

29.1 Drills to practise using the Fixed Asset Disposal Account

For each example below, show:

1. the Fixed Asset Cost Account
2. the Provision for Depreciation Account
3. the Fixed Asset Disposal Account and an account for money or promises (M&P)
4. an extract from the P&L Account in the year of disposal

Business 1

A fixed asset in the accounts of a business at cost £18 000 less depreciation £8 000, is disposed of with disposal proceeds £7 000.

Response

Fixed Asset Cost			
b/f	18 000	to Fixed Asset Disposal Account	18 000

Provision for Depreciation			
to Fixed Asset Disposal Account	8 000	b/f	8 000

Fixed Asset Disposal			
Fixed Asset Cost	18 000	disposal value	7 000
		provision for depreciation	8 000
		to P&L	3 000
	<u>18 000</u>		<u>18 000</u>

Money and Promises			
payment received	7 000		

P&L			
loss on disposal	3 000		

Business 2

A fixed asset in the accounts of a business at cost £33 000 less provision for depreciation £29 000, is disposed of with disposal proceeds £5 000.

Response

Fixed Asset Cost			
b/f	33 000	to Fixed Asset Disposal Account	33 000

Provision for Depreciation			
to Fixed Asset Disposal Account	29 000	b/f	29 000

Fixed Asset Disposal			
Fixed Asset Cost	33 000	disposal value	5 000
		provision for depreciation	29 000
to P&L	1 000		
	<u>34 000</u>		<u>34 000</u>

Money and Promises			
		payment received	5 000

P&L	
	profit on disposal 1 000

Business 3

A fixed asset in the accounts of a business at cost £14 000 less accumulated depreciation £12 000, is scrapped with no value.

Response

Fixed Asset Cost			
b/f	14 000	to Fixed Asset Disposal Account	14 000

Provision for Depreciation			
to Fixed Asset Disposal Account	12 000	b/f	12 000

Fixed Asset Disposal			
Fixed Asset Cost	14 000	disposal value	nil
		provision for depreciation	12 000
		to P&L	2 000
	<u>14 000</u>		<u>14 000</u>

Money and Promises			
payment received	nil		

P&L	
loss on disposal	2 000

Note: the nil payment received would not normally be shown in the accounts.

Business 4

A fixed asset in the accounts of a business at cost £27 000 less provision for depreciation £17 000, is destroyed in an accident. The insurers of the business agree to pay a claim of £9 000.

Response

Fixed Asset Cost			
b/f	27 000	to Fixed Asset Disposal Account	27 000

Provision for Depreciation			
to Fixed Asset Disposal Account	17 000	b/f	17 000

Fixed Asset Disposal			
Fixed Asset Cost	27 000	disposal value	9 000
		provision for depreciation	17 000
		to P&L	1 000
	<u>27 000</u>		<u>27 000</u>

Insurance Company			
		promise received	9 000

P&L			
		loss on disposal	1 000

Business 5

A fixed asset in the accounts of a business at cost £70 000 less provision for depreciation £50 000, is stolen. The insurers of the business agree to pay a claim of £25 000.

Response

Fixed Asset Cost			
b/f	70 000	to Fixed Asset Disposal Account	70 000

Provision for Depreciation			
to Fixed Asset Disposal Account	50 000	b/f	50 000

Fixed Asset Disposal			
Fixed Asset Cost	70 000	disposal value	25 000
		provision for depreciation	50 000
to P&L	5 000		
	<u>75 000</u>		<u>75 000</u>

Insurance Company			
		promise received	25 000

P&L	
	profit on disposal 5 000