

FIXED ASSETS

BUYING AND SELLING



BUYING & DEPRECIATING A FIXED ASSET

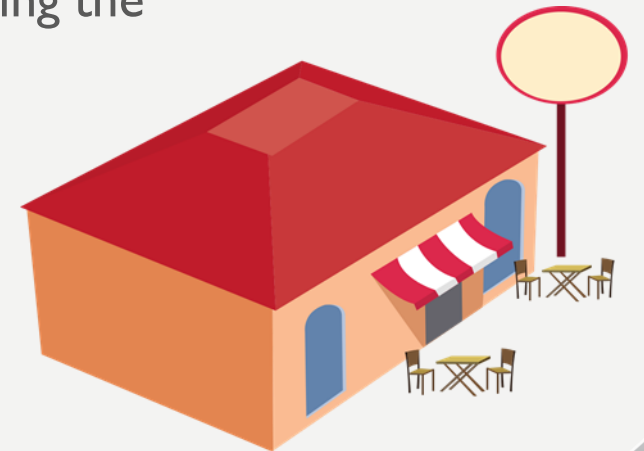
- You contract to buy a building for \$500,000. It costs you another \$100,000 to make it ready to use as a restaurant. You pay the \$600,000 on the date you open the restaurant, which is on 1/1/Year 1.

1/1/Y1	Building		600,000	
		Cash		600,000

- You depreciate the building over 20 years with zero salvage value using the straight-line method.

$$(600,000/20 = 30,000)$$

12/31/Y1	Depreciation Expense		30,000	
		Accumulated Depreciation		30,000



SELLING THE BUILDING - LOSS

- On January 1, Year 6 you sell the building for \$395,000. (So you've depreciated the building for 5 years.)
- Sale of Asset

Sale Price

395,000

Original Cost 600,000

- A/D - 150,000

Book Value

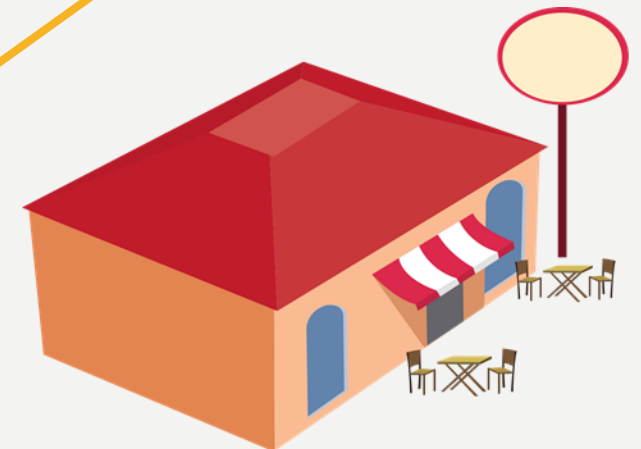
- 450,000

Loss on Sale

(55,000)

	Building			Accum. Dep		
Y1	600,000				30,000	Y1
					30,000	Y2
					30,000	Y3
					30,000	Y4
					30,000	Y5
	600,000				150,000	

I/I/YI	Cash	395,000	
	Accumulated Depreciation	150,000	
	Loss on Sale of Building	55,000	
	Building		600,000



SELLING THE BUILDING - GAIN

- On January 1, Year 6 you sell the building for **\$495,000**. (So you've depreciated the building for 5 years.)
- Sale of Asset

Sale Price **495,000**

Original Cost 600,000

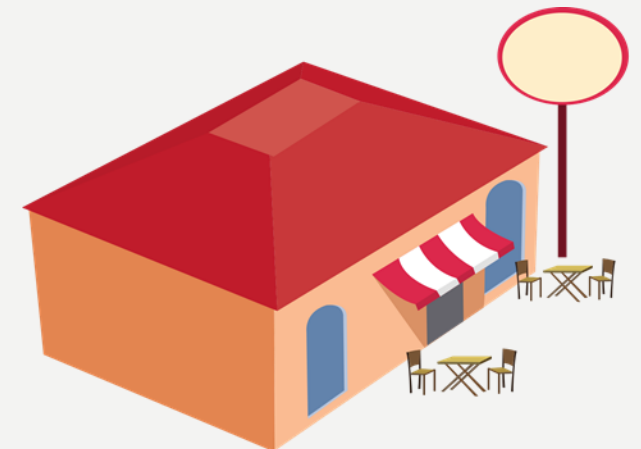
- A/D - 150,000

Book Value - 450,000

Gain on Sale 45,000

	Building			Accum. Dep		
Y1	600,000				30,000	Y1
					30,000	Y2
					30,000	Y3
					30,000	Y4
					30,000	Y5
	600,000				150,000	

I/I/YI	Cash		495,000	
	Accumulated Depreciation		150,000	
		Gain on Sale of Building		45,000
		Building		600,000





**TRY SOME
PROBLEMS**

