GRADE 11	LESSON 21

FIXED ASSETS

DISPOSAL OF FIXED ASSETS

WORKSHEET 5
CONCEPTS

ASSET DISPOSAL - Why does a business dispose of a fixed asset?

The business disposes of a fixed asset for several reasons:
- The existing equipment has become old
- Vehicles may have been involved in accidents
- Damage to assets and therefore the business cannot use it anymore
- Asset is out-of-date

ASSET DISPOSAL - How does a business dispose of a fixed asset?

Sell for **cash** – Bank
Sell on **credit** – Debtors control
Owner can take the asset for **personal use** – Drawings
Asset can be given as a **donation** – Donations
Vehicle can be **traded in** for a new one – Creditors control
Asset can be damaged and an **insurance claim** can be lodged.
The asset can be **scrapped.**

STEPS TO FOLLOW

	Steps	Transaction	Account debit	Account credit
1	Depreciation	Calculate the current depreciation (If applicable)	Depreciation	Accumulated depreciation
2	Accumulated depreciation	Calculate the **total accumulated depreciation at date of disposal** (balance beginning of the year + depreciation up to date of sale as calculated in number 1).	Accumulated depreciation	Asset disposal
3	Cost price	Transfer the **cost price** of the asset	Asset disposal	Asset account (e.g. Vehicle account)
4	Disposal of asset (selling price)	Transfer the disposal		
		• Sell for cash	Bank	Asset disposal
		• Sell on credit	Debtors control	Asset disposal
		• Taken by owner	Drawings	Asset disposal
		• Donated	Donations	Asset disposal
5	<u>Calculate Profit / loss</u> 3. Cost R20 000 2. Acc dep <u>(15 000)</u> Book value 5 000 4. Selling price <u>(4 000)</u> 5. Loss 1 000	Transfer the profit/ loss		
		• Transfer profit	Asset disposal	Profit on sale of asset
		• Transfer loss	Loss on sale of asset	Asset disposal

The Asset Disposal account is a nominal account which is opened <u>specifically for the disposal</u> (selling) of this asset.
After it is closed off, it will not be used anymore.

ASSET DISPOSAL - WHEN?

DISPOSAL OF ASSETS

- In the beginning of the year
- At the end of the year
- During the year

WORKSHEET 6
DISPOSAL OF FIXED ASSETS IN BEGINNING OF THE YEAR

EXAMPLE 3

INFORMATION
On 1 March 2010 (beginning of financial year) ABC Traders sold a typewriter to B. Baloy for R200 cash to A Adams.
The original price of the typewriter was R300 and the accumulated depreciation amounted to R100.

REQUIRED
Record the disposal of the asset as follows:
- Journalise the transactions
- Post to the General Ledger

Look at the date of sale
If sold in beginning of the year, no depreciation is calculated

If sold in beginning of the year, no depreciation is calculated

ANSWER

STEPS
1 depreciation R 0 (no depreciation calculated when sold at the beginning of year)
2 transfer acc dep R100
3 transfer cost R300
4 sell R200
5 profit/loss

Cost	R300
less acc. dep.	(R100)
book value	R200
sold for	(R200)
profit/loss	R 0 .

GENERAL JOURNAL OF ABC TRADERS

			Debit	Credit
	Accumulated depreciation on equipment		100	
	Asset disposal			100
	Transfer accumulated depreciation			
	Asset disposal		300	
	Equipment			300
	Transfer equipment at cast price			

CASH RECEIPTS JOURNAL OF ABC TRADERS FOR MARCH 2010						
Doc.	**D**	**Details**	**Fol**	**Bank**	**Sundry Accounts**	
					Amount	**Details**
	1	A Adams		200	200	Asset disposal

GENERAL LEDGER OF ABC TRADERS

EQUIPMENT

Mar	**1**	**Balance**	**b/d**	**3 600**	Mar	1	Asset disposal		300

ACCUMULATED DEPRECIATION ON EQUIPMENT

Mar	1	Asset disposal		100	**MAR**	**1**	**Balance**	**b/d**	**800**

BANK

Mar	1	Asset disposal		200					

ASSET DISPOSAL

Mar	1	Equipment		300	Mar	1	Accumulated depreciation on equipment		100
							Bank		200
				300					300

Both totals must be the **same**

ACTIVITY 9

Look at the date of sale
If sold in beginning of the year, **no** depreciation is calculated

INFORMATION
On 1 March 2015 ABC Traders sold an old vehicle on credit to XYZ for R18 000. The cost price was R36 000 and was purchased on 1 March 2002.
Depreciation is calculated at 20% per annum on the diminishing balance method.
Accumulated depreciation was R17 568 on 28 February 2015.

REQUIRED
Record the disposal of the asset as follows:
- Journalise the transactions
- Post to the General Ledger

ANSWER

GENERAL JOURNAL OF ABC TRADERS FOR FEBRUARY 2015		
	Debit	**Credit**

GENERAL LEDGER OF ABC TRADERS

VEHICLES

Mar	1	Balance	b/d	380 600					

ACCUMULATED DEPRECIATION ON VEHICLES

					Mar	1	Balance	b/d	18 500

DEBTORS CONTROL

Mar	1	Balance	b/d	218 500					

ASSET DISPOSAL

LOSS ON SALE OF ASSETS

ANSWERS	LESSON 21

ACTIVITY 9

STEPS

1 depreciation R 0 (no depreciation calculated when sold at the beginning of year)
2 transfer accum dep R17 568
3 transfer cost R36 00
4 sell R18 000
5 profit/loss

Cost	R36 000
less acc. dep.	(R17 568)
book value	R18 432
sold for	(R18 000)
loss	R 432 .

GENERAL JOURNAL OF ABC TRADERS		
	Debit	**Credit**
Accumulated depreciation on vehicles	17 568	
Asset disposal		17 568
Transfer accumulated depreciation		
Asset disposal	36 000	
Vehicles		36 000
Transfer equipment at cast price		
Debtors control / XYZ	18 000	
Asset disposal		18 000
Transfer selling price of vehicle sold		
Asset disposal	432	
Loss on sale of asset		432
Loss on sale of vehicle		

GENERAL LEDGER OF ABC TRADERS

VEHICLES

Mar	**1**	**Balance**	**b/d**	**380 600**	Mar	1	Asset disposal		36 000

ACCUMULATED DEPRECIATION ON VEHICLES

Mar	1	Asset disposal		17 568	**Mar**	**1**	**Balance**	**b/d**	**18 500**

DEBTORS CONTROL

Mar	**1**	**Balance**	**b/d**	**218 500**					
		Asset disposal		18 000					

ASSET DISPOSAL

Mar	1	Equipment		36 000	Mar	1	Accumulated depreciation on vehicles		17 568
							Debtors control		18 000
							Loss on sale of asset		432
				36 000					36 000

LOSS ON SALE OF ASSETS

Mar	1	Asset disposal		432					