WILLIAM D. LAW, JR. LEARNING COMMONS

Disposal of Fixed Assets

When a company sells or disposes of a plant asset, the company no longer owns the asset, and a journal entry is required to remove everything that is related to that asset from the company's books.

The depreciable cost, and accumulated depreciation of the asset must be removed from the company's book. Also, if there are costs associated with disposing the asset they must be recorded in the journal entry, and also if the sale of an asset results in a gain or a loss, this also must be reported.

Example:

As of March 1st, Eagle Company has a football field goal post on its books that cost $7,000, and accumulated depreciation of the post totals $3,600. Compute the following and make any necessary journal entries to dispose of the asset:

1. The book value of the post before any disposal

Cost of the Post:	$7,000
Less: Accumulated Depreciation:	$3,600
Book Value	$3,400

2. The post is sold for $5,000 on March 15th

Selling Price:	$5,000
Less: Book Value:	$3,400
Gain:	$1,600

Journal Entry: March 15th

	DR	CR
Accumulated Depreciation	$3,600	
Cash	$5,000	
Post		$7,000
Gain on Disposal		$1,600

When the book value of an asset is less than the value it has been sold for, then there will be a gain on the sale, which is treated like a revenue.

3. The post is sold for $800 on March 15th

Selling Price:	$800
Less: Book Value:	$3,400
Loss:	$2,600

Journal entry: March 15th

	DR	CR
Accumulated Depreciation	$3,600	
Cash	$800	
Loss on Disposal	$2,600	
Post		$7,000

When the book value of an asset exceeds the value it has been sold for, then a loss results and is treated like an expense.

4. The post is scrapped on March 15th

Journal Entry: March 15th

	DR	CR
Accumulated Depreciation	$3,600	
Loss on Scrap of Post	$3,400	
Post		$7,000

When an asset is being scrapped, a loss will result equal to the book value of the asset.

5. The post is sold for $3,400

Journal Entry: March 15th

	DR	CR
Accumulated Depreciation	$3,600	
Cash	$3,400	
Post		$7,000

When an asset is being sold at book value, no gain or loss occurs, and the asset is simply written off the books and the cash received, which is equal to book value, is recorded.