ASSET DISPOSAL

4 STEPS FOR ASSET DISPOSAL

C
A
S
P

1. Transfer the **cost** of the asset being sold to the asset disposal account.

   Dr Asset disposal
   Cr the "'asset" account e.g. Vehicles

2. Transfer the total of the **accumulated depreciation**, to date of sale, of the asset being sold, to the asset disposal account.

   Dr Accumulated Depreciation
   Cr Asset Disposal

3. Record the **amount** the asset was **sold** for.

   For a cash/ credit sale:
   Dr Bank / Debtors Control
   Cr Asset Disposal

   For a trade-in:
   Dr Creditors Control
   Cr Asset Disposal

4. Calculate the **profit or loss** on the sale of the asset.

   For a profit:
   Dr Asset Disposal
   Cr Profit on sale of Asset

   For a loss:
   Dr Loss on sale of Asset
   Cr Asset Disposal

DISPOSALS AT THE BEGINING OF THE YEAR

EXERCISE 1

On 1 January 2001, the first day of the financial year, Mqomboti Traders sold an old desk, on credit to M Rusi for R130.
The desk originally cost R200 and the Accumulated Depreciation to date amounted to R80.

The following balances appeared in the books of Mqomboti Traders on 1 January 2001:

Equipment	R 3500
Accumulated Depreciation on Equipment	R 1050

Required:
a) Record the entries for the disposal of the asset in the General Journal.
b) Post to the relevant accounts in the General Ledger.

You need not balance the accounts.

[remember to use the 4 steps]

a) GENERAL JOURNAL OF MQOMBOTI TRADERS – JANUARY 2000

				Debtors Control	
	Details	***Debit***	**Credit**	**Debit**	**Credit**

b)

Dr.											**Cr.**
		EQUIPMENT B6									

Dr.											**Cr.**
		ACCUMULATED DEPRECIATION: EQUIPMENT B7									

Dr.											**Cr.**
		ASSET DISPOSAL N10									

Dr.											**Cr.**
		PROFIT ON SALE OF ASSET N11									

DISPOSALS AT THE END OF THE YEAR

EXERCISE 2

Magic Sports bought a delivery van for R30 000 on 1 January 1990.
The vehicle was sold for R14 000 cash on 31 December 1993.
Depreciation on the vehicle at 31 December 1992 was R14640.

NOTE: The financial year ends on 31 December each year.
Vehicles are depreciated at 20% p.a. on the diminished balance method.

Required:

a) Calculate the current depreciation on the vehicle.

b) Show the Asset Disposal Account in the General Ledger of Magic Sports for June 1993.

a)

b)

Dr.		*ASSET DISPOSAL N10*										Cr.

DISPOSALS DURING THE YEAR

EXERCISE 3.

The following information is extracted from the books of Beef Distributors:

1.

Balance Sheet at	**28 Feb 2000**	**28 Feb 1999**
Vehicles	R116 000	R 60 000
Accumulated Depreciation on Vehicles	14 400	3 000

2. ***Additional Information:***

2.1. On 28 February 2001, Beef Distributors had 3 Vehicles:
Colt 4x4 - purchased on 1 September 1998 (cost)R 30 000
Hilux 4x4 - purchased on 28 February 1999(cost) R 30 000
Ranger 4x4 - purchased on 1December 1999(cost) R 56 000
R116 000

2.2. Depreciation is calculated at 20% p.a. on the diminished balance.

2.3. The Colt 4x4 was sold on 31 May 2000 for R 20 600 on credit to A. Molose.

REQUIRED:

Prepare the following accounts in the General ledger of Beef Distributors for the financial year ended 28 February 2001:

2.1 Vehicles
2.2 Accumulated Depreciation on Vehicles
2.3 Asset Disposal

Remember to provide for Depreciation at year-end.

Dr.		*VEHICLES B6*								Cr.	

Dr.		**ACCUMULATED DEPRECIATION ON VEHICLES B6**								Cr.	

Dr.		**ASSET DISPOSAL B6**								Cr.	

