

EXAMPLE PROBLEMS

Accounting for Disposal of Plant Assets

Your company purchased a small crane for \$58,000. The crane is expected to have a useful life of five years and a residual value of \$4,000 at the end of that time. Prepare journal entries to record the disposal of the crane at the end of the second year, assuming that the straight line method is used and making the following additional assumptions.

JOURNAL ENTRY

a. The crane is discarded.
Loss on disposal of crane 36400
accumulated depr. - crane 21600
Crane 58000

b. The crane is sold for \$40,000 cash.
cash 40000
accum. depr. - crane 21600
crane 58000
gain on sale of crane 3600

c. It is sold for \$32,000 cash.
Cash 32000
accum. depr. - crane 21600
Loss on sale of crane 4400
Crane 58000

CALCULATION

$$\frac{58000 - 4000}{5} = 10800 \text{ depr./year}$$
$$58000 - (2 \times 10800) = 36400 \text{ Book VALUE}$$

<u>accum. depr.</u>	
40000	Selling price
36400	book value
3600	gain

36400	book value
32000	Selling price
4400	loss