# Fixed Assets Depreciation, Additions, & Disposals

You may be shocked to learn that 98% of all depreciation schedules are wrong. This is not the fault of your accountant, but rather the lack of communication between you and your accountant. Most depreciation schedules are still depreciating assets that have been disposed or otherwise taken out of service. Conversely, there invariably are assets that have not been listed and therefore are not being depreciated.

That is not to say that each and every asset purchased should be depreciated; rather, you should sit down with your accountant and decide a dollar value cut-off of either \$500 or \$1000 whereby all assets purchased over the given amount should be capitalized and depreciated.

For management purposes, the *straight-line* method of depreciation should be used. Your accountant's depreciation program can easily figure this method of depreciation along with the tax depreciation. Most programs even allow the user to depreciate an asset for management purposes and to not depreciate that same asset for tax purposes. Therefore, we encourage you to commission your accountant to provide you with straight-line depreciation.

You must clean up your asset list! Go through it and decide what has been taken out of service (give the date) and what should be added. Even those assets that have been "depreciated out" should be included on the asset list. For management purposes, a salvage value should be assigned for all assets. Remember, you must put additions on at *cost*, not fair market value.

Once you have your asset list/depreciation schedule cleaned up, you need to either add these opening balances to your QuickBooks data (pay special attention to "as of" dates) or adjust the opening balances. Don't forget prior accumulated depreciation (straight-line basis.)

When all beginning balances are in and correct, then you can book *Current Depreciation*. Again, your accountant can easily provide this information. To book that depreciation into QuickBooks, you must make a journal entry.

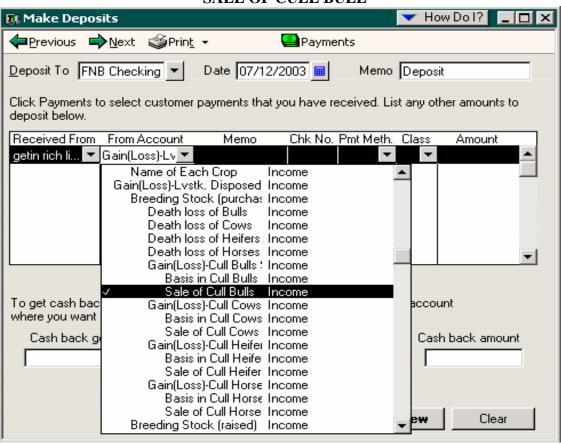
The date should be December 31, 20XX. Since you are *increasing* an expense (**Depreciation Expense**), you should enter the amount in the **second** column, or the **Debit** column. Expenses are Income Statement accounts, so a class should be attached; usually, it is **SC: Machinery & Equipment**.

When you increase Depreciation Expense, you should also increase *Accumulated Depreciation*, which is a Balance Sheet Account. This type of account is actually a "contra-asset" account, which reduces the asset account it represents. Therefore, it is treated like a Liability account (debit to decrease, credit to increase.)

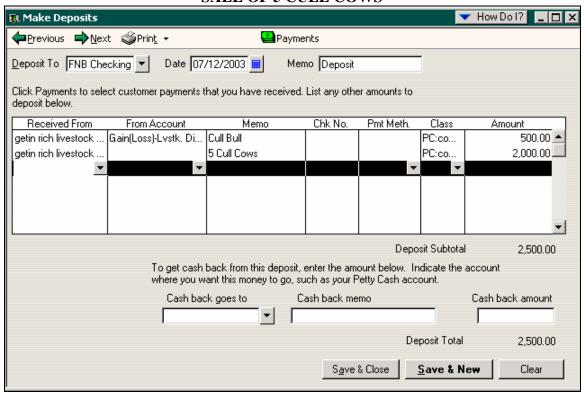
To increase the Accumulated Depreciation account for the current depreciation, choose the **Accumulated Depreciation (Asset section of Chart of Accounts)** account and enter the amount in the **Credit** column (third column). **No class is necessary.** 

