

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 31st 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 Account (20X7-20X0)		Cr	
		\$			\$
1.1.X7	Cash	2,000	31.12.X7	Bal. c/d	2,000
		2,000			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 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			400
31.12.8	Bal. c/d	720	1.1.X8	Bal. b/d	400
		720	31.12.8	Profit & Loss	320
					720
31.12.9	Bal. c/d	976	1.1.X9	Bal. b/d	720
		976	31.12.9	Profit & Loss	256
					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.

Dr		Asset Disposal Account (20X0)		Cr	
		\$			\$
2.1.X0	Machinery	2,000	2.1.X0	Cash	1,070
31.12.0	Profit & Loss	46	2.1.X0	Depreciation	976
		<u>2,046</u>			<u>2,046</u>

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:

Cost - depreciation = Market Price (NBV)

$$\$2,000 - \$976 = \$1,024$$

The asset was sold for \$1,070 and therefore the difference of \$46 is a gain that must be added as an income to the firm's Profit

Dr		Spice E. Ya		Cr	
Trading and Profit and Loss Account for the year ended the 31.12.X0		\$			\$
Opening Stock	XXX	Sales	XXX	Closing Stock	XXX
Gross Profit bal. c/d	<u>XXX</u>	Gross Profit bal. b/d	XXX	Profit on the sale of machinery	46
Wages	XXX	Net Profit bal. b/d	<u>XXX</u>		<u>XXX</u>
Lighting and heating	XXX				<u>XXX</u>
Provision for Depreciation	XXX				
Rent	XXX				
General expenses	XXX				
Carriage inwards	XXX				
Net Profit bal. c/d	<u>XXX</u>				
Capital	<u>XXX</u>				

This amount increases the amount of profit transferred to the capital account at the end of the financial year.

Asset sold at a loss

The machinery for Spice E. Ya was bought for \$2,0X0 on the 1st of January 20X7 and had been depreciated by \$976 by the 31st December 20X9 using a reducing balance percentage of 20%, and then sold for \$970 on the 2nd of January 20X0. The double-entries would appear as follows:

Dr		Cash Account (20X7)		Cr	
		\$		\$	
			1.1.97	Machine	2,000
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Dr		Machine Account (20X7-20X0)		Cr	
		\$		\$	
1.1.X7	Cash	2,000	31.12.X7	Bal. c/d	2,000
		<u>2,000</u>			<u>2,000</u>
1.1.X8	Bal. b/d	2,000	31.12.X8	Bal. c/d	2,000
		<u>2,000</u>			<u>2,000</u>
1.1.X9	Bal. b/d	2,000	31.12.X9	Bal. c/d	2,000
		<u>2,000</u>			<u>2,000</u>
1.1.X0	Bal. b/d	2,000	2.1.X0	Disposal	2,000
		<u>2,000</u>			<u>2,000</u>

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	
		\$		\$	
31.2.X7	Bal. c/d	400	31.12.7	Profit & Loss	400
		<u>400</u>			<u>400</u>
31.12.8	Bal. c/d	720	1.1.X8	Bal. b/d	400
		<u>720</u>	31.12.8	Profit & Loss	320
					<u>720</u>
31.12.9	Bal. c/d	976	1.1.X9	Bal. b/d	720
		<u>976</u>	31.12.9	Profit & Loss	256
					<u>976</u>
2.1.X0	Disposal	976	1.1.X0	Bal. b/d	976
		<u>976</u>			

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

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

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

Spice E. Ya

Dr	Trading and Profit and Loss Account for the year ended the 31.12.X0		Cr
	\$		\$
Opening Stock	XXX	Sales	XXX
		Closing Stock	XXX
Gross Profit bal. c/d	<u>XXX</u>		<u>XXX</u>
Wages	XXX	Gross Profit bal. b/d	XXX
Lighting and heating	XXX		
Provision for Depreciation	XXX		
Rent	XXX		
General expenses	XXX		
Carriage inwards	XXX		
Loss on the sale of an asset	54		
Net Profit bal. c/d	<u>XXX</u>		
	<u>XXX</u>	Net Profit bal. b/d	<u>XXX</u>
Capital	<u>XXX</u>		<u>XXX</u>
			<u>XXX</u>

This amount decreases the amount of profit transferred to the capital account at the end of the financial year.