DISPOSAL OF TANGIBLE ASSETS

SPECIFIC OUTCOMES

- Record the transactions in respect of the disposal of tangible assets in the ledger accounts.
- Master calculations associated with disposal of asset, specially depreciation.

WHAT TO REMEMBER!

Cost price	XXX	
Less: Accumulated depreciation	(XXX)	
Book value of asset / Carrying value	XXX	
Proceeds on sale of asset	(XXX)	
Profit OR loss on sale of asset		XXX

Proceeds = Cash sale (Bank)
= Credit sale (Debtors control)
= Trade-in (Creditors control)
= Taken by owner (Drawings)
= Insurance company (Debtors control or Bank)

1. FEATURES OF DEPRECIATION

1.1 The fixed amount method / percentage on cost price /straight line method

Example:

A motor vehicle bought for R100 000 is expected to have a useful lifespan of 5 years.

$\frac{R100\,000}{5}$ **OR** $\frac{R20\,000}{R100\,000} \times \frac{100}{1}$

= R20 000 pa = 20% pa

1.2 The diminishing balance / book value / carrying value method / declining balance

Example:

Cost price of equipment R90 000 on 1 March 2010. Depreciation rate on the equipment is 10% pa on the diminishing balance.

Depreciation on 28 February each year:

Year 1:

$\frac{R90\,000}{1} \times \frac{10}{100} = R9\,000$

Year 2:

R90 000 - R9 000 = R81 000

$\frac{R81\,000}{1} \times \frac{10}{100} = R8\,100$

(Accumulated depreciation R9 000 + R8 100 = R17 100)

Year 3:

R90 000 - R17 100 = R72 900

$\frac{R72\,900}{1} \times \frac{10}{100} = R7\,290$

(Accumulated depreciation R9 000 + R8 100 + R7 290 = R24 390)

****REMEMBER:**

When an asset is bought during the course of the financial year, depreciation must be provided on that item of the asset on a **pro rata** basis for the period in use.

Eg. **Time line**

1 March 2012 Financial year (12 months) 28 February 2013

|----------|----------|

Date purchased
1 July 2012

I⇦----------**(8 months)**----------⇨I

Cost price: R25 000 Depreciation: 15 % pa.

Calculation:

$\frac{R25\,000}{1} \times \frac{15}{100} \times \frac{8}{12}$

= R2 500

2. DISPOSAL OF NON-CURRENT ASSETS (TANGIBLE ASSETS)

Note: The disposal of tangible assets can take place at:

- The beginning of the year / accounting period
- The end of the year / accounting period
- During the year / accounting period

2.1 Sale of asset at the beginning of the year

Time line

1 March 2012 (financial year) 28 February 2013
|----------|
(12 months)

Find your date on the time line = 1 March 2012

Steps to be taken:

1. **Calculate depreciation (current)**
   NO DEPRECIATION IS CALCULATED
   (Depreciation was provided fully at the end of last accounting period)

2. **Transfer the cost price to the asset disposal**
   Debit: Asset disposal
   Credit: Asset (Vehicles or equipment)

3. **Transfer accumulated depreciation to asset disposal**
   Debit: Accumulate depreciation (Vehicles or equipment)
   Credit: Asset disposal

4. **Sell / Trade-in / Insurance claim / Drawings**
   Debit: Bank / Debtors control / Creditors control / Insurance company / Drawings
   Credit: Asset disposal

5. Calculate profit / (loss) on sale of asset
   Debit: Loss on sale of asset
   Credit: Asset disposal

OR

Debit: Asset disposal
Credit: Profit on sale of asset

To remember!

6. Closing transfer at end of the financial year
   Debit: Profit on sale of asset
   Credit: Profit and loss

OR

Debit: Profit and loss
Credit: Loss on sale of asset.

