

Quick Question On Disposal Of Plant Assets

A truck costing \$24,000, with a useful life of 5 years and residual value of \$4,000, was disposed of as explained by each of the following independent transaction descriptions.

Make the required Journal Entries assuming straight-line method of depreciation.

- The truck was sold for \$10,000 after 3 years.
- The truck was sold for \$15,000 after 3 years.
- The truck was traded in after 4 years for a new truck with a list price of \$30,000. An allowance of \$12,000 was received for the old truck.
- The truck was traded in after 4 years for a new truck with a list price of \$30,000. An allowance of \$6,000 was received for the old truck.
- Redo number 4 using accounting procedures accepted by the IRS.

DATA SUMMARY:

Truck cost \$24,000
 n = 5 years
 RV = \$4,000

$$D = \frac{C - RV}{n}$$

$$= \frac{\$24,000 - \$4,000}{5}$$

$$= \$4,000$$

Analysis:

#3 Book is \$24,000 - \$16,000 = \$8,000
 Allowance is \$12,000
 A gain is not allowed
 #4 Book is \$8,000, allowance is \$6,000
 \$2,000 loss is allowed by AICPA
 #5 Loss is not allowed for taxes,
 increase truck's cost basis

Year 3's depreciation (3) (\$4,000) = \$12,000
 Year 4's depreciation (4) (\$4,000) = \$16,000

Cash paid for new truck in #3 and #4
 #3 \$30,000 - \$12,000 = \$18,000
 #4 \$30,000 - \$6,000 = \$24,000

DATE	ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT	CREDIT
1	Cash		10,000	
	Accumulated Depreciation, Truck		12,000	
	Loss on Disposal of Truck		2,000	
	Truck			24,000
2	Cash		15,000	
	Accumulated Depreciation, Truck		12,000	
	Truck			24,000
	Gain on Disposal of Truck			3,000
3	Truck		26,000	
	Accumulated Depreciation, Truck		16,000	
	Truck			24,000
	Cash			18,000
4	Truck		30,000	
	Accumulated Depreciation, Truck		16,000	
	Loss on trade-in of Truck		2,000	
	Truck			24,000
	Cash			24,000
5	Truck		32,000	
	Accumulated Depreciation, Truck		16,000	
	Truck			24,000
	Cash			24,000