

Disposals of non-current assets: questions and answers

- 1 a) A business has sold one of its vans for £12,280 plus VAT. The van originally cost £29,730 and accumulated depreciation of £16,482 has been charged against it. What gain or loss was made on the van's disposal?

Amount	£	1,031	Workings	
Gain/loss		Loss	Net proceeds	12280
			Carrying value (29730-16482)	13311
			Difference	LOSS 1031

- b) A business has sold a building for £289,500 plus VAT. The building cost the business £197,750 plus VAT and its carrying value at the date of disposal was £92,610. What gain or loss was made on disposal?

Amount	£	196,890	Workings	
Gain/loss		Gain	Net proceeds	289500
			Carrying value (as stated in question)	92610
			Difference	GAIN 196890

- c) At the start of the year, a business owned a car costing £36,755 and against which, £16,771 of depreciation has been charged in total. Part-way through the year the car was sold for £15,350. If the depreciation expense for the car from the start of the accounting period to the date of disposal was £2,410 what gain or loss was made on disposal?

Amount	£	2,224	Workings	
Gain/loss		Loss	Net proceeds	15350
			Carrying value (36755-16771-2410)	17574
			Difference	LOSS 2224

- d) A business purchased a piece of equipment for £80,000. The equipment was depreciated for three full years using the diminishing balance method at a rate of 20% per year. The equipment was then sold for £47,999. What gain or loss was made on disposal?

Amount	£	7,039	Workings	
Gain/loss		Gain	Carrying value end of yr 1	64000
			Carrying value end of yr 2	51200
			Carrying value end of yr 3	40960
			Gain on disposal 47999 - 40960	7039

- 2 A business has sold a car for £5,600 which was paid into its bank account. The car originally cost £16,240 and accumulated depreciation up to the date of disposal amounted to £9,352.

a) Write a journal below to record the receipt of the disposal proceeds

Account	Dr (£)	Cr (£)
Bank	5,600	
Disposal of motor vehicles		5,600
Proceeds received from the sale of a car		

Account picklist

Bank

Cash

Disposal of motor vehicles

Motor vehicles accumulated depreciation

Motor vehicles at cost

Motor vehicles depreciation expense

b) Write two journals below to remove the car's cost and accumulated depreciation

Account	Dr (£)	Cr (£)
Disposal of motor vehicles	16,240	
Motor vehicles at cost		16,240
Remove cost of car that has been sold		

Account	Dr (£)	Cr (£)
Motor vehicles accumulated depreciation	9,352	
Disposal of motor vehicles		9,352
Remove accumulated depreciation of car that has been sold		

Account picklist

Bank

Cash

Disposal of motor vehicles

Motor vehicles accumulated depreciation

Motor vehicles at cost

Motor vehicles depreciation expense

2 (continued)

c) Using your answers to parts (a) and (b), record the appropriate parts of your journals in the Disposal of motor vehicles account below and then close the account down

Disposal of motor vehicles account			
	Dr (£)		Cr (£)
Motor vehicles at cost	16,240	Bank	5,600
		Motor vehicles accumulated depreciation	9,352
		Profit & loss	1,288
	16,240		16,240

Description picklist

Bank

Cash

Disposal of motor vehicles

Motor vehicles accumulated depreciation

Motor vehicles at cost

Motor vehicles depreciation expense

Profit & loss

d) State the gain or loss made on the disposal of the car

Amount £	1,288
Gain/loss	Loss

3 A business' Disposal of Equipment account is shown below.

Disposal of equipment account			
	Dr (£)		Cr (£)
Equipment at cost	83,139	Equipment accumulated depreciation	62,553
		Bank	15,315
		Bank loan	8,997

State the gain or loss made on the disposal of equipment in the year

Amount £	3,726
Gain/loss	Gain

Workings

Proceeds 15315+8997	24,312
Carrying value 83139-62553	20,586
Gain/loss	Gain 3,726