2.2 Sale of asset at the end of the year

Time line

1 March 2011 Financial year (12 months) 28 February 2012
|----------|

Find your date on the time line = 28 February 2012

Steps to be taken:

1. Calculate depreciation (Current year)
Debit: Depreciation
Credit: Accumulated depreciation (Vehicle or equipment)

How to calculate depreciation:

□ **Cost / Fixed instalment method / Straight line method**

$$\frac{\text{Cost of asset}}{1} \times \frac{\text{Rate}}{100} \times \frac{\text{Period}}{12} = R$$

□ **Book value / Diminishing balance / Carrying value method**

$$\frac{\text{Book value (Cost - Accumulated depreciation)}}{1} \times \frac{\text{Rate}}{100} \times \frac{\text{Period}}{12} = R$$

2. Transfer the cost price to asset disposal
Debit: Asset disposal
Credit: Asset (Vehicles or Equipment)

3. Transfer Accumulated depreciation to asset disposal
Debit: Accumulated depreciation on asset (Vehicles or Equipment)
Credit: Asset disposal

4. Selling price / Trade-In value / Insurance claim / Drawings
Debit: Bank/Debtors control / Creditors control / Insurance company/ Drawings
Credit: Asset disposal

5. Calculate Profit / Loss on sale of asset
Debit: Loss on sale of asset
Credit: Asset disposal
OR
Debit: Asset disposal
Credit: Profit on sale of asset

6. Remember: The closing transfer
Debit: Profit on sale of asset
Credit: Profit and loss
OR
Debit: Profit and loss
Credit: Loss on sale of asset

2.3 Note for tangible assets to the balance sheet

FORMAT

Tangible assets	**Vehicles R**	**Equipment R**	**Total R**
Cost price ♠	xxx	xxx	xxx
Accumulated depreciation ♥	(xx)	(xx)	(xx)
Carrying value (Beginning of current year)	xxx	xxx	xxx
Movements			
Additions at cost + ♠	xxx	xxx	xxx
Disposals at carrying value (- ♠ COST – ACC DEP -♥)	(xx)	(xx)	(xx)
Depreciation for the year + ♥	(xx)	(xx)	(xx)
Carrying value (End of current year)	xxx	xxx	xxx
Cost price = ♠	xxx	xxx	xxx
Accumulated depreciation = ♥	(xx)	(xx)	(xx)

ACTIVITY 1

The following balances appeared in the books of Rhodes Stores on 1 March 2013:

Vehicles R128 400.
Accumulated Depreciation R43 000.

Depreciation to be provided at 20% pa according to the diminishing balance method.

On 28 February 2014 a vehicle was sold on credit to C. Van a debtor, for R11 000.

The cost price of the vehicle was R30 000 and the accumulated depreciation on 1 March 2013 was R10 800.

Instructions:

1.1 Show the following ledger accounts:
- Vehicles
- Accumulated depreciation on vehicle
- Depreciation
- Asset disposal

1.2 Show the necessary calculations for:
- Depreciation for the year on all vehicles
- Depreciation of asset sold

ACTIVITY 1

ANSWER SHEET

1.1 GENERAL LEDGAR OF RHODES STORES

Balance sheet accounts section

Dr Vehicles B9 Cr

2013 Mar.	1	Balance	b/d			2014 Feb.	28	Asset disposal	GJ		
								Balance	c/d		
Mar.	1	Balance	b/d								

Dr Accumulated depreciation on vehicles B10 Cr

2014 Feb.	28	Asset disposal	GJ			2013 Mar.	1	Balance	b/d		
		Balance	c/d			Feb.	28	Depreciation	GJ		
						Mar	1	Balance	b/d		

Nominal accounts section

Dr Depreciation N13 Cr

2014 Feb	28	Accumulated depreciation on vehicles	GJ			2014 Feb	28	Profit & loss	GJ		

Dr Asset disposal N16 Cr

2014 Feb	28	Vehicles	GJ			2014 Feb	28	Accumulated depreciation on vehicles	GJ		
								Debtors control	GJ		
								Loss on sale of asset	GJ		

1.2 Calculation of depreciation:

All vehicles:

Vehicle sold:

Calculation of profit (loss) on sale of asset

R

Cost price of vehicle sold
Accumulated depreciation

Carrying / Book value
Selling price / Proceeds

Profit on sale of asset

2.3 Sale of assets during the year:

Time line

1 March 2013 31 Aug. 2013 28 February 2014

|----------|----------|

START SALE END

APPLY THE STEPS PREVIOUSLY MENTIONED

ACTIVITY 2

On 1 March 2011 the following balances appeared, amongst others, in the books of Rhodes Stores:

Vehicles (cost)	R253 000
Accumulated Depreciation on vehicles	R99 250

The asset register shows the following information on 1 March 2011

VEHICLE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE
1	R80 000	R46 000	R34 000
2	R84 500	R44 700	R39 800
3	R88 500	R8 550	R79 950
	R253 000	R99 250	R153 750

Depreciation is provided at 10% pa on cost price.

