

\$2200 - Cost of Equipment  
 \$ 200 - Estimated Salvage Value  
 Five (5) Years' Estimated Life  
 \$ 400 - Annual Straight Line Depreciation  
 Purchased Jan. 5, 19X1

Equipment	Accum Deprec
\$2200	1st \$400 2nd \$400 3rd \$400

**1a. SALE FOR CASH AT GAIN**

Received \$750  
 At end of 4th year  
 Depreciation 4 X \$400 = \$1600

<b>1b.</b>	\$750	Sale Price
	\$2200	Cost Price
	<u>\$1600</u>	Accum. Deprec.
	\$600	Book Value
	150	Gain on Disposal

<b>1c.</b>	Cash	\$ 750	
	Accum. Deprec.	\$1600	
	Equipment		\$2200
	Gain on Disposal of Asset		\$ 150

**2a. SALE FOR CASH AT LOSS**

Received \$900  
 At end of 3rd year  
 Depreciation 3 X \$400 = \$1200

<b>2b.</b>	\$ 900	Sale Price
	\$2200	Cost Price
	<u>\$1200</u>	Accum. Deprec.
	\$1000	Book Value
	\$(100)	Loss on Disposal

<b>2c.</b>	Cash	\$ 900	
	Accum. Deprec.	\$1200	
	Loss on Disposal of Asset	\$ 100	
	Equipment		\$2200

**3a. TRADE FOR LIKE EQUIPMENT AT A LOSS\***

Price of new equipment \$2600  
 Trade-in allowed on old equipment \$600  
 At June 30 of 4th year  
 Depreciation 3½ X \$400 = \$1400

<b>3b.</b>	Deprec. Expense	\$200	
	Accum. Deprec.	\$200	

<b>3c.</b>	\$2600	Cost New Equipment
	<u>\$ 600</u>	Trade In
	\$2000	Cash

<b>3d.</b>	\$ 600	Trade-in Allowance
	\$2200	Cost Old Equipment
	<u>\$1400</u>	Accum. Deprec.
	\$ 800	Book Value
	\$(200)	Loss on Disposal

<b>3e.</b>	Equipment (new)	\$2600	
	Accum. Deprec.	\$1400	
	Loss on Disposal of Asset	\$200	
	Equipment (old)		\$220
			0
	Cash		\$200
			0

**4a. TRADE FOR LIKE EQUIPMENT AT GAIN\***

Price of new equipment \$3500  
 Paid \$2600 Cash in addition to trade in  
 At March 31 of 5th year  
 Depreciation 4 1/4 X \$400 = \$1700

<b>4b.</b>	Deprec. Expense	\$100	
	Accum. Deprec.	\$100	

<b>4c.</b>	\$3500	Cost New Equipment
	<u>\$2600</u>	Cash
	\$ 900	Trade In

<b>4d.</b>	\$ 900	Trade In
	\$2200	Cost Old Equipment
	<u>\$1700</u>	Accum. Deprec.
	\$ 500	Book Value
	\$400	Gain on Disposal

<b>4e.</b>	Equipment (new)	\$3100	
	Accum. Deprec.	\$1700	
	Equipment (old)		\$2200
	Cash		\$2600

\*When trading for like equipment, General Accepted Accounting Principles (GAAP) dictates that the loss is recognized, but any gain is passed on to new equipment by reducing the cost of the new equipment. (However, for tax purposes, IRS will not recognize gain or loss on like trades--both must be passed on to the new equipment.)