FIXED ASSET DEPRECIATION & DISPOSAL MASTER GUIDE

Formulas, Accelerated Schedules, Trade-Ins & Gain/Loss on Sale Calculations • ***EverythingAboutAccounting.info***

Capitalized Asset Cost Rule: All reasonable and necessary expenditures to acquire an asset and prepare it for its intended operational use are capitalized into the asset account (not expensed). Includes purchase price, sales tax, shipping freight, transit insurance, site prep, installation, and trial testing.

1. The Four Primary Depreciation Methods Compared

Method	Formula	Expense Pattern	Best Suited For
Straight-Line (SL)	Annual Dep = (Cost – Salvage) ÷ Useful Life	Constant, identical expense each full year	Buildings, office furniture, assets that generate steady uniform utility
Double Declining Balance (DDB)	Annual Dep = Beg. Book Value × (2 ÷ Useful Life) **Ignore salvage initially; cap at salvage floor!*	Accelerated: highest in Year 1, decreasing each year	Vehicles, computer tech, machinery with high early obsolescence & repair curves
Units-of-Production (UOP)	Rate = (Cost – Salvage) ÷ Total Est. Units Expense = Rate × Units Produced in Period	Variable: matches direct wear and output activity	Manufacturing machinery (hours used), commercial delivery vans (miles driven)
Sum-of-the-Years'-Digits (SYD)	Dep = (Cost – Salvage) × [Remaining Life ÷ SYD] SYD = n(n+1) / 2	Accelerated: decreasing fractional multiplier	Alternative accelerated tax and financial reporting schedules

2. Asset Disposal, Sale & Trade-In Accounting

Book Value Formula: Book Value = Initial Capitalized Cost – Accumulated Depreciation to Date of Sale

Disposal Scenario	Calculation Rule	Standard Adjusting Journal Entry

Sale at a GAIN
(Cash Proceeds > Book Value)
	Gain on Sale = Proceeds – Book Value
	(Recognized as Credit in Non-Operating Income)
		Dr. Cash (Proceeds received)
		Dr. Accumulated Depreciation (Remove balance)
		  Cr. Equipment / Asset (Remove original cost)
		  Cr. Gain on Disposal of Asset (Credit = Gain)

Sale at a LOSS **(Cash Proceeds < Book Value)**	Loss on Sale = Book Value – Proceeds (Recognized as Debit in Non-Operating Expense)	**Dr. Cash** (Proceeds received) **Dr. Accumulated Depreciation** (Remove balance) **Dr. Loss on Disposal of Asset** (Debit = Loss) **Cr. Equipment / Asset** (Remove original cost)
Asset Scrapped / Retired ($0 Proceeds)	If fully depreciated: No gain or loss. If not fully depreciated: Loss = Remaining BV	**Dr. Accumulated Depreciation** **Dr. Loss on Asset Abandonment** (if BV > $0) **Cr. Equipment / Asset** (Original cost)

3. Step-by-Step Solved Disposal Example

Fact Pattern: Machine purchased for **$40,000**. Useful life 5 yrs, salvage $4,000. After 3 years, Accumulated Depreciation is **$21,600**.

- **Book Value at date of sale:** $40,000 – $21,600 = **$18,400**.
- **Case A: Sold for $22,000 cash:** $22,000 – $18,400 = **$3,600 Gain**. *(Dr Cash $22k, Dr Acc Dep $21.6k, Cr Machine $40k, Cr Gain $3.6k)*
- **Case B: Sold for $15,000 cash:** $15,000 – $18,400 = **$3,400 Loss**. *(Dr Cash $15k, Dr Acc Dep $21.6k, Dr Loss $3.4k, Cr Machine $40k)*