

Accounting Units 3 & 4

Chapter 15 Depreciation methods and disposal

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Chapter 15 Depreciation methods and disposal — 15A The reducing balance method

Theory

Depreciation is the allocation of the cost of a **non-current asset** over the periods that will benefit from its use. It is the accounting response to the fact that most non-current assets (vehicles, equipment, fixtures) have a **limited useful life**: the economic benefit locked up in the asset is consumed gradually, so a portion of the asset's cost is recognised as an **expense** in each period of that life. Recording depreciation applies the **accrual basis** assumption — the cost is matched to the revenue the asset helps to earn — and keeps the **carrying amount** of the asset in the Balance Sheet a **faithful representation** of the future economic benefit that remains.

The study design recognises **two methods** of allocating that cost. The **straight-line method** spreads the **depreciable cost** evenly, giving the **same** depreciation expense every year:

$$\text{Straight-line depreciation} = \frac{\text{cost} - \text{residual value}}{\text{useful life}}$$

This section develops the alternative — the **reducing (diminishing) balance method**.

The reducing balance method. Under reducing balance, a **fixed depreciation rate** (a percentage) is applied each year not to the cost, but to the **carrying amount at the start of the year**:

$$\text{Reducing-balance depreciation} = \text{depreciation rate} \times \text{carrying amount}$$

where the **carrying amount** (also called the *net book value*) is:

$$\text{carrying amount} = \text{cost} - \text{accumulated depreciation}$$

Because the carrying amount **falls** each year (accumulated depreciation grows), applying the same rate to a smaller and smaller base produces a depreciation expense that **decreases every year**. This is the defining feature of the method: a large charge in the first year, tapering to progressively smaller charges. Reducing balance therefore allocates **more** of the asset's cost to the **early** years of its life and **less** to the later years.

Two features distinguish reducing balance from straight-line and are commonly examined:

- **Residual value is *not* subtracted in the reducing-balance calculation.** The rate is applied to the full carrying amount. (Residual value still matters — it is the amount below which the asset should not be depreciated — but it does not enter the annual formula the way it does in straight-line.)
- **The carrying amount never reaches zero.** Each year the asset is written down by a *decreasing* amount — a fixed percentage of a shrinking base — so a fixed rate applied to the carrying amount can never reduce it to nil. Instead the **rate** is chosen so that the asset is written down to its **residual value** over its useful life: where the rate is set for that cost, residual and life, the closing carrying amount lands **exactly** on the residual value. Depreciation stops there — the asset is never depreciated below its residual value.

Building a reducing-balance schedule. A **depreciation schedule** sets out, year by year, the depreciation expense, the accumulated depreciation and the closing carrying amount. Each year:

1. **Depreciation** = rate × the carrying amount brought forward (the previous year's closing carrying amount, or the cost in the first year).
2. **Accumulated depreciation** = last year's accumulated depreciation + this year's depreciation.
3. **Carrying amount** = cost – accumulated depreciation (equivalently, last year's carrying amount – this year's depreciation).

Rounding convention (used throughout this section). Each year's depreciation is rounded **to the nearest dollar** — an amount of exactly half a dollar is rounded **up** — and that **rounded** figure is carried forward to work out the next year's carrying amount. Rounding the running figure (rather than the final answer only) keeps the schedule internally consistent.

Worked model. A business buys equipment for \$20 000 and depreciates it by the reducing balance method at **20% per annum**. The first three years are:

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			20 000
1	4 000	4 000	16 000
2	3 200	7 200	12 800
3	2 560	9 760	10 240

Year 1 depreciation is $20\% \times \$20\,000 = \$4\,000$, leaving a carrying amount of \$16 000. Year 2 applies the same 20% to the **new** carrying amount: $20\% \times \$16\,000 = \$3\,200$. Year 3 is $20\% \times \$12\,800 = \$2\,560$. The expense **shrinks each year** even though the rate is unchanged.

Comparing straight-line and reducing balance. For the **same** asset (same cost, residual and useful life) the two methods differ only in the **pattern** of the expense over time:

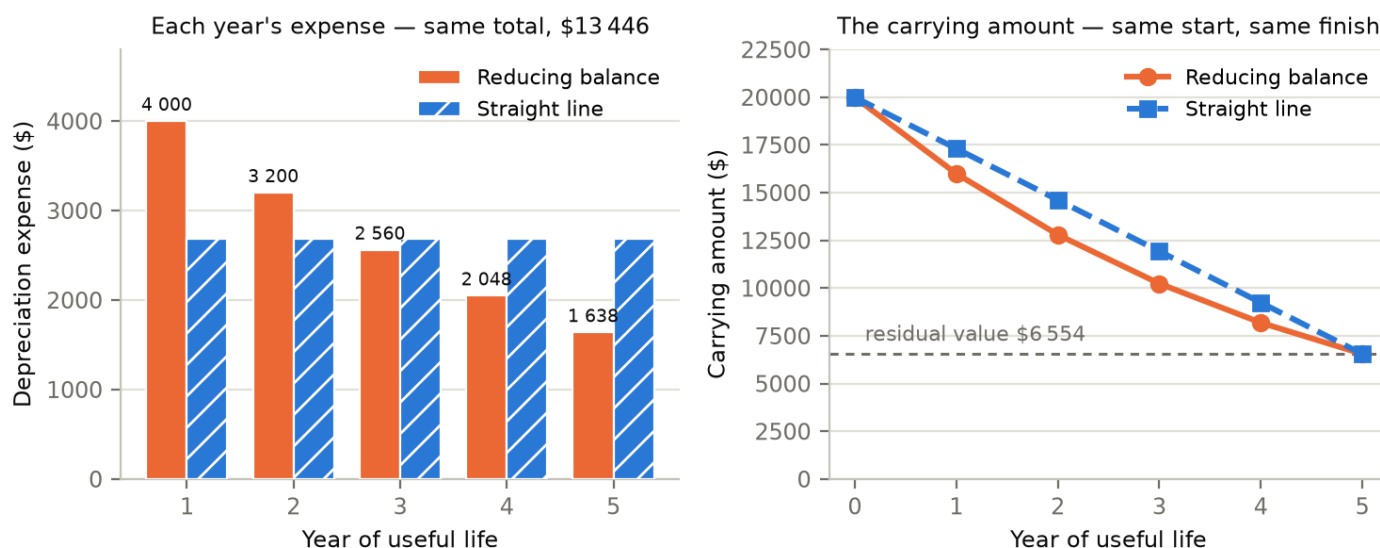
- **Straight-line** records an **equal** expense every year — a horizontal pattern.
- **Reducing balance** records a **high** expense early that **declines** each year — a front-loaded pattern.

Crucially, over the asset's **entire useful life** both methods allocate the **same total** — the **depreciable cost** (cost – residual value) — because the reducing-balance rate is set to write the asset down to that same residual value by the end of that life. Only the **timing** differs: reducing balance recognises more expense (and therefore *lower* profit) in the early years and less expense (higher profit) in the later years, while straight-line spreads it evenly. Total depreciation, total expense and the final carrying amount over the whole life are the **same**; the difference is entirely one of pattern.

Because the difference between the methods is a difference of *shape*, it is best seen drawn. The figure below applies both methods to the same asset: the residual value is the \$6 554 carrying amount the 20% reducing-balance schedule actually reaches at the end of year 5 under the rounding convention above, so the straight-line charge on that same asset is $(\$20\,000 - \$6\,554) \div 5 = \$2\,669.20$ a year.

Reducing balance against straight line

Equipment costing \$20 000, 20% reducing balance over 5 years — only the timing differs



The same asset under both methods — the annual expense, and the carrying amount

On the left, the reducing-balance charge starts high and shrinks every year while the straight-line charge never moves — yet the two sets of columns sum to the identical \$13 446 depreciable amount. On the right, both carrying amounts start at \$20 000 and finish on the same residual value; only the path between them differs. That is the claim of the paragraph above, drawn: **the destination is the same, and only the timing differs.**

Selecting and justifying a method. Because both methods reach the same destination, the choice between them is a question of which pattern gives the more **relevant, faithful** picture of how the asset is used. The guiding principle is to **match the depreciation pattern to the pattern of economic benefit** the asset provides:

- **Reducing balance** suits an asset that delivers **more benefit when new** and less as it ages, or that **loses value quickly**, or whose **repair and maintenance costs rise** as it gets older. Motor vehicles, computers and other technology are typical: they are most productive early and are prone to obsolescence. Front-loading the depreciation matches the heavier early benefit, and — as repair costs climb in later years — the *falling* depreciation charge helps keep the **total** cost of running the asset (depreciation + repairs) more even across its life.
- **Straight-line** suits an asset whose benefit is consumed **evenly** across its life — shop fittings, office furniture, buildings — where there is no reason to weight the expense towards any particular period.

A justification should therefore name the method, describe the asset's expected pattern of benefit (or loss of value), and explain how the chosen method **matches** that pattern, so that reported profit and the carrying amount **faithfully represent** the asset's use.

Assets bought part-way through a period. Depreciation is charged only for the portion of the year the asset is **owned**. When an asset is purchased part-way through a reporting period, the **first** year's depreciation is apportioned for the number of months held:

$$\text{first-year depreciation} = \text{rate} \times \text{cost} \times \frac{\text{months held}}{12}$$

From the **second** year onwards a full year's charge applies, using the rate on the carrying amount as usual.

Worked examples (scaffolded)

Example 1 — building a reducing-balance schedule (with rounding)

Ferngully Joinery buys a benchtop CNC machine on 1 July for \$17 000 (estimated residual value \$3 000). It depreciates the machine by the **reducing balance** method at **35% per annum**. Prepare a depreciation schedule for the first three years, rounding each year's depreciation to the nearest dollar.

Working	Comment
Year 1: $35\% \times \$17\,000 = \$5\,950$. Carrying amount = $\$17\,000 - \$5\,950 = \$11\,050$.	Year 1 applies the rate to the cost , because no depreciation has yet accumulated. Residual value is not deducted first.
Year 2: $35\% \times \$11\,050 = \$3\,867.50$, rounded to \$3 868 . Carrying amount = $\$11\,050 - \$3\,868 = \$7\,182$.	The rate is applied to the new carrying amount, so the charge is smaller. \$3 867.50 is exactly half a dollar, so it rounds up .
Year 3: $35\% \times \$7\,182 = \$2\,513.70$, rounded to \$2 514 . Carrying amount = $\$7\,182 - \$2\,514 = \$4\,668$.	Carry the <i>rounded</i> Year 2 figure forward, then round again. The expense keeps falling.

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			17 000
1	5 950	5 950	11 050
2	3 868	9 818	7 182
3	2 514	12 332	4 668

Example 2 — straight-line versus reducing balance for the same asset

Delacroix Digital installs a network of point-of-sale terminals costing \$32 000, with an estimated **residual value of \$2 000** and a **useful life of 4 years**. Compare the depreciation under (i) the straight-line method and (ii) the reducing balance method at **50% per annum**.

Working	Comment
Straight-line: $(\$32\,000 - \$2\,000) \div 4 = \$7\,500$ every year.	Straight-line spreads the depreciable cost (cost – residual = \$30 000) evenly — the same \$7 500 each

Working	Comment
	year.
Reducing balance, Year 1: $50\% \times \$32\,000 = \$16\,000$ → carrying amount \$16 000.	The rate is applied to the carrying amount; the first charge is far larger than straight-line's \$7 500.
Year 2: $50\% \times \$16\,000 = \$8\,000$ → \$8 000. Year 3: $50\% \times \$8\,000 = \$4\,000$ → \$4 000. Year 4: $50\% \times \$4\,000 = \$2\,000$ → \$2 000.	Each charge halves. By Year 4 the carrying amount has reached the residual value of \$2 000.
Total depreciation: SL $\$7\,500 \times 4 = \$30\,000$; RB $\$16\,000 + \$8\,000 + \$4\,000 + \$2\,000 = \$30\,000$.	Over the whole life the total is identical (\$30 000). Only the timing differs.

Year	SL depreciation \$	SL carrying amount \$	RB depreciation \$	RB carrying amount \$
At acquisition		32 000		32 000
1	7 500	24 500	16 000	16 000
2	7 500	17 000	8 000	8 000
3	7 500	9 500	4 000	4 000
4	7 500	2 000	2 000	2 000

Reducing balance loads the expense onto the **early** years (\$16 000 in Year 1 against straight-line's \$7 500), so it reports **lower** profit early and **higher** profit late; straight-line reports the same profit effect each year. Both write the asset down to the **same** \$2 000 carrying amount over the four years.

Worked examples (unscaffolded)

Example 3 — a reducing-balance asset bought part-way through the year

Brightwater Bakery buys a dough machine on **1 October** for \$24 000 and depreciates it by the reducing balance method at **25% per annum**. The business balances on **30 June**. Prepare a depreciation schedule for the first three reporting periods.

The machine is held for only **9 months** (1 October to 30 June) in the first period, so Year 1 depreciation is apportioned: $25\% \times \$24\,000 \times 9/12 = \$4\,500$, giving a carrying amount of \$19 500. From Year 2 a full year applies: $25\% \times \$19\,500 = \$4\,875$ (carrying amount \$14 625); Year 3 is $25\% \times \$14\,625 = \$3\,656.25$, rounded to \$3 656 (carrying amount \$10 969).

Year ended 30 June	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition (1 Oct)			24 000
1 (9 months)	4 500	4 500	19 500
2	4 875	9 375	14 625
3	3 656	13 031	10 969

∴ after three periods the machine's carrying amount is \$10 969.

Example 4 — selecting and justifying a method

Kirribilli Couriers is deciding how to depreciate a new delivery van costing \$28 000. The owner expects the van to be driven hardest in its first two years, to lose value quickly, and to need increasing repairs as it ages. Recommend a depreciation method, support the recommendation with a two-year schedule at a reducing-balance rate of **30% per annum**, and justify the choice.

Year 1 depreciation is $30\% \times \$28\,000 = \$8\,400$ (carrying amount \$19 600); Year 2 is $30\% \times \$19\,600 = \$5\,880$ (carrying amount \$13 720).

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			28 000
1	8 400	8 400	19 600
2	5 880	14 280	13 720

The **reducing balance** method is appropriate. The van provides its **greatest economic benefit when new** and loses value fastest early on, so charging more depreciation in the early years (\$8 400, then \$5 880) **matches the expense to the pattern of benefit** and gives a more **relevant** measure of profit. As repair costs **rise** in later years, the **falling** depreciation charge offsets them, keeping the total cost of running the van more even across its life. $\therefore$ reducing balance faithfully represents how this asset is used, so it is preferred to straight-line here.

Practice questions — scaffolded

Question 1

Rosehill Print depreciates a laminator costing \$12 000 by the reducing balance method at **20% per annum**.

- Prepare a depreciation schedule for the first three years.
- State the depreciation expense for Year 2.
- State the carrying amount at the end of Year 3.

Question 2

Alderway Cafe depreciates a commercial oven costing \$9 500 by the reducing balance method at **25% per annum**. Round each year's depreciation to the nearest dollar.

- Prepare a depreciation schedule for the first three years.
- State the depreciation expense for Year 2.
- State the carrying amount at the end of Year 3.

Question 3

Marlowe Fitness buys gym equipment for \$24 000 with an estimated residual value of \$1 500 and a useful life of 4 years. It is comparing the straight-line method with the reducing balance method at **50% per annum**.

- Prepare a reducing-balance depreciation schedule for the four years.
- State the annual depreciation expense under the straight-line method.
- State which method records the higher depreciation expense in Year 1, and by how much.

Question 4

Havenport Dental buys a sterilising unit on **1 April** for \$16 000 and depreciates it by the reducing balance method at **25% per annum**. The business balances on **30 June**.

- Prepare a depreciation schedule for the first three reporting periods.
- State the depreciation expense in the first period, and explain in one sentence why it is not a full year's charge.
- State the carrying amount at the end of the second period.

Question 5

Tanaris Legal depreciates a photocopier costing \$8 000 by the reducing balance method at **40% per annum**.

- Prepare a depreciation schedule for the first two years.
- Calculate the total depreciation expensed over the two years.
- Justify, in one or two sentences, why the reducing balance method may suit a photocopier.

Question 6

Oakmont Supplies depreciates a forklift costing \$10 000 by the reducing balance method at **20% per annum**.

- Calculate the depreciation expense for Year 1 and for Year 2.
- Explain why the Year 2 charge is lower than the Year 1 charge.
- State what happens to the carrying amount over the asset's life under the reducing balance method.

Practice questions — unscaffolded

Question 7

Belvoir Manufacturing depreciates a moulding machine costing \$21 000 by the reducing balance method at **30% per annum**. Prepare a depreciation schedule for the first three years and state the carrying amount at the end of Year 3.

Question 8

Corella Freight depreciates a trailer costing \$13 400 by the reducing balance method at **25% per annum**. Rounding each year's depreciation to the nearest dollar, prepare a depreciation schedule for the first three years and state the carrying amount at the end of Year 3.

Question 9

Sandpiper Logistics buys a delivery vehicle for \$40 000, with an estimated residual value of \$2 500 and a useful life of 4 years. It is choosing between the straight-line method and the reducing balance method at **50% per annum**. Prepare a depreciation schedule under **each** method, state the total depreciation over the four years under each, and state which method reports the higher profit in Year 1.

Question 10

Ravenswood Tours buys a minibus on **1 January** for \$30 000 and depreciates it by the reducing balance method at **20% per annum**. The business balances on **30 June**. Prepare a depreciation schedule for the first three reporting periods and state the carrying amount at the end of Year 3.

Question 11

Wexford Interiors owns two non-current assets: reception furniture, which the owner expects to provide an even benefit across a long life, and a fleet of laptops, which the owner expects to be most useful when new and to become obsolete quickly. Recommend a depreciation method for **each** asset and justify each recommendation with reference to the pattern of economic benefit.

Question 12

Ashgrove Cabinets depreciates a spray booth costing \$25 000 by the reducing balance method. After the first year the carrying amount is \$20 000.

- Calculate the reducing-balance depreciation rate.
- Calculate the depreciation expense for Year 2.
- State the carrying amount at the end of Year 2.

Question 13

Lindenrow Plumbing owns a machine costing \$20 000. Under the straight-line method (residual value \$4 000, useful life 4 years) the annual depreciation would be \$4 000; under the reducing balance method the rate is **30% per annum**. Prepare the reducing-balance figures for the four years, and explain, with reference to the two patterns, why reducing balance records a **higher** expense than straight-line in the early years and a **lower** expense in the later years — noting the effect on reported profit in the early years.

Question 14

Brookvale Textiles depreciates a cutting machine costing \$36 000 by the reducing balance method at **25% per annum**. State the depreciation expense reported in the Income Statement for Year 2, and the carrying amount reported in the Balance Sheet at the end of Year 2 (also state the accumulated depreciation at that date).

Question 15

Nightjar Media buys a camera rig on **1 December** for \$22 000 and depreciates it by the reducing balance method at **40% per annum**. The business balances on **30 June**. Rounding each year's depreciation to the nearest dollar, prepare a depreciation schedule for the first three reporting periods and state the carrying amount at the end of Year 3.

Question 16

Thornbury Engineering is deciding how to depreciate machinery costing \$50 000. Under the straight-line method (residual value \$10 000, useful life 5 years) the annual charge would be \$8 000; under the reducing balance method at **30% per annum** the Year 1 charge would be \$15 000. Model the effect on **Year 1 profit** of choosing reducing balance rather than straight-line, and discuss one implication for a user comparing the business's performance across the asset's life.

Question 17

Explain the difference between the straight-line and reducing balance methods in the way each treats (i) the residual value / depreciable amount in its annual calculation, and (ii) the pattern of the depreciation expense over the asset's life.

Question 18

Highcliffe Wines buys bottling equipment on **1 October** for \$45 000 and depreciates it by the reducing balance method at **30% per annum**. The business balances on **30 June**. Rounding each year's depreciation to the nearest dollar, prepare a depreciation schedule for the first three reporting periods and state the carrying amount at the end of Year 3.

Answers

1.
 - b. \$1 920 c. \$6 144
2.
 - b. \$1 781 c. \$4 008
3.
 - b. \$5 625 c. Reducing balance, by \$6 375 (\$12 000 vs \$5 625)
4.
 - b. \$1 000 (part-year) c. \$11 250
5.
 - b. \$5 120
6.
 - a. Year 1 \$2 000; Year 2 \$1 600
7. Depreciation \$6 300 / \$4 410 / \$3 087; carrying amount \$7 203
8. Depreciation \$3 350 / \$2 513 / \$1 884; carrying amount \$5 653
9. Total depreciation \$37 500 under each method; straight-line reports the higher Year 1 profit
10. Depreciation \$3 000 / \$5 400 / \$4 320; carrying amount \$17 280
11. Furniture → straight-line; laptops → reducing balance (see solutions)
12.
 - a. 20% b. \$4 000 c. \$16 000
13. Reducing balance \$6 000 / \$4 200 / \$2 940 / \$2 058 (see solutions)
14. Depreciation expense \$6 750; carrying amount \$20 250 (accumulated depreciation \$15 750)
15. Depreciation \$5 133 / \$6 747 / \$4 048; carrying amount \$6 072
16. Reducing balance lowers Year 1 profit by \$7 000 more than straight-line (\$15 000 vs \$8 000)
17. See solutions
18. Depreciation \$10 125 / \$10 463 / \$7 324; carrying amount \$17 088

Fully-worked solutions

Question 1

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			12 000
1	2 400	2 400	9 600
2	1 920	4 320	7 680
3	1 536	5 856	6 144

Year 1 = $20\% \times \$12\,000 = \$2\,400$; Year 2 = $20\% \times \$9\,600 = \$1\,920$; Year 3 = $20\% \times \$7\,680 = \$1\,536$.

b. Year 2 depreciation = **\$1 920**. c. Carrying amount at the end of Year 3 = **\$6 144**.