On 31 August 2011 vehicle no.1 was sold on credit to A. Lotto for R33 500.

Instructions:

2.1 Show the following ledger accounts:
- Vehicles
- Accumulated depreciation on vehicles
- Depreciation
- Asset disposal

2.2 Show the calculation for:
- Pro-rata depreciation on asset sold
- Depreciation for remainder of vehicles

ACTIVITY 2

ANSWER SHEET

2.1 GENERAL LEDGER OF RHODES STORES

Balance sheet accounts section

Dr Vehicles B1 Cr

2011 Mar.	1	Balance	b/d			2011 Aug.	31	Asset disposal	GJ		
						2012 Feb	28	Balance	c/d		
Mar	1	Balance	b/d								

Dr Accumulated depreciation on vehicles B2 Cr

2011 Aug	31	Asset disposal	GJ			2011 Mar	1	Balance	b/d		
2012 Feb	28	Balance	c/d			Aug	31	Depreciation	GJ		
						2012 Feb	28	Depreciation	GJ		
						2012 Mar	1	Balance	b/d		

Nominal accounts section

Dr Depreciation N15 Cr

2011 Aug	31	Accumulated depreciation on vehicles	GJ			2012 Feb	28	Profit & loss	GJ		
2012 Feb	28	Accumulated depreciation on vehicles	GJ								

Dr						Asset disposal			N16 Cr		
2011 Aug	31	Vehicles	GJ			2011 Aug	31	Accumulated depreciation on vehicles	GJ		
		Profit on sale of asset	GJ					Debtors control	GJ		

2.2 Calculation of depreciation

Calculation for pro-rata depreciation on vehicle sold

Calculation of depreciation on remainder of vehicles

Calculation of profit (loss) on sale of asset

	R
Cost price of vehicle sold	
Accumulated depreciation	
Carrying / Book value	
Selling price / Proceeds	
Profit on sale of asset	

To remember!

1. Asset disposal account is shown as an intermediary account.
2. Must be closed off after the sale of asset to profit or loss on sale of asset.

ACTIVITY 3

Use the following information obtained from the books of Alice Cold Storage Ltd. On 30 June 2014, the end of their financial year, to

3.1 Draw up the accumulated depreciation and asset disposal account in the general ledger of Alice Cold Storage Ltd. for the financial year ending 30 June 2014. The accounts should be balanced and/or closed off.

3.2 Show all calculations that clearly indicates the following:
: .

- 3.2.1 Depreciation on the new vehicle
- 3.2.2 Depreciation for the remainder of the vehicles after the disposal
- 3.2.3 Accumulated depreciation for the vehicle traded in
- 3.2.4 Profit (Loss) on trade-in of asset
- 3.2.5 Amount owing for new vehicle
- 3.2.6 Show the tangible asset note to the Balance sheet at 30 June 2014

Information:

1. Pre-adjustment trial balance of Alice Cold Storage Ltd. on 30 June 2013

Balance sheet section:	Debit	Credit
Vehicles	R462 500	
Accumulated depreciation on vehicles		R135 000

2. Adjustments not yet entered:

On 31 March 2014 a used vehicle was traded in at Alice Motors with the purchase of a new vehicle. The purchase price of the new vehicle is R100 000. The trade-in price given by Alice Motors for the used vehicle is R27 500. The details of the cost price and depreciation of the used vehicle are recorded in the tangible asset register below:

TANGIBLE ASSET REGISTER

Description:	Delivery vehicle
Registration number:	DKW 678 E
Date purchased:	1 July 2011
Cost price:	R75 000
Percentage depreciation:	20 % p.a. according to the carrying value method
Date Sold:	31 March 2014

Depreciation written off:

01/07/2011 to 30/06/2012	R15 000
01/07/2012 to 30/06/2013	R ?
01/07/2013 to 31/03/2014	R ?

No entries have been made for this years depreciation, the sale of the used vehicle or the purchase price of the new vehicle. The purchase price will be paid to Alice Motors during July 2014. Depreciation must be written off at 20 % p.a. on diminishing balance on all vehicles.

