

Disposal Property, Plant, & Equipment:

A company may retire plant assets voluntarily or dispose of them by Sale or Exchange. Depreciation must be taken up to the date of disposition, **Companies record depreciation for the period between the date of the last depreciation entry and the date of sale.**

Gain on sale:

To illustrate a gain on sale of plant assets, assume that on July 1, 2024, Wright Company sells office furniture for \$16,000 cash. The office furniture originally cost \$60,000. As of January 1, 2024, it had accumulated depreciation of \$41,000. Depreciation for the first six months of 2024 is \$8,000. Wright records depreciation expense and updates accumulated depreciation to July 1 with the following entry.

1\7\2024

Depreciation office furniture	8,000
Accumulated Depreciation—office furniture	8,000
(To record <u>depreciation expense for the first 6 months of 2024</u>)	

Book value = cost – accumulated depreciation

$$= 60,000 - 49,000$$

$$= 11,000$$

Gain (Loss) on disposal = Proceeds from sale - Book value

$$= 16,000 - 11,000$$

$$= 5,000$$

Cash	16,000
Accumulated Depreciation—office furniture	49,000
Office furniture	60,000
Gain on Disposal of office furniture	5,000

(To record sale of office furniture at a gain)

Loss on sale:

Assume that instead of selling the office furniture for \$16,000, Wright sells it for

\$9,000. In this case, Wright computes a loss of \$2,000 as follows.

Gain (Loss) on disposal = Proceeds from sale - Book value

$$= 9,000 - 11,000$$

$$= 2,000$$

Cash	9,000
Accumulated Depreciation— office furniture	49,000
Loss on Disposal of office furniture	2,000
Office furniture	60,000

(To record sale of office furniture at a loss)

Example (7): Overland Trucking has an old truck that cost \$30,000, and it has accumulated depreciation of \$16,000 on this truck. Overland has decided to sell the truck. (a) What entry would Overland-Trucking make to record the sale of the truck for \$17,000 cash?

(b) What entry would Overland-trucking make to record the sale of the truck for \$10,000 cash?

Book value = cost – accumulated depreciation

$$= 30,000 - 16,000$$

$$= 14,000$$

Gain (Loss) on disposal = Proceeds from sale - Book value

$$= 17,000 - 14,000$$

$$= 3,000$$

(a) Sale of truck for cash at a gain:

Cash	17,000
------	--------

Accumulated Depreciation— truck	16,000
Truck	30,000
Gain on Disposal of Truck	3,000

(To record sale of truck at a gain)

Gain (Loss) on disposal = Proceeds from sale - Book value

$$= 10,000 - 14,000$$

$$= (4,000)$$

(b) Sale of truck for cash at a loss:

Cash	10,000
Loss on Disposal of truck	4,000
Accumulated Depreciation— Truck	16,000
Truck	30,000

(To record sale of truck at a loss)

Exchanges of Non-Monetary Assets:

Ordinarily, companies account for the exchange of non-monetary assets on the basis of the fair value of the asset given up or the fair value of the asset received, whichever is clearly more evident. Thus, companies should recognize immediately any gains or losses on the exchange. The rationale for immediate recognition is that most transactions have commercial substance, and therefore gains and losses should be recognized.

Meaning of Commercial Substance

As indicated above, fair value is the basis for measuring an asset acquired in a nonmonetary exchange if the transaction has commercial substance. An exchange has commercial substance if the future cash flows change because of the transaction. That is, if the two parties' economic positions change, the transaction has commercial substance.

Exchanges—Loss Situation (Has Commercial Substance)

For example, Information Processing SA trades its used machine for a new model at Jerrod Business Solutions NV. The exchange has commercial substance. The used machine has a book value of €8,000 (original cost

(€12,000 less €4,000 accumulated depreciation) and a fair value of €6,000. The new model lists for €16,000. Jerrod gives Information Processing a trade-in allowance of €9,000 for the used machine. Information Processing computes the cost of the new asset as shown in Illustration

List price of new machine	€16,000
Less: Trade-in allowance for used machine	<u>9,000</u>
Cash payment due	7,000
Fair value of used machine	<u>6,000</u>
Cost of new machine	<u>€13,000</u>

Information Processing records this transaction as follows.

Equipment	13,000	
Accumulated Depreciation—Equipment	4,000	
Loss on Disposal of Equipment	2,000	
Equipment		12,000
Cash		7,000

Fair value of used machine	€6,000
Less: Book value of used machine	<u>8,000</u>
Loss on disposal of used machine	<u>€2,000</u>

يجب المحاسبة عن عمليات تبادل الأصول غير النقدية علي أساس القيمة السوقية العادلة للأصل المتنازل عنه أو القيمة السوقية العادلة للأصل الذي تم الحصول عليه أيهما أكثر وضوحاً في الإثبات) في حالة تعذر تحديد القيمة السوقية يتم استخدام القيمة الدفترية للأصل المتنازل عنه كأساس لإثبات عملية التبادل)

Exchanges—Gain Situation (Has Commercial Substance)

To illustrate, Interstate Transportation Company exchanged a number of used trucks plus cash for a semi-truck. The used trucks have a combined book value of \$42,000 (cost \$64,000 less \$22,000 accumulated depreciation). Interstate's purchasing agent, experienced in the secondhand market, indicates that the used trucks have a fair value of \$49,000. In addition to the trucks, Interstate must pay \$11,000 cash for the semi-truck. Interstate computes the cost of the semi-truck as shown in Illustration

Fair value of trucks exchanged	€49,000
Cash paid	<u>11,000</u>
Cost of semi-truck	<u>\$60,000</u>

Interstate records the exchange transaction as follows.

Trucks (semi)	60,000	
Accumulated Depreciation—Trucks	22,000	
Trucks (used)		64,000
Gain on Disposal of Trucks		7,000
Cash		11,000

Fair value of used trucks		\$49,000
Cost of used trucks	\$64,000	
Less: Accumulated depreciation	<u>22,000</u>	
Less: Book value of used trucks		<u>42,000</u>
Gain on disposal of used trucks		<u>\$ 7,000</u>

Fair value of used trucks		\$49,000
Cost of used trucks	\$64,000	
Less: Accumulated depreciation	<u>22,000</u>	
Less: Book value of used trucks		<u>42,000</u>
Gain on disposal of used trucks		<u>\$ 7,000</u>