Question 2

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			9 500
1	2 375	2 375	7 125
2	1 781	4 156	5 344
3	1 336	5 492	4 008

Year 1 = $25\% \times \$9\,500 = \$2\,375$; Year 2 = $25\% \times \$7\,125 = \$1\,781.25 \rightarrow \$1\,781$; Year 3 = $25\% \times \$5\,344 = \$1\,336$.

- b. Year 2 depreciation = **\$1 781**. c. Carrying amount at the end of Year 3 = **\$4 008**.

Question 3

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			24 000
1	12 000	12 000	12 000
2	6 000	18 000	6 000
3	3 000	21 000	3 000
4	1 500	22 500	1 500

- a. Reducing balance: Year 1 = $50\% \times \$24\,000 = \$12\,000$; Year 2 = $50\% \times \$12\,000 = \$6\,000$; Year 3 = $50\% \times \$6\,000 = \$3\,000$; Year 4 = $50\% \times \$3\,000 = \$1\,500$.
- b. Straight-line = $(\$24\,000 - \$1\,500) \div 4 = \mathbf{\$5\,625}$ per year.
- c. In Year 1 reducing balance records \$12 000 against straight-line's \$5 625, so **reducing balance** is higher — by **\$6 375**.

Question 4

Year ended 30 June	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition (1 Apr)			16 000
1 (3 months)	1 000	1 000	15 000
2	3 750	4 750	11 250
3	2 813	7 563	8 437

- a. Period 1 (3 months, 1 April – 30 June) = $25\% \times \$16\,000 \times 3/12 = \$1\,000$; Period 2 = $25\% \times \$15\,000 = \$3\,750$; Period 3 = $25\% \times \$11\,250 = \$2\,812.50 \rightarrow \$2\,813$.
- b. The first-period charge is **\$1 000** — the asset was owned for only **3 of the 12 months**, so depreciation is charged for that fraction of the year only.
- c. Carrying amount at the end of the second period = **\$11 250**.

Question 5

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			8 000
1	3 200	3 200	4 800
2	1 920	5 120	2 880

- a. Year 1 = $40\% \times \$8\,000 = \$3\,200$; Year 2 = $40\% \times \$4\,800 = \$1\,920$.
- b. Total depreciation over two years = $\$3\,200 + \$1\,920 = \mathbf{\$5\,120}$.
- c. A photocopier is used most heavily and gives its greatest benefit when new, and technology of this kind dates quickly; the reducing balance method loads more depreciation onto the early years, matching that pattern of economic benefit and giving a more relevant measure of profit.

Question 6

- a. Year 1 = $20\% \times \$10\,000 = \mathbf{\$2\,000}$ (carrying amount \$8 000); Year 2 = $20\% \times \$8\,000 = \mathbf{\$1\,600}$.
- b. The rate (20%) is applied to the **carrying amount**, not the cost. After Year 1 the carrying amount has fallen from \$10 000 to \$8 000, so the same rate applied to a **smaller base** produces a **smaller charge**.

- c. Under reducing balance the carrying amount **falls each year by a decreasing amount** — a fixed rate applied to a shrinking base — so it never falls to zero. It is written down **towards** the asset's **residual value**, and depreciation ceases once that value is reached; the asset is not depreciated below it.

Question 7

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			21 000
1	6 300	6 300	14 700
2	4 410	10 710	10 290
3	3 087	13 797	7 203

Year 1 = $30\% \times \$21\,000 = \$6\,300$; Year 2 = $30\% \times \$14\,700 = \$4\,410$; Year 3 = $30\% \times \$10\,290 = \$3\,087$. Carrying amount at the end of Year 3 = **\$7 203**.

Question 8

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			13 400
1	3 350	3 350	10 050
2	2 513	5 863	7 537
3	1 884	7 747	5 653

Year 1 = $25\% \times \$13\,400 = \$3\,350$; Year 2 = $25\% \times \$10\,050 = \$2\,512.50 \rightarrow \$2\,513$; Year 3 = $25\% \times \$7\,537 = \$1\,884.25 \rightarrow \$1\,884$. Carrying amount at the end of Year 3 = **\$5 653**.

Question 9

Reducing balance (50% per annum):

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			40 000
1	20 000	20 000	20 000
2	10 000	30 000	10 000
3	5 000	35 000	5 000
4	2 500	37 500	2 500

Straight-line ($(\$40\,000 - \$2\,500) \div 4 = \$9\,375$ per year):

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			40 000
1	9 375	9 375	30 625
2	9 375	18 750	21 250
3	9 375	28 125	11 875
4	9 375	37 500	2 500

Total depreciation over the four years is **\$37 500** under **each** method (both write the asset down from \$40 000 to the \$2 500 residual value). In Year 1 straight-line's expense (\$9 375) is lower than reducing balance's (\$20 000), so **straight-line** reports the **higher profit** in Year 1.

Question 10

Year ended 30 June	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition (1 Jan)			30 000
1 (6 months)	3 000	3 000	27 000
2	5 400	8 400	21 600
3	4 320	12 720	17 280

Period 1 (6 months, 1 January – 30 June) = $20\% \times \$30\,000 \times 6/12 = \$3\,000$; Period 2 = $20\% \times \$27\,000 = \$5\,400$; Period 3 = $20\% \times \$21\,600 = \$4\,320$. Carrying amount at the end of Year 3 = **\$17 280**.

Question 11

The **reception furniture** should be depreciated by the **straight-line** method. Its economic benefit is expected to be consumed **evenly** over a long life, so an equal annual charge matches the pattern of benefit and faithfully represents its steady use; there is no reason to weight the expense towards any period.

The **laptops** should be depreciated by the **reducing balance** method. They provide the **most benefit when new** and become **obsolete quickly**, losing value fastest in their early years. A front-loaded charge matches that pattern of economic benefit and keeps the reported profit and carrying amount a more **relevant, faithful representation** of how the laptops are actually used.

Question 12

- Year 1 depreciation = $\$25\,000 - \$20\,000 = \$5\,000$. Rate = $\$5\,000 \div \$25\,000 = \mathbf{20\% \text{ per annum}}$.
- Year 2 depreciation = $20\% \times \$20\,000 = \mathbf{\$4\,000}$.
- Carrying amount at the end of Year 2 = $\$20\,000 - \$4\,000 = \mathbf{\$16\,000}$.

Question 13

Year ended	RB depreciation \$	RB carrying amount \$	SL depreciation \$
At acquisition		20 000	
1	6 000	14 000	4 000
2	4 200	9 800	4 000
3	2 940	6 860	4 000
4	2 058	4 802	4 000

Reducing balance: Year 1 = $30\% \times \$20\,000 = \$6\,000$; Year 2 = $30\% \times \$14\,000 = \$4\,200$; Year 3 = $30\% \times \$9\,800 = \$2\,940$; Year 4 = $30\% \times \$6\,860 = \$2\,058$.

Reducing balance applies a fixed rate to a **falling** carrying amount, so it is **front-loaded** — a high charge that declines each year. Straight-line spreads the depreciable cost **evenly** at \$4 000 a year. In the **early** years the reducing-balance charge sits **above** the straight-line line (\$6 000 and \$4 200 against \$4 000), so reducing balance records **more** expense and therefore **lower** profit early on. As the carrying amount shrinks, the reducing-balance charge falls **below** \$4 000 (\$2 940 and \$2 058 in Years 3 and 4), so it records **less** expense and **higher** profit in the later years. Over the whole life the two methods expense the same total; only the timing of profit differs.

Question 14

Year ended	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition			36 000
1	9 000	9 000	27 000
2	6 750	15 750	20 250

Year 1 = $25\% \times \$36\,000 = \$9\,000$; Year 2 = $25\% \times \$27\,000 = \$6\,750$. The **Income Statement** for Year 2 reports a **Depreciation expense of \$6 750**. The **Balance Sheet** at the end of Year 2 reports the machine at its **carrying amount of \$20 250** — that is, cost \$36 000 less **accumulated depreciation of \$15 750**.

Question 15

Year ended 30 June	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition (1 Dec)			22 000
1 (7 months)	5 133	5 133	16 867
2	6 747	11 880	10 120
3	4 048	15 928	6 072

Period 1 (7 months, 1 December – 30 June) = $40\% \times \$22\,000 \times 7/12 = \$5\,133.33 \rightarrow \$5\,133$; Period 2 = $40\% \times \$16\,867 = \$6\,746.80 \rightarrow \$6\,747$; Period 3 = $40\% \times \$10\,120 = \$4\,048$. Carrying amount at the end of Year 3 = **\$6 072**.

Question 16

Under straight-line the Year 1 depreciation is \$8 000; under reducing balance it is \$15 000 — **\$7 000 more**. Because depreciation is an expense, choosing reducing balance would **reduce Year 1 net profit by \$7 000** relative to straight-line.

One implication for a user comparing performance across the asset's life is that reducing balance **front-loads** the expense: it depresses profit in the early years and lifts it in the later years, even though the underlying operations may be unchanged. A user must therefore recognise that a lower early profit under reducing balance reflects the **depreciation method**, not necessarily weaker trading — and, for the results to be **comparable** over time, the chosen method must be applied **consistently** from period to period.

Question 17

- (i) **Residual value / depreciable amount.** Straight-line depreciates the **depreciable cost** — cost less residual value — spreading that amount over the useful life; the residual value is deducted **before** the annual charge is calculated. Reducing balance applies its rate to the **carrying amount** and does **not** deduct the residual value in the annual calculation; the residual value instead acts as the floor to which the falling carrying amount is written down — the asset is never depreciated below it.
- (ii) **Pattern over the life.** Straight-line produces an **equal** expense every year — a constant pattern. Reducing balance produces a **high** expense that **declines** each year — a front-loaded pattern. Over the full useful life both allocate the same total depreciation; the methods differ only in the **timing** of the expense, and therefore of profit.

Question 18

Year ended 30 June	Depreciation expense \$	Accumulated depreciation \$	Carrying amount \$
At acquisition (1 Oct)			45 000
1 (9 months)	10 125	10 125	34 875
2	10 463	20 588	24 412
3	7 324	27 912	17 088

Period 1 (9 months, 1 October – 30 June) = $30\% \times \$45\,000 \times 9/12 = \$10\,125$; Period 2 = $30\% \times \$34\,875 = \$10\,462.50 \rightarrow \$10\,463$; Period 3 = $30\% \times \$24\,412 = \$7\,323.60 \rightarrow \$7\,324$. Carrying amount at the end of Year 3 = **\$17 088**.

Chapter 15 Depreciation methods and disposal — 15B Disposal of a non-current asset

Theory

Every non-current asset eventually reaches the end of its **useful life to the business** — it wears out, becomes obsolete, or is simply no longer needed — and is **disposed of**. This section deals with a **disposal for cash**: the business sells the asset outright and receives money for it. Recording a disposal is more than deleting the asset from the records, because the asset carries **two** related balances that must both be removed: the asset's **cost** (a debit balance in the asset account) and its **Accumulated Depreciation** (a credit balance in the contra-asset account). Bringing the two together with the **proceeds** of the sale reveals whether the business made a **profit or a loss on disposal**.

The Disposal account. To keep the entries organised, a temporary account — **Disposal of [asset]** — is opened. Every figure relevant to the sale is transferred into it, and once the transfers are complete its balance *is* the profit or loss on disposal. Recording a cash disposal follows five steps.

1. **Transfer the asset's cost to Disposal.** The asset account is closed by crediting it for its full cost; Disposal is debited. **Dr Disposal of [asset]; Cr [asset].**
2. **Transfer the accumulated depreciation to Disposal.** The contra-asset account is closed by debiting it for its whole balance; Disposal is credited. **Dr Accumulated Depreciation – [asset]; Cr Disposal of [asset].** After steps 1 and 2 the Disposal account holds the asset's **carrying amount** (cost on the debit side, accumulated depreciation on the credit side).
3. **Depreciate to the date of disposal, if needed.** Depreciation is only ever recorded up to the last **balance day**. If the asset is sold **part-way through a reporting period**, the depreciation for the part-year from the last balance day to the disposal date must be recorded **first (Dr Depreciation – [asset]; Cr Accumulated Depreciation – [asset])** so that the accumulated depreciation transferred in step 2 is complete and up to date.
4. **Record the cash proceeds — with GST.** The cash sale of a non-current asset is a **taxable supply**, so the business charges **10% GST** on the sale price and owes it to the ATO. The buyer pays the **GST-inclusive** amount into the bank. **Dr Bank** (the GST-inclusive cash received); **Cr Disposal of [asset]** (the GST-exclusive proceeds); **Cr GST Clearing** (the GST — exactly **1/11 of the GST-inclusive proceeds**). Only the GST-exclusive proceeds reach the Disposal account; the GST is a liability to the ATO, not part of the profit or loss.
5. **The balance of the Disposal account = the profit or loss on disposal.** After steps 1, 2 and 4 the two sides rarely match. A **credit balance** (the credit entries exceed the debits) is a **profit on disposal**; a **debit balance** is a **loss on disposal**. The balance is transferred out to close the account: **profit** → **Dr Disposal of [asset]; Cr Profit on Disposal of [asset]** (a revenue). **Loss** → **Dr Loss on Disposal of [asset]** (an expense); **Cr Disposal of [asset]**.

Assessing the profit or loss. The profit or loss on disposal is simply the difference between what the business **received** and what the asset was **worth in the records**:

$$\text{profit (loss) on disposal} = \text{proceeds (excl. GST)} - \text{carrying amount}$$

where **carrying amount** = **cost – accumulated depreciation** at the date of disposal. If the proceeds **exceed** the carrying amount there is a **profit**; if the proceeds are **below** it there is a **loss**.

What a profit or loss really means. Depreciation is an **estimate** — the allocation of an asset's cost over its **estimated useful life**, down to an **estimated residual value**. The profit or loss on disposal is therefore **not** a trading profit; it is a **correction of that estimate**:

- A **profit on disposal** means the asset was sold for **more** than its carrying amount, so **too much depreciation had been charged** in earlier periods — the asset was **over-depreciated**. The estimated useful life was too short and/or the estimated residual value too low.
- A **loss on disposal** means the asset was sold for **less** than its carrying amount, so **too little depreciation had been charged** — the asset was **under-depreciated** (estimated useful life too long and/or residual value too high).

Neither outcome means an error was made when the estimate was set; estimates are made in good faith with the information available, and disposal is simply where the estimate is finally reconciled with reality.

Worked model. On 30 June 2026 Riverton Couriers sold a delivery van for **\$8 800 cash (including GST)**. The van had cost **\$40 000** and its Accumulated Depreciation at the date of disposal was **\$34 000** (all depreciation to that date had been recorded), so its carrying amount was $\$40\,000 - \$34\,000 = \$6\,000$. The GST on the proceeds is $1/11 \times \$8\,800 = \800 , leaving GST-exclusive proceeds of **\$8 000**.

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Delivery Van	40 000	
	Delivery Van		40 000
	<i>Cost of the delivery van transferred to Disposal (Memo 61)</i>		
Jun 30	Accumulated Depreciation – Delivery Van	34 000	
	Disposal of Delivery Van		34 000
	<i>Accumulated depreciation transferred to Disposal (Memo 61)</i>		
Jun 30	Bank	8 800	
	Disposal of Delivery Van		8 000
	GST Clearing		800
	<i>Proceeds on the cash sale of the delivery van (Rec. 204)</i>		
Jun 30	Disposal of Delivery Van	2 000	
	Profit on Disposal of Delivery Van		2 000
	<i>Profit on disposal transferred</i>		

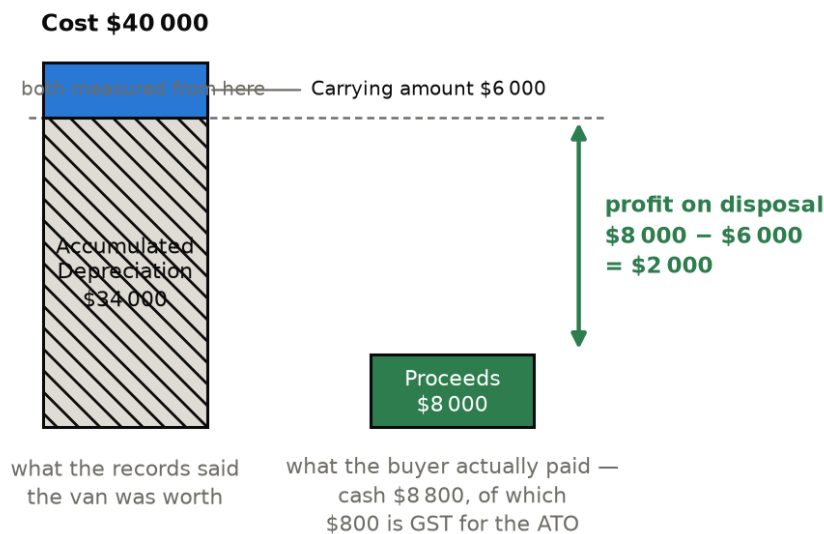
Disposal of Delivery Van

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Jun 30	Delivery Van	40 000	Jun 30	Accumulated Depreciation – Delivery Van	34 000
Jun 30	Profit on Disposal of Delivery Van	2 000	Jun 30	Bank	8 000
		42 000			42 000

Proceeds of \$8 000 exceed the \$6 000 carrying amount, so the van was sold at a **profit of \$2 000** — a signal that it had been **over-depreciated**.

Disposal of a non-current asset

Riverton Couriers — delivery van sold 30 June 2026



Proceeds of \$8 000 exceed the \$6 000 carrying amount, so the van sold at a profit — a signal it had been over-depreciated. The \$800 GST goes to GST Clearing, never to the Disposal account.

Riverton Couriers' delivery van — carrying amount against proceeds, and the profit between them

Both quantities are measured from the same line, so the profit is simply the distance between them: the \$8 000 of proceeds stands \$2 000 above the \$6 000 the records said the van was still worth. Seen this way, a profit on disposal is a statement about the **accumulated depreciation block being too tall** — the asset was written down faster than it actually lost value.

Worked examples (scaffolded)

Example 1 — a cash disposal at a profit

On 30 June 2026 Kingsley Landscaping sold a ride-on mower for \$4 950 cash (including GST). The mower had cost \$16 000 and its Accumulated Depreciation at the date of disposal was \$13 000 (all depreciation to that date had been recorded).

Working	Comment
Carrying amount = \$16 000 – \$13 000 = \$3 000 .	Cost less accumulated depreciation — the value of the mower still in the records.
GST = $1/11 \times \$4\,950 = \450 ; proceeds (excl. GST) = \$4 950 – \$450 = \$4 500 .	The cash sale is a taxable supply; the GST is credited to GST Clearing, not to Disposal.
Profit (loss) = \$4 500 – \$3 000 = profit \$1 500 .	Proceeds exceed the carrying amount, so there is a profit on disposal.
Disposal: Dr cost \$16 000; Cr accum. dep \$13 000 + proceeds \$4 500 = \$17 500.	The \$1 500 credit balance is the profit, transferred to Profit on Disposal.

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Ride-on Mower	16 000	
	Ride-on Mower		16 000
	<i>Cost of the mower transferred to Disposal</i>		

Date 2026	Details	Debit \$	Credit \$
	<i>(Memo 22)</i>		
Jun 30	Accumulated Depreciation – Ride-on Mower	13 000	
	Disposal of Ride-on Mower		13 000
	<i>Accumulated depreciation transferred to Disposal (Memo 22)</i>		
Jun 30	Bank	4 950	
	Disposal of Ride-on Mower		4 500
	GST Clearing		450
	<i>Proceeds on the cash sale of the mower (Rec. 118)</i>		
Jun 30	Disposal of Ride-on Mower	1 500	
	Profit on Disposal of Ride-on Mower		1 500
	<i>Profit on disposal transferred</i>		

Example 2 — a cash disposal at a loss

On 30 June 2026 Delta Print Studio sold a printing press for \$6 600 cash (including GST). The press had cost \$28 000 and its Accumulated Depreciation at the date of disposal was \$19 000.

