

### CONCEPT: EXCHANGING SIMILAR FIXED ASSETS

- Sometimes, a company may “trade-in” an old fixed asset and receive a similar, newer fixed asset
  - The trade-in value of the old equipment may be more or less than the \_\_\_\_\_ of the old equipment
    - Any differences will result in a *gain or loss on exchange*
  - Any remaining cash (or Accounts Payable) due is called **boot** (the tax name)
  - A transaction has **commercial substance** if the future cash flows change as a result of the exchange
    - In this class, we deal with exchanges that have commercial substance
- Steps for determining the journal entry for an exchange:
  1. Gather information regarding the new equipment: Price – Trade-in Discount = Cash Paid
  2. Gather information regarding the old equipment: Cost – Accumulated Depreciation = Net Book Value
  3. Make the journal entry by:
    - a. Removing old equipment (\_\_\_\_\_) and accumulated depreciation (\_\_\_\_\_) from the books
    - b. Add the new equipment to the books (\_\_\_\_\_)
    - c. Remove any cash paid or create a liability for amount due (\_\_\_\_\_)
    - d. “Plug” in the gain/loss to balance the journal entry

On June 30, Exchange Corporation exchanged an old truck for a new truck. The old truck was purchased for \$12,000 and had accumulated depreciation of \$8,000. The new truck had a list price of \$16,000, but the dealership offered \$4,600 as a trade-in allowance for the old truck. The transaction has commercial substance. Journalize this transaction.

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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**PRACTICE:** ABC Company decided to exchange its old printer for a new printer. The old printer was purchased for \$1,600 and had accumulated depreciation of \$1,200. The seller of the new printer offered \$300 as a trade-in discount for the old printer. The new printer had a price of \$1,800. This transaction has commercial substance. The journal entry to record this exchange would include:

- a) Credit to Cash for \$1,800
- b) Credit to Equipment for \$400
- c) Debit to Cash for \$300
- d) Debit to Accumulated Depreciation for \$1,200