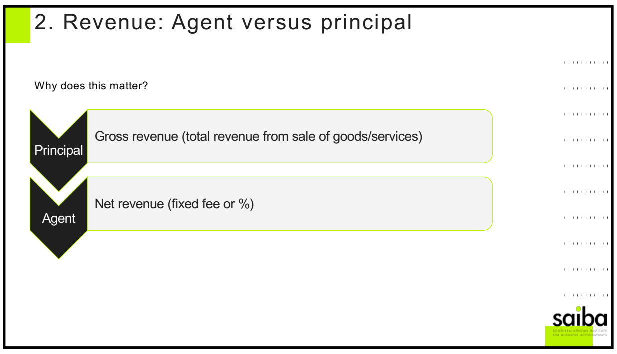
2. Revenue: Agent versus principal
Why does this matter?
Principal
Gross revenue (total revenue from sale of goods/services)
Agent
Net revenue (fixed fee or %)
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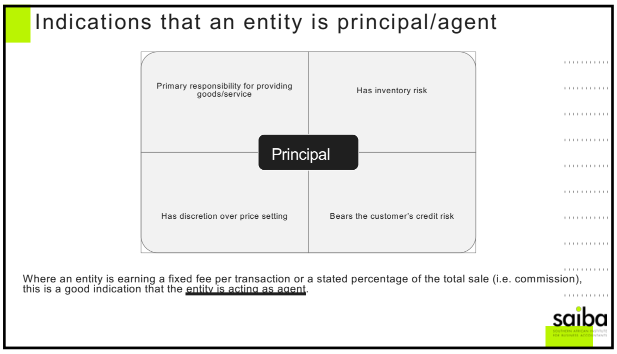
Indications that an entity is principal/agent
Primary responsibility for providing goods/service
Has inventory risk
Principal
Has discretion over price setting
Bears the customer's credit risk
Where an entity is earning a fixed fee per transaction or a stated percentage of the total sale (i.e. commission), this is a good indication that the entity is acting as agent.
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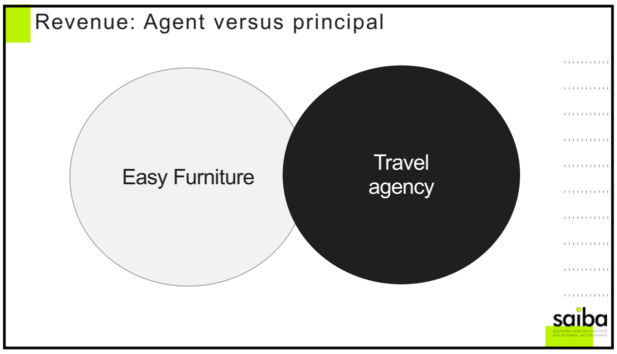
Revenue: Agent versus principal
Easy Furniture
Travel agency
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Revenue: Agent versus principal

Scenario 1

Principal

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Revenue: Agent versus principal

Scenario 2

Agent & Principal

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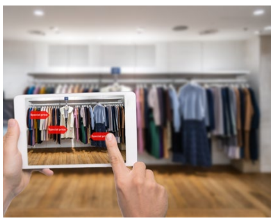
Revenue: Agent versus principal

Another example

Agent



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Revenue: Agent versus principal

Another example...

Mr L = Principal

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Revenue: Interest and dividends

Are interest and dividends recognised as other income or revenue?

Investment Holdco

Statement of profit or loss and other comprehensive income

	2021	2020
Revenue		
Dividends received:	R 100,000	R 80,000

Not-Investment Co

Statement of profit or loss and other comprehensive income

	2021	2020
Revenue		
Sale of goods	R 500,000	R 400,000
Dividends received	R 100,000	R 80,000
Cost of sales	(R 250,000)	(R 200,000)

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3. Cash flow statements: Common errors

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Cash flow statement: Common errors

1

Non-cash items should be excluded

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Cash flow statement: Common errors

Property plant and equipment reconciliation (illustrative purposes)