Working	Comment
Carrying amount = \$28 000 – \$19 000 = \$9 000 .	The value of the press still carried in the records.
GST = $1/11 \times \$6\,600 = \600 ; proceeds (excl. GST) = \$6 000 .	GST Clearing is credited \$600; only the \$6 000 reaches Disposal.
Profit (loss) = \$6 000 – \$9 000 = loss \$3 000 .	Proceeds are below the carrying amount, so there is a loss on disposal.
Disposal: Dr cost \$28 000; Cr accum. dep \$19 000 + proceeds \$6 000 = \$25 000.	The \$3 000 debit balance is the loss, transferred to Loss on Disposal.

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Printing Press	28 000	
	Printing Press		28 000
	<i>Cost of the printing press transferred to Disposal (Memo 30)</i>		
Jun 30	Accumulated Depreciation – Printing Press	19 000	
	Disposal of Printing Press		19 000
	<i>Accumulated depreciation transferred to Disposal (Memo 30)</i>		
Jun 30	Bank	6 600	

Date 2026	Details	Debit \$	Credit \$
	Disposal of Printing Press		6 000
	GST Clearing		600
	<i>Proceeds on the cash sale of the press (Rec. 145)</i>		
Jun 30	Loss on Disposal of Printing Press	3 000	
	Disposal of Printing Press		3 000
	<i>Loss on disposal transferred</i>		

Disposal of Printing Press

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Jun 30	Printing Press	28 000	Jun 30	Accumulated Depreciation – Printing Press	19 000
			Jun 30	Bank	6 000
			Jun 30	Loss on Disposal of Printing Press	3 000
		28 000			28 000

Worked examples (unscaffolded)

Example 3 — depreciating to the date of disposal, then a profit

Harbourview Cafe depreciates its coffee machine by the straight-line method: cost \$26 000, estimated residual value \$2 000, useful life 6 years, giving annual depreciation of $(\$26\,000 - \$2\,000) \div 6 = \$4\,000$. Accumulated depreciation at the last balance day, 30 June 2025, was \$12 000 (three years). On 30 September 2025 the machine was sold for \$16 500 cash (including GST).

Because the sale falls three months after balance day, depreciation for those three months is recorded first: $\$4\,000 \times 3/12 = \$1\,000$, lifting accumulated depreciation to $\$12\,000 + \$1\,000 = \$13\,000$ and reducing the carrying amount to $\$26\,000 - \$13\,000 = \$13\,000$. GST on the proceeds is $1/11 \times \$16\,500 = \$1\,500$, so the GST-exclusive proceeds are \$15 000. Proceeds \$15 000 – carrying amount \$13 000 = a **profit of \$2 000**.

Date 2025	Details	Debit \$	Credit \$
Sep 30	Depreciation – Coffee Machine	1 000	
	Accumulated Depreciation – Coffee Machine		1 000
	<i>Depreciation of the coffee machine to the date of disposal (Memo 8)</i>		
Sep 30	Disposal of Coffee Machine	26 000	
	Coffee Machine		26 000
	<i>Cost transferred to Disposal (Memo 8)</i>		

Date 2025	Details	Debit \$	Credit \$
Sep 30	Accumulated Depreciation – Coffee Machine	13 000	
	Disposal of Coffee Machine		13 000
	<i>Accumulated depreciation transferred to Disposal (Memo 8)</i>		
Sep 30	Bank	16 500	
	Disposal of Coffee Machine		15 000
	GST Clearing		1 500
	<i>Proceeds on the cash sale of the machine (Rec. 77)</i>		
Sep 30	Disposal of Coffee Machine	2 000	
	Profit on Disposal of Coffee Machine		2 000
	<i>Profit on disposal transferred</i>		

∴ the coffee machine was sold at a **profit of \$2 000**; it had been over-depreciated.

Example 4 — depreciating to the date of disposal, then a loss

Ridgeway Fitness depreciates its gym equipment by the straight-line method: cost \$18 000, estimated residual value \$3 000, useful life 5 years, giving annual depreciation of $(\$18\,000 - \$3\,000) \div 5 = \$3\,000$. Accumulated depreciation at 30 June 2025 was \$12 000 (four years). On 31 December 2025 the equipment was sold for \$3 300 cash (including GST).

Depreciation for the six months to disposal = $\$3\,000 \times 6/12 = \$1\,500$, so accumulated depreciation becomes $\$12\,000 + \$1\,500 = \$13\,500$ and the carrying amount is $\$18\,000 - \$13\,500 = \$4\,500$. GST on the proceeds = $1/11 \times \$3\,300 = \300 , so the GST-exclusive proceeds are \$3 000. Proceeds \$3 000 – carrying amount \$4 500 = a **loss of \$1 500**.

Date 2025	Details	Debit \$	Credit \$
Dec 31	Depreciation – Gym Equipment	1 500	
	Accumulated Depreciation – Gym Equipment		1 500
	<i>Depreciation of the gym equipment to the date of disposal (Memo 19)</i>		
Dec 31	Disposal of Gym Equipment	18 000	
	Gym Equipment		18 000
	<i>Cost transferred to Disposal (Memo 19)</i>		
Dec 31	Accumulated Depreciation – Gym Equipment	13 500	
	Disposal of Gym Equipment		13 500

Date 2025	Details	Debit \$	Credit \$
	<i>Accumulated depreciation transferred to Disposal (Memo 19)</i>		
Dec 31	Bank	3 300	
	Disposal of Gym Equipment		3 000
	GST Clearing		300
	<i>Proceeds on the cash sale of the equipment (Rec. 51)</i>		
Dec 31	Loss on Disposal of Gym Equipment	1 500	
	Disposal of Gym Equipment		1 500
	<i>Loss on disposal transferred</i>		

Disposal of Gym Equipment

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Gym Equipment	18 000	Dec 31	Accumulated Depreciation – Gym Equipment	13 500
			Dec 31	Bank	3 000
			Dec 31	Loss on Disposal of Gym Equipment	1 500
		18 000			18 000

∴ the equipment was sold at a **loss of \$1 500**; it had been under-depreciated.

Practice questions — scaffolded

Question 1

On 30 June 2026 Coastal Signage sold a sign-writing machine for \$4 400 cash (including GST). The machine had cost \$20 000 and its Accumulated Depreciation at the date of disposal was \$17 000 (all depreciation to that date had been recorded, Memo 25; Rec. 90).

- Record the disposal in the General Journal (cost transfer, accumulated depreciation transfer, cash proceeds, and the profit or loss).
- State the carrying amount of the machine at the date of disposal.
- State the profit or loss on disposal and identify which it is.

Question 2

On 30 June 2026 Meadowbrook Dairy sold a milk tank for \$4 400 cash (including GST). The tank had cost \$22 000 and its Accumulated Depreciation at the date of disposal was \$15 000 (Memo 14; Rec. 61).

- Record the disposal in the General Journal (all entries).
- State the carrying amount of the tank at the date of disposal.

- c. State the profit or loss on disposal, and explain in one sentence what a loss on disposal indicates about the depreciation that had been charged.

Question 3

Fairwind Sailing depreciates its boat trailer by the straight-line method: cost \$15 000, no residual value, useful life 5 years. Accumulated depreciation at the last balance day, 30 June 2025, was \$6 000. On 31 December 2025 the trailer was sold for \$9 900 cash (including GST) (Memo 12; Rec. 40).

- a. Calculate the depreciation from 1 July 2025 to the date of disposal and record it in the General Journal.
- b. Prepare the Disposal of Boat Trailer ledger account, balanced.
- c. State the profit or loss on disposal.

Question 4

On 30 June 2026 Brightpath Tutoring sold a minibus for \$7 700 cash (including GST). The minibus had cost \$36 000 and its Accumulated Depreciation at the date of disposal was \$30 000 (Rec. 155).

- a. Record the receipt of the cash proceeds (the entry that includes GST) in the General Journal.
- b. State the amount of GST recorded and the account to which it is credited.
- c. Explain why GST is charged on the cash disposal of a non-current asset.

Question 5

On 30 June 2026 Cavendish Joinery sold a dust extractor for \$2 750 cash (including GST). The extractor had cost \$12 000 and its Accumulated Depreciation at the date of disposal was \$10 500.

- a. Prepare the Disposal of Dust Extractor ledger account, balanced.
- b. State the profit or loss on disposal.
- c. Explain what a profit on disposal indicates about the depreciation that had been charged on the extractor.

Question 6

On 30 June 2026 Southbank Physio sold an ultrasound machine for \$3 850 cash (including GST). The machine had cost \$14 000 and its Accumulated Depreciation at the date of disposal was \$8 000 (Memo 7; Rec. 33).

- a. Record the disposal in the General Journal (all entries).
- b. State the carrying amount and the profit or loss on disposal.
- c. Explain, with reference to the proceeds and the carrying amount, why this disposal produced a loss.

Practice questions — unscaffolded

Question 7

On 30 June 2026 Ironwood Furniture sold a delivery truck for \$9 900 cash (including GST). The truck had cost \$48 000 and its Accumulated Depreciation at the date of disposal was \$41 000 (Memo 40; Rec. 210). Record the disposal in the General Journal and state the profit or loss on disposal.

Question 8

On 30 June 2026 Lakeside Marina sold a forklift for \$7 150 cash (including GST). The forklift had cost \$26 000 and its Accumulated Depreciation at the date of disposal was \$17 000 (Memo 18; Rec. 88). Record the disposal in the General Journal, prepare the Disposal of Forklift ledger account, and state the profit or loss on disposal.

Question 9

Summit Roofing depreciates its ute by the straight-line method: cost \$34 000, estimated residual value \$4 000, useful life 5 years. Accumulated depreciation at 30 June 2025 was \$18 000. On 30 September 2025 the ute was sold for \$17

600 cash (including GST) (Memo 9; Rec. 120). Record the depreciation to the date of disposal and the disposal in the General Journal, and state the profit or loss on disposal.

Question 10

Verdant Nursery depreciates its tractor by the straight-line method: cost \$40 000, estimated residual value \$5 000, useful life 7 years. Accumulated depreciation at 30 June 2025 was \$20 000. On 31 December 2025 the tractor was sold for \$16 500 cash (including GST) (Memo 21; Rec. 76). Prepare the Accumulated Depreciation – Tractor ledger account (showing the depreciation to the date of disposal and the transfer to Disposal) and the Disposal of Tractor ledger account, and state the profit or loss on disposal.

Question 11

On 30 June 2026 Clifftop Bakery sold a deck oven for \$3 850 cash (including GST). The oven had cost \$21 000 and its Accumulated Depreciation at the date of disposal was \$18 500 (Memo 15; Rec. 64). Record the disposal in the General Journal and state the profit or loss on disposal.

Question 12

On 30 June 2026 Northgate Motors sold a vehicle hoist for \$3 300 cash (including GST). The hoist had cost \$18 000 and its Accumulated Depreciation at the date of disposal was \$14 000. Prepare the Disposal of Vehicle Hoist ledger account, balanced, and state the profit or loss on disposal.

Question 13

Explain why the cash disposal of a non-current asset is subject to GST, and state how the GST is recorded in the General Journal when the proceeds are received.

Question 14

Explain the relationship between the proceeds on disposal, the carrying amount and the profit or loss on disposal. Illustrate your answer using an asset with a carrying amount of \$4 000 that is sold for \$5 000 (plus GST) cash.

Question 15

Kingsford Catering sold a delivery van (cost \$32 000) for cash proceeds of \$7 000 (plus GST) and recorded a profit on disposal of \$1 000. Using the Disposal account, calculate the carrying amount of the van at the date of disposal and the accumulated depreciation on the van at that date. (You are not required to prepare the ledger.)

Question 16

Everton Winery depreciates its bottling machine by the straight-line method: cost \$44 000, estimated residual value \$2 000, useful life 7 years. Accumulated depreciation at 30 June 2025 was \$30 000. On 31 March 2026 the machine was sold for \$12 100 cash (including GST) (Memo 31; Rec. 205). Record the depreciation to the date of disposal and the disposal in the General Journal, prepare the Disposal of Bottling Machine ledger account, and state the profit or loss on disposal.

Question 17

A business reports a profit on the disposal of an item of equipment. Explain what this profit indicates about the depreciation previously charged on the equipment, referring to the estimates on which depreciation was based. State whether the profit on disposal is a trading profit.

Question 18

Brookvale Engineering depreciates its lathe by the straight-line method: cost \$38 000, estimated residual value \$2 000, useful life 6 years. Accumulated depreciation at 30 June 2025 was \$24 000. On 31 December 2025 the lathe was sold for \$9 900 cash (including GST) (Memo 27; Rec. 141). Record the depreciation to the date of disposal and the disposal in the General Journal; prepare the Accumulated Depreciation – Lathe and Disposal of Lathe ledger accounts; and state the carrying amount, the profit or loss on disposal, and whether the lathe had been over- or under-depreciated.

Answers

1.
 - b. Carrying amount \$3 000 c. Profit on disposal \$1 000
2.
 - b. Carrying amount \$7 000 c. Loss on disposal \$3 000 (under-depreciated)
3.
 - a. Depreciation \$1 500 c. Profit on disposal \$1 500 (carrying amount \$7 500)
4.
 - b. GST \$700 (credited to GST Clearing) c. See solutions
5.
 - b. Profit on disposal \$1 000 (carrying amount \$1 500) c. See solutions
6.
 - b. Carrying amount \$6 000; loss on disposal \$2 500 c. See solutions
7. Profit on disposal \$2 000 (carrying amount \$7 000)
8. Loss on disposal \$2 500 (carrying amount \$9 000)
9. Depreciation to date \$1 500; profit on disposal \$1 500 (carrying amount \$14 500)
10. Accumulated depreciation at disposal \$22 500; loss on disposal \$2 500 (carrying amount \$17 500)
11. Profit on disposal \$1 000 (carrying amount \$2 500)
12. Loss on disposal \$1 000 (carrying amount \$4 000)
13. See solutions
14. Profit on disposal \$1 000 (see solutions)
15. Carrying amount \$6 000; accumulated depreciation \$26 000
16. Depreciation to date \$4 500; profit on disposal \$1 500 (carrying amount \$9 500)
17. See solutions
18. Carrying amount \$11 000; loss on disposal \$2 000 (under-depreciated)

Fully-worked solutions

Question 1

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Sign-writing Machine	20 000	
	Sign-writing Machine		20 000
	<i>Cost transferred to Disposal (Memo 25)</i>		
Jun 30	Accumulated Depreciation – Sign-writing Machine	17 000	
	Disposal of Sign-writing Machine		17 000
	<i>Accumulated depreciation transferred to Disposal (Memo 25)</i>		
Jun 30	Bank	4 400	
	Disposal of Sign-writing Machine		4 000
	GST Clearing		400
	<i>Proceeds on the cash sale of the machine (Rec. 90)</i>		
Jun 30	Disposal of Sign-writing	1 000	

Date 2026	Details	Debit \$	Credit \$
	Machine		
	Profit on Disposal of Sign-writing Machine		1 000
	<i>Profit on disposal transferred</i>		

b. Carrying amount = \$20 000 – \$17 000 = **\$3 000**.

c. $\text{GST} = 1/11 \times \$4\,400 = \$400$, so proceeds (excl. GST) = \$4 000. Profit (loss) = \$4 000 – \$3 000 = **profit on disposal of \$1 000**.

Question 2

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Milk Tank	22 000	
	Milk Tank		22 000
	<i>Cost transferred to Disposal (Memo 14)</i>		
Jun 30	Accumulated Depreciation – Milk Tank	15 000	
	Disposal of Milk Tank		15 000
	<i>Accumulated depreciation transferred to Disposal (Memo 14)</i>		
Jun 30	Bank	4 400	
	Disposal of Milk Tank		4 000
	GST Clearing		400
	<i>Proceeds on the cash sale of the tank (Rec. 61)</i>		
Jun 30	Loss on Disposal of Milk Tank	3 000	
	Disposal of Milk Tank		3 000
	<i>Loss on disposal transferred</i>		

b. Carrying amount = \$22 000 – \$15 000 = **\$7 000**.

c. Proceeds (excl. GST) = \$4 000, so profit (loss) = \$4 000 – \$7 000 = **loss on disposal of \$3 000**. A loss on disposal indicates the tank was sold for less than its carrying amount, so **too little depreciation had been charged** — the tank had been under-depreciated.

Question 3

a. Depreciation = $(\$15\,000 - \$0) \div 5 \times 6/12 = \$3\,000 \times 6/12 = \mathbf{\$1\,500}$.

Date 2025	Details	Debit \$	Credit \$
Dec 31	Depreciation – Boat Trailer	1 500	
	Accumulated Depreciation – Boat Trailer		1 500
	<i>Depreciation of the boat trailer to the date of disposal (Memo 12)</i>		

- b. Accumulated depreciation at disposal = \$6 000 + \$1 500 = \$7 500; carrying amount = \$15 000 – \$7 500 = \$7 500; proceeds (excl. GST) = \$9 900 – (1/11 × \$9 900) = \$9 900 – \$900 = \$9 000.

Disposal of Boat Trailer

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Boat Trailer	15 000	Dec 31	Accumulated Depreciation – Boat Trailer	7 500
Dec 31	Profit on Disposal of Boat Trailer	1 500	Dec 31	Bank	9 000
		16 500			16 500

- c. Profit (loss) = \$9 000 – \$7 500 = **profit on disposal of \$1 500.**

Question 4

Date 2026	Details	Debit \$	Credit \$
Jun 30	Bank	7 700	
	Disposal of Minibus		7 000
	GST Clearing		700
	<i>Proceeds on the cash sale of the minibus (Rec. 155)</i>		

- b. GST = $1/11 \times \$7\,700 = \700 , credited to **GST Clearing**.
- c. The cash sale of a non-current asset is a **taxable supply** made by a GST-registered business, so the business must **charge 10% GST** on the sale price and **collect it on behalf of the ATO**. The buyer pays the GST-inclusive amount, the GST portion is credited to GST Clearing (increasing the GST the business owes the ATO), and only the GST-exclusive proceeds are treated as the proceeds of the disposal.

Question 5

- a. Carrying amount = \$12 000 – \$10 500 = \$1 500; proceeds (excl. GST) = \$2 750 – (1/11 × \$2 750) = \$2 750 – \$250 = \$2 500.

Disposal of Dust Extractor

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Jun 30	Dust Extractor	12 000	Jun 30	Accumulated Depreciation – Dust Extractor	10 500
Jun 30	Profit on Disposal of Dust Extractor	1 000	Jun 30	Bank	2 500
		13 000			13 000

- b. Profit (loss) = \$2 500 – \$1 500 = **profit on disposal of \$1 000.**
- c. A profit on disposal indicates the extractor was sold for **more** than its carrying amount, so **too much depreciation had been charged** in earlier periods — the extractor had been **over-depreciated**. The estimated useful life was too short and/or the estimated residual value too low, so its carrying amount had been written down below the amount a buyer was willing to pay.

Question 6

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Ultrasound Machine	14 000	
	Ultrasound Machine		14 000
	<i>Cost transferred to Disposal (Memo 7)</i>		
Jun 30	Accumulated Depreciation – Ultrasound Machine	8 000	
	Disposal of Ultrasound Machine		8 000
	<i>Accumulated depreciation transferred to Disposal (Memo 7)</i>		
Jun 30	Bank	3 850	
	Disposal of Ultrasound Machine		3 500
	GST Clearing		350
	<i>Proceeds on the cash sale of the machine (Rec. 33)</i>		
Jun 30	Loss on Disposal of Ultrasound Machine	2 500	
	Disposal of Ultrasound Machine		2 500
	<i>Loss on disposal transferred</i>		

- b. Carrying amount = \$14 000 – \$8 000 = **\$6 000**; proceeds (excl. GST) = \$3 500, so profit (loss) = \$3 500 – \$6 000 = **loss on disposal of \$2 500**.
- c. The proceeds of \$3 500 are **below** the carrying amount of \$6 000, so the business recovered \$2 500 less than the value still recorded for the machine. Because a disposal is measured as proceeds less carrying amount, proceeds below the carrying amount produce a **loss on disposal**.

Question 7

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Delivery Truck	48 000	
	Delivery Truck		48 000
	<i>Cost transferred to Disposal (Memo 40)</i>		

Date 2026	Details	Debit \$	Credit \$
Jun 30	Accumulated Depreciation – Delivery Truck	41 000	
	Disposal of Delivery Truck		41 000
	<i>Accumulated depreciation transferred to Disposal (Memo 40)</i>		
Jun 30	Bank	9 900	
	Disposal of Delivery Truck		9 000
	GST Clearing		900
	<i>Proceeds on the cash sale of the truck (Rec. 210)</i>		
Jun 30	Disposal of Delivery Truck	2 000	
	Profit on Disposal of Delivery Truck		2 000
	<i>Profit on disposal transferred</i>		

Carrying amount = \$48 000 – \$41 000 = \$7 000; proceeds (excl. GST) = \$9 000; profit (loss) = \$9 000 – \$7 000 = **profit on disposal of \$2 000.**

Question 8

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Forklift	26 000	
	Forklift		26 000
	<i>Cost transferred to Disposal (Memo 18)</i>		
Jun 30	Accumulated Depreciation – Forklift	17 000	
	Disposal of Forklift		17 000
	<i>Accumulated depreciation transferred to Disposal (Memo 18)</i>		
Jun 30	Bank	7 150	
	Disposal of Forklift		6 500
	GST Clearing		650
	<i>Proceeds on the cash sale of the forklift (Rec. 88)</i>		
Jun 30	Loss on Disposal of Forklift	2 500	
	Disposal of Forklift		2 500
	<i>Loss on disposal transferred</i>		

Disposal of Forklift

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Jun 30	Forklift	26 000	Jun 30	Accumulated Depreciation – Forklift	17 000
			Jun 30	Bank	6 500
			Jun 30	Loss on Disposal of Forklift	2 500
		26 000			26 000

Carrying amount = \$26 000 – \$17 000 = \$9 000; proceeds (excl. GST) = \$6 500; **loss on disposal of \$2 500.**

Question 9

Depreciation to disposal = $(\$34\,000 - \$4\,000) \div 5 \times 3/12 = \$6\,000 \times 3/12 = \mathbf{\$1\,500}$. Accumulated depreciation at disposal = \$18 000 + \$1 500 = \$19 500; carrying amount = \$34 000 – \$19 500 = \$14 500; proceeds (excl. GST) = \$17 600 – $(1/11 \times \$17\,600) = \$17\,600 - \$1\,600 = \$16\,000$.

