



CHAPTER 8

ACCOUNTING FOR PLANT ASSETS

Discarding a plant asset with no book value

Three ways to dispose of a plant asset:

1. No useful life remains
2. Sold because it is no longer needed even though it might still be usable
3. Plant asset is traded for another plant asset

Salvage Value equals

Zero

Accumulated Depreciation equals

Original Cost Value

Plant asset book value will have

No value

Discarding a plant asset with no book value

When a plant asset is discarded & it has not book value, the journal entry will:

1. Remove the original cost of the plant asset
2. Remove its related accumulated depreciation

Which account will be debited? Credited?

Page 235

Accumulated Depreciation 275.00

Office Equipment

275.00

Discarding a plant asset WITH book value

Can a plant asset be disposed of if it still has useful life?

Answer: YES

Page 236

Steps:

1. Remove the original cost of the plant and its related depreciation
2. Recognize the loss on the disposal of the asset

Discarding a plant asset WITH book value

Steps:

1. Remove the original cost of the plans and its related depreciation

Depreciation Expense – Office Equipment	20.00	
Accumulated Depreciation – Office Equipment		20.00

2. Recognize the loss on the disposal of the asset

Accumulated Depr. – Office Equipment	160.00	
Loss on Plant Assets	40.00	
Office Equipment		200.00

Discarding a plant asset WITH book value

1. Remove the original cost of the plant asset and its related accumulated depreciation:

Accumulated Depreciation – Office Equipment	400.00	
Loss on Plant Assets	15.00	
Cash	185.00	
Office Equipment		600.00

Trading a Plant Asset

Store Equipment	1085.00	
Accumulated Depr – Store Eq	765.00	
Cash		850.00
Store Equipment		1000.00

Selling Land and Buildings

Cash	97,000	
Accumulated Dep – Building	85,000	
Land		25,000
Building		150,000
Gain on Plant Asset		7,000

Audit your understanding

1. What is recorded on a plant asset record for a plant asset that has been discarded?

Answer:

- Date
- Type
- Amount of the disposal

Audit your understanding

2. When an asset is disposed of after the beginning of the fiscal year, what entry may need to be recorded before an entry is made for a discarded plant asset?

Specifically...You are disposing of an asset and there is still depreciation that has not been journalized...

Depreciation Expense	Debit
Accumulated Depreciation	Credit

Audit your understanding

3. What is the formula to compute the gain or loss on the sale of a plant asset?

Cash
Minus Book value of the asset being sold
Equals Gain / (Loss) on the sale of a plant asset

How do you calculate the book value?

Book Value = Original Cost – Accumulated Depreciation

Audit your understanding

4. When cash is paid and old store equipment is traded for new equipment, what is the formula for calculating the new equipment's original cost?

	Cash
Plus	<u>Book Value of the plant asset being traded (Orig Cost – Accum Dep)</u>
Equals	Book Value of the new store equipment