- 4 A business has sold a desk for £2,500 plus VAT. The money was received in cash. The desk originally cost £3,995 plus VAT and over the course of its useful life depreciation of £1,640 has been charged in total

a) Write a journal below to record the receipt of the disposal proceeds

Account	Dr (£)	Cr (£)
Cash	3,000	
VAT		500
Disposal of furniture		2,500
Proceeds received from the sale of a desk		

Account picklist

Cash

Disposal of furniture

Furniture accumulated depreciation

Furniture at cost

VAT

b) Write two journals to record the removal of the desk's carrying value from the appropriate ledger accounts

Account	Dr (£)	Cr (£)
Disposal of furniture	3,995	
Furniture at cost		3,995
Remove cost of the desk that has been sold		

Account	Dr (£)	Cr (£)
Furniture accumulated depreciation	1,640	
Disposal of furniture		1,640
Remove accumulated depreciation of the desk that has been sold		

Account picklist

Cash

Disposal of furniture

Furniture accumulated depreciation

Furniture at cost

VAT

- 4 c) Post your answers to parts (a) and (b) to the ledger accounts below, then close each account down
NB. There is no need to bring the balances down to the start of the next period.

Cash account			
	Dr (£)		Cr (£)
Balance b/d	6,558	Balance c/d	9,558
Disposal of furniture	3,000		
	9,558		9,558

Disposal of furniture account			
	Dr (£)		Cr (£)
Furniture at cost	3,995	Cash	2,500
Profit & loss	145	Furniture accumulated depreciation	1,640
	4,140		4,140

Furniture accumulated depreciation account			
	Dr (£)		Cr (£)
Disposal of furniture	1,640	Balance b/d	35,997
Balance c/d	34,357		
	35,997		35,997

Furniture at cost			
	Dr (£)		Cr (£)
Balance b/d	116,885	Disposal of furniture	3,995
		Balance c/d	112,890
	116,885		116,885

VAT account			
	Dr (£)		Cr (£)
Balance c/d	3,567	Balance b/d	3,067
		Cash	500
	3,567		3,567

d) Was a gain or a loss made on the disposal of the desk?

Gain (Gain, Loss)

- 5 A business has an accounting year end of 31st March. On 1 April 2019, it owned property which cost £315,446 and against which accumulated depreciation of £72,488 had been charged. On 30th June 2019, the property was sold for £529,400 of which £182,870 was used to clear the mortgage on the building and the balance was paid into the business' bank account. The depreciation expense for the period from 1st April 2019 to 30 June 2019 for the year is £5,166.

a) Write a journal to record the current period's depreciation expense for the property

Account	Dr (£)	Cr (£)
Property depreciation expense	5,166	
Property accumulated depreciation		5,166
Depreciation expense on property up to the date of disposal		

b) Write two journals to remove the carrying value of the property that has been sold

Account	Dr (£)	Cr (£)
Disposal of property	315,446	
Property at cost		315,446
Remove the cost of the property that has been sold		

Account	Dr (£)	Cr (£)
Property accumulated depreciation	77,654	
Disposal of property		77,654
Remove the accumulated depreciation of the property that has been sold		

Workings: $72488+5166 = 77654$

c) Write a journal to record the proceeds that have been used to clear the mortgage on the property

Account	Dr (£)	Cr (£)
Mortgage	182,870	
Disposal of property		182,870
Property disposal proceeds used to clear the mortgage		

d) Write a journal to record the receipt of the balance of the disposal proceeds

Account	Dr (£)	Cr (£)
Bank	346,530	
Disposal of property		346,530
Balance of the property disposal proceeds		

Workings: $529400-182870 = 346530$

- 6 A business has purchased a Ford Escort car for £25,425. The business paid for the new car by making a payment of £13,425 and by trading in a Ford Fiesta to cover the remaining balance. The Ford Fiesta originally cost £20,995 and accumulated depreciation at the date of disposal amounted to £7,560.

a) Write two journals, the first to record the bank payment made towards the cost of the Ford Escort and the second to record the part-exchange value of the Ford Fiesta

Account	Dr (£)	Cr (£)
Motor vehicles at cost	13,425	
Bank		13,425
Bank payment made towards the cost of the Ford Escort		

