

Although most items in financial statements are shown at their historical cost, increasingly the IASB is requiring or allowing current cost to be used in many areas of financial reporting.

Drexler acquired an item of plant on 1 October 2012 at a cost of \$500,000.

It has an expected life of five years (straight-line depreciation) and an estimated residual value of 10% of its historical cost or current cost as appropriate.

As at 30 September 2014, the manufacturer of the plant still makes the same item of plant and its current price is \$600,000.

What is the correct carrying amount to be shown in the statement of financial position of Drexler as at 30 September 2014 under historical cost and current cost?

	historical cost	current cost
	\$	\$
A	320,000	600,000
B	320,000	384,000
C	300,000	600,000
D	300,000	384,000

Examiners Report

Most candidates chose A or C meaning that they did not appreciate that the manufacturer's current list price (of \$600,000) was for a NEW item of plant as at 30 September 2014, whereas, at this date, the item of plant owned by Drexler is two years and the list price needs to be depreciated for two years to give an appropriate current value.

D was the least popular wrong answer and choosing it would imply that a candidate had not taken account of the estimated residual value (of 10%) when calculating the historical cost, but had when calculating the current.