Date 2025	Details	Debit \$	Credit \$
Sep 30	Depreciation – Ute	1 500	
	Accumulated Depreciation – Ute		1 500
	<i>Depreciation of the ute to the date of disposal (Memo 9)</i>		
Sep 30	Disposal of Ute	34 000	
	Ute		34 000
	<i>Cost transferred to Disposal (Memo 9)</i>		
Sep 30	Accumulated Depreciation – Ute	19 500	
	Disposal of Ute		19 500
	<i>Accumulated depreciation transferred to Disposal (Memo 9)</i>		
Sep 30	Bank	17 600	
	Disposal of Ute		16 000
	GST Clearing		1 600
	<i>Proceeds on the cash sale of the ute (Rec. 120)</i>		
Sep 30	Disposal of Ute	1 500	
	Profit on Disposal of Ute		1 500
	<i>Profit on disposal transferred</i>		

Profit (loss) = \$16 000 – \$14 500 = **profit on disposal of \$1 500.**

Question 10

Depreciation to disposal = $(\$40\,000 - \$5\,000) \div 7 \times 6/12 = \$5\,000 \times 6/12 = \$2\,500$. Accumulated depreciation at disposal = $\$20\,000 + \$2\,500 = \$22\,500$; carrying amount = $\$40\,000 - \$22\,500 = \$17\,500$; proceeds (excl. GST) = $\$16\,500 - (1/11 \times \$16\,500) = \$16\,500 - \$1\,500 = \$15\,000$.

Accumulated Depreciation – Tractor

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Disposal of Tractor	22 500	Jul 1	Balance	20 000
			Dec 31	Depreciation – Tractor	2 500
		22 500			22 500

Disposal of Tractor

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Tractor	40 000	Dec 31	Accumulated Depreciation – Tractor	22 500
			Dec 31	Bank	15 000
			Dec 31	Loss on Disposal of Tractor	2 500
		40 000			40 000

Profit (loss) = $\$15\,000 - \$17\,500 = \text{loss on disposal of } \$2\,500$.

Question 11

Date 2026	Details	Debit \$	Credit \$
Jun 30	Disposal of Deck Oven	21 000	
	Deck Oven		21 000
	<i>Cost transferred to Disposal (Memo 15)</i>		
Jun 30	Accumulated Depreciation – Deck Oven	18 500	
	Disposal of Deck Oven		18 500
	<i>Accumulated depreciation transferred to Disposal (Memo 15)</i>		
Jun 30	Bank	3 850	
	Disposal of Deck Oven		3 500
	GST Clearing		350
	<i>Proceeds on the cash sale of the oven (Rec. 64)</i>		
Jun 30	Disposal of Deck Oven	1 000	
	Profit on Disposal of Deck Oven		1 000
	<i>Profit on disposal transferred</i>		

Carrying amount = \$21 000 – \$18 500 = \$2 500; proceeds (excl. GST) = \$3 500; profit (loss) = \$3 500 – \$2 500 = **profit on disposal of \$1 000.**

Question 12

Carrying amount = \$18 000 – \$14 000 = \$4 000; proceeds (excl. GST) = \$3 300 – (1/11 × \$3 300) = \$3 300 – \$300 = \$3 000.

Disposal of Vehicle Hoist

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Jun 30	Vehicle Hoist	18 000	Jun 30	Accumulated Depreciation – Vehicle Hoist	14 000
			Jun 30	Bank	3 000
			Jun 30	Loss on Disposal of Vehicle Hoist	1 000
		18 000			18 000

Profit (loss) = \$3 000 – \$4 000 = **loss on disposal of \$1 000.**

Question 13

The cash disposal of a non-current asset is a **sale of an asset by a GST-registered business — a taxable supply** — so the business must charge **10% GST** on the sale price and remit it to the ATO, in the same way it charges GST on the sale of inventory. When the proceeds are received the entry is **Dr Bank** with the full GST-inclusive amount, **Cr Disposal of [asset]** with the GST-exclusive proceeds, and **Cr GST Clearing** with the GST (1/11 of the GST-inclusive amount). Crediting GST Clearing **increases the GST the business owes the ATO**; only the GST-exclusive proceeds enter the Disposal account and affect the profit or loss on disposal.

Question 14

The **profit or loss on disposal** is the difference between the **proceeds (excluding GST)** and the **carrying amount** of the asset at the date of disposal, where carrying amount = cost – accumulated depreciation:

- if **proceeds > carrying amount**, the asset is sold for more than its recorded value → a **profit on disposal**;
- if **proceeds < carrying amount**, the asset is sold for less than its recorded value → a **loss on disposal**.

For an asset with a carrying amount of \$4 000 sold for \$5 000 (plus GST): the proceeds (excl. GST) are \$5 000, so profit (loss) = \$5 000 – \$4 000 = a **profit on disposal of \$1 000**. (The GST of \$500 is credited to GST Clearing and does not affect the profit.)

Question 15

Using the Disposal account, the profit on disposal is the amount by which the proceeds exceed the carrying amount, so **carrying amount = proceeds – profit** = \$7 000 – \$1 000 = **\$6 000**. Since carrying amount = cost – accumulated depreciation, **accumulated depreciation = cost – carrying amount** = \$32 000 – \$6 000 = **\$26 000**.

Question 16

Depreciation to disposal = (\$44 000 – \$2 000) ÷ 7 × 9/12 = \$6 000 × 9/12 = **\$4 500**. Accumulated depreciation at disposal = \$30 000 + \$4 500 = \$34 500; carrying amount = \$44 000 – \$34 500 = \$9 500; proceeds (excl. GST) = \$12 100 – (1/11 × \$12 100) = \$12 100 – \$1 100 = **\$11 000**.

Date 2026	Details	Debit \$	Credit \$
Mar 31	Depreciation – Bottling Machine	4 500	

Date 2026	Details	Debit \$	Credit \$
	Accumulated Depreciation – Bottling Machine <i>Depreciation of the bottling machine to the date of disposal (Memo 31)</i>		4 500
Mar 31	Disposal of Bottling Machine	44 000	
	Bottling Machine <i>Cost transferred to Disposal (Memo 31)</i>		44 000
Mar 31	Accumulated Depreciation – Bottling Machine	34 500	
	Disposal of Bottling Machine <i>Accumulated depreciation transferred to Disposal (Memo 31)</i>		34 500
Mar 31	Bank	12 100	
	Disposal of Bottling Machine		11 000
	GST Clearing <i>Proceeds on the cash sale of the machine (Rec. 205)</i>		1 100
Mar 31	Disposal of Bottling Machine	1 500	
	Profit on Disposal of Bottling Machine <i>Profit on disposal transferred</i>		1 500

Disposal of Bottling Machine

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2026			2026		
Mar 31	Bottling Machine	44 000	Mar 31	Accumulated Depreciation – Bottling Machine	34 500
Mar 31	Profit on Disposal of Bottling Machine	1 500	Mar 31	Bank	11 000
		45 500			45 500

Profit (loss) = \$11 000 – \$9 500 = **profit on disposal of \$1 500.**

Question 17

A profit on disposal indicates the equipment was sold for **more than its carrying amount**, which means **too much depreciation had been charged** over the asset's life — the equipment had been **over-depreciated**. Depreciation is based on **estimates** of the asset's **useful life** and **residual value**; a profit on disposal shows those estimates were, with hindsight, too conservative (the useful life was estimated too short and/or the residual value too low), so the carrying amount had been written down below the amount the market was prepared to pay. The profit is therefore **not a trading profit** — the business does not trade in its non-current assets — but a **correction of the earlier depreciation estimate** recognised at the point of disposal.

Question 18

Depreciation to disposal = $(\$38\,000 - \$2\,000) \div 6 \times 6/12 = \$6\,000 \times 6/12 = \$3\,000$. Accumulated depreciation at disposal = $\$24\,000 + \$3\,000 = \$27\,000$; carrying amount = $\$38\,000 - \$27\,000 = \$11\,000$; proceeds (excl. GST) = $\$9\,900 - (1/11 \times \$9\,900) = \$9\,900 - \$900 = \$9\,000$.

Date 2025	Details	Debit \$	Credit \$
Dec 31	Depreciation – Lathe	3 000	
	Accumulated Depreciation – Lathe		3 000
	<i>Depreciation of the lathe to the date of disposal (Memo 27)</i>		
Dec 31	Disposal of Lathe	38 000	
	Lathe		38 000
	<i>Cost transferred to Disposal (Memo 27)</i>		
Dec 31	Accumulated Depreciation – Lathe	27 000	
	Disposal of Lathe		27 000
	<i>Accumulated depreciation transferred to Disposal (Memo 27)</i>		
Dec 31	Bank	9 900	
	Disposal of Lathe		9 000
	GST Clearing		900
	<i>Proceeds on the cash sale of the lathe (Rec. 141)</i>		
Dec 31	Loss on Disposal of Lathe	2 000	
	Disposal of Lathe		2 000
	<i>Loss on disposal transferred</i>		

Accumulated Depreciation – Lathe

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Disposal of Lathe	27 000	Jul 1	Balance	24 000
			Dec 31	Depreciation – Lathe	3 000
		27 000			27 000

Disposal of Lathe

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Dec 31	Lathe	38 000	Dec 31	Accumulated Depreciation – Lathe	27 000
			Dec 31	Bank	9 000
			Dec 31	Loss on Disposal of Lathe	2 000
		38 000			38 000

Carrying amount = **\$11 000**; proceeds (excl. GST) = \$9 000, so profit (loss) = \$9 000 – \$11 000 = **loss on disposal of \$2 000**. The lathe was sold for less than its carrying amount, so it had been **under-depreciated**.

Chapter 15 Depreciation methods and disposal — 15C Trade-in of a non-current asset

Theory

When a business finishes with a non-current asset it may **sell it for cash** or **trade it in** on a replacement. In the previous section the asset was sold for cash and the proceeds were banked; here the old asset is handed to the supplier as **part-payment** for a new one. The amount the supplier agrees to knock off the price of the new asset in return for the old one is the **trade-in allowance**. A trade-in is therefore two events happening at once — the **disposal of the old asset** and the **purchase of the new asset** — and both must be recorded.

The Disposal account. Whichever way an asset leaves the business, its cost and its accumulated depreciation must be **removed from the ledger**, because the asset no longer exists. Both are collected in a temporary account called **Disposal of [asset]**. Setting it up takes two transfers:

- **Dr Disposal of [asset]; Cr [asset]** — the **cost** of the old asset is transferred out of the asset account into Disposal.
- **Dr Accumulated Depreciation – [asset]; Cr Disposal of [asset]** — the **accumulated depreciation** built up against the asset is transferred out of its contra account into Disposal.

After these two transfers the Disposal account holds the asset's **carrying amount** — cost on the debit side, accumulated depreciation on the credit side, the difference being the amount the asset is still carried at in the records.

Depreciation up to the date of the trade-in. An asset is used right up to the day it is traded in, so depreciation must be brought up to date **first**. If the trade-in happens partway through a reporting period, a **part-year depreciation** charge is recorded for the months from the last balance day to the trade-in date:

$$\text{part-year depreciation} = \text{annual depreciation} \times \frac{\text{months used this period}}{12}$$

recorded as **Dr Depreciation – [asset]; Cr Accumulated Depreciation – [asset]**. This final charge is included in the accumulated depreciation that is then transferred to Disposal, so the carrying amount is measured at the **exact day of the trade-in**.

Recording the trade-in allowance. The trade-in allowance is what the old asset is “worth” in the deal — the supplier's offer that reduces the price payable on the new asset. It is recorded as:

- **Dr [new asset]** — the allowance forms **part of the cost of the new asset**, and
- **Cr Disposal of [asset]** — it is the “proceeds” received for the old asset.

No GST applies to the trade-in allowance. Under the study design the trade-in allowance is treated as a reduction in the amount owing on the new asset, **not** as a separate taxable sale of the old asset, so **no GST is calculated on the allowance**. The full allowance is credited to the Disposal account.

GST on the new asset, and the balance paid by cash or loan. The new asset is a normal credit/cash purchase, so **GST is charged on its full price**. If the new asset's GST-exclusive price is P , the GST is $0.10 \times P$ and its GST-inclusive price is $1.10 \times P$ — and, checked the other way, the GST is exactly **1/11 of the GST-inclusive price**. The trade-in allowance covers part of what is owed; the rest is settled by cash (EFT) or financed by a loan:

$$\text{cash/loan balance to pay} = \text{GST-inclusive price of the new asset} - \text{trade-in allowance}$$

The purchase of the new asset is recorded as one **compound entry**:

- **Dr [new asset]** — its full **GST-exclusive** cost;
- **Dr GST Clearing** — the GST on the new asset (1/11 of its GST-inclusive price);
- **Cr Disposal of [asset]** — the trade-in allowance (no GST); and
- **Cr Bank (or Loan – [lender])** — the cash/loan balance owing.

The two debits (new asset cost + GST) equal the two credits (trade-in allowance + balance), so the entry balances.

Profit or loss on the trade-in. Once the cost, accumulated depreciation and trade-in allowance are in the Disposal account, whatever is left over is the **profit or loss on disposal**:

$$\text{profit (+) or loss (-) on disposal} = \text{trade-in allowance} - \text{carrying amount}$$

- If the **allowance exceeds the carrying amount**, the Disposal account has a **credit balance** — a **profit on disposal** — closed by **Dr Disposal of [asset]; Cr Profit on Disposal of [asset]**. It signals that the asset was **over-depreciated** — depreciation charged over its life was a little too high, so the carrying amount fell below what the asset was actually worth.
- If the **allowance is below the carrying amount**, the Disposal account has a **debit balance** — a **loss on disposal** — closed by **Dr Loss on Disposal of [asset]; Cr Disposal of [asset]**. It signals the asset was **under-depreciated** — depreciation charged over its life was a little too low.

A profit on disposal is reported in the Income Statement as **other revenue**; a loss is reported as **another expense** (the reporting is covered in the next section). Because depreciation is only an **estimate**, a small profit or loss on disposal is normal and does not mean an error was made.

Worked model. Cedar Grove Landscaping trades in an old ride-on mower (cost \$18 000, residual \$3 000, five-year life, straight-line) that it bought on 1 July 2022, on a new mower on 1 July 2024 (Memo 21). By that date two full years of depreciation of \$3 000 have been recorded, so accumulated depreciation is \$6 000 and the carrying amount is \$18 000 – \$6 000 = **\$12 000**. The new mower is priced at \$26 000 plus \$2 600 GST (\$28 600 including GST); the supplier allows **\$13 000** on the old mower (Tax Invoice 3018), and the \$28 600 – \$13 000 = **\$15 600** balance is paid by EFT.

Date 2024	Details	Debit \$	Credit \$
Jul 1	Disposal of Mower	18 000	
	Mower		18 000
	Accumulated Depreciation – Mower	6 000	
	Disposal of Mower		6 000
	Mower	26 000	
	GST Clearing	2 600	
	Disposal of Mower		13 000
	Bank		15 600
	Disposal of Mower	1 000	
	Profit on Disposal of Mower		1 000
	<i>Trade-in of the old mower on a new mower (Memo 21, Tax Invoice 3018)</i>		

Because the \$13 000 allowance is \$1 000 more than the \$12 000 carrying amount, the Disposal account shows a **\$1 000 profit on disposal**. No GST is calculated on the \$13 000 allowance; GST of \$2 600 (1/11 of \$28 600) is charged only on the new mower.

Worked examples (scaffolded)

Example 1 — a trade-in at a profit, with part-year depreciation

Kingsford Landscaping owns a delivery van bought on 1 July 2022 for \$48 000 (residual value \$8 000, useful life five years, straight-line). On **1 October 2024** it trades the van in on a new van priced at \$60 000 plus GST. The supplier allows \$34 000 on the old van (Memo 30, Tax Invoice 4471) and the balance is paid by EFT. The business reports on 30 June.

Working	Comment
Annual depreciation = $(\$48\,000 - \$8\,000) \div 5 = \mathbf{\$8\,000}$.	Straight-line: $(\text{cost} - \text{residual}) \div \text{life}$.
Accumulated to 30 June 2024 = $2 \times \$8\,000 = \$16\,000$.	Two full years, then 3 months to the trade-in date.
Part-year 1 Jul–1 Oct = $\$8\,000 \times 3/12 = \mathbf{\$2\,000}$.	Record the \$2 000 first.
Accumulated depreciation at trade-in = $\$16\,000 + \$2\,000 = \$18\,000$; carrying amount = $\$48\,000 - \$18\,000 = \mathbf{\$30\,000}$.	Cost less all depreciation, measured at 1 October.
GST on the new van = $10\% \times \$60\,000 = \mathbf{\$6\,000}$ (inclusive price \$66 000). No GST on the allowance.	GST applies to the new asset only.
Balance to pay = $\$66\,000 - \$34\,000 = \mathbf{\$32\,000}$ (EFT).	Inclusive price less the trade-in allowance.
Profit/loss = $\$34\,000 \text{ allowance} - \$30\,000 \text{ carrying amount} = \mathbf{\$4\,000 \text{ profit}}$.	Allowance above carrying amount → profit on disposal.

Date 2024	Details	Debit \$	Credit \$
Oct 1	Depreciation – Delivery Van	2 000	
	Accumulated Depreciation – Delivery Van		2 000
	<i>Depreciation on the delivery van for 3 months to the trade-in date (Memo 30)</i>		
Oct 1	Disposal of Delivery Van	48 000	
	Delivery Van		48 000
	<i>Cost of the delivery van transferred to Disposal (Memo 30)</i>		
Oct 1	Accumulated Depreciation – Delivery Van	18 000	
	Disposal of Delivery Van		18 000
	<i>Accumulated depreciation transferred to Disposal (Memo 30)</i>		
Oct 1	Delivery Van	60 000	
	GST Clearing	6 000	
	Disposal of Delivery Van		34 000
	Bank		32 000
	<i>New van purchased; \$34 000 trade-in allowance, \$32 000 balance by EFT (Tax Invoice 4471)</i>		
Oct 1	Disposal of Delivery Van	4 000	
	Profit on Disposal of Delivery Van		4 000
	<i>Profit on the trade-in transferred to the Income Statement (Memo 30)</i>		

Disposal of Delivery Van

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2024			2024		
Oct 1	Delivery Van	48 000	Oct 1	Accumulated Depreciation – Delivery Van	18 000
	Profit on Disposal of Delivery Van	4 000		Delivery Van	34 000
		52 000			52 000

The \$34 000 credit is the trade-in allowance, cross-referenced to the Delivery Van account because the allowance forms part of the cost of the new van; the debit and credit sides foot to \$52 000, so the account closes with no balance.

Example 2 — a trade-in at a loss, financed by a loan

Riverton Print Co owns a printing press bought on 1 July 2021 for \$72 000 (residual \$12 000, useful life six years, straight-line). On **1 January 2025** it trades the press in on a new press priced at \$90 000 plus GST. The supplier allows \$33 000 on the old press (Memo 18, Tax Invoice 5567) and the balance is financed by a loan from Rivermount Finance. The business reports on 30 June.

Working	Comment
Annual depreciation = $(\$72\,000 - \$12\,000) \div 6 = \mathbf{\$10\,000}$.	Straight-line.
Accumulated to 30 June 2024 = $3 \times \$10\,000 = \$30\,000$. Part-year 1 Jul–1 Jan = $\$10\,000 \times 6/12 = \mathbf{\$5\,000}$.	Three full years, then 6 months to the trade-in date.
Accumulated depreciation at trade-in = \$35 000; carrying amount = $\$72\,000 - \$35\,000 = \mathbf{\$37\,000}$.	Measured at 1 January.
GST on the new press = $10\% \times \$90\,000 = \mathbf{\$9\,000}$ (inclusive \$99 000); no GST on the allowance.	GST on the new asset only.
Loan balance to pay = $\$99\,000 - \$33\,000 = \mathbf{\$66\,000}$.	Inclusive price less the allowance; here financed, not paid in cash.
Profit/loss = $\$33\,000 - \$37\,000 = \mathbf{\$4\,000\,loss}$.	Allowance below carrying amount → loss on disposal.

