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The entry to record the disposal of fixed assets will include a credit to accumulated depreciation

Disposal of assets is the removal of long-term assets from the accounting records ofThree Financial Statements Three financial statements are profit and loss account, balance sheet and cash flow statement. These three fundamental statements are intricate. This is an important concept because it primarily relates to the capital assets ofTypes of AssetsCommon types of assets involving current, non-liquid, physical, intangible, operational and non-prospective. Proper identification and which are crucial for successful business. Furthermore, proper accounting of asset disposal is essential for maintaining up-to-date and clean accounting records. Disposal of property can be the result of several events:The property is fully depreciated and must be disposed of. How an asset is sold at a gain/loss because it is no longer useful or necessary. Property must be disposed of due to unforeseen circumstances (e.g. theft). The CFI of the course base accounting shows you how to construct three basic financial statements. Three financial statements Three financial statements are income statement, balance sheet and cash flow statement. These three core statements are intricatelyJournal Entries for Asset DisposalsJecal entriesJournal Entries GuideJournal Entries are the building blocks of accounting, from reporting to revision of journal entries (consisting of debits and loans). Without proper log entries, the companies' financial statements would be an inaccurate and complete mess. the disposal of assets should be recorded depends on the situation in which the event occurs. Let's consider the following example for analyzing the different situations that require the disposal of property. Motors Inc. owns machine assets on its balance sheet worth $3,000.Scenario 1: Disposal of Fully Depreciated AssetsMotors Inc. estimates that the life of machines is useful for three years. Annual Depreciation CostDepreciation CostDepreciation is used to reduce the value of the plant, property and equipment to align over time with its use and wear and tear. The depreciation cost is used to better reflect the costs and value of long-term assets as it relates to the income it generates. is $1,000. At the end of the third year, the machines are fully depreciated and the property must be disposed of. In such a scenario, the value of the asset and the accumulated depreciation must be written off. Initially, the machine account is a debit account, while the accumulated depreciation credit account. In order to reverse the accounts, it is necessary to make the following journal entry:Scenario 2: Disposal by selling assets with the gainUppose that at the end of the second year, Motors Inc. decided to sell the machines to another company. At the time, the accumulated depreciation was $2,000. Therefore, total machine bookkeeping was $1,000 value minus accumulated depreciation). However, the company agreed to sell the machines for $1,500. So, Motors Inc. must recognise the winnings of the sale. The entry of the disposal log should be: Scenario 3: Disposal by selling assets at a lossNest consider the same situation as in scenario 2, but the sale price was only $500. So there's been a loss on sales. Journal entries should be adjusted accordingly: The disposal of assets on the financial statements The disposal of assets results in a direct impact on the company's financial statements. In all scenarios, this affects the Balance Sheet Balanced Balance Sheet One of the three underlying financial statements. These statements are essential for both financial modelling and accounting. The balance sheet shows the company's total assets and how these assets are financed through debt or equity. Assets = Liabilities + Capital by removing capital assets. Also, if a company disposes of an asset with a profit or loss, the gain and loss should be reported on the basis of the statement of profit. Additional ResourcesCFI offers financial modeling & valuation analyst (FMVA)™FMVA® CertificationJoin 350,600+ students working for companies such as Amazon, J.P. Morgan and Ferrari certification program for those who want to take their careers to the next level. To continue learning and improving your career, the following CFI resources will be useful:Adjusting entriesOs Entry Adjustment Guide covers deferred revenue, deferred expenses, accrued costs, accrued revenues, and other adjustments to journal entries, examples. Input adjustment is required at the end of each fiscal period to bring revenues and expenses in line with the right period, in line with the relevant accounting principle. Contra AssetContra AssetA contra asset is an asset account in which the account balance will be zero or credit balance. The asset's counter account reimburses the balance in the corresponding account of the assets from which it is paired. A normal asset account has a debit balance, while the counter asset account has a loan. Financial Accounting TheoryFinancial Accounting TheoryFinancial Accounting Theory explains why behind accounting - the reasons why transactions are reported in certain ways. This guide will help you understand the main principles behind the financial accounting theory Which is a fully depreciated AssetA asset fully depreciated asset is an accounting term used to describe an asset that is worth the same as its salvage value. Assets can be fully depreciated in two ways: the asset reaches the end of its useful life or there is an impairment charge equal to or greater than the residual value. All