ACTIVITY 3

ANSWER SHEET

3.1 GENERAL LEDGER OF ALICE COLD STORAGE LTD.

Balance sheet accounts section

Dr Accumulated depreciation on vehicles B16 Cr

2014 Mar	31	Asset disposal	GJ			2013 Jul	1	Balance	b/d		
Jun	30	Balance	c/d			2014 Mar	31	Depreciation	GJ		
						Jun	30	Depreciation	GJ		
						2014 Jul	1	Balance	b/d		

Nominal accounts section

Dr Asset disposal N16 Cr

2014 Mar	31	Vehicles	GJ			2014 Mar	31	Accumulated depreciation on vehicles	GJ		
								Creditors control	GJ		
								Loss on sale of asset	GJ		

3.2 Calculation of depreciation

3.2.1 Depreciation on the new vehicle:

3.2.2 Depreciation for the remainder of vehicles:

3.2.3 Accumulated depreciation on vehicle traded in:

3.2.4 Profit (Loss) on trade-in of asset:

	R
Cost price	
Less: Accumulated depreciation	(_____)
Book value (carrying value)	
Trade-in value	(_____)
Profit (Loss) on trade-in	

3.2.5 Amount owing for new vehicle:

	R
Cost price of new vehicle	
Trade-in value of old vehicle	_____
Amount owing for new vehicle	_____

3.2.6 Note to the balance sheet at 30 June 2014

Tangible assets	**Vehicles R**
Cost price	
Accumulated depreciation	
Carrying value (30 June 2013)	
Movements	
Additions at cost	
Disposals at carrying value	
Depreciation for the year	
Carrying value (30 June 2014)	
Cost price	
Accumulated depreciation	

ACTIVITY 4

The information relates to plant and machinery of Dickinson Ltd and was taken from the balance sheet at 31 December 2010.

REQUIRED

Calculate the following:

1. The accumulated depreciation on 1 January 2011 on the plant and machinery sold on 31 March 2011.

2. The amount received for the plant and machinery sold on 31 March 2011.

3 The current year's depreciation on plant and machinery.

4. Show the tangible asset note to the balance sheet at 31 December 2011.

TRANSACTIONS

The following information relates to transactions for the period 1 January 2011 to 31 December 2011.

1. On 31 March 2011 the firm sold plant and machinery for a loss of R500. The cost price of the plant and machinery was R9 000 and the depreciation for the current year amounted to R250.

2. On 1 July 2011 a new plant and machinery was bought for R48 000 from Master Plant Ltd. Depreciation is provided at 20 % p.a. on carrying value.

INFORMATION

Balances taken from the balance sheet at 31 December 2010:

Tangible assets	Plant and machinery
	R
Carrying value on 31 December 2010	46 000
Cost	64 000
Accumulated depreciation	(18 000)

ACTIVITY 4

ANSWER SHEET

1. Accumulated depreciation on plant and machinery sold on 1 January 2011
2. Selling price of plant and machinery
3. Current year's depreciation

4. Notes to the balance sheet at 31 December 2011

Tangible assets	Plant and machinery
	R

DISPOSAL OF TANGIBLE ASSET

ACTIVITY 1

SOLUTION

1.1 GENERAL LEDGER OF RHODES STORE

Balance sheet accounts section

Dr Vehicles B9 Cr

2013 Mar.	1	Balance	b/d	128 400	-	2014 Feb.	28	Asset disposal	GJ	30 000	-
								Balance	c/d	98 400	-
				128 400	-					128 400	-
Mar	1	Balance	b/d	98 400	-						

Dr Accumulated depreciation on vehicles B10 Cr

2014 Feb.	28	Asset disposal	GJ	14 640	-	2013 Mar.	1	Balance	b/d	43 000	-
		Balance	c/d	45 440	-	Feb.	28	Depreciation	GJ	17 080	-
				60 080	-					60 080	-
						Mar	1	Balance	b/d	45 440	-