	Farm Asset List										
			Purch	Purch		Prior	2003	Total Acc		Date	
Category	<u>Description</u>	<u>S#</u>	<u>Date</u>	<u>Price</u>	<u>Life</u>	<u>Depreciation</u>	<u>Depreciation</u>	<u>Depreciation</u>	<u>NBV</u>	Disposed	Traded?
Land			12/25/97	750,000.00							
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M&E	Tractor		2/14/97	40,000.00	10	22,000.00	4,000.00	26,000.00	14,000.00		
M&E	Baler		3/18/97	5,000.00	10	2,750.00	500.00	3,250.00	1,750.00		
M&E	Chutes & Panels		3/18/97	10,000.00	10	5,500.00	1,000.00	6,500.00	3,500.00		
Total for I	M&E			55,000.00		30,250.00	5,500.00	35,750.00	19,250.00		
Vehicles	'03 Chev Crew Cab		10/31/02	40,000.00	5	4,000.00	8,000.00	12,000.00	28,000.00		
Vehicles	'99 Ford 4X4		11/26/99	32,000.00	5	22,400.00	6,400.00	28,800.00	3,200.00		
Total for Vehicles				72,000.00		26,400.00	14,400.00	40,800.00	31,200.00		
Cows	50 Head		5/15/97	35,000.00	6	32,083.33	2,916.67	35,000.00	(0.00)		
Cows	25 Head		5/15/98	20,000.00	6	15,000.00	3,333.33	18,333.33	1,666.67		
Cows	25 Head		5/15/99	16,250.00	6	9,479.17	2,708.33	12,187.50	4,062.50		
Cows	2 Bulls		5/15/98	3,000.00	6	2,250.00	500.00	2,750.00	250.00		
Cows	1 Bull		6/20/98	1,500.00	6	1,125.00	250.00	1,375.00	125.00		
Cows	1 Bull		6/8/99	1,500.00	6	875.00	250.00	1,125.00	375.00		
<b>Total Cow</b>	/S			77,250.00		60,812.50	9,958.34	70,770.84	6,479.16		

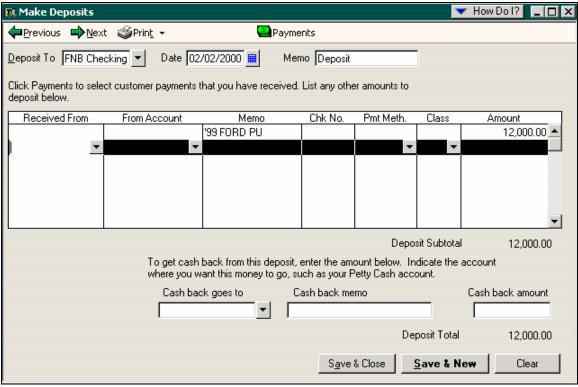
#### SALE OF CULL BULL



#### **SALE OF 5 CULL COWS**

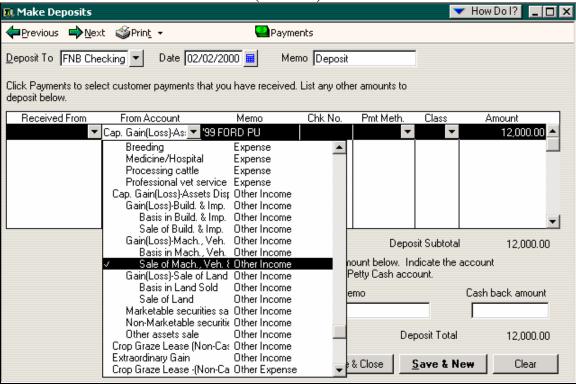


#### SALE OF 1999 FORD 4X4

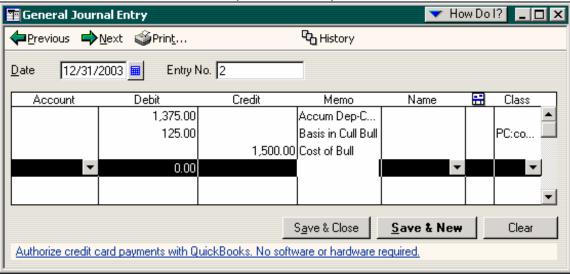


#### SALE OF 1999 FORD 4X4

