

# [Palfinger ag case study essay](https://assignbuster.com/palfinger-ag-case-study-essay/)

Palfinger’s AG – Property, Plant, and Equipment a. ) Palfinger’s property would include the property that they have to store the forklifts and other large inventory that they have on. The equipment would include all equipment that is necessary to make the inventory that they sell such as the cranes. b. ) This number represents the total of the plant, property, and equipment that Palfinger has. This number should be recorded as the historical cost that the plant, property and equipment was purchased at.

This total number also has the total sum of amortized depreciation subtracted out to get the net amount of PP&E that is put on the balance sheet c. ) In the notes to the financial statements, Palfinger reports the plant, property and equipment of the following: • Land and equipment • Undeveloped buildings and investments • Plant and machinery • Other plant, fixtures, fittings, and equipment • Payments and assets under construction d. “ Prepayments and assets under construction” represents expenses that have prepaid for and assets that haven’t been finished yet. Because the assets aren’t completed and haven’t been used, they aren’t being depreciated. The reclassification comes from allocation of depreciation from the newly completed projects that now have been put to use. e. ) Palfinger depreciates its property and equipment by using straight-line depreciation over the prospective useful lives of the relevant assets.

They allocate 8-50 years on buildings, 3-15 years on plant and machinery, and 3-10 years on fixtures, fittings, and equipment. This policy does not seem reasonable because there is a short 8-year building useful life. Because of this, Palfinger’s ROA and EPS ratios are heavily impacted. f. You can both depreciate replacements investments, and value enhancing investments that are capitalized and depreciated over the new useful life or original useful life.

The alternative method to this would be to just expense out the costs of renovations or value enhancing investments. This way it is completely hit on the income statement, and is not shown on the balance sheet. g. ) i. According to the notes to the consolidated financial statements, Palinger bought $61, 444 worth of new PPE in 2007. ii. There was a change of ($733) concerning government grants. According to IAS 20 government grants for property, plant, and equipment are presented as reductions of the acquisition and/or manufacturing costs.

When these are deducted from the account, it lessens the amount depreciated during the life of the acquired assets. iii. Depreciation expense for 2007 was $12, 557. iv. Net book value of total disposed PPE, was $1, 501 (Derived from $13, 799 – $12, 298) h. ) To derive the gain or loss Palfinger incurred, we compute their proceeds from the sale of PPE $1, 655 and subtract it from $1, 501 (net book value). This gives us a total gain of $154. i. ) i. Straight Line | Year | Beg | Dep. Exp | Accum Dep. Ending Bal | | 1 |$10, 673 |$1, 880 |$1, 880 |$8, 793 | | 2 | 8, 793 | 1, 880 | 3, 760 | 6, 913 | | 3 | 6, 913 | 1, 880 | 5, 640 | 5, 033 | | 4 | 5, 033 | 1, 880 | 7, 520 | 3, 153 | | 5 | 3, 153 | 1, 880 | 9, 400 | 1, 273 | ii. Double- declining- balance depreciation Year | Beg | Dep. Exp. | Accum Dep. | Ending Bal | | 1 |$10, 673 |$4, 269 |$4, 269 |$6, 404 | | 2 | 6, 404 | 2, 562 | 6, 831 | 3, 842 | | 3 | 3, 842 | 1, 537 | 8, 368 | 2, 305 | | 4 | 2, 305 | 922 | 9, 290 | 1, 383 | | 5 | 1, 383 | 110 | 9, 400 | 1, 273 | . ) i. Net book value at end of year 1 is $8, 793. Less what you received on the sale $7, 500. Gives you a disposal loss of $1, 293 using the straight-line method of depreciation. You then add the disposal loss from the previous years depreciation $1, 880, which results in a total income statement impact of $3, 173. ii. Using double- declining method, the first year ending balance of $6, 404 is subtracted form the proceeds of the sale netting in a gain of $1, 096 on the disposal.

Once this is subtracted form the previous years depreciation $4, 269, you get a total income statement impact of $3, 173. iii. The total income statement impact is exactly the same. The computations turn out to be identical because it is essentially a backwards way of computing the initial cost of the asset of $10, 673, minus the proceeds from the sale $7, 500, which both gives you $3, 173. The difference between the two is perception. One reports a gain on disposals, while the other reports a loss. k. ) | Palfinger | Palfinger | Caterpillar | Caterpillar | | | 2007 | 2006 | 2007 | 2006 | | Net PPE | 149, 990 | 98, 130 | 9, 997 | 8, 851 | | Total Assets | 528, 314 | 409, 366 | 56, 132 | 51, 449 | | Common Size | 28. 4% | 24% | 17. % | 17. 2% | | Dep | 12, 557 | 9, 980 | 1, 797 | 1, 602 | | Sales/Rev | 695, 623 | 585, 205 | 41, 962 | 38, 869 | | Common Size | 1. 8% | 1. 7% | 4. 3% | 4. 1% | This table shows that Palfinger has much more assets involved in PPE at 28. 4%, than does Caterpillar 17. 8%. l. ) | Palfinger | Palfinger | Caterpillar | Caterpillar | | | 2007 | 2006 | 2007 | 2006 | | Sales or Rev | 695, 623 | 585, 205 | 41, 962 | 38, 869 | | Avg. PPE | 124, 060 | 94, 091 | 9, 424 | 8, 420 | | PPE turnover | 5. 61 | 6. 22 | 4. 45 | 4. 2 | Turnover went down about 11% (5. 61/6. 22) for Palfinger, we also see the despite being less effective they’re still more efficient then Caterpillar by about 26% (5. 61/4. 45) in regards to PPE sales for every dollar spent. m. ) Depreciation, Amortization & Impairment expense1, 960 Accumulated Depreciation & Impairment1, 960 n. ) i. Due to the companies building location concept ii. Accumulated depreciation impairment1, 755 Depreciation, Amortization, & impairment expense1, 755 The credit is posted to an account the company has called revaluation reserve, if it is the initial write up. iii. | 2007 | | Net Sales | $695, 623 | | Avg. PPE Adjusted | 124, 060 – (1, 755 x 0. 5) = 123, 183 | | Turnover Adjusted | 5. 65 | The ratio has changed 5. 61 to 5. 65, which is not a very significant difference. Recalculating the impact of the write off’s compared to the total net PPE is considered a minimal change for the company.