MEMORANDUMS

Exercise 1.

b) GENERAL JOURNAL OF MQOMBOTI TRADERS – JANUARY 2000

				Debtors Control	
	Details	***Debit***	**Credit**	**Debit**	**Credit**
1	Asset Disposal	200			
	Equipment		200		
	Transfer of cost price				
2	Accumulated Depreciation on Equipment	80			
	Asset Disposal		80		
	Transfer of Accumulated Depreciation				
3	M Rusi	130		130	
	Asset Disposal		130		
	Sold on credit to M Rusi				
4	Asset Disposal	10			
	Profit on sale of Asset		10		
	Profit made on sale of asset				

b)

Dr. *EQUIPMENT B6* **Cr.**

2001 Jan	1	Balance	b/d	3500	00	2001 Jan	1	Asset Disposal	GJ	200	00

Dr. *ACCUMULATED DEPRECIATION: EQUIPMENT B7* **Cr.**

2001 Jan	1	Asset Disposal	GJ	80	00	2001 Jan	1	Balance	b/d	1050	00

Dr. *ASSET DISPOSAL N10* **Cr.**

2001 Jan	1	Equipment	GJ	200	00	2001 Jan	1	Accumulated Depreciation: Equipment	GJ	80	00
		Profit on Sale of Asset	GJ	10	00			Debtors Control: Rusi	GJ	130	00
				210	00					210	00

Dr. *PROFIT ON SALE OF ASSET N11* **Cr.**

						2001 Jan	1	Asset Disposal	GJ	10	00

Exercise 2.

a) CP – AD = BV

R30 000 – 14 640 = 15 360

$$15\ 360 \times \frac{20}{100} = \mathbf{3\ 072}$$

∴ the depreciation for the current year 1 January 1993 to 31 December 1993 is R3 072.

Do not forget to record this amount:

Dr Depreciation
Cr Accumulated Depreciation (it increases)

b)

Dr.		ASSET DISPOSAL N10									Cr.	
1993 Dec	31	Vehicles	GJ	30 000	00	1993 Dec	31	Accumulated Depreciation: Vehicles	GJ	* 17 712	00
		Profit on Sale of Asset	GJ	1 712	00			Bank	CRJ	14 000	00
				31 712	00					31 712	00

* Accumulated Depreciation is calculated as follows:
R14 640 + R 3 072 = **R17 712**

Exercise 3.

Dr.		VEHICLES B6									Cr.	
2000 Mar	1	Balance	B/d	116000	00		2000 May	31	Asset Disposal	GJ	30000	00
							2001 Feb	28	Balance	C/d	86000	00
				116000	00						116000	00
2001 Mar	1	Balance	B/d	86000	00							

Dr.		**ACCUMULATED DEPRECIATION ON VEHICLES B6**									**Cr.**	
2000 May	31	Asset Disposal	GJ	***2** 9480	00		2000 Mar	1	Balance	B/d	14400	00
2001 Feb	28	Balance	C/d	22000	00		2000 May	31	Depreciation	GJ	***1** 1080	00
							2001 Feb	28	Depreciation	GJ	***3** 16000	00
				31480	00						31480	00
							2001 Mar	1	Balance	B/d	22000	00

Dr.		**ASSET DISPOSAL B6**									**Cr.**	
2000 May	31	Vehicles	GJ	30000	00		2000 May	31	Accumulated Depreciation: Vehicles	GJ	9480	00
		Profit on sale of Asset	GJ	80	00				A Molose	GJ	20600	00
				30080	**00**						**30080**	**00**

Calculations:

*1 To find the <u>current depreciation</u> on the Colt Vehicle being sold, you need to <u>work back</u> from when you originally purchased the vehicle, calculating the <u>depreciation for each year</u> you have had it, as no balance for this has been given.

Keep in mind the financial year ends on 28 February each year.

<u>Step1</u>:

<u>1 Sept '98 – 28 Feb '99</u>: (1st 6 months)

CP - AD = BV x 20%

$30000 - 0 = 30000 \times 20\% \times \frac{6}{12} = 3000$ depr.

<u>Step 2</u>:

<u>1 Mar '99 – 28 Feb '00:</u> (2nd year)

30000 – 3000 = 27000 x 20% = 5400 depr

<u>Step 3</u>:

$\therefore$ AD = 3000 + 5400
= 8400 (*2)

<u>Step 4</u>:

<u>Depreciation on the Colt for the current year would be:</u>

<u>1 Mar '00 – 31 May '00</u>: (3rd year to date of sale)

$30000 - 8400 = 21600 \times 20\% \times \frac{3}{12} =$ **1080 depr**.

*2 R 8 400 (See **STEP 3**) + R 1 080 (See **STEP 4**) = **R9480**

*3 Depreciation for the current year on the **<u>remaining</u>** vehicles.
Keep in mind, you have already depreciated and recorded the depreciation on the vehicle that is being sold (entry on 31 May).

	CP	-	AD	=	BV
Opening Balance	R116000	-	14400		
Vehicle sold	30000	-	8400		
Remaining Vehicles	86000	-	6000	=	80000 x 20% = **16000**