Account	Dr (£)	Cr (£)
Motor vehicles at cost	12,000	
Disposal of motor vehicles		12,000
Part-exchange value of the Ford Fiesta		

Workings: 25425-13425 = 12000

b) Write two journals, the first to remove the cost of the Ford Fiesta and the second to remove the Ford Fiesta's accumulated depreciation

Account	Dr (£)	Cr (£)
Motor vehicles at cost		20,995
Disposal of motor vehicles	20,995	
Remove cost of Ford Fiesta		

Account	Dr (£)	Cr (£)
Motor vehicles accumulated depreciation	7,560	
Disposal of motor vehicles		7,560
Remove accumulated depreciation of Ford Fiesta		

c) Complete and close down the disposal of motor vehicles account below

Disposal of motor vehicles account			
	Dr (£)		Cr (£)
Motor vehicles at cost	20,995	Motor vehicles at cost	12,000
		Motor vehicles accumulated depreciation	7,560
		Profit and loss	1,435
	20,995		20,995

- 7 Last month, a hotel bought a Vauxhall car for £19,000 which was paid by trading in a Fiat worth £1,500 with the balance paid for using a bank loan.

The Fiat that was traded in originally cost £13,950 and accumulated depreciation charged up to the start of the accounting year was £10,290. The depreciation expense for the Fiat from the start of the year to the date of disposal has been calculated at £617.

a) Write a journal to record the depreciation expense on the Fiat up to the date of disposal

Account	Dr (£)	Cr (£)
Motor vehicles depreciation expense	617	
Motor vehicles accumulated depreciation		617
Depreciation expense of Fiat up to the date of disposal		

b) Write two journals to record the cost of the Vauxhall

Account	Dr (£)	Cr (£)
Motor vehicles at cost	1,500	
Disposals of motor vehicles		1,500
Part-exchange value of the Fiat		

Account	Dr (£)	Cr (£)
Motor vehicles at cost	17,500	
Disposals of motor vehicles		17,500
Bank loan taken out to help purchase the Vauxhall		

c) Write two journals to remove the cost and accumulated depreciation of the Fiat

Account	Dr (£)	Cr (£)
Motor vehicles at cost		13,950
Disposal of motor vehicles	13,950	
Remove cost of Fiat		

Account	Dr (£)	Cr (£)
Motor vehicles accumulated depreciation	10,290	
Disposal of motor vehicles		10,290
Remove accumulated depreciation of Fiat		

Workings: 10290+617 = 10907

d) Calculate the gain or loss made on the disposal of the Fiat

Amount	£	1,543
Gain/loss		Loss

Workings:

$$1500 - (13950 - 10290 - 617) = 1543$$

- 8 A business has replaced a Mercedes car used by the Managing Director with a Range Rover. Details of both cars are given below:

Mercedes: Cost £58,500, accumulated depreciation at the start of the year was £21,345, depreciation expense up to the date of disposal was £4,182

Traded in against the Range Rover at a part-exchange value of £29,000

Range Rover: Cost £47,300, depreciation expense from acquisition to the period-end is £5,220

Paid for using the Mercedes as part-exchange and the balance was paid from the bank

a) Record the cars' depreciation expense for the year in the ledger accounts below

b) Record the disposal and acquisition of the cars in the ledger accounts

c) Close the disposal of vehicles accounts down and calculate the profit or loss on disposal

Disposal of vehicles account			
	Dr (£)		Cr (£)
Vehicles at cost	58,500	Vehicles accumulated depreciation	25,527
		Vehicles at cost	29,000
		Profit and loss	3,973
	58,500		58,500

Vehicles at cost account			
	Dr (£)		Cr (£)
Balance b/d	644,801	Disposal of vehicles	58,500
Disposal of vehicles	29,000		
Bank	18,300		

Vehicles accumulated depreciation account			
	Dr (£)		Cr (£)
Disposal of vehicles	25,527	Balance b/d	231,500
		Vehicles depreciation expense	9,402

Vehicles depreciation expense account			
	Dr (£)		Cr (£)
Vehicles accumulated depreciation	9,402		

Bank account			
	Dr (£)		Cr (£)
		Vehicles at cost	18,300