ACCT 101
Chapter 8 – More on Disposal of Assets
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On the first day lecture of this chapter, we talked about what fixed assets are, how they are accounted for, and common methods used to depreciate them. We also practiced calculating book values at the end of each year. Today's lecture will focus on how we treat the disposal of fixed assets.

Common ways to "dispose" of fixed assets:

Discard or "dump"
Sell
Trade or Exchange

"Dumped" assets:

Discards or dumps: When you "dump" a fixed asset, there is no cash associated with the transaction.

- You should bring the depreciation up to date. (Record any depreciation through the date of disposal.)
- Then, you simply remove the book value (i.e. the cost and the accumulated depreciation of the asset) from the books, and record the resulting loss (if any.) There will never be a gain because you aren't realizing any cash when the asset is "dumped."

Assets that are Sold:

This is much more common. Most companies will try and sell any assets that they aren't using rather than just "dumping them." In a sale, a buyer will give you cash (or the equivalent) for the asset.

The steps for recording a sale are as follows:

- Bring the depreciation up to date. That is, record any depreciation on the asset through the date of the sale.

- Then determine whether you have a gain or a loss by comparing the Book Value of the Asset to the proceeds or cash received. If the proceeds are greater, you have a gain. If the proceeds are less than the book value, then you have a loss. Gains are revenues and should be credited. Losses are expenses and should be debited.

- To book the transaction, remove the old BV (i.e. take off the cost and the accum. Depreciation), record the cash received, and book the gain or loss. Make sure your debits equal your credits when you are finished.

Assets that are Traded or Exchanged (Appendix)

This is probably one of the tougher concepts in the chapter. We will not cover this in our class, but am providing notes for those of you that may be accounting majors so that you can at least be exposed to the topic.

Old assets that are of no use any longer are often "traded" or "exchanged" for newer assets. (Similar to when you go to buy a car. Rather than bringing in a down payment, you may, instead, trade in your old car.)

In general, GAAP prohibits the recognition of a gain on an EXCHANGE. (There are exceptions to this that will be covered in advanced classes.) Losses are always recognized immediately (whether an asset is sold or exchanged.) But GAINS ARE NOT RECOGNIZED ON EXCHANGES. Instead, the gain is deferred. The deferral of the gain is accomplished by reducing the cost of the new asset by the amount of the gain. (This results in a deferral, because the asset is put on the books for a lesser amount, which means less depreciation in future years….. This is more appropriate than booking a lump sum gain simply because a company traded one asset for another.)

Steps to follow in a "trade" or an "exchange" are as follows:

Bring the depreciation on the old asset up to date. That is, record depreciation through the date of the exchange.

Then determine whether you have a gain or loss by comparing the book value of the old asset to the trade in value (which is really the "proceeds" from the exchange.) If there is a loss, book it immediately. If there is a gain, REDUCE THE COST OF THE NEW ASSET by the amount of the deferred gain. DO NOT RECORD GAINS in a revenue account. This is prohibited by GAAP.

To record the transaction:

- Remove the old BV (i.e. take off the cost and the Accumulated Depreciation)
- Recognize the loss, if any. DO NOT RECOGNIZE ANY GAINS.
- Recognize any cash or debt incurred in the transaction. (This will be the difference between the cost of the new asset and the trade in value….again similar to when you trade your old car in at the dealer. You have to come up with either the cash or financing on the difference between the new car and the value the dealer gave you on the old car.)
- Put the new asset on the books. If there was a loss, the new asset goes on the books at its cost. If there was a gain, the new asset goes on the books at its cost less any deferred gain.
- Make sure your debits equal your credits when you are done.