plant assets other than land eventually wear out or become inadequate or outdated and must be sold, retired or traded in new assets. disposal of plant assets, property, the cost of the asset and the accumulated depreciation from the account. All in all, all plant asset disposals have the following steps in common: •Bring depreciation of assets to date. •Record disposals using: •Asset cost write-off. •Write-off of accumulated depreciation. •Recording any compensation (usually cash) received or paid or received or paid. •Recording gains or losses, if any. As you study this section, remember these common procedures that accountants use to record the disposal of plant assets. In the following paragraphs, we discuss the calculation (1) of the sale of plant assets, (2) the retirement of plant assets without sale (write-down) and (3) the trading of plant assets. Watch this video to show the first 2: Sales of the Company's plant assets often dispose of plant assets through sales. By comparing the book value of an asset (the cost of less accumulated depreciation) with its selling price (or the net amount earned if there are sales expenses), the company may show gain or loss. If the sales price is greater than the book value of the asset, the company shows the gain. If the selling price is less than the book value of the asset, the company shows a loss. Of course, when the selling price is equal to the book value of the asset, there is no gain or loss. To illustrate the accounting of plant asset sales, assume the company is selling equipment costing $45,000 with accumulated depreciation of $14,000 for $28,000 cash. The company would realize a loss of $3,000 ($45,000 cost - $14,000 accumulated depreciation is $31,000 book value - $28,000 sale price). Entering sales logs is: Cash Debit 28,000 Credit Accumulated Depreciation – Equipment 14,000 Loss from Disposal of Plant Asset 3,000 Equipment 45,000 To record equipment sales at a price less than book value. Taking into account depreciation to date when selling or otherwise disposing of the plant's assets, the company must record depreciation by the date of sale or disposal. For example, if it sold assets on April 1 and last recorded depreciation on December 31, the company should record depreciation for three months (January 1-April 1). When depreciation is not recorded for three months, operating expenses for this period are underestimated and profits from asset sales are undervalued or the loss is overvalued. To illustrate, assume that in 2016 on August 1, Ray Sold the Machine for $1,500. When purchased on 2008 January 2, the machine cost $12,000; Ray depreciated him at a straight line of 10% a year. As of December 31, after the final entries were made, the accumulated machine depreciation account had a balance of $9,600. Before determining gains or losses and before entering for sales, the company must do the following to record depreciation for the seven months ended 2016 July 31 Depreciation Cost – Machinery Debit 700 Credit Accumulated Depreciation – Machinery 700 To record depreciation for seven months [$12,000 X 0.10 X (7/12)] When retirement plant assets from the service, the company removes asset costs and accumulated depreciation from the company's asset accounts. For example, Hayes would make the following journal entry when it retired a fully depreciated machine that cost $15,000 and had no salvage value: Accumulated Depreciation – Machinery Debit 15,000 Credit Machines 15,000 To record the retirement of a fully depreciated machine. Occasionally, the company continues to use plant assets after being fully depreciated. In this case, the company should not remove the cost of assets and accumulated depreciation from the account until the asset is sold, traded or retired from the service. Of course, the company cannot record higher depreciation on fully depreciated assets because the total depreciation cost taken on the asset must not exceed its cost. Sometimes the company retires or discards plant assets before depreciates it altogether. When selling assets as waste (even if not immediately), the company removes its costs and accumulated depreciation from assets and accumulated depreciation accounts. In addition, the accountant records the estimated value of the rescue in the salvaged materials account and recognizes the gain or loss available. To illustrate, assume the company is pulling the machine with an original cost of $10,000 and $7,500 in accumulated depreciation. If the estimated value of saving the machine is $500, the following entry is required: Salvaged Materials Debit 500 Credit Accumulated Depreciation – Machines 7,500 Loss from disposal of plant assets 2,000 machines 10,000 To record retirement machines, which will later be sold for waste. Sometimes accidents, fires, floods and storms destroy or destroy plant assets, causing losses to businesses. For example, assume that the fire completely destroyed an unsecured building costing $40,000 with a $12,000 accumulation of depreciation. Log log record is: Loss of Fire Debit 28,000 Credit Accumulated Depreciation – Buildings 12,000 Buildings 40,000 To Record Fire Loss. If the building is insured, the company would charge only the amount of fire loss exceeding the amount to be returned from the insurance company at the expense of the loss of fire. To illustrate, assume the company partially secured the building and received $22,000 from an insurance company. Journal entry is: Cash Debit 22,000 Credit Loss from Fire 6,000 Accumulated Depreciation – Buildings 12,000 Buildings 40,000 To record fire loss and amount that can be returned from the insurance company.