Date 2025	Details	Debit \$	Credit \$
Jan 1	Depreciation – Printing Press	5 000	
	Accumulated Depreciation – Printing Press		5 000
	<i>Depreciation for 6 months to the trade-in date (Memo 18)</i>		
Jan 1	Disposal of Printing Press	72 000	
	Printing Press		72 000
	<i>Cost of the press transferred to Disposal (Memo 18)</i>		
Jan 1	Accumulated Depreciation – Printing Press	35 000	
	Disposal of Printing Press		35 000
	<i>Accumulated depreciation transferred to Disposal</i>		

Date 2025	Details	Debit \$	Credit \$
	<i>(Memo 18)</i>		
Jan 1	Printing Press	90 000	
	GST Clearing	9 000	
	Disposal of Printing Press		33 000
	Loan – Rivermount Finance		66 000
	<i>New press purchased; \$33 000 trade-in allowance, \$66 000 financed by loan (Tax Invoice 5567)</i>		
Jan 1	Loss on Disposal of Printing Press	4 000	
	Disposal of Printing Press		4 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 18)</i>		

Disposal of Printing Press

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Jan 1	Printing Press	72 000	Jan 1	Accumulated Depreciation – Printing Press	35 000
				Printing Press	33 000
				Loss on Disposal of Printing Press	4 000
		72 000			72 000

The debit (cost \$72 000) exceeds the accumulated depreciation and allowance (\$35 000 + \$33 000 = \$68 000) by \$4 000, so the balance is a **loss on disposal** transferred to the credit side and closed to the Income Statement.

Worked examples (unscaffolded)

Example 3 — a trade-in at a profit, balance paid by cash

Hillcrest Catering owns a commercial oven bought on 1 July 2020 for \$30 000 (residual \$6 000, useful life eight years, straight-line). On 1 April 2025 it trades the oven in on a new oven priced at \$40 000 plus GST; the supplier allows \$18 000 on the old oven (Memo 12, Tax Invoice 3390) and the balance is paid by EFT. Record the trade-in in the General Journal.

Annual depreciation = $(\$30\,000 - \$6\,000) \div 8 = \$3\,000$. Accumulated to 30 June 2024 = $4 \times \$3\,000 = \$12\,000$; part-year 1 Jul–1 Apr = $\$3\,000 \times 9/12 = \$2\,250$, so accumulated depreciation at the trade-in = \$14 250 and the carrying amount = $\$30\,000 - \$14\,250 = \$15\,750$. GST on the new oven = $10\% \times \$40\,000 = \$4\,000$ (inclusive \$44 000); the balance to pay = $\$44\,000 - \$18\,000 = \$26\,000$. The \$18 000 allowance exceeds the \$15 750 carrying amount, so there is a **\$2 250 profit on disposal**.

Date 2025	Details	Debit \$	Credit \$
Apr 1	Depreciation – Oven	2 250	
	Accumulated Depreciation – Oven		2 250
	<i>Depreciation for 9 months</i>		

Date 2025	Details	Debit \$	Credit \$
	<i>to the trade-in date (Memo 12)</i>		
Apr 1	Disposal of Oven	30 000	
	Oven		30 000
	Accumulated Depreciation – Oven	14 250	
	Disposal of Oven		14 250
	<i>Cost and accumulated depreciation of the oven transferred to Disposal (Memo 12)</i>		
Apr 1	Oven	40 000	
	GST Clearing	4 000	
	Disposal of Oven		18 000
	Bank		26 000
	<i>New oven purchased; \$18 000 trade-in allowance, \$26 000 balance by EFT (Tax Invoice 3390)</i>		
Apr 1	Disposal of Oven	2 250	
	Profit on Disposal of Oven		2 250
	<i>Profit on the trade-in transferred to the Income Statement (Memo 12)</i>		

∴ the trade-in produces a **\$2 250 profit on disposal**, and \$26 000 is paid by EFT.

Example 4 — a trade-in at a loss on balance day

Delta Freight Services owns a forklift bought on 1 July 2021 for \$25 000 (residual \$5 000, useful life five years, straight-line). On 30 June 2025 — its balance day, after four full years — it trades the forklift in on a new forklift priced at \$35 000 plus GST; the supplier allows \$7 000 on the old forklift (Memo 44, Tax Invoice 6602) and the balance is paid by EFT. Record the trade-in and explain the GST treatment.

Because the trade-in falls on balance day, the year's depreciation of $(\$25\,000 - \$5\,000) \div 5 = \$4\,000$ is the normal balance-day charge (no separate part-year calculation is needed). Accumulated depreciation is $4 \times \$4\,000 = \$16\,000$, so the carrying amount = $\$25\,000 - \$16\,000 = \$9\,000$. GST on the new forklift = $10\% \times \$35\,000 = \$3\,500$ (inclusive \$38 500); the balance to pay = $\$38\,500 - \$7\,000 = \$31\,500$. The \$7 000 allowance is \$2 000 below the \$9 000 carrying amount, so there is a **\$2 000 loss on disposal**.

Date 2025	Details	Debit \$	Credit \$
Jun 30	Disposal of Forklift	25 000	
	Forklift		25 000
	Accumulated Depreciation – Forklift	16 000	
	Disposal of Forklift		16 000
	<i>Cost and accumulated depreciation of the forklift transferred to Disposal (Memo 44)</i>		

Date 2025	Details	Debit \$	Credit \$
Jun 30	Forklift	35 000	
	GST Clearing	3 500	
	Disposal of Forklift		7 000
	Bank		31 500
	<i>New forklift purchased; \$7 000 trade-in allowance, \$31 500 balance by EFT (Tax Invoice 6602)</i>		
Jun 30	Loss on Disposal of Forklift	2 000	
	Disposal of Forklift		2 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 44)</i>		

∴ **no GST** is calculated on the \$7 000 trade-in allowance, because the allowance is a reduction of the amount owing rather than a separate sale; GST of \$3 500 is charged only on the \$35 000 new forklift, and 1/11 of the \$38 500 inclusive price confirms the \$3 500. The trade-in produces a **\$2 000 loss on disposal**.

Practice questions — scaffolded

Question 1

Meadowbrook Nurseries owns a tractor bought on 1 July 2022 for \$54 000 (residual \$9 000, useful life five years, straight-line). On 1 October 2024 it trades the tractor in on a new tractor priced at \$70 000 plus GST; the supplier allows \$38 000 on the old tractor (Memo 22, Tax Invoice 7130) and the balance is paid by EFT. The business reports on 30 June.

- Record the trade-in in the General Journal (including the part-year depreciation).
- Prepare the Disposal of Tractor ledger account.
- State the profit or loss on the trade-in.

Question 2

Coastline Couriers owns a delivery truck bought on 1 July 2021 for \$88 000 (residual \$16 000, useful life six years, straight-line). On 1 January 2025 it trades the truck in on a new truck priced at \$100 000 plus GST; the supplier allows \$40 000 on the old truck (Memo 9, Tax Invoice 8020) and the balance is paid by EFT. The business reports on 30 June.

- Record the trade-in in the General Journal.
- Calculate the cash balance paid by EFT for the new truck.
- State the profit or loss on the trade-in.

Question 3

Brightwater Aquatics owns a pool-cleaning rig bought on 1 July 2022 for \$36 000 (residual \$6 000, useful life five years, straight-line). On 1 April 2025 it trades the rig in on a new rig priced at \$50 000 plus GST; the supplier allows \$24 000 on the old rig (Memo 15, Tax Invoice 2245) and the balance is financed by a loan from Coastal Credit Union. The business reports on 30 June.

- Record the trade-in in the General Journal.
- Prepare the Disposal of Pool-cleaning Rig ledger account.
- Explain why no GST is calculated on the trade-in allowance but GST is charged on the new rig.

Question 4

Summit Signage owns a printer bought on 1 July 2022 for \$42 000 (residual \$2 000, useful life four years, straight-line). On 1 October 2024 it trades the printer in on a new printer priced at \$48 000 plus GST; the supplier allows \$15 000 on the old printer (Memo 27, Tax Invoice 5540) and the balance is paid by EFT. The business reports on 30 June.

- Record the trade-in in the General Journal.
- State the carrying amount of the old printer at the trade-in date and the profit or loss on disposal.
- State the cash balance paid by EFT for the new printer.

Question 5

Parkview Fitness owns gym equipment bought on 1 July 2021 for \$24 000 (residual \$4 000, useful life five years, straight-line). On 1 January 2025 it trades the equipment in on new equipment priced at \$30 000 plus GST; the supplier allows \$13 000 on the old equipment (Memo 6, Tax Invoice 9910) and the balance is paid by EFT. The business reports on 30 June.

- Calculate the depreciation to be recorded from the last balance day to the trade-in date.
- Record the trade-in in the General Journal.
- Prepare the Disposal of Gym Equipment ledger account.

Question 6

Ironbark Joinery owns a CNC router bought on 1 July 2022 for \$50 000, depreciated by the **reducing balance** method at **20% per annum**. On 30 June 2024 — its balance day, after two full years — it trades the router in on a new router priced at \$60 000 plus GST; the supplier allows \$28 000 on the old router (Memo 33, Tax Invoice 1120) and the balance is paid by EFT.

- Calculate the accumulated depreciation on the old router at the trade-in date.
- Record the trade-in in the General Journal.
- State the profit or loss on the trade-in.

Practice questions — unscaffolded

Question 7

Westgate Removals owns a moving truck bought on 1 July 2020 for \$96 000 (residual \$16 000, useful life eight years, straight-line). On 1 October 2024 it trades the truck in on a new truck priced at \$80 000 plus GST; the supplier allows \$58 000 on the old truck (Memo 41, Tax Invoice 3355) and the balance is paid by EFT. Record the trade-in in the General Journal, prepare the Disposal of Moving Truck ledger account, and state the profit or loss on the trade-in.

Question 8

Harbourside Marine owns a crane bought on 1 July 2019 for \$120 000 (residual \$20 000, useful life ten years, straight-line). On 1 January 2025 it trades the crane in on a new crane priced at \$150 000 plus GST; the supplier allows \$58 000 on the old crane (Memo 19, Tax Invoice 7788) and the balance is financed by a loan from Harbour Finance. Record the trade-in in the General Journal, calculate the loan balance, and state the profit or loss on the trade-in.

Question 9

Fernvale Orchards owns a harvester bought on 1 July 2022 for \$66 000 (residual \$6 000, useful life five years, straight-line). On 1 April 2025 it trades the harvester in on a new harvester priced at \$90 000 plus GST; the supplier allows \$40 000 on the old harvester (Memo 8, Tax Invoice 6640) and the balance is paid by EFT. Prepare the Disposal of Harvester ledger account and state the cash balance paid by EFT for the new harvester.

Question 10

Cliffside Quarry owns an excavator bought on 1 July 2022 for \$80 000, depreciated by the **reducing balance** method at **25% per annum**. On 30 June 2024 — its balance day, after two full years — it trades the excavator in on a new excavator priced at \$100 000 plus GST; the supplier allows \$40 000 on the old excavator (Memo 50, Tax Invoice 2200) and the balance is paid by EFT. Calculate the accumulated depreciation and carrying amount at the trade-in date, record the trade-in in the General Journal, and state the profit or loss on the trade-in.

Question 11

Oakleigh Dental trades in an old dental-chair unit (cost \$28 000, accumulated depreciation at the trade-in date \$18 000) on a new unit priced at \$44 000 plus GST; the supplier allows \$12 000 on the old unit (Memo 14, Tax Invoice 4405) and the balance is paid by EFT. State the GST charged on the new unit, the amount paid by EFT, and the profit or loss on the trade-in.

Question 12

Explain why **no GST** is calculated on the trade-in allowance received for an old non-current asset, even though **GST is charged** on the purchase of the new non-current asset. Refer to how the study design treats the trade-in allowance.

Question 13

A business trades in an old machine whose carrying amount at the trade-in date is \$18 000, receiving a trade-in allowance of \$15 000. State the profit or loss on the trade-in, and explain what this result indicates about the depreciation charged on the machine over its life.

Question 14

Telford Logistics traded in an old van whose cost was \$52 000 and whose accumulated depreciation at the trade-in date was \$38 000. The Disposal account showed a **profit on disposal of \$3 000** (Memo 23). The new van was priced at \$46 000 plus GST. Using account reconstruction, calculate the trade-in allowance the supplier granted on the old van, and the balance owing after the trade-in.

Question 15

Rosewood Timber owns a drying kiln bought on 1 July 2021 for \$84 000 (residual \$24 000, useful life six years, straight-line). On 1 October 2024 it trades the kiln in on a new kiln priced at \$110 000 plus GST; the supplier allows \$56 000 on the old kiln (Memo 31, Tax Invoice 9075) and the balance is financed by a loan from Rosewood Finance. Record the trade-in in the General Journal and prepare the Disposal of Drying Kiln ledger account.

Question 16

Glenmore Bakery owns a delivery van bought on 1 July 2021 for \$46 000 (residual \$6 000, useful life five years, straight-line). On 1 January 2025 it trades the van in on a new van priced at \$52 000 plus GST; the supplier allows \$14 000 on the old van (Memo 12, Tax Invoice 8140) and the balance is paid by EFT. Record the trade-in in the General Journal, and state the profit or loss on the trade-in.

Question 17

Vantage Print is negotiating the trade-in of an old press whose carrying amount at the trade-in date is \$22 000. Dealer A offers a trade-in allowance of \$25 000; Dealer B offers a trade-in allowance of \$19 000. Model the profit or loss on disposal under each offer, and discuss what a profit, and a loss, on a trade-in indicates about the depreciation the business had charged on the press.

Question 18

Ambrose Manufacturing owns a lathe bought on 1 July 2020 for \$108 000 (residual \$18 000, useful life nine years, straight-line). On 1 April 2025 it trades the lathe in on a new lathe priced at \$130 000 plus GST; the supplier allows \$65 000 on the old lathe (Memo 37, Tax Invoice 5090) and the balance is financed by a loan from Ambrose Capital. Record the trade-in in the General Journal, prepare the Disposal of Lathe ledger account, and state how the profit or loss on disposal and the new lathe will be reported.

Answers

1.
 - c. \$4 250 profit (carrying amount \$33 750; allowance \$38 000)
2.
 - b. EFT \$70 000 c. \$6 000 loss (carrying amount \$46 000)
3.
 - c. No GST on the \$24 000 allowance; \$5 000 GST on the new rig (see solutions)
4.
 - b. Carrying amount \$19 500; \$4 500 loss c. EFT \$37 800
5.
 - a. \$2 000 c. \$3 000 profit (carrying amount \$10 000)
6.
 - a. \$18 000 c. \$4 000 loss (carrying amount \$32 000)
7. \$4 500 profit (carrying amount \$53 500; EFT \$30 000)
8. Loan \$107 000; \$7 000 loss (carrying amount \$65 000)
9. EFT \$59 000; \$7 000 profit (carrying amount \$33 000)
10. Accumulated depreciation \$35 000; carrying amount \$45 000; \$5 000 loss
11. GST \$4 400; EFT \$36 400; \$2 000 profit (carrying amount \$10 000)
12. See solutions
13. \$3 000 loss; the machine was over-carried / under-depreciated (see solutions)
14. Trade-in allowance \$17 000; balance owing \$33 600
15. \$4 500 profit (carrying amount \$51 500; loan \$65 000)
16. \$4 000 loss (carrying amount \$18 000; EFT \$43 200)
17. Dealer A \$3 000 profit; Dealer B \$3 000 loss (see solutions)
18. \$4 500 profit (carrying amount \$60 500; loan \$78 000; see solutions)

Fully-worked solutions

Question 1

Annual depreciation = $(\$54\ 000 - \$9\ 000) \div 5 = \$9\ 000$. Accumulated to 30 June 2024 = $2 \times \$9\ 000 = \$18\ 000$; part-year 1 Jul–1 Oct = $\$9\ 000 \times 3/12 = \$2\ 250$, so accumulated depreciation at the trade-in = \$20 250 and carrying amount = $\$54\ 000 - \$20\ 250 = \$33\ 750$. GST on the new tractor = $10\% \times \$70\ 000 = \$7\ 000$ (inclusive \$77 000); balance by EFT = $\$77\ 000 - \$38\ 000 = \$39\ 000$.

Date 2024	Details	Debit \$	Credit \$
Oct 1	Depreciation – Tractor	2 250	
	Accumulated Depreciation – Tractor		2 250
	<i>Depreciation for 3 months to the trade-in date (Memo 22)</i>		
Oct 1	Disposal of Tractor	54 000	
	Tractor		54 000
	Accumulated Depreciation – Tractor	20 250	
	Disposal of Tractor		20 250
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 22)</i>		
Oct 1	Tractor	70 000	

Date 2024	Details	Debit \$	Credit \$
	GST Clearing	7 000	
	Disposal of Tractor		38 000
	Bank		39 000
	<i>New tractor purchased; \$38 000 trade-in allowance, \$39 000 by EFT (Tax Invoice 7130)</i>		
Oct 1	Disposal of Tractor	4 250	
	Profit on Disposal of Tractor		4 250
	<i>Profit on the trade-in transferred to the Income Statement (Memo 22)</i>		

Disposal of Tractor

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2024			2024		
Oct 1	Tractor	54 000	Oct 1	Accumulated Depreciation – Tractor	20 250
	Profit on Disposal of Tractor	4 250		Tractor	38 000
		58 250			58 250

c. Profit/loss = \$38 000 allowance – \$33 750 carrying amount = **\$4 250 profit on disposal.**

Question 2

Annual depreciation = $(\$88\,000 - \$16\,000) \div 6 = \$12\,000$. Accumulated to 30 June 2024 = $3 \times \$12\,000 = \$36\,000$; part-year 1 Jul–1 Jan = $\$12\,000 \times 6/12 = \$6\,000$, so accumulated depreciation = \$42 000 and carrying amount = $\$88\,000 - \$42\,000 = \$46\,000$. GST on the new truck = $10\% \times \$100\,000 = \$10\,000$ (inclusive \$110 000).

Date 2025	Details	Debit \$	Credit \$
Jan 1	Depreciation – Delivery Truck	6 000	
	Accumulated Depreciation – Delivery Truck		6 000
	<i>Depreciation for 6 months to the trade-in date (Memo 9)</i>		
Jan 1	Disposal of Delivery Truck	88 000	
	Delivery Truck		88 000
	Accumulated Depreciation – Delivery Truck	42 000	
	Disposal of Delivery Truck		42 000
	<i>Cost and accumulated depreciation transferred to</i>		

Date 2025	Details	Debit \$	Credit \$
	<i>Disposal (Memo 9)</i>		
Jan 1	Delivery Truck	100 000	
	GST Clearing	10 000	
	Disposal of Delivery Truck		40 000
	Bank		70 000
	<i>New truck purchased; \$40 000 trade-in allowance, \$70 000 by EFT (Tax Invoice 8020)</i>		
Jan 1	Loss on Disposal of Delivery Truck	6 000	
	Disposal of Delivery Truck		6 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 9)</i>		

b. Cash balance by EFT = \$110 000 inclusive – \$40 000 allowance = **\$70 000**.

c. Profit/loss = \$40 000 – \$46 000 = **\$6 000 loss on disposal**.

Question 3

Annual depreciation = $(\$36\,000 - \$6\,000) \div 5 = \$6\,000$. Accumulated to 30 June 2024 = $2 \times \$6\,000 = \$12\,000$; part-year 1 Jul–1 Apr = $\$6\,000 \times 9/12 = \$4\,500$, so accumulated depreciation = \$16 500 and carrying amount = $\$36\,000 - \$16\,500 = \$19\,500$. GST on the new rig = $10\% \times \$50\,000 = \$5\,000$ (inclusive \$55 000); loan balance = $\$55\,000 - \$24\,000 = \$31\,000$.

Date 2025	Details	Debit \$	Credit \$
Apr 1	Depreciation – Pool-cleaning Rig	4 500	
	Accumulated Depreciation – Pool-cleaning Rig		4 500
	<i>Depreciation for 9 months to the trade-in date (Memo 15)</i>		
Apr 1	Disposal of Pool-cleaning Rig	36 000	
	Pool-cleaning Rig		36 000
	Accumulated Depreciation – Pool-cleaning Rig	16 500	
	Disposal of Pool-cleaning Rig		16 500
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 15)</i>		
Apr 1	Pool-cleaning Rig	50 000	
	GST Clearing	5 000	
	Disposal of Pool-cleaning Rig		24 000

Date 2025	Details	Debit \$	Credit \$
	Loan – Coastal Credit Union		31 000
	<i>New rig purchased; \$24 000 trade-in allowance, \$31 000 financed by loan (Tax Invoice 2245)</i>		
Apr 1	Disposal of Pool-cleaning Rig	4 500	
	Profit on Disposal of Pool-cleaning Rig		4 500
	<i>Profit on the trade-in transferred to the Income Statement (Memo 15)</i>		

Disposal of Pool-cleaning Rig

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Apr 1	Pool-cleaning Rig	36 000	Apr 1	Accumulated Depreciation – Pool-cleaning Rig	16 500
	Profit on Disposal of Pool-cleaning Rig	4 500		Pool-cleaning Rig	24 000
		40 500			40 500

- c. The trade-in allowance is treated by the study design as a **reduction in the amount owing** on the new rig, not as a separate taxable sale of the old rig, so **no GST is calculated on the \$24 000 allowance**. The new rig, however, is an ordinary purchase of a non-current asset, so **GST of \$5 000** (10% of the \$50 000 price, and 1/11 of the \$55 000 inclusive price) is charged on it and debited to GST Clearing.