Nominal accounts section

Dr Depreciation N13 Cr

2014 Feb	28	Accumulated depreciation on vehicles	GJ	17 080	-	2014 Feb	28	Profit & loss	GJ	17 080	-

Dr Asset disposal N16 Cr

2014 Feb	28	Vehicles	GJ	30 000	-	2014 Feb	28	Accumulated depreciation on vehicles	GJ	14 640	-
								Debtors control	GJ	11 000	-
								Loss on sale of asset	GJ	4 360	-
				30 000	-					30 000	-

1.2 Calculation of depreciation:

□ **All vehicles:**

R128 400 - R43 000 = R85 400

$\frac{R85\ 400}{1} \times \frac{20}{100} =$ R17 080

□ **Vehicle sold:**

R30 000 - R10 800 = R19 200

$\frac{R19\ 200}{1} \times \frac{20}{100} =$ R3 840

Accumulated depreciation for vehicle sold on date of sale (20 February 2014)
R3 840 + R10 800 = R14 640

Calculation of profit (loss) on sale of asset:

	R
Cost price vehicles sold	30 000
Accumulated depreciation	(14 640)
Carrying / Book value	15 360
Selling price / Proceeds	(11 000)
Loss on sale of asset	4 360

ACTIVITY 2

SOLUTION

2.1 GENERAL LEDGER OF RHODES STORES

Balance sheet accounts section

Dr Vehicles B9 Cr

2011 Mar.	1	Balance	b/d	253 000	-	2011 Aug.	31	Asset disposal	GJ	80 000	-
						2012 Feb	28	Balance	c/d	173 000	-
				253 000	-					253 000	-
Mar	1	Balance	b/d	173 000	-						

Dr Accumulated depreciation on vehicles B10 Cr

2011 Aug	31	Asset disposal	GJ	50 000	-	2011 Mar	1	Balance	b/d	99 250	-
2012 Feb	28	Balance	c/d	70 550	-	Aug	31	Depreciation	GJ	4 000	-
						2012 Feb	28	Depreciation	GJ	17 300	-
				120 550	-					120 550	-
						2012 Mar	1	Balance	b/d	70 550	-

Nominal accounts section

Dr Depreciation N15 Cr

2011 Aug	31	Accumulated depreciation on vehicles	GJ	4 000	-	2012 Feb	28	Profit & loss	GJ	21 300	-
2012 Feb	28	Accumulated depreciation on vehicles	GJ	17 300	-						
				21 300	-					21 300	-

Dr Asset disposal N16 Cr

2011 Aug	31	Vehicles	GJ	80 000	-	2011 Aug	31	Accumulated depreciation	GJ	50 000	-
		Profit on sale of asset	GJ	3 500	-			Debtors control	GJ	33 500	-
				83 500	-					83 500	-

2.2 Calculation of depreciation

- Pro-rata depreciation on vehicle sold:

$$\frac{R80\,000}{1} \times \frac{10}{100} \times \frac{6}{12} = R4\,000$$

- Calculation of depreciation on remainder of vehicles:

Cost: (R253 000 - R80 000) = R173 000

$$\frac{R173\,000}{1} \times \frac{10}{100} \times \frac{12}{12} = R17\,300$$

Calculation of profit (loss) on sale of asset:

	R
Cost price of vehicle sold	80 000
Accumulated depreciation	(50 000)
Carrying / Book value	30 000
Selling price / Proceeds	(33 500)
Profit on sale of asset	3 500

ACTIVITY 3

SOLUTION

3.1 GENERAL LEDGER OF ALICE COLD STORAGE LTD.

Balance sheet accounts section

Dr Accumulated depreciation on vehicles B16 Cr

2014 Mar	31	Asset disposal	GJ	34 200	2013 Jul	1	Balance	b/d	13 500
Jun	30	Balance	c/d	168 900	2014 Mar	31	Depreciation	GJ	7 200
					Jun	30	Depreciation	GJ	60 900
				203 100					203 100
					2014 Jul	1	Balance	b/d	168 900

Nominal accounts section

Dr Asset disposal N16 Cr

2014 Mar	31	Vehicles	GJ	75 000	2014 Mar	31	Accumulated depreciation on vehicles	. GJ	34 200
							Creditors control	GJ	27 500
							Loss on sale of asset	GJ	13 300
				75 000					75 000