Opening balance	**R80,000**
Acquisitions:	R30,000
Purchased on credit	R20,000
Purchased in cash	**R10,000**
Depreciation	(R10,000)
Closing balance	**R100,000**

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Cash flow statement: Common errors

1

Non-cash items should be excluded

2

Showing items on a net basis

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Cash flow statement: Common errors

A Long-Expected Party Proprietary Limited
Annual Financial Statements for the year ended 31 December 2020
Statement of Cash Flows

Figures in Rand	Notes	2020	2019
Cash flows (used in) from operating activities			
Cash generated (used in) from operations	20	R60,000	R50,000
Tax paid	21	(R15,000)	(R10,000)
Net cash (used in) from operating activities		**R45,000**	**R40,000**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(R10,000)	(R15,000)
Net cash from investing activities		**(R10,000)**	**(R15,000)**
Cash flows from financing activities			
Proceeds from loan from group company		**R100,000**	**R50,000**
Repayment of loan from group company		**(R85,000)**	**(R25,000)**
Net cash from financing activities		**R15,000**	**R25,000**
Total cash movement for the year		R50,000	R50,000
Cash at the beginning of the year		R70,000	R20,000
Effect of exchange rate movement on cash balances		**R10,000**	-
Total cash at end of the year		**R130,000**	**R70,000**

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Cash flow statement: Common errors

1	2	3
Non-cash items should be excluded	**Showing items on a net basis**	**Loans payable = financing** **Loans receivable = investing**

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Cash flow statement: Common errors

1	2	3	4
Non-cash items should be excluded	**Showing items on a net basis**	**Loans payable = financing** **Loans receivable = investing**	**Loans payable = financing** **Loans receivable = investing**

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Cash flow statement: Common errors

A Long-Expected Party Proprietary Limited
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Net cash (used in) from operating activities		**R45,000**	**R40,000**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(R10,000)	(R15,000)
Net cash from investing activities		**(R10,000)**	**(R15,000)**
Cash flows from financing activities			
Proceeds from loan from group company		**R100,000**	**R50,000**
Repayment of loan from group company		**(R85,000)**	**(R25,000)**
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Cash at the beginning of the year		R70,000	R20,000
Effect of exchange rate movement on cash balances		**R10,000**	-
Total cash at end of the year		**R130,000**	**R70,000**

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4. Property, plant & equipment

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Property, plant and equipment

Should we depreciate buildings?

YES **OR** **NO**

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Property, plant and equipment

EXAMPLE

Mr F decided to purchase a property in Cape Town **costing CU1m** in 2020. He considered it likely that it will sell the property after 20 years; therefore the useful life is considered to be 20 years.

The estimated residual value in 20 years, is?

A) CU1.2 because that is the amount that Mr F expects it could sell the building for in 20 years' time

B) CU900k because that is what Mr F could sell the building for today if the building was already 20 years old

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Property, plant and equipment

The estimated residual value in 20 years, based on the 2020 prices, is therefore CU900,000.

- ✓ The residual value is less than the cost of CU1m, therefore the depreciable amount is CU100,000 (CU1m – CU900k)
- ✓ Mr F will need to recognise CU5,000 depreciation on the building each year. (CU100k / 20 years)

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Property, plant and equipment

Useful lives need to be reassessed annually

TRUE OR **FALSE**

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Property, plant and equipment

SCENARIO 1

Mr F purchased laptops from Best Computers. Initially he estimated that the computers will last for 5 years.

There have been recent changes in technology and the computer's hard-drive does not have capacity to update the computer programs. Mr F is considering replacing the computers within the next 2 years.

Should Mr F reassess the useful life of the computers?

YES / NO

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Property, plant and equipment

SCENARIO 2

Company G has a fleet of vehicles he used to transport passengers in Johannesburg to and from various destinations.

Recently he moved half of his fleet to Cape Town to meet transport demands in the Western Cape.

Company G is concerned that the vehicles will deteriorate faster in Cape Town because they will be operating close to an ocean.

Does Company G need to reassess the useful life?