Question 4

Annual depreciation = $(\$42\,000 - \$2\,000) \div 4 = \$10\,000$. Accumulated to 30 June 2024 = $2 \times \$10\,000 = \$20\,000$; part-year 1 Jul–1 Oct = $\$10\,000 \times 3/12 = \$2\,500$, so accumulated depreciation = \$22 500 and carrying amount = $\$42\,000 - \$22\,500 = \$19\,500$. GST on the new printer = $10\% \times \$48\,000 = \$4\,800$ (inclusive \$52 800).

Date 2024	Details	Debit \$	Credit \$
Oct 1	Depreciation – Printer	2 500	
	Accumulated Depreciation – Printer		2 500
	<i>Depreciation for 3 months to the trade-in date (Memo 27)</i>		
Oct 1	Disposal of Printer	42 000	
	Printer		42 000
	Accumulated Depreciation – Printer	22 500	
	Disposal of Printer		22 500
	<i>Cost and accumulated</i>		

Date 2024	Details	Debit \$	Credit \$
	<i>depreciation transferred to Disposal (Memo 27)</i>		
Oct 1	Printer	48 000	
	GST Clearing	4 800	
	Disposal of Printer		15 000
	Bank		37 800
	<i>New printer purchased; \$15 000 trade-in allowance, \$37 800 by EFT (Tax Invoice 5540)</i>		
Oct 1	Loss on Disposal of Printer	4 500	
	Disposal of Printer		4 500
	<i>Loss on the trade-in transferred to the Income Statement (Memo 27)</i>		

b. Carrying amount = **\$19 500**; profit/loss = \$15 000 – \$19 500 = **\$4 500 loss on disposal**.

c. Cash balance by EFT = \$52 800 inclusive – \$15 000 allowance = **\$37 800**.

Question 5

a. Annual depreciation = $(\$24\,000 - \$4\,000) \div 5 = \$4\,000$; the trade-in on 1 January is 6 months after the last balance day, so the depreciation recorded = $\$4\,000 \times 6/12 = \mathbf{\$2\,000}$.

Accumulated to 30 June 2024 = $3 \times \$4\,000 = \$12\,000$; with the \$2 000 part-year charge, accumulated depreciation at the trade-in = \$14 000 and carrying amount = $\$24\,000 - \$14\,000 = \$10\,000$. GST on the new equipment = $10\% \times \$30\,000 = \$3\,000$ (inclusive \$33 000); balance by EFT = $\$33\,000 - \$13\,000 = \$20\,000$.

Date 2025	Details	Debit \$	Credit \$
Jan 1	Depreciation – Gym Equipment	2 000	
	Accumulated Depreciation – Gym Equipment		2 000
	<i>Depreciation for 6 months to the trade-in date (Memo 6)</i>		
Jan 1	Disposal of Gym Equipment	24 000	
	Gym Equipment		24 000
	Accumulated Depreciation – Gym Equipment	14 000	
	Disposal of Gym Equipment		14 000
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 6)</i>		
Jan 1	Gym Equipment	30 000	
	GST Clearing	3 000	
	Disposal of Gym Equipment		13 000

Date 2025	Details	Debit \$	Credit \$
	Bank		20 000
	<i>New equipment purchased; \$13 000 trade-in allowance, \$20 000 by EFT (Tax Invoice 9910)</i>		
Jan 1	Disposal of Gym Equipment	3 000	
	Profit on Disposal of Gym Equipment		3 000
	<i>Profit on the trade-in transferred to the Income Statement (Memo 6)</i>		

Disposal of Gym Equipment

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Jan 1	Gym Equipment	24 000	Jan 1	Accumulated Depreciation – Gym Equipment	14 000
	Profit on Disposal of Gym Equipment	3 000		Gym Equipment	13 000
		27 000			27 000

Question 6

- a. Reducing balance at 20% per annum:
- Year to 30 June 2023: $20\% \times \$50\,000 = \$10\,000$ (carrying amount \$40 000).
 - Year to 30 June 2024: $20\% \times \$40\,000 = \$8\,000$ (carrying amount \$32 000).

Accumulated depreciation at the trade-in = $\$10\,000 + \$8\,000 = \$18\,000$; carrying amount = $\$50\,000 - \$18\,000 = \$32\,000$. GST on the new router = $10\% \times \$60\,000 = \$6\,000$ (inclusive \$66 000); balance by EFT = $\$66\,000 - \$28\,000 = \$38\,000$. As the trade-in is on balance day after full years, no part-year charge is needed.

Date 2024	Details	Debit \$	Credit \$
Jun 30	Disposal of CNC Router	50 000	
	CNC Router		50 000
	Accumulated Depreciation – CNC Router	18 000	
	Disposal of CNC Router		18 000
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 33)</i>		
Jun 30	CNC Router	60 000	
	GST Clearing	6 000	
	Disposal of CNC Router		28 000
	Bank		38 000
	<i>New router purchased; \$28 000 trade-in allowance, \$38 000 by</i>		

Date 2024	Details	Debit \$	Credit \$
	<i>EFT (Tax Invoice 1120)</i>		
Jun 30	Loss on Disposal of CNC Router	4 000	
	Disposal of CNC Router		4 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 33)</i>		

c. Profit/loss = \$28 000 – \$32 000 = **\$4 000 loss on disposal.**

Question 7

Annual depreciation = (\$96 000 – \$16 000) ÷ 8 = \$10 000. Accumulated to 30 June 2024 = 4 × \$10 000 = \$40 000; part-year 1 Jul–1 Oct = \$10 000 × 3/12 = \$2 500, so accumulated depreciation = \$42 500 and carrying amount = \$96 000 – \$42 500 = \$53 500. GST on the new truck = 10% × \$80 000 = \$8 000 (inclusive \$88 000); balance by EFT = \$88 000 – \$58 000 = \$30 000.

Date 2024	Details	Debit \$	Credit \$
Oct 1	Depreciation – Moving Truck	2 500	
	Accumulated Depreciation – Moving Truck		2 500
	<i>Depreciation for 3 months to the trade-in date (Memo 41)</i>		
Oct 1	Disposal of Moving Truck	96 000	
	Moving Truck		96 000
	Accumulated Depreciation – Moving Truck	42 500	
	Disposal of Moving Truck		42 500
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 41)</i>		
Oct 1	Moving Truck	80 000	
	GST Clearing	8 000	
	Disposal of Moving Truck		58 000
	Bank		30 000
	<i>New truck purchased; \$58 000 trade-in allowance, \$30 000 by EFT (Tax Invoice 3355)</i>		
Oct 1	Disposal of Moving Truck	4 500	
	Profit on Disposal of Moving Truck		4 500
	<i>Profit on the trade-in transferred to the Income Statement (Memo 41)</i>		

Disposal of Moving Truck

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2024			2024		
Oct 1	Moving Truck	96 000	Oct 1	Accumulated Depreciation – Moving Truck	42 500
	Profit on Disposal of Moving Truck	4 500		Moving Truck	58 000
		100 500			100 500

Profit/loss = \$58 000 – \$53 500 = **\$4 500 profit on disposal.**

Question 8

Annual depreciation = $(\$120\,000 - \$20\,000) \div 10 = \$10\,000$. Accumulated to 30 June 2024 = $5 \times \$10\,000 = \$50\,000$; part-year 1 Jul–1 Jan = $\$10\,000 \times 6/12 = \$5\,000$, so accumulated depreciation = \$55 000 and carrying amount = $\$120\,000 - \$55\,000 = \$65\,000$. GST on the new crane = $10\% \times \$150\,000 = \$15\,000$ (inclusive \$165 000); loan balance = $\$165\,000 - \$58\,000 = \$107\,000$.

Date 2025	Details	Debit \$	Credit \$
Jan 1	Depreciation – Crane	5 000	
	Accumulated Depreciation – Crane		5 000
	<i>Depreciation for 6 months to the trade-in date (Memo 19)</i>		
Jan 1	Disposal of Crane	120 000	
	Crane		120 000
	Accumulated Depreciation – Crane	55 000	
	Disposal of Crane		55 000
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 19)</i>		
Jan 1	Crane	150 000	
	GST Clearing	15 000	
	Disposal of Crane		58 000
	Loan – Harbour Finance		107 000
	<i>New crane purchased; \$58 000 trade-in allowance, \$107 000 financed by loan (Tax Invoice 7788)</i>		
Jan 1	Loss on Disposal of Crane	7 000	
	Disposal of Crane		7 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 19)</i>		

Loan balance = \$165 000 inclusive – \$58 000 allowance = **\$107 000**; profit/loss = $\$58\,000 - \$65\,000 = \$7\,000$ **loss on disposal.**

Question 9

Annual depreciation = $(\$66\,000 - \$6\,000) \div 5 = \$12\,000$. Accumulated to 30 June 2024 = $2 \times \$12\,000 = \$24\,000$; part-year 1 Jul–1 Apr = $\$12\,000 \times 9/12 = \$9\,000$, so accumulated depreciation = $\$33\,000$ and carrying amount = $\$66\,000 - \$33\,000 = \$33\,000$. GST on the new harvester = $10\% \times \$90\,000 = \$9\,000$ (inclusive $\$99\,000$).

Disposal of Harvester

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Apr 1	Harvester	66 000	Apr 1	Accumulated Depreciation – Harvester	33 000
	Profit on Disposal of Harvester	7 000		Harvester	40 000
		73 000			73 000

Cash balance by EFT = $\$99\,000$ inclusive – $\$40\,000$ allowance = **$\$59\,000$** ; the $\$40\,000$ allowance exceeds the $\$33\,000$ carrying amount, so there is a **$\$7\,000$ profit on disposal**.

Question 10

Reducing balance at 25% per annum:

- Year to 30 June 2023: $25\% \times \$80\,000 = \$20\,000$ (carrying amount $\$60\,000$).
- Year to 30 June 2024: $25\% \times \$60\,000 = \$15\,000$ (carrying amount $\$45\,000$).

Accumulated depreciation = $\$20\,000 + \$15\,000 = \mathbf{\$35\,000}$; carrying amount = $\$80\,000 - \$35\,000 = \mathbf{\$45\,000}$. GST on the new excavator = $10\% \times \$100\,000 = \$10\,000$ (inclusive $\$110\,000$); balance by EFT = $\$110\,000 - \$40\,000 = \$70\,000$.

Date 2024	Details	Debit \$	Credit \$
Jun 30	Disposal of Excavator	80 000	
	Excavator		80 000
	Accumulated Depreciation – Excavator	35 000	
	Disposal of Excavator		35 000
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 50)</i>		
Jun 30	Excavator	100 000	
	GST Clearing	10 000	
	Disposal of Excavator		40 000
	Bank		70 000
	<i>New excavator purchased; \$40 000 trade-in allowance, \$70 000 by EFT (Tax Invoice 2200)</i>		
Jun 30	Loss on Disposal of Excavator	5 000	
	Disposal of Excavator		5 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 50)</i>		

Profit/loss = \$40 000 – \$45 000 = **\$5 000 loss on disposal.**

Question 11

Carrying amount = \$28 000 – \$18 000 = \$10 000. GST on the new unit = $10\% \times \$44\,000 = \$4\,400$ (inclusive \$48 400, and 1/11 of \$48 400 = \$4 400). Amount paid by EFT = \$48 400 inclusive – \$12 000 allowance = **\$36 400**. Profit/loss = \$12 000 allowance – \$10 000 carrying amount = **\$2 000 profit on disposal**. No GST is calculated on the \$12 000 trade-in allowance.

Question 12

Under the study design a **trade-in allowance is treated as a reduction in the amount owing** on the new asset — it lowers the cash or loan the business must provide — rather than as a **separate taxable sale** of the old asset. Because it is not treated as a sale, **no GST is calculated on the allowance**, and the allowance is credited to the Disposal account at its full face value.

The purchase of the **new** asset is a different matter: it is an ordinary acquisition of a non-current asset, a taxable supply by the seller, so the seller charges **GST of 10% on the new asset's price**. The buyer records this GST as a debit to **GST Clearing** (a claimable input-tax credit), exactly as for any other purchase. GST therefore attaches to the **whole price of the new asset** but to **none of the trade-in allowance**, and the GST equals 1/11 of the new asset's GST-inclusive price.

Question 13

Profit/loss = \$15 000 allowance – \$18 000 carrying amount = **\$3 000 loss on disposal**.

Because the machine was still carried at \$18 000 but the market (through the trade-in allowance) valued it at only \$15 000, the machine had been **over-carried** — the depreciation charged over its life was a little **too low**, so its carrying amount had not fallen as fast as its real value did. The \$3 000 loss is the “catch-up” for that under-depreciation, recognised in the period of the trade-in. As depreciation is only an **estimate** of how an asset's future economic benefits are consumed, a small profit or loss on disposal is a normal correction rather than evidence of an error.

Question 14

Reconstruct the Disposal account. The carrying amount transferred in = cost – accumulated depreciation = \$52 000 – \$38 000 = \$14 000. A **profit** on disposal means the trade-in allowance exceeded the carrying amount by the profit:

$$\text{trade-in allowance} = \text{carrying amount} + \text{profit} = \$14\,000 + \$3\,000 = \$17\,000.$$

Checking the Disposal account: debits = cost \$52 000 + profit \$3 000 = \$55 000; credits = accumulated depreciation \$38 000 + trade-in allowance \$17 000 = \$55 000 — it balances. GST on the new van = $10\% \times \$46\,000 = \$4\,600$ (inclusive \$50 600), so the balance owing after the trade-in = \$50 600 – \$17 000 = **\$33 600**.

Question 15

Annual depreciation = $(\$84\,000 - \$24\,000) \div 6 = \$10\,000$. Accumulated to 30 June 2024 = $3 \times \$10\,000 = \$30\,000$; part-year 1 Jul–1 Oct = $\$10\,000 \times 3/12 = \$2\,500$, so accumulated depreciation = \$32 500 and carrying amount = \$84 000 – \$32 500 = \$51 500. GST on the new kiln = $10\% \times \$110\,000 = \$11\,000$ (inclusive \$121 000); loan balance = \$121 000 – \$56 000 = \$65 000.

Date 2024	Details	Debit \$	Credit \$
Oct 1	Depreciation – Drying Kiln	2 500	
	Accumulated Depreciation – Drying Kiln		2 500
	<i>Depreciation for 3 months to the trade-in date (Memo 31)</i>		
Oct 1	Disposal of Drying Kiln	84 000	

Date 2024	Details	Debit \$	Credit \$
	Drying Kiln		84 000
	Accumulated Depreciation – Drying Kiln	32 500	
	Disposal of Drying Kiln		32 500
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 31)</i>		
Oct 1	Drying Kiln	110 000	
	GST Clearing	11 000	
	Disposal of Drying Kiln		56 000
	Loan – Rosewood Finance		65 000
	<i>New kiln purchased; \$56 000 trade-in allowance, \$65 000 financed by loan (Tax Invoice 9075)</i>		
Oct 1	Disposal of Drying Kiln	4 500	
	Profit on Disposal of Drying Kiln		4 500
	<i>Profit on the trade-in transferred to the Income Statement (Memo 31)</i>		

Disposal of Drying Kiln

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2024			2024		
Oct 1	Drying Kiln	84 000	Oct 1	Accumulated Depreciation – Drying Kiln	32 500
	Profit on Disposal of Drying Kiln	4 500		Drying Kiln	56 000
		88 500			88 500

Profit/loss = \$56 000 – \$51 500 = **\$4 500 profit on disposal.**

Question 16

Annual depreciation = $(\$46\,000 - \$6\,000) \div 5 = \$8\,000$. Accumulated to 30 June 2024 = $3 \times \$8\,000 = \$24\,000$; part-year 1 Jul–1 Jan = $\$8\,000 \times 6/12 = \$4\,000$, so accumulated depreciation = \$28 000 and carrying amount = $\$46\,000 - \$28\,000 = \$18\,000$. GST on the new van = $10\% \times \$52\,000 = \$5\,200$ (inclusive \$57 200); balance by EFT = $\$57\,200 - \$14\,000 = \$43\,200$.

Date 2025	Details	Debit \$	Credit \$
Jan 1	Depreciation – Delivery Van	4 000	
	Accumulated Depreciation – Delivery Van		4 000
	<i>Depreciation for 6 months to the trade-in date (Memo 12)</i>		

Date 2025	Details	Debit \$	Credit \$
Jan 1	Disposal of Delivery Van	46 000	
	Delivery Van		46 000
	Accumulated Depreciation – Delivery Van	28 000	
	Disposal of Delivery Van		28 000
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 12)</i>		
Jan 1	Delivery Van	52 000	
	GST Clearing	5 200	
	Disposal of Delivery Van		14 000
	Bank		43 200
	<i>New van purchased; \$14 000 trade-in allowance, \$43 200 by EFT (Tax Invoice 8140)</i>		
Jan 1	Loss on Disposal of Delivery Van	4 000	
	Disposal of Delivery Van		4 000
	<i>Loss on the trade-in transferred to the Income Statement (Memo 12)</i>		

Profit/loss = \$14 000 – \$18 000 = **\$4 000 loss on disposal.**

Question 17

The carrying amount is \$22 000, so the profit or loss on disposal = trade-in allowance – \$22 000:

- **Dealer A (\$25 000 allowance):** \$25 000 – \$22 000 = **\$3 000 profit on disposal.**
- **Dealer B (\$19 000 allowance):** \$19 000 – \$22 000 = **\$3 000 loss on disposal.**

A **profit** on disposal (Dealer A) means the market values the press **above** its carrying amount, which indicates the business had **over-depreciated** the press — the depreciation charged over its life was a little too high, pushing the carrying amount below the asset's real worth. A **loss** on disposal (Dealer B) means the market values the press **below** its carrying amount, indicating the business had **under-depreciated** it. Neither result is necessarily an error: depreciation is only an **estimate** of how the asset's economic benefits are used up, based on an assumed useful life and residual value, so a modest profit or loss on disposal simply corrects the estimate in the period the asset leaves the business. (The two dealers' allowances are not directly comparable on their own, because a higher allowance is often paired with a higher price for the new press.)

Question 18

Annual depreciation = (\$108 000 – \$18 000) ÷ 9 = \$10 000. Accumulated to 30 June 2024 = 4 × \$10 000 = \$40 000; part-year 1 Jul–1 Apr = \$10 000 × 9/12 = \$7 500, so accumulated depreciation = \$47 500 and carrying amount = \$108 000 – \$47 500 = \$60 500. GST on the new lathe = 10% × \$130 000 = \$13 000 (inclusive \$143 000); loan balance = \$143 000 – \$65 000 = \$78 000.

Date 2025	Details	Debit \$	Credit \$
Apr 1	Depreciation – Lathe	7 500	
	Accumulated Depreciation – Lathe		7 500

Date 2025	Details	Debit \$	Credit \$
	<i>Depreciation for 9 months to the trade-in date (Memo 37)</i>		
Apr 1	Disposal of Lathe	108 000	
	Lathe		108 000
	Accumulated Depreciation – Lathe	47 500	
	Disposal of Lathe		47 500
	<i>Cost and accumulated depreciation transferred to Disposal (Memo 37)</i>		
Apr 1	Lathe	130 000	
	GST Clearing	13 000	
	Disposal of Lathe		65 000
	Loan – Ambrose Capital		78 000
	<i>New lathe purchased; \$65 000 trade-in allowance, \$78 000 financed by loan (Tax Invoice 5090)</i>		
Apr 1	Disposal of Lathe	4 500	
	Profit on Disposal of Lathe		4 500
	<i>Profit on the trade-in transferred to the Income Statement (Memo 37)</i>		

Disposal of Lathe

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
2025			2025		
Apr 1	Lathe	108 000	Apr 1	Accumulated Depreciation – Lathe	47 500
	Profit on Disposal of Lathe	4 500		Lathe	65 000
		112 500			112 500

Profit/loss = \$65 000 – \$60 500 = **\$4 500 profit on disposal**. This \$4 500 profit is reported in the Income Statement as **other revenue** (it is not sales revenue). The new lathe is recorded at its GST-exclusive cost of **\$130 000**, which becomes the opening balance of the Lathe (asset) account in the Balance Sheet; a fresh **Accumulated Depreciation – Lathe** account then builds up against it from the trade-in date onward.

