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.

Assets	=	Liabilities	+	Equity

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