16. Disposal of PP&E

Assets may be abandoned, sold, or exchanged. In any case, it is first necessary to fully update all depreciation calculations through the date of disposal. Then, and only then, would the asset disposal be recorded.

If the asset is simply being scrapped (abandoned), the journal entry entails only the elimination of the cost of the asset from the books, removing the related accumulated depreciation, and recording a loss to balance the journal entry. This loss reflects the net book value that was not previously depreciated:

6-30-X3	Accumulated Depreciation		75,000	
	Loss		25,000	
	Equipment			100,000
	Abandoned equipment costing $100,000. The equipment was 75% depreciated on the date of disposal.			

On the other hand, an asset may be disposed of by sale, in which case the journal entry would need to be modified to include the proceeds of the sale. Assume the above assets were sold for $10,000. Logically, the loss would be reduced by this amount, and the entry would be as follows:

6-30-X3	Accumulated Depreciation		75,000	
	Loss		15,000	
	Cash		10,000	
	Equipment			100,000
	Sold equipment costing $100,000 for $10,000. The equipment was 75% depreciated on the date of sale.			

While the journal entry may be sufficient to demonstrate the loss calculation, you might also consider that an asset with a $25,000 net book value ($100,000 cost minus $75,000 accumulated depreciation) is being sold for $10,000 -- which gives rise to the loss of $15,000.

Conversely, what if this asset were sold for $30,000? Here is the entry for that scenario:

6-30-X3	Accumulated Depreciation		75,000	
	Cash		30,000	
	Gain			5,000
	Equipment			100,000
	Sold equipment costing $100,000 for $30,000. The equipment was 75% depreciated on the date of sale.			