Chapter 15 Depreciation methods and disposal — 15D Reporting profit or loss on disposal

Theory

When a business **disposes of a non-current asset** — by selling it for cash or trading it in on a replacement — it almost never receives an amount exactly equal to the asset's **carrying amount**. The difference between what the asset was worth in the records and what it actually realised is a **profit or loss on disposal**, and that profit or loss must be **reported in the Income Statement** of the period in which the disposal occurs. This section is about *reporting* that figure and *interpreting* what it tells the owner; the recording of the disposal itself (the **Disposal** account) is covered in 15B and 15C.

Recap — carrying amount and the profit or loss. The **carrying amount** of a non-current asset is what remains of its cost after accumulated depreciation:

$$\text{Carrying amount} = \text{cost} - \text{accumulated depreciation}$$

The profit or loss on disposal compares the **proceeds** of the disposal with that carrying amount. For a **cash sale** the proceeds are the (GST-exclusive) selling price; for a **trade-in** the proceeds are the **trade-in allowance** granted by the supplier. Either way:

$$\text{Profit / loss on disposal} = \text{proceeds (or trade-in allowance)} - \text{carrying amount}$$

- If the **proceeds exceed the carrying amount**, the business has a **profit on disposal**.
- If the **proceeds are less than the carrying amount**, the business has a **loss on disposal**.

Where each is reported. A profit or loss on disposal has nothing to do with buying and selling inventory, so it is reported **below the Gross Profit line**, in exactly the same region of the Income Statement as Discount Revenue and the period expenses:

- A **profit on disposal** is an **other revenue** (a revenue earned other than from selling inventory). It is **added** after Adjusted Gross Profit, alongside **Discount Revenue**. It is titled after the asset — for example **Profit on disposal of delivery van**.
- A **loss on disposal** is an **other expense** (a cost of the period other than the cost of goods sold). It is **listed among the Other Expenses** and **deducted** — for example **Loss on disposal of lathe**.

Because both sit **below Gross Profit**, a profit or loss on disposal **does not affect Gross Profit** (the result of buying and selling inventory is unchanged); it affects only **Net Profit**. A profit on disposal **increases** Net Profit; a loss on disposal **decreases** it.

Worked model. Nordic Freight disposes of a delivery van that cost \$48 000 and had accumulated depreciation of \$40 000 at the date of disposal, so its carrying amount was \$48 000 – \$40 000 = **\$8 000**. The van was sold for cash proceeds of \$9 500. Because the proceeds (\$9 500) exceed the carrying amount (\$8 000), there is a **profit on disposal of \$9 500 – \$8 000 = \$1 500**, reported as other revenue. An extract of the Income Statement, beginning at Adjusted Gross Profit, is:

Income Statement (extract)
for the year ended 30 June

2025	\$	\$
Adjusted Gross Profit		120 000
add Discount Revenue		3 000
add Profit on disposal of delivery van		1 500
		124 500
less Other Expenses		
Advertising	14 000	
Wages	52 000	

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Rent expense	18 000	
Interest expense	6 000	
Total Other Expenses		90 000
Net Profit		34 500

Had the profit on disposal **not** arisen, the running total after other revenue would have been \$123 000 and Net Profit would have been **\$33 000**; the \$1 500 profit on disposal therefore **raises Net Profit by \$1 500**. Had the same van instead been sold for only \$6 200, the proceeds would have been **below** the \$8 000 carrying amount, giving a **loss on disposal of \$1 800**, which would be listed among the Other Expenses and would **reduce** Net Profit by \$1 800.

What a profit or loss on disposal reveals about the depreciation estimates. Depreciation is always an **estimate** — it depends on estimates of an asset's **useful life** and its **residual value**, neither of which can be known with certainty until the asset is actually disposed of. The disposal is the moment those estimates are tested against reality, and the profit or loss on disposal measures how far the estimates were out:

- A **profit on disposal** means the asset realised **more** than its carrying amount, so its carrying amount had been driven **too low** — the asset was **over-depreciated**. Total depreciation charged over the asset's life was **too high**, by an amount equal to the profit. This occurs when the **residual value was underestimated** (the asset was worth more at the end than assumed) and/or the **useful life was underestimated** (depreciation was spread over too few years, so each year's charge was too high).
- A **loss on disposal** means the asset realised **less** than its carrying amount, so its carrying amount had been left **too high** — the asset was **under-depreciated**. Total depreciation charged was **too low**, by an amount equal to the loss. This occurs when the **residual value was overestimated** and/or the **useful life was overestimated** (depreciation was spread over too many years).

A profit or loss on disposal does **not** necessarily mean the business made an *error*: because depreciation is a good-faith **estimate** of a future outcome, a small difference at disposal is normal and unavoidable. A **large or repeated** profit or loss, however, is a signal that the useful-life or residual estimates the business is applying to its assets should be **reviewed and revised** for the future, so that depreciation — and therefore the reported profit of each period — is a more **faithful representation** of the asset's use.

The link to the Cash Flow Statement. The profit or loss on disposal is an **accrual** figure — it is the difference between proceeds and carrying amount — and is **not itself a cash flow**, so it appears **only in the Income Statement**, never in the Cash Flow Statement. What *does* appear in the Cash Flow Statement is the **cash proceeds** of a cash disposal, reported as an **inflow under Investing Activities** ("Proceeds from sale of [asset]"), because selling a non-current asset is an investing activity. For a **trade-in** no cash is received at all, so there is **no investing inflow**; instead the trade-in allowance reduces the cash the business pays for the replacement asset. In short: the Income Statement reports the **profit or loss**; the Cash Flow Statement reports the **cash proceeds**.

Ethical considerations in decision-making. Because depreciation rests on **estimates** of useful life and residual value, and because the profit or loss on disposal falls into whichever **period** a disposal is timed for, the reporting of non-current assets leaves the owner room to make choices that are technically permissible yet ethically questionable. Choosing a depreciation method, or setting the useful-life and residual-value estimates, in order to **flatter reported profit** — rather than to reflect the pattern in which the asset's economic benefit is actually consumed — distorts the very figure users rely on. So too does **timing an asset disposal** to push a profit or loss on disposal into a period the owner would prefer, so that this year's Net Profit is made to look stronger (or weaker) than the underlying performance warrants. Decisions of this kind treat the reports as a tool for managing appearances instead of as a **faithful representation** of what has occurred.

The accountant's duty is to resist that pressure. Depreciation estimates should be set, and reviewed, to reflect the genuine expected use of the asset; a disposal should be recorded in the period it actually occurs; and the resulting profit or loss on disposal should be reported so that the figure is **complete, free from material error and neutral (without bias)**, whether it raises or lowers Net Profit. Meeting that duty draws on the accountant's **integrity** — being honest and straightforward rather than serving the owner's preferred result — and their **objectivity** — letting the

economic substance, not a desired profit figure, drive the estimates and the reporting. Reporting the profit or loss on disposal faithfully, even when an unwelcome loss reduces this year's profit, is what keeps the Income Statement useful to the people who depend on it.

Worked examples (scaffolded)

Example 1 — reporting a profit on disposal as other revenue, then Net Profit

Brightwater Cafe Supplies disposed of a display fridge during the year ended 30 June 2026. The fridge cost \$12 000 and had accumulated depreciation of \$9 500 at disposal; it was sold for cash proceeds of \$3 400. For the year the business also reports an Adjusted Gross Profit of \$86 000, Discount Revenue of \$2 000, and Other Expenses of Advertising \$9 000, Wages \$40 000, Rent expense \$12 000 and Interest expense \$4 000.

Working	Comment
Carrying amount = cost \$12 000 – accumulated depreciation \$9 500 = \$2 500 .	Carrying amount is what remains of the cost in the records at disposal.
Profit / loss = proceeds \$3 400 – carrying amount \$2 500 = \$900 profit .	Proceeds <i>exceed</i> the carrying amount, so it is a profit on disposal.
The \$900 is reported as other revenue — <i>Profit on disposal of display fridge</i> — added after Adjusted Gross Profit with Discount Revenue.	A profit on disposal is a revenue earned other than from selling inventory.
Running total after other revenue = \$86 000 + \$2 000 + \$900 = \$88 900 .	Adjusted Gross Profit plus all other revenue.
Total Other Expenses = \$9 000 + \$40 000 + \$12 000 + \$4 000 = \$65 000 .	The period costs of operating the business.
Net Profit = \$88 900 – \$65 000 = \$23 900 .	The profit on disposal has <i>increased</i> Net Profit by \$900.

Income Statement (extract)
for the year ended 30 June
2026

	\$	\$
Adjusted Gross Profit		86 000
add Discount Revenue		2 000
add Profit on disposal of display fridge		900
		88 900
less Other Expenses		
Advertising	9 000	
Wages	40 000	
Rent expense	12 000	
Interest expense	4 000	
Total Other Expenses		65 000
Net Profit		23 900

Example 2 — reporting a loss on disposal as an other expense, then interpreting it

Ironbark Joinery disposed of a lathe during the year ended 30 June 2025. The lathe cost \$20 000 and had accumulated depreciation of \$11 000 at disposal; it was sold for cash proceeds of \$6 500. The business also reports an Adjusted Gross Profit of \$95 000, Discount Revenue of \$1 500, and Other Expenses of Advertising \$8 000, Wages \$44 000 and Interest expense \$5 000 (before the disposal item).

Working	Comment
Carrying amount = \$20 000 – \$11 000 = \$9 000 .	Cost less accumulated depreciation.

Working	Comment
Profit / loss = proceeds \$6 500 – carrying amount \$9 000 = \$2 500 loss .	Proceeds are <i>below</i> the carrying amount, so it is a loss on disposal.
The \$2 500 is reported as an other expense — <i>Loss on disposal of lathe</i> — listed among the Other Expenses .	A loss on disposal is a cost of the period other than the cost of goods sold.
Total Other Expenses = \$8 000 + \$44 000 + \$2 500 + \$5 000 = \$59 500 .	The loss is added into the Other Expenses total.
Running total after other revenue = \$95 000 + \$1 500 = \$96 500 ; Net Profit = \$96 500 – \$59 500 = \$37 000 .	The loss on disposal has <i>reduced</i> Net Profit by \$2 500.
Interpretation: a loss means the lathe was under-depreciated by \$2 500 — its carrying amount (\$9 000) was higher than the \$6 500 it realised.	The estimated residual value and/or useful life was too high, so too little depreciation was charged.

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Adjusted Gross Profit		95 000
add Discount Revenue		1 500
		96 500
less Other Expenses		
Advertising	8 000	
Wages	44 000	
Loss on disposal of lathe	2 500	
Interest expense	5 000	
Total Other Expenses		59 500
Net Profit		37 000

Worked examples (unscaffolded)

Example 3 — a trade-in producing a profit on disposal

Summit Landscaping traded in an old ride-on mower on a new one during the year ended 30 June 2026. The old mower cost \$15 000 and had accumulated depreciation of \$12 800 at disposal; the supplier granted a trade-in allowance of \$3 000. The business also reports an Adjusted Gross Profit of \$74 000, Discount Revenue of \$2 500, and Other Expenses of Advertising \$6 000, Wages \$36 000, Rent expense \$10 000 and Interest expense \$3 000.

The carrying amount is \$15 000 – \$12 800 = \$2 200. For a trade-in the **trade-in allowance is the proceeds**, so the profit or loss on disposal is \$3 000 – \$2 200 = a **profit on disposal of \$800**, reported as other revenue. The running total after other revenue is \$74 000 + \$2 500 + \$800 = \$77 300, and Total Other Expenses are \$6 000 + \$36 000 + \$10 000 + \$3 000 = \$55 000, so Net Profit is \$77 300 – \$55 000 = \$22 300. The profit shows the mower was **over-depreciated** by \$800 — the estimated residual value and/or useful life had been set too low. Because the mower was traded in rather than sold for cash, **no cash proceeds appear in the Cash Flow Statement**; the \$3 000 allowance instead reduced the cash paid for the new mower.

Income Statement (extract)
for the year ended 30 June
2026

	\$	\$
Adjusted Gross Profit		74 000
add Discount Revenue		2 500
add Profit on disposal of mower		800

Income Statement (extract)
for the year ended 30 June
2026

	\$	\$
		77 300
less Other Expenses		
Advertising	6 000	
Wages	36 000	
Rent expense	10 000	
Interest expense	3 000	
Total Other Expenses		55 000
Net Profit		22 300

∴ Summit Landscaping reports a \$800 profit on disposal and a Net Profit of \$22 300.

Example 4 — a loss on disposal and the link to the Cash Flow Statement

Harbourview Print sold a printing press for cash during the year ended 30 June 2025. The press cost \$60 000 and had accumulated depreciation of \$38 000 at disposal; the cash proceeds were \$17 000. The business also reports an Adjusted Gross Profit of \$140 000, Discount Revenue of \$4 000, and Other Expenses of Advertising \$15 000, Wages \$70 000, Rent expense \$16 000 and Interest expense \$8 000 (before the disposal item).

The carrying amount is $\$60\,000 - \$38\,000 = \$22\,000$, and the proceeds of \$17 000 are below it, so there is a **loss on disposal of \$5 000**, listed among the Other Expenses. Total Other Expenses are $\$15\,000 + \$70\,000 + \$5\,000 + \$16\,000 + \$8\,000 = \$114\,000$; the running total after other revenue is $\$140\,000 + \$4\,000 = \$144\,000$, so Net Profit is $\$144\,000 - \$114\,000 = \$30\,000$. The loss shows the press was **under-depreciated** by \$5 000 — too little depreciation had been charged, because its useful life and/or residual value had been overestimated. In the **Cash Flow Statement**, the \$17 000 cash proceeds are reported as an **inflow under Investing Activities**; the \$5 000 loss on disposal is **not** a cash flow and does **not** appear there.

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Adjusted Gross Profit		140 000
add Discount Revenue		4 000
		144 000
less Other Expenses		
Advertising	15 000	
Wages	70 000	
Loss on disposal of printing press	5 000	
Rent expense	16 000	
Interest expense	8 000	
Total Other Expenses		114 000
Net Profit		30 000

∴ Harbourview Print reports a \$5 000 loss on disposal and a Net Profit of \$30 000, and reports \$17 000 of proceeds as an investing inflow in the Cash Flow Statement.

Practice questions — scaffolded

Question 1

Coastal Signage sold a work vehicle for cash during the year ended 30 June 2025. The vehicle cost \$32 000 and had accumulated depreciation of \$27 000 at disposal; the cash proceeds were \$6 100.

- a. Calculate the carrying amount of the vehicle and the profit or loss on disposal.
- b. State how and where the profit or loss is reported in the Income Statement.
- c. Given an Adjusted Gross Profit of \$60 000, Discount Revenue of \$1 000 and Other Expenses (excluding the disposal) of \$40 000, calculate the Net Profit.

Question 2

Redgum Bakery sold an oven for cash during the year ended 30 June 2026. The oven cost \$18 000 and had accumulated depreciation of \$10 500 at disposal; the cash proceeds were \$5 000.

- a. Calculate the carrying amount of the oven and the profit or loss on disposal.
- b. State how and where the profit or loss is reported in the Income Statement.
- c. Given an Adjusted Gross Profit of \$70 000, Discount Revenue of \$2 000 and Other Expenses of \$45 000 (before the disposal item), calculate the Total Other Expenses and the Net Profit.

Question 3

Meadowbrook Dairy sold a milk tank for cash proceeds of \$4 200. The tank cost \$25 000 and had accumulated depreciation of \$22 000 at disposal.

- a. Calculate the carrying amount and the profit or loss on disposal.
- b. State whether the tank was over-depreciated or under-depreciated, and by how much.
- c. Explain what the outcome suggests about the business's estimates of the tank's useful life and/or residual value.

Question 4

Tanami Transport sold a trailer for cash proceeds of \$14 500. The trailer cost \$40 000 and had accumulated depreciation of \$22 000 at disposal.

- a. Calculate the carrying amount and the profit or loss on disposal.
- b. State whether the trailer was over-depreciated or under-depreciated, and by how much.
- c. Explain what the outcome suggests about the business's estimates of the trailer's useful life and/or residual value.

Question 5

Fernvale Florist traded in a delivery scooter on a new one during the year ended 30 June 2025. The scooter cost \$9 000 and had accumulated depreciation of \$7 400 at disposal; the trade-in allowance was \$2 000.

- a. Calculate the carrying amount and the profit or loss on disposal, treating the trade-in allowance as the proceeds.
- b. State where the profit or loss is reported in the Income Statement.
- c. Given an Adjusted Gross Profit of \$48 000, Discount Revenue of \$1 500 and Other Expenses (excluding the disposal) of \$30 000, calculate the Net Profit.

Question 6

Bluestone Brewing sold a bottling machine for cash during the year ended 30 June 2026. The machine cost \$36 000 and had accumulated depreciation of \$20 000 at disposal; the cash proceeds were \$19 000.

- a. Calculate the carrying amount and the profit or loss on disposal.

- b. State the amount and classification of the cash flow that this disposal produces in the Cash Flow Statement, and state whether the profit or loss on disposal itself appears in that report.
- c. Given an Adjusted Gross Profit of \$110 000, Discount Revenue of \$2 500 and Other Expenses (excluding the disposal) of \$78 000, calculate the Net Profit.

Practice questions — unscaffolded

Question 7

Willowbank Nursery sold a glasshouse heater for cash proceeds of \$3 500 during the year ended 30 June 2025. The heater cost \$14 000 and had accumulated depreciation of \$11 200 at disposal. For the year the business also reports an Adjusted Gross Profit of \$82 000, Discount Revenue of \$2 000, and Other Expenses of Advertising \$7 000, Wages \$38 000, Rent expense \$11 000 and Interest expense \$4 000. Prepare an Income Statement extract from Adjusted Gross Profit to Net Profit, and state the Net Profit.

Question 8

Kalinda Freightways sold a forklift for cash proceeds of \$9 800 during the year ended 30 June 2026. The forklift cost \$28 000 and had accumulated depreciation of \$15 000 at disposal. For the year the business also reports an Adjusted Gross Profit of \$105 000, Discount Revenue of \$3 000, and Other Expenses of Advertising \$10 000, Wages \$55 000, Rent expense \$14 000 and Interest expense \$6 000 (before the disposal item). Prepare an Income Statement extract from Adjusted Gross Profit to Net Profit, and state the Net Profit.

Question 9

Rosehill Catering traded in a van on a new one during the year ended 30 June 2025. The old van cost \$33 000 and had accumulated depreciation of \$19 500 at disposal; the trade-in allowance was \$11 000. For the year the business also reports an Adjusted Gross Profit of \$88 000, Discount Revenue of \$1 500, and Other Expenses of Advertising \$6 000, Wages \$46 000 and Interest expense \$5 000 (before the disposal item). Prepare an Income Statement extract from Adjusted Gross Profit to Net Profit, state the Net Profit, and state whether the van was over- or under-depreciated and by how much.

Question 10

Ambrose Automotive sold a hoist for cash proceeds of \$8 500 during the year ended 30 June 2026. The hoist cost \$22 000 and had accumulated depreciation of \$16 000 at disposal. The business reports an Adjusted Gross Profit of \$90 000, Discount Revenue of \$2 000 and Other Expenses (excluding the disposal) of \$61 000. Calculate the Net Profit as reported (including the disposal), then calculate the Net Profit that would have been reported had the disposal not occurred, and state the effect of the disposal on Net Profit.

Question 11

Delacroix Interiors reports a Net Profit of \$30 500 for the year ended 30 June 2025. Its Adjusted Gross Profit was \$120 000, its only other revenue apart from any disposal was Discount Revenue of \$3 000, and its Other Expenses apart from any disposal item totalled \$95 000. During the year it disposed of a display unit that had cost \$26 000 and had accumulated depreciation of \$21 500 at disposal. Determine whether a profit or loss on disposal was reported and its amount, and hence the cash proceeds of the disposal (assume a cash disposal and ignore GST). State whether the unit was over- or under-depreciated.

Question 12

Pinehurst Timber reports a Net Profit of \$18 000 for the year ended 30 June 2026. Its Adjusted Gross Profit was \$76 000, its only other revenue apart from any disposal was Discount Revenue of \$2 000, and its Other Expenses apart from any disposal item totalled \$56 000. During the year it disposed of a saw bench that had cost \$19 000 and had accumulated depreciation of \$11 000 at disposal. Determine whether a profit or loss on disposal was reported and its amount, and hence the cash proceeds of the disposal. State whether the saw bench was over- or under-depreciated.

Question 13

Twin Rivers Hire disposed of two **identical** generators during the year. Each had cost \$10 000 and had accumulated depreciation of \$8 500 at disposal. Generator A was sold for cash proceeds of \$2 300; Generator B was sold for cash proceeds of \$900. Calculate the profit or loss on each disposal, state for each whether the generator was over- or under-depreciated, and discuss whether either outcome necessarily means the business made an error when it originally set the depreciation.

Question 14

Marlow Cycles sold a delivery van (cost \$26 000, accumulated depreciation \$20 000 at disposal) for cash proceeds of \$4 200, producing a loss on disposal, during the year ended 30 June 2025. Explain, with reference to one relevant qualitative characteristic and one accounting assumption, why this loss on disposal is reported as an other expense in the Income Statement for the year ended 30 June 2025 rather than being ignored.

