Prepared by D. El-Hoss Adapted from F. Wood Book-keeping

Depreciation: The sale of an asset

Reason for accounting entries

Upon the sale of an asset we will want to delete it from the company accounts. This means that:

- 1- the cost of that asset needs to be taken out of the asset account.
- 2- the depreciation of the sold asset will have to be taken out of the depreciation provision.
- 3- The profit or loss on sale will have to be calculated and posted to the corresponding credit or debit side of the profit and loss account.

Asset sold at a profit

The machinery for Spice E. Ya was bought for 2,000 on the 1st of January 20X7 and had been depreciated by 976 by the 31^{st} December 20X9 using a reducing balance percentage of 20%, and then sold for 1,070 on the 2nd of January 20X0. The double-entries would appear as follows:

Dr	Cash Account (20X7)			Cr
	\$			\$
		1.1.X7	Machine	2,000

Dr	Machine A		Cr		
1.1.X7	Cash		31.12 X7 CCOUNTS	Bal. c/d –	\$ 2,000 2,000
1.1.X8	Bal. b/d <u>2,0</u> <u>2,0</u>	000	31.12.X8	Bal. c/d	2,000 2,000
1.1.X9	Bal. b/d $2,0$	000	31.12.X9	Bal. c/d	2,000
1.1.X0	Bal. b/d $\frac{2,0}{2,0}$		2.1.X0	Disposal	2,000

The original cost of the asset being disposed of is transferred to the asset disposal a/c.

Dr	Provision for Depreciation Account (19X7-2000) Cr				
31.12.7	Bal. c/d	\$ 400	31.12.7	Profit & Loss	\$ 400
		400	1.1.X8	Bal. b/d	400
31.12.8	Bal. c/d	720	31.12.8	Profit & Loss	320
		720		511/1	720
			1.1.X9	Bal. b/d	720
31.12.9	Bal. c/d	976	31.12.9	Profit & Loss	256
		976			976
2.1.X0	Disposal	976	1.1.X0	Bal. b/d	976

The **Total** amount of depreciation charged on the asset being disposed of is transferred to the disposal account.

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Asset Dispos	2.1.X0	nt (20X0)	Cr
\$ 2,000 <u>46</u> 2,046	2.1.X0	Cash	\$
4,0 1 0	2.1.AU	Depreciation	1,070 <u>976</u> 2,046
)24) and therefo to the firm's Spice	ore the dif <u>s Profit</u> E. Ya	ference of \$46 is a	gain that
xxx	Sales		.12.X0 C \$ XXX
gcsea	CCOUI	IS COM	XXX
XXX			XXX_
XXX XXX	Gross Profit bal. b/d Profit on the sale of machinery		XXX 46
XXX XXX	macim	ner y	
XXX			
XXX			
XXX			
$\frac{XXX}{XXX}$	Net Pr	ofit bal. b/d	$\frac{\mathbf{X}\mathbf{X}\mathbf{X}}{\mathbf{X}\mathbf{X}}$
		¢	
This amount	t increases	the	
amount of p	rofit transf	arred to	
	· · · · · · · · · · · · · · · · ·		
	fit on the sal it market pr cet Price (NI)24) and therefore to the firm's Spice Loss Accou \$ XXX GCSEA XXX XXX XXX XXX XXX XXX XXX X	fit on the sale of the as it market price estimate ter Price (NBV))24) and therefore the difter to the firm's Profit Spice E. Ya Loss Account for the Sales Closin XXX Gross XXX Gross XXX Profit machin XXX XXX Net Pr This amount increases	fit on the sale of the asset as a result of t t market price estimated by the account tet Price (NBV) 24 2 and therefore the difference of \$46 is a to the firm's Profit Spice E. Ya Loss Account for the year ended the 31 SXXX Sales Closing Stock XXX Gross Profit bal. b/d XXX Gross Profit bal. b/d XXX Profit on the sale of machinery XXX XXX Net Profit bal. b/d This amount increases the terms of the formation

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Asset sold at a loss

The machinery for Spice E. Ya was bought for 2,000 on the 1st of January 2000 and had been depreciated by 976 by the 31^{st} December 2000 using a reducing balance percentage of 20%, and then sold for 970 on the 2^{nd} of January 2000. The double-entries would appear as follows:

Dr	Cash Account (20X7)				Cr	
		\$	1.1.97	Machine	\$ 2,000	
Dr	Ma	achine Accoun	t (20X7-202	X0)	Cr	
11X7	Cash	\$ 2 000	31 12 X7	Bal c/d	\$ 2,000	
1.1.21/	Cubii	2,000	51.12.11	Dui. 0/ u	2,000	
1 1 X8	Bal b/d	2 000	31 12 X8	Bal c/d	2 000	
		2,000			2,000	
1.1.X9	Bal. b/d	2,000	31.12.X9	Bal. c/d	2,000	
		2,000			2,000	
1.1.X0	Bal. b/d	2,000	2.1.X0	Disposal	2,000	
The origin	The original cost of the asset being disposed of is transferred to the asset disposal a/c.					
Dr Provision for Depreciation Account (20X7-20X0) Cr						
	WWW	/.lgcsea	<u>ccoun</u>	its.com	\$	
31.2.X7	Bal. c/d	400	31.12.7	Profit & Loss	400	
		400			400	
			1.1.X8	Bal. b/d	400	
31.12.8	Bal. c/d	720	31.12.8	Profit & Loss	320	
		720			720	
		-	1.1.X9	Bal. b/d	720	
31.12.9	Bal. c/d	976	31.12.9	Profit & Loss	256	
		976			976	
2.1.X0	Disposal	976	1.1.X0	Bal. b/d	976	
The Total amount of depreciation charged on the asset being disposed of is						
transferre	$\frac{1}{2}$ to the disposal a	account.				

Dr	Asset Disposal Account (20X0)				Cr
2.1.X0	Machinery	\$ 2,000	2.1.X0 2.1.X0 31.12.0	Cash Depreciation Profit & Loss	\$ 970 976 54
		2,000			2,000

This amount is seen as a profit on the sale of the asset as a result of the sale price being higher than the current market price estimated by the accountants of \$1,024. The asset was sold for \$950 and therefore the difference of \$74 is a loss that must be debited as a reduction to the firm's Profit

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Dr Trading and Profit and Loss Account for the year ended the 31.12.X0 Cr					
Opening Stock	\$ XXX	Sales Closing Stock	\$ XXX XXX		
Gross Profit bal. c/d			XXX		
Wages Lighting and heating Provision for Depreciation Rent General expenses Carriage inwards Loss on the sale of an asset Net Profit bal. c/d	XXX XXX XXX XXX XXX XXX 54 XXX	Gross Profit bal. b/d	XXX		
Capital		Net Profit bal. b/d	$\begin{array}{c} \underline{XXX} \\ \underline{XXX} \\ \underline{XXX} \\ \underline{XXX} \\ \underline{XXX} \end{array}$		
T a •t •t	This amount de mount of profi he capital acco of the financial	creases the it transferred to unt at the end COM year.			

Spice E. Va