PALFINGER CASE Study

(A) Palfinger AG designs & manufactures the hydraulic systems, The company has following assets i.e (the plants & the equipments):

- → Manufacturing facilities & equipments
- → R&D centres
- → Intellectual properties i.e patents
- → Fleet of trucks & cranes: Cranes performing the function to maneuver.
- → Trademark on the products
- → Real estate: Palfinger has property for warehousing & factories

For 2021, its amounts to €459 584000 (PPE).

(B) For the balance sheet of 2021 showing the value of € 459,584,000 this represents the value of the tangible assets that particularly owned by the palfinger AG using it for its operations mainly in land & building. This number also shows the historical cost of the assets adjusted for depreciation.

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(C)

The notes in 2021 statement, shows the following equipments:

(1) Manufacturing equipment : machines & tools.
(2) R&D : testing equipment & simulation software.
(3) Vehicles: Trucks & Trailers

(D)

Prepayment & Assets under 2021 statements

Acquisition Cost	41704
Depreciation	0
Acc. Dep	926

This subaccount represents the assets that are in procen of being acquired, but not yet put in service. In 2021, the acc.depreciation is €926 but thedepreciation is €0 as its not in use. Yhe acc.depreciation increases as it's total dep. expense charged against an asset since it was acquired.

Declasification amout of €34,858 represents that assets contructions was completed and now in use.

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E)

According to 2021 report, company uses SLM of depreciation.

Own buildings & investment (20-50 years)
Plants & machinery (3-15 years)
Operating & office equipment (3-10 years)

Pros. of SLM

- Assets can be written off completely.
- Total depreciation charge is know

Cons.

→ Pressure on final years
→ Interest losses
→ illogical methods

F) AG Palfinger having major renovations & value enhancing modification to equipment & building as capital expenditures. These expenditures are recorded as assets on the balance sheet. The alternative of that would be to expense the cost of renovations or modifications in current period rather than spreading cost over useful life of the asset.

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(a) (6)

(i) According to the 2021 Financial report the purchase of new property plant & equipment amounted to € 872,639,000

(ii) A/c to 2021 financial report the government grant amounts to € 2717,000 The A/c palfinger choosen to deduct there from PPE as it reduces the amount which palfinger has to pay for the assets.

(iii) Depreciation expane for year 2021, is (54,031) for PP&E Equipment.

(iv) The net book value of PPE that was disposed is € (56,462)

Acquisition cost = € 872639

The depreciation of equipment was € 54031

Net book value = Disposal value - Depreciation

= 56,462 - 54,031

NPV = 2431

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H) Gain or the loses : Proceed from sale - Net Book value

Proceeds from sale of PPE of 2021

: € 3617

Gain or lost = 3617 - 2431

Gain = € 1186

Palfinger incured a gain of € 1186. This gain represents an increase in the company's wealth.

A gain of € 1186 incured.

I)

Value added to other equipments, operating & office equipmet

: € 141974

Useful life = 5 years

Salvage value = € 1273

Formulas:

Dep. Expense = $\frac{\text{Cost} - \text{Salvage Value}}{\text{useful life}}$

NBV = Cost - Acc. dep

Acc. dep = Dep exp x useful life left

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(i)

Straight line depreciation

Year	Depreciation Expense	Net Book value
1, Jan 21	€0	€14974
31 Jan 21	14974 - 1273/5 = 2740.2 €	14974 - (2740.2 x 1) = € 12233.8
31 Jan 22	€ 2740.2	= 14974 - (2740.2 x 2) = € 9493.6
31 Jan 23	€ 2740.2	= 14974 - (2740.2 x 3) = € 6753.4
31 Jan 24	€ 2740.2	= 14974 - (2740.2 x 4) = € 4013.2
31 Jan 25	€ 2740.2	= 14974 - (2740.2 x 5) = € 1273

(ii)

Doble declining Balance Depreciation

Dep = (Cost - salvage vale) x (2/useful life)

Net Book value = Cost - Acc Dep

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Year	Depreciation Expense	NBV
1 Jan, 21	€0	€14974
31 Jan 21	$=(14974-1273)\times(2/5)$ $=€5480.4$	$=14974.5480$ $=€9493.6$
31 Jan 22	$=9493.6\times(2/5)$ $=€3797.44$	$=9493.6-3797.4$ $=€569.16$
31 Jan 23	$=5696.16\times(2/5)$ $=€3797.44$	$=943.3417.696€$
31 Jan 24	$=3417.696\times(2/5)$ $=€1367.0784$	€2050.6176
31 Jan 25	$=2050.6176\times(2/5)$ $=€820.247$	€1230.37

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(J) (8)

(i)

Assume, equipment was sold on 1st day of year 2008 for proceeds of = €7500

Gain/loss = proceeds − NBV

A/c to (I), NBV i.e worth of of asset at the time of sale would be € 12,233.8

loss = 7500 − 12233.8

loss = (4733.8) €

→ This loss will be recorded as expense.

→ Depreciation i.e accumulated = €2740.2 will be taken out of income statement

The net value of € 12233.8 will be taken down from income statement

& 7500 will be added as revenue.

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(iii)

In table (I) if double decling method is to be used

Equipment would be worth = €9493.6

Gain/loss = Proceeds − NPV

= 7500 − 9493.6

loss = (1993.6) €

→ loss will be recorded as an expense

Acc-dep of € 5480.4 will be taken out of Income statement.

→ Net value of 9493.6 will be taken out

→ Revenue of € 7500 will be added

(iii) The total income statement impact of the equipment for the two years Galfinger owned would be straight line

= total dep expense + (gain/loss

= 2740.24733.8

+(1993.6) €

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Under the double declining method, the 2 years income statement impact would be

= 5480.4 - 1993.6

= €3486.8

Taking the difference b/w two methods

= - 1993.6 - 3486.8

= (5480.4)

The double declining impact is higher because it results in higher annual depreciation expense in early years. This means that double declining method has higher impact on income statement. It is more useful for palfinger for crafty

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