Question 15

Grampians Outdoor made two disposals during the year ended 30 June 2026. It sold a kayak trailer (cost \$8 000, accumulated depreciation \$6 800) for cash proceeds of \$1 900, and sold a climbing wall (cost \$30 000, accumulated depreciation \$12 000) for cash proceeds of \$15 500. For the year the business also reports an Adjusted Gross Profit of \$96 000, Discount Revenue of \$2 000, and Other Expenses of Advertising \$9 000, Wages \$44 000, Rent expense \$12 000 and Interest expense \$5 000 (before the disposal items). Calculate the profit or loss on each disposal, prepare an Income Statement extract from Adjusted Gross Profit to Net Profit reporting both, state the Net Profit, and state the net effect of the two disposals on Net Profit.

Question 16

Ellingham Manufacturing bought a machine for \$50 000 with an estimated residual value of \$5 000 and an estimated useful life of 5 years, and depreciated it using the straight-line method. It sold the machine for cash proceeds of \$16 000 at the **end of the fourth year**. Calculate the annual depreciation, the accumulated depreciation and carrying amount at the date of disposal, and the profit or loss on disposal. State whether the machine was over- or under-depreciated, and explain in which direction the estimate of useful life and/or residual value appears to have been wrong.

Question 17

Larkspur Retail sold a shop fitting (cost \$6 000, accumulated depreciation \$5 200 at disposal) for cash proceeds of \$2 300, producing a profit on disposal of \$1 500. The owner says: “Selling that fitting so well earned the business an extra \$1 500 of profit.” Discuss whether this is an appropriate way to describe the \$1 500, with reference to what a profit on disposal actually represents and to depreciation being an estimate.

Question 18

Whitehaven Marine sold a crane for cash during the year ended 30 June 2025. The crane cost \$80 000 and had accumulated depreciation of \$47 000 at disposal; the cash proceeds were \$40 000. For the year the business also reports an Adjusted Gross Profit of \$210 000, Discount Revenue of \$5 000, and Other Expenses of Advertising \$22 000, Wages \$105 000, Rent expense \$24 000 and Interest expense \$12 000.

- Prepare an Income Statement extract from Adjusted Gross Profit to Net Profit, and state the Net Profit.
- State what the profit or loss on disposal reveals about the accuracy of the depreciation charged on the crane, and by how much.
- State the amount and classification of the disposal's effect on the Cash Flow Statement, and confirm whether the profit or loss on disposal appears in that report.

Question 19

Rowan Fabrication has depreciated its cutting machines by the reducing-balance method for several years. With one month of the current year remaining, the owner reviews a draft Income Statement, sees that Net Profit is lower than the figure quoted to the bank in a loan application, and instructs the accountant to switch the machines to the straight-line method for this year “because it gives a smaller depreciation expense and lifts this year's profit.” The owner concedes that the machines' pattern of use has not changed. Discuss the ethical issues raised by the owner's

instruction, identify the qualitative characteristic and the accountant's responsibilities involved, and state the treatment the accountant should adopt.

Question 20

Aldebaran Freight sold a refrigerated trailer in June of the current year for cash proceeds well below its carrying amount, producing a loss on disposal. The owner tells the accountant to leave the disposal unrecorded until after 30 June so that the loss "falls into next year, where there's more profit to absorb it", keeping the current year's Net Profit higher. Discuss the ethics of delaying the recording of the loss on disposal, with reference to faithful representation and the relevant accounting assumption, and state the correct treatment.

Answers

1.
 - a. Carrying amount \$5 000; profit on disposal \$1 100 b. Other revenue (added after Adjusted Gross Profit) c. Net Profit \$22 100
2.
 - a. Carrying amount \$7 500; loss on disposal \$2 500 b. An other expense (listed among Other Expenses)
 - b. Total Other Expenses \$47 500; Net Profit \$24 500
3.
 - a. Carrying amount \$3 000; profit on disposal \$1 200 b. Over-depreciated by \$1 200 c. See solutions
4.
 - a. Carrying amount \$18 000; loss on disposal \$3 500 b. Under-depreciated by \$3 500 c. See solutions
5.
 - a. Carrying amount \$1 600; profit on disposal \$400 b. Other revenue c. Net Profit \$19 900
6.
 - a. Carrying amount \$16 000; profit on disposal \$3 000 b. \$19 000 inflow, Investing Activities; the profit does not appear in the Cash Flow Statement c. Net Profit \$37 500
7. Profit on disposal \$700; Net Profit \$24 700
8. Loss on disposal \$3 200; Net Profit \$19 800
9. Loss on disposal \$2 500; Net Profit \$30 000; under-depreciated by \$2 500
10. Net Profit as reported \$33 500; without the disposal \$31 000; the profit on disposal raised Net Profit by \$2 500
11. Profit on disposal \$2 500; cash proceeds \$7 000; over-depreciated by \$2 500
12. Loss on disposal \$4 000; cash proceeds \$4 000; under-depreciated by \$4 000
13. Generator A profit \$800 (over-depreciated); Generator B loss \$600 (under-depreciated); see solutions
14. See solutions
15. Kayak trailer profit \$700; climbing wall loss \$2 500; Net Profit \$26 200; net effect −\$1 800
16. Annual depreciation \$9 000; accumulated depreciation \$36 000; carrying amount \$14 000; profit on disposal \$2 000; over-depreciated by \$2 000
17. See solutions
18.
 - a. Net Profit \$59 000 b. Over-depreciated by \$7 000 c. \$40 000 inflow, Investing Activities; the profit does not appear in the Cash Flow Statement
19. See solutions
20. See solutions

Fully-worked solutions

Question 1

- a. Carrying amount = cost \$32 000 – accumulated depreciation \$27 000 = **\$5 000**. Profit / loss = proceeds \$6 100 – carrying amount \$5 000 = **\$1 100 profit** (proceeds exceed the carrying amount).
- b. The \$1 100 is a **profit on disposal**, reported as **other revenue** — *Profit on disposal of work vehicle* — **added** after Adjusted Gross Profit, alongside Discount Revenue.
- c. Net Profit = Adjusted Gross Profit \$60 000 + Discount Revenue \$1 000 + Profit on disposal \$1 100 – Other Expenses \$40 000 = **\$22 100**.

Question 2

- a. Carrying amount = \$18 000 – \$10 500 = **\$7 500**. Profit / loss = proceeds \$5 000 – carrying amount \$7 500 = **\$2 500 loss** (proceeds are below the carrying amount).
- b. The \$2 500 is a **loss on disposal**, reported as **an other expense** — *Loss on disposal of oven* — **listed among the Other Expenses** and deducted.

- c. Total Other Expenses = \$45 000 + loss on disposal \$2 500 = **\$47 500**. Net Profit = Adjusted Gross Profit \$70 000 + Discount Revenue \$2 000 – Total Other Expenses \$47 500 = **\$24 500**.

Question 3

- a. Carrying amount = \$25 000 – \$22 000 = **\$3 000**. Profit / loss = proceeds \$4 200 – carrying amount \$3 000 = **\$1 200 profit**.
- b. Because the tank realised more than its carrying amount, it was **over-depreciated by \$1 200** — total depreciation charged over its life was \$1 200 more than it turned out to need.
- c. The profit suggests the estimates used to depreciate the tank were slightly too aggressive: the **residual value was underestimated** (the tank was worth more at disposal than the residual assumed) and/or its **useful life was underestimated** (depreciation was spread over too few years, so each year's charge was too high). Because depreciation relies on estimates that cannot be known exactly in advance, a small profit like this does not necessarily indicate an error, but a large or repeated profit would be a signal to review the estimates.

Question 4

- a. Carrying amount = \$40 000 – \$22 000 = **\$18 000**. Profit / loss = proceeds \$14 500 – carrying amount \$18 000 = **\$3 500 loss**.
- b. Because the trailer realised less than its carrying amount, it was **under-depreciated by \$3 500** — total depreciation charged was \$3 500 less than it turned out to need.
- c. The loss suggests the estimates were too optimistic: the **residual value was overestimated** and/or the **useful life was overestimated** (depreciation was spread over too many years), so too little depreciation was charged and the carrying amount was left above the amount the trailer actually realised.

Question 5

- a. Carrying amount = \$9 000 – \$7 400 = **\$1 600**. For a trade-in the **trade-in allowance is the proceeds**, so profit / loss = \$2 000 – \$1 600 = **\$400 profit**.
- b. The \$400 profit on disposal is reported as **other revenue**, added after Adjusted Gross Profit with Discount Revenue.
- c. Net Profit = Adjusted Gross Profit \$48 000 + Discount Revenue \$1 500 + Profit on disposal \$400 – Other Expenses \$30 000 = **\$19 900**.

Question 6

- a. Carrying amount = \$36 000 – \$20 000 = **\$16 000**. Profit / loss = proceeds \$19 000 – carrying amount \$16 000 = **\$3 000 profit**.
- b. The disposal produces a cash inflow of **\$19 000** (the proceeds), reported under **Investing Activities** as *Proceeds from sale of bottling machine*. The **\$3 000 profit on disposal does not appear in the Cash Flow Statement** — it is the difference between the proceeds and the carrying amount, not a cash flow, so it is reported only in the Income Statement.
- c. Net Profit = Adjusted Gross Profit \$110 000 + Discount Revenue \$2 500 + Profit on disposal \$3 000 – Other Expenses \$78 000 = **\$37 500**.

Question 7

Carrying amount = \$14 000 – \$11 200 = \$2 800; profit on disposal = \$3 500 – \$2 800 = **\$700** (other revenue).

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Adjusted Gross Profit		82 000
add Discount Revenue		2 000
add Profit on disposal of		700

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
heater		
		84 700
less Other Expenses		
Advertising	7 000	
Wages	38 000	
Rent expense	11 000	
Interest expense	4 000	
Total Other Expenses		60 000
Net Profit		24 700

Net Profit = **\$24 700**.

Question 8

Carrying amount = \$28 000 – \$15 000 = \$13 000; loss on disposal = \$13 000 – \$9 800 = **\$3 200** (an other expense).

Income Statement (extract)
for the year ended 30 June
2026

	\$	\$
Adjusted Gross Profit		105 000
add Discount Revenue		3 000
		108 000
less Other Expenses		
Advertising	10 000	
Wages	55 000	
Loss on disposal of forklift	3 200	
Rent expense	14 000	
Interest expense	6 000	
Total Other Expenses		88 200
Net Profit		19 800

Net Profit = **\$19 800**.

Question 9

Carrying amount = \$33 000 – \$19 500 = \$13 500; using the trade-in allowance as the proceeds, loss on disposal = \$13 500 – \$11 000 = **\$2 500** (an other expense).

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Adjusted Gross Profit		88 000
add Discount Revenue		1 500
		89 500
less Other Expenses		
Advertising	6 000	
Wages	46 000	

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Loss on disposal of van	2 500	
Interest expense	5 000	
Total Other Expenses		59 500
Net Profit		30 000

Net Profit = **\$30 000**. The van was **under-depreciated by \$2 500** — its carrying amount (\$13 500) exceeded the \$11 000 trade-in allowance, so too little depreciation had been charged.

Question 10

Carrying amount = \$22 000 – \$16 000 = \$6 000; profit on disposal = \$8 500 – \$6 000 = **\$2 500**.

As reported (including the disposal), Net Profit = \$90 000 + Discount Revenue \$2 000 + Profit on disposal \$2 500 – Other Expenses \$61 000 = **\$33 500**.

Had the disposal not occurred, there would be no profit on disposal, so Net Profit = \$90 000 + \$2 000 – \$61 000 = **\$31 000**.

∴ the disposal **raised Net Profit by \$2 500** (\$33 500 – \$31 000), the amount of the profit on disposal.

Question 11

Ignoring any disposal item, Net Profit would be Adjusted Gross Profit \$120 000 + Discount Revenue \$3 000 – Other Expenses \$95 000 = **\$28 000**. The reported Net Profit of \$30 500 is **\$2 500 higher** than this, and the only difference is the disposal, so a **profit on disposal of \$2 500** was reported (a profit is added, which raises Net Profit).

The carrying amount of the unit = cost \$26 000 – accumulated depreciation \$21 500 = \$4 500, so the cash proceeds = carrying amount \$4 500 + profit \$2 500 = **\$7 000**. Because the unit realised \$2 500 more than its carrying amount, it was **over-depreciated by \$2 500**.

Question 12

Ignoring any disposal item, Net Profit would be \$76 000 + \$2 000 – \$56 000 = **\$22 000**. The reported Net Profit of \$18 000 is **\$4 000 lower**, and the only difference is the disposal, so a **loss on disposal of \$4 000** was reported (a loss is an expense, which reduces Net Profit).

The carrying amount of the saw bench = \$19 000 – \$11 000 = \$8 000, so the cash proceeds = carrying amount \$8 000 – loss \$4 000 = **\$4 000**. Because the saw bench realised \$4 000 less than its carrying amount, it was **under-depreciated by \$4 000**.

Question 13

Both generators had a carrying amount of \$10 000 – \$8 500 = **\$1 500** at disposal.

- **Generator A:** profit / loss = proceeds \$2 300 – \$1 500 = **\$800 profit** → **over-depreciated by \$800** (it realised more than its carrying amount).
- **Generator B:** profit / loss = proceeds \$900 – \$1 500 = **\$600 loss** → **under-depreciated by \$600** (it realised less than its carrying amount).

Discussion. Neither outcome, on its own, proves the business made an *error*. Depreciation is an **estimate** based on the expected useful life and residual value of an asset, and those can only be judged against reality when the asset is finally disposed of; some difference between the carrying amount and the actual proceeds is therefore normal and unavoidable, even when the estimates were made carefully and in good faith. That the two **identical** generators produced *different* results — one a profit, one a loss — illustrates this: the same depreciation estimate was reasonable for both, yet the amounts they realised differed because of factors such as their condition and the state of the second-hand market at the moment of sale. What the business *should* take from the two disposals is not that a mistake was

made, but that it should **review** the useful-life and residual-value estimates it applies to this type of generator, so that future depreciation — and the profit reported in future periods — is a more faithful representation of the assets' use.

Question 14

Under the **period assumption**, the life of the business is divided into periods and the profit of each period must include the revenues earned and the expenses incurred **in that period**. The van was disposed of in the year ended 30 June 2025, and the \$1 800 shortfall (carrying amount \$6 000 – proceeds \$4 200) is a loss that is incurred in that year — it is the under-depreciation of the asset finally recognised at disposal. Reporting it as an other expense in that year's Income Statement makes the report a **faithful representation** of the period's performance: the reported result is complete, free from material error and neutral (without bias), and Net Profit is not overstated. Ignoring the \$1 800 loss would leave the period's Net Profit **overstated** and would misrepresent the result of using and disposing of the asset, giving users a misleading view of the business's performance. (Relevance also applies: a loss on disposal is information capable of affecting the decisions users make about the business, so it should be reported in the period it occurs.)

Question 15

- **Kayak trailer:** carrying amount = \$8 000 – \$6 800 = \$1 200; profit on disposal = \$1 900 – \$1 200 = **\$700** (other revenue).
- **Climbing wall:** carrying amount = \$30 000 – \$12 000 = \$18 000; loss on disposal = \$18 000 – \$15 500 = **\$2 500** (an other expense).

Income Statement (extract)
for the year ended 30 June

2026	\$	\$
Adjusted Gross Profit		96 000
add Discount Revenue		2 000
add Profit on disposal of kayak trailer		700
		98 700
less Other Expenses		
Advertising	9 000	
Wages	44 000	
Loss on disposal of climbing wall	2 500	
Rent expense	12 000	
Interest expense	5 000	
Total Other Expenses		72 500
Net Profit		26 200

Net Profit = **\$26 200**. The net effect of the two disposals on Net Profit is the \$700 profit added less the \$2 500 loss deducted = **–\$1 800** (that is, together they reduced Net Profit by \$1 800).

Question 16

Annual straight-line depreciation = (cost \$50 000 – residual \$5 000) ÷ 5 years = **\$9 000 per year**. After 4 years, accumulated depreciation = 4 × \$9 000 = **\$36 000**, so the carrying amount at disposal = \$50 000 – \$36 000 = **\$14 000**. Profit / loss = proceeds \$16 000 – carrying amount \$14 000 = **\$2 000 profit**.

Because the machine realised \$2 000 more than its carrying amount, it was **over-depreciated by \$2 000**. The machine still had a resale value of \$16 000 at the end of the fourth year — above both its \$14 000 carrying amount and its \$5 000 estimated residual — which suggests the **residual value was underestimated** and/or the **useful life was underestimated** (the machine had more value, and more remaining life, than the 5-year, \$5 000-residual estimate assumed). Either error makes the annual charge of \$9 000 too high, so the asset was depreciated down too far.

Question 17

The description is **not** appropriate. A profit on disposal is **not** trading revenue and is not evidence of skilful selling; it is a **correction** to the depreciation charged in prior periods. The \$1 500 arises because the fitting's carrying amount (\$6 000 – \$5 200 = \$800) was \$1 500 below the \$2 300 it actually realised — that is, the fitting had been **over-depreciated by \$1 500**. Depreciation is an **estimate**, and this asset's useful life and/or residual value had been set too low, so **too much** depreciation expense was charged in the earlier years and the profits of those years were **understated** by a total of \$1 500. The \$1 500 profit on disposal essentially **reverses** that earlier over-charge in the year of disposal; it does not represent extra wealth generated by selling the fitting well. A more accurate statement is that the earlier depreciation estimate for the fitting was slightly too high, and the profit on disposal is the accounting system correcting for that when the true outcome became known.

Question 18

- a. Carrying amount = \$80 000 – \$47 000 = \$33 000; profit on disposal = \$40 000 – \$33 000 = **\$7 000** (other revenue).

Income Statement (extract)
for the year ended 30 June
2025

	\$	\$
Adjusted Gross Profit		210 000
add Discount Revenue		5 000
add Profit on disposal of crane		7 000
		222 000
less Other Expenses		
Advertising	22 000	
Wages	105 000	
Rent expense	24 000	
Interest expense	12 000	
Total Other Expenses		163 000
Net Profit		59 000

Net Profit = **\$59 000**.

- b. The \$7 000 profit on disposal shows the crane was **over-depreciated by \$7 000** — its carrying amount (\$33 000) was \$7 000 below the \$40 000 it realised, so total depreciation charged over its life was \$7 000 more than it turned out to need. This points to the residual value and/or the useful life having been underestimated.
- c. In the Cash Flow Statement the disposal produces a cash inflow of **\$40 000** (the proceeds), reported under **Investing Activities** as *Proceeds from sale of crane*. The **\$7 000 profit on disposal does not appear** in the Cash Flow Statement — it is a non-cash difference between proceeds and carrying amount, and is reported only in the Income Statement.

Question 19

Switching depreciation methods purely because straight-line “gives a smaller depreciation expense and lifts this year's profit”, when the owner accepts that the machines' **pattern of use has not changed**, is not a legitimate accounting decision — it is a decision made to **manufacture a higher profit figure** for the bank rather than to better reflect how the machines' economic benefit is consumed. A depreciation method should be chosen to match the way an asset is used up over its life; changing it for its effect on reported profit makes the Income Statement a poorer, not a better, representation of performance.

The qualitative characteristic at stake is **faithful representation**: reported profit should be complete, free from material error and neutral (without bias), and deliberately selecting the method that inflates profit introduces exactly the bias that faithful representation forbids. (The change would also weaken **comparability**, because the machines' depreciation would no longer be measured on a consistent basis from one year to the next.) The accountant's

professional responsibilities of **integrity** — being honest and not lending their name to a misleading report — and **objectivity** — being driven by the economic substance rather than by the owner’s desired result or the wish to influence the bank — both require the accountant to decline.

Treatment. The accountant should **refuse to switch methods for this reason** and continue depreciating the machines by the reducing-balance method that reflects their pattern of use, so that the depreciation expense, and hence Net Profit, are faithfully represented. A depreciation method may be changed only if it genuinely gives a more faithful measure of the asset’s use — not to reach a profit figure that suits a loan application.

Question 20

Deliberately leaving the disposal unrecorded until after 30 June, so that a loss the business has already incurred “falls into next year”, is **manipulating the timing** of the loss to keep the current year’s Net Profit artificially high. The trailer was disposed of in June of the current year, so the loss on disposal belongs to the current year; postponing it misstates the results of two periods — overstating this year’s profit and understating next year’s.

Under the **period assumption**, the life of the business is divided into periods and the profit of each period must include the revenues earned and the expenses incurred **in that period**; the loss on disposal is incurred in the current year and must be reported in it. Reporting it in the current year is what makes the Income Statement a **faithful representation** of that period’s performance — complete, free from material error and neutral (without bias) — whereas deliberately delaying it overstates Net Profit and misleads the users who rely on the report. The accountant’s **integrity** and **objectivity** require reporting the substance of what occurred rather than the timing the owner prefers.

Treatment. The disposal, and the resulting **loss on disposal**, must be **recorded and reported in the current year** — the period in which the disposal actually took place — as an other expense in the Income Statement for that year. The accountant should decline the owner’s request to defer it.