DISPOSAL AND SALE OF FIXED ASSETS

Steps to calculate gains and losses:

1. Calculate depreciation through the date of disposal (only get as specific as a monthly depreciation allocation). This will give you the net book value of the asset as of the date of disposal.

   Depreciation Expense xxx
   Accumulated Depr – Old Equip xxx

2. Remove the cost of the old equipment from the books and the related Accumulated Depreciation. Credit the cost of the asset and debit the accumulated depreciation for the asset:

   Accumulated Depr – Old Equip xxx
   Old Equipment xxx

   Note: this is not a complete journal entry and so will not balance at this point. You are in the process of building a complete journal entry

3. Ask yourself – “What did I get on the sale?” Cash, Note Receivable, Nothing?

   Asset(s) received in trade xxx
   Accumulated Depr – Old Equip xxx
   Old Equipment xxx

4. Calculate any gains or losses. This is the figure needed to balance the journal entry:

   Asset(s) received in trade xxx
   Accumulated Depr – Old Equip xxx
   Gain or loss on sale of equip * (xxx)*
   Old Equipment xxx

   *This entry will be either a debit or a credit depending on whether it is a gain (credit) or a loss (debit).
Do I take depreciation in the month of sell or purchase?

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<tr>
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<th>PURCHASE</th>
<th>SELL</th>
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<tr>
<td>1&lt;sup&gt;ST&lt;/sup&gt; – 15&lt;sup&gt;TH&lt;/sup&gt; of month</td>
<td>Depreciate</td>
<td>Don’t Depreciate</td>
</tr>
<tr>
<td>16&lt;sup&gt;TH&lt;/sup&gt; – end of month</td>
<td>Don’t Depreciate</td>
<td>Depreciate</td>
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The difference between the two is whether or not you used the asset the majority of the month. For example, if you purchase an asset on September 12<sup>th</sup>, you will depreciate it for that month (as the chart illustrates) because you used it for the majority, or more than half, of the month. However, if you purchased it 5 days later, on September 17<sup>th</sup>, you would not depreciate for the month of September. Depreciation for that asset would begin on October 1<sup>st</sup>. 