

Financial Accounting

CS -4

Semester -1

16 Jan – 21

m.asif@fuuast.edu.pk

- **The Disposal Of A Fixed Asset**

Financial Accounting

- **Accounting entries needed**
 - (A) Transfer the cost price of the asset sold to an assets disposal account
Debit Equipment disposals account
Credit Equipment account
 - (B) Transfer the depreciation already charged to the assets disposal account:
Debit accumulated provision for depreciation: Equipment
Credit Equipment disposals account
 - (C) For the amount received on disposal:
Debit cash book
Credit Equipment disposals account
 - (D) Transfer the difference (i.e. the amount needed to balance the Equipment disposals account) to the profit and loss account.

Financial Accounting

- (D) Transfer the difference (i.e. the amount needed to balance the Equipment disposals account) to the profit and loss account.
- (i) If the Equipment disposals account shows a credit balance (i.e. if more has been credited to the account than has been debited to it), there is a profit on the sale:
Debit Equipment disposals account
Credit profit and loss account
- (ii) If the Equipment disposals account shows a debit balance, there is a loss on sale:
Debit profit and loss account
Credit Equipment disposals account

Financial Accounting

Exhibit 27.2 Fixed asset sold at a profit

Computer					
20X5			£		20X8
Jan	1	Cash	<u>2,000</u>		Jan 2 Machinery disposals (A) <u>2,000</u>

Accumulated Provision for Depreciation: Computer					
20X8			£		20X8
Jan	2	Machinery disposals (B)	<u>976</u>		Jan 1 Balance b/d <u>976</u>

Computer Disposals					
20X8			£		20X8
Jan	2	Computer (A)	2,000		Jan 2 Accumulated provision for depreciation (B) 976
Dec	31	Profit and loss (D)	46		Jan 2 Cash (C) <u>1,070</u>
			<u>2,046</u>		<u>2,046</u>

Profit and Loss Account for the year ended 31 December 20X8

Gross profit		£
Add Profit on sale of computer	(D)	xxx 46

Financial Accounting

Exhibit 27.3 Fixed asset sold at a loss

Computer					
20X5			£	20X8	
Jan	1	Cash	<u>2,000</u>	Jan	2 Computer disposals (A) <u>2,000</u>

Accumulated Provision for Depreciation: Computer

20X8		£		20X8		£
Jan 2	Computer disposals (B)	<u>976</u>		Jan 1	Balance b/d	<u>976</u>

Computer Disposals

20X8		£		20X8		£
Jan 2	Computer (A)	2,000		Jan 2	Accumulated provision for depreciation (B)	976
				Jan 2	Cash (C)	950
		<u>2,000</u>		Dec 31	Profit and loss (D)	<u>74</u>
						<u>2,000</u>

Profit and Loss Account for the year ended 31 December 20X8

Gross profit		£
Less Loss on sale of computer	(D)	xxx
		(74)

Financial Accounting

- **Exhibit 27.4**

A machine is bought on 1 January 20X5 for £1,000 and another one on 1 October 20X6 for £1,200. The first machine is sold on 30 June 20X7 for £720. The business's financial year ends on 31 December. The machinery is to be depreciated at 10 per cent, using the straight line method. Machinery in existence at the end of each year is to be depreciated for a full year. No depreciation is to be charged on any machinery disposed of during the year.

- **Question 27.4**

A company depreciates its plant at the rate of 25 per cent per annum, straight line method, for each month of ownership. From the following details draw up the plant account and the provision for depreciation account for each of the years 20X4, 20X5, 20X6 and 20X7. 20X4 Bought plant costing £2,600 on 1 January. Bought plant costing £2,100 on 1 October. 20X6 Bought plant costing £2,800 on 1 September. 20X7 Sold plant which had been bought for £2,600 on 1 January 20X4 for the sum of £810 on 31 August 20X7. You are also required to draw up the plant disposal account and the extracts from the balance sheet as at the end of each year.