YES / NO

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Property, plant and equipment - Disclosure

SMEs standard does not require the comparative reconciliation to be presented.

Property, plant and equipment

	2018			2017			
	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	REFERENCE
Land and buildings	1,272,578	(323,149)	949,429	1,272,578	(258,519)	1,014,059	
Plant and machinery	130,487	(49,520)	80,967	136,581	(18,231)	118,350	
Furniture and fixtures	1,987,147	(1,285,764)	701,383	2,068,609	(1,145,944)	922,665	
Motor vehicles	9,358,980	(5,496,321)	3,862,659	7,969,954	(4,243,184)	3,726,770	
Computer equipment	1,662,864	(1,428,882)	233,982	1,631,776	(1,312,399)	319,377	
TOTAL	**14,412,056**	**(8,583,636)**	**5,828,420**	**13,079,498**	**(6,978,277)**	**6,101,221**	17.31(d)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2018	OPENING BALANCE	ADDITIONS	DISPOSALS	FOREIGN EXCHANGE MOVEMENTS	DEPRECIATION	CLOSING BALANCE	REFERENCE
Land and buildings	1,014,059	-	-	-	(64,630)	949,429	
Plant and machinery	118,350	-	-	(6,094)	(31,289)	80,967	
Furniture and fixtures	922,665	39,818	(104,692)	(16,589)	(139,819)	701,383	
Motor vehicles	3,726,770	1,693,924	-	(304,898)	(1,253,137)	3,862,659	
Computer equipment	319,377	60,539	-	(29,451)	(116,483)	233,982	
TOTAL	**6,101,221**	**1,794,281**	**(104,692)**	**(357,032)**	**(1,605,358)**	**5,828,420**	17.31(e)

The carrying amount of the Group's motor vehicles and equipment includes an amount of R5,768,271 (2017: R5,048,274) in respect of assets held under finance leases. Refer to note 17 for further information. 17.32(a)

Land and buildings are held as security for the mortgage bond detailed in note 16. 17.32(a)

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5. Let's recap:Questions

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Recap question 1: Borrowing costs

Mr F is busy constructing farm equipment and he took out a loan from the 123 Bank specifically to fund this development. Under IFRS for SMEs, should Mr F capitalise borrowing costs from this loan to the farming equipment?

YES

NO

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Recap question 2: Revenue

Mr F paid a commission to his sales employee who closed a deal and obtained a contract with Company G.

Which of the following is correct in terms of how he needs to account for this commission?

A IFRS: Expense
SMEs: Capitalise as a cost to obtain the contract

B Both frameworks: Capitalise as a cost to obtain the contract

C IFRS: Capitalise as a cost to obtain the contract
SMEs: Expense

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Recap question 3: Government grants

Mr F paid a commission to his sales employee who closed a deal and obtained a contract with Company G.

Which of the following is correct in terms of how he needs to account for this commission?

A
Dr. PPE CU1 200 000
Dr. Depreciation CU30 000
Cr. Accum. Depreciation CU30 000
Cr. Bank CU200 000
Cr. Grant income CU1 000 000

B
Dr. PPE CU200 000
Dr. Depreciation CU5 000
Cr. Bank CU200 000.
Cr. Accum. Depreciation CU5 000

C
Dr. PPE CU1 200 000
Dr. Depreciation CU30 000
Dr. Liability CU25 000
Cr Grant income CU25 000
Cr. Bank CU200 000
Cr. Liability CU1 000 000
Cr. Accum. Depreciation CU30 000

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Recap question 4: Business combinations

Mr F is the sole shareholder of The Accounting Company (Pty) Ltd. The Accounting Company acquired a business called TEC and paid CU1 000 000 in cash and issued 100 shares at a fair value of CU14 per share. The lawyer and consultations fees amounted to CU20 000 (CU15 000 for the purchase agreement and CU5 000 relating to the issue of shares by The Accounting Company). Mr F is unsure what he should include as part of the consideration for the business.

A CU1 001 400 (CU1 000 000 + CU1 400)

B CU1 016 400 (CU1 000 000 + CU1 400 + CU15 000)

C CU1 021 400 (CU1 000 000 + CU1 400 + CU20 000)

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Recap question 5: Separate and consolidation financial statements

Company G wishes to apply the exemption from preparing consolidated financial statements to Company F (Pty) Ltd, who owns several subsidiaries. Company F is a subsidiary of Company OR (Pty) Ltd. Company OR owns 90% interest in Company F. Company OR prepares consolidated financial statements under IFRS. Company F uses IFRS for SMEs. Which statement is correct?

A Company F must prepare consolidated financial statements as it is not a 100% subsidiary of Company OR.

B Company F is exempt from preparing consolidated financial statements because its parent prepares consolidated financial statements under IFRS.

C Company F must prepare consolidated financial statements as Company OR does not prepare consolidated financial statements using IFRS for SMEs.

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Recap question 6: Leases

Mr S leases a property for 5 years from Mr B for CU500 a year. Mr F told Mr S that he should recognise a right-of-use asset for the property. Mr S applies IFRS for SMEs; should he recognise a ROU Asset?

- YES
- NO

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Recap question 7: Cashflow statement

Mr F is preparing the cash flow statement for Company A (Pty) Ltd. The company purchased furniture in cash at the value of CU20 000. They also purchased a carriage of CU30 000, which was financed via an instalment sale agreement. The bank transferred CU30 000 directly to the creditor. What should Mr F disclose under investing activities?

- **A** Purchase of PPE CU20 000
- **B** Purchase of PPE CU50 000
- **C** Nothing. These are all operating activities

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Recap question 8: Cashflow statement

Mr F is now busy with the financing activities for the cash flow statement of Company A (Pty) Ltd. What should he disclose for the following liabilities:

- Company A received a director's loan of CU1 000 000 at the beginning of the financial year. CU8 000 interest was charged for the year, and CU20 000 of the loan was repaid right before year-end.

- There is an instalment sale agreement liability of CU29 000 at year end. The bank transferred CU30 000 to the creditor for the purchase of a carriage during the year. Interest of CU3 000 was charged, and Company A paid CU4 000.

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Recap question 8 continued: Cashflow statement

A Proceeds from loans CU1 000 000 Repayment of loans (CU13 000) (CU11 000 included as interest repaid under operating activities)

B Proceeds from Loans CU1 000 000 Repayment of loans (CU24 000)

C Net inflow from loans CU1 006 000

D Net inflow from loans CU976 000

E Proceeds from loans CU1 000 000
Repayment of loans CU13 000
Repayment of interest CU11 000

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Recap question 9: Depreciation of buildings

Mr F needs your advice on the deprecation of the hotel building in Company A (Pty) Ltd. The useful life of the hotel is expected to be 45 years. The cost of the hotel is CU1 000 000. The property is about 5 years old. The value of properties in the 123 Bank increases year on year, and Mr F expects the value of the property in 45 years time to have tripled. Currently, 50-year-old buildings similar to Company A are selling for CU800 000. Which statement is correct?

A No depreciation should be recognised on buildings similar to land

B The residual value is CU3 000 000. No depreciation should be recognised

C The residual value is CU800 000. CU200 000 should be depreciated over 45 years.

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QUESTIONS & ANSWERS

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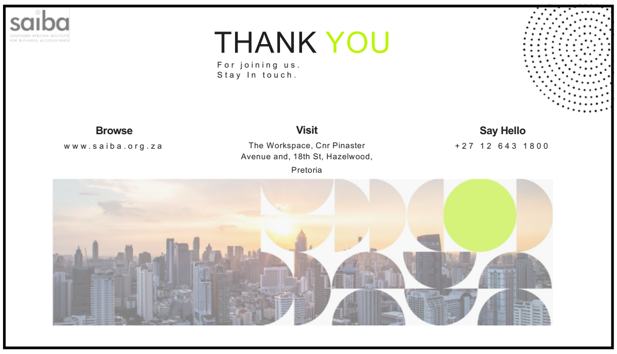
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