**TANGIBLE ASSETS - EXERCISE**

On January, 1st 200X, OKPLAY Company Ltd. purchases a new attraction from YOUGAME Ltd..

On December, 31st 200X, in order to determine the values to be recorded in the financial statements, the following information is provided (in alphabetical order):

|  |  |
| --- | --- |
| Description | Amount |
| advertising costs (for the new opening)  | 5.000  |
| depreciation rate  | 5%  |
| estimated dismantling & removal costs  | 35.000  |
| estimated promotional costs (for each year)  | 5.000  |
| installation costs  | 10.000  |
| design and engineering fees  | 10.000  |
| interest expenses  | to be determined  |
| other promotional costs  | 5.000  |
| professional fees (for the purchase)  | 3.000  |
| purchase cost  | 200.000  |
| residual value  | 11.000  |
| testing costs  | 10.000  |
|  |  |

Interest expenses relate to a loan taken out with the purpose of financing the purchase of the attraction, on January, 1st 200X.

The amount of the loan is 120.000 and it must be totally reimbursed on December, 31st 200X+19. The annual Interest rate is 5%.

The attraction is ready to be used on July, 1 200X.

Questions:

On December, 31st 200X:

|  |  |
| --- | --- |
| What is the carrying amount of the attraction?  |  |
| What is the amount of interest expense to be recorded in the Income Statement?  |  |
| What is the amount of provisions recorded in the Balance Sheet? |  |

**SOLUTION**

|  |  |
| --- | --- |
| What is the carrying amount of the attraction?  | 264.500  |
| What is the amount of interest expenses recorded in the Income Statement?  | 3.000  |
| What is the amount of provisions recorded in the Balance sheet?  | 35.000  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |    |  |    |    |
| first year  |  |  |  |  |
| purchase cost  |  |  |  | 200.000  |
| installation costs  |  |  |  | 10.000  |
| testing costs  |   |  |  | 10.000  |
| design and engineering fees  |   |  |   | 10.000  |
| professional fees (for the purchase)  |    |  |    | 3.000   |
| estimated dismantling and removing costs  |  |  |  | 35.000  |
|  | annual rate | Year (/12) | loan |    |
| interest expense  | 0,05 | 0,5 | 120000 | 3.000  |
| historical cost  |  |  |  | 271.000  |
| residual value  |  |  |  | 11.000  |
| depreciable amount  |  |  |  | 260.000  |
|  | Year (/12) | annual rate | effective |  |
| depreciation expense  | 0,5 | 5% | 2,50% | 6.500  |
|  |  |  |  |  |
| carrying amount  |  |  |  | 264.500  |
|  |  |  |  |  |