3.2 CALCULATIONS:

3.2.1 Depreciation on the new vehicle:

$$\frac{R100\,000}{1} \times \frac{20}{100} \times \frac{3}{12} = R5\,000$$

3.2.2 Depreciation for the remainder of vehicles:

(R462 500 - R75 000) – (R135 000 – R27 000) x 20 %

= R55 900

Depreciation at end of the year: R60 900
(R5 000 + R55 900)

3.2.3 Accumulated depreciation on vehicle traded in:

1. 1 July 20.1 – 30 June 20.2

$$\frac{R75\,000}{1} \times \frac{20}{100} = R15\,000$$

2. 1 July 20.2 – 30 June 20.3

$$\frac{(R75\,000 - R15\,000)}{1} \times \frac{20}{100} = R12\,000$$

3. 1 July 20.3 – 31 March 20.4

$$\frac{(R75\,000 - R27\,000)}{1} \times \frac{20}{100} \times \frac{9}{12} = R11\,250$$

R41 250

3.2.4 Profit/(Loss) on trade-in of asset:

	R
Cost price of vehicle traded in	75 000
Accumulated depreciation	(34 200)
Book value (carrying value)	40 500
Trade-in	(27 500)
Loss on trade-in of asset	(13 500)

3.2.5 Amount owing for new vehicle:

	R
Cost price of new vehicle	100 000
Trade-in value of old vehicle	(27 500)
Amount owing for new vehicle	72 500

3.2.6 Note to the balance sheet 30 June 2014

Tangible assets	**Vehicles R**
Cost price	462 500
Accumulated depreciation	(135 000)
Carrying value (30 June 2013)	327 500
Movements	
Additions at cost	100 000
Disposals at carrying value	(40 800)
Depreciation for the year	(68 100)
Carrying value (30 June 2014)	318 600
Cost price	487 500
Accumulated depreciation	(168 900)

ACTIVITY 4

SOLUTION

1. Accumulated depreciation on plant and machinery sold on 1 January 2011 = **R4 000**

2. Selling price of plant and machinery sold = **R4 250**

3. Current year's depreciation = **R13 250**

4. Notes to the balance sheet at 31 December 2011

Tangible assets	Plant and machinery
	R
Cost	64 000
Accumulated depreciation	(18 000)
Carrying value on 31 December 2011	46 000
Movements	
Additions at cost	48 000
Disposals at carrying value	(4 750)
Depreciation for the year	(13 250)
Carrying value on 31 December 2012	76 000
Cost	103 000
Accumulated depreciation	(27 000)

CALCULATIONS

1. Accumulated depreciation

Carrying value = cost price – accumulated depreciation

The depreciation on the plant and machinery sold for the current year, 1 January 2011 – 31 March 2011 (date of sale), is given. It is possible to calculate the carrying value on the plant and machinery sold on 1 January 2011.

$$\text{Carrying value on 1 January 2011} \times \frac{20}{100} \times \frac{3}{12} = \text{R250}$$

Now the carrying value on 1 January 2011 is known, it is possible to calculate the accumulated depreciation of the plant and machinery sold on 1 January 2011.

Cost price – accumulated depreciation = carrying value
9 000 – 5 000 = R4 000

2. Selling price of machinery sold

Asset disposal

Machinery (CP)	9 000	Acc depreciation	4 250
		(R4 000 + R250)	
		Selling price	4 250*
		Loss	500
	9 000		9 000

* Selling price: R9 000 – R4 250 – R500 = R4 250

3. Current year's depreciation on plant and machinery

Old plant and machinery: 1 January 2011 – 31 December 2011

The cost price of the plant and machinery not sold on 1 January 2011:
R64 000 – R9 000 = R55 000

The accumulated depreciation on the plant and machinery no sold on 1 January 2011:
R18 000 + R250 – R 4 250 = R14 000

(Cost price – accumulated depreciation) x 20 % = carrying value x 20% = depreciation
(R55 000 – R14 000) x 20 % = R41 000 x 20 % = **R8 200**

New plant and machinery: 1 January 2011 – 31 December 2011

Depreciation on new plant and machinery purchased:
Cost price = R48 000
R48 000 x 20 % x 6/12 = **R4 800**

Current year's depreciation is equal to:

	R
Pro-rata depreciation on plant and machinery sold	250 (amount given)
Depreciation on old plant and machinery	8 200 (see calculation)
Depreciation on new plant and machinery	4 800 (see calculation)
	13 250