

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).

CALCULATING DEPRECIATION

Do I take depreciation in the month of sell or purchase?

	PURCHASE	SELL
1ST – 15TH of month	Depreciate	Don't Depreciate
16TH – end of month	Don't Depreciate	Depreciate

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 12th, 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 17th, you would not depreciate for the month of September. Depreciation for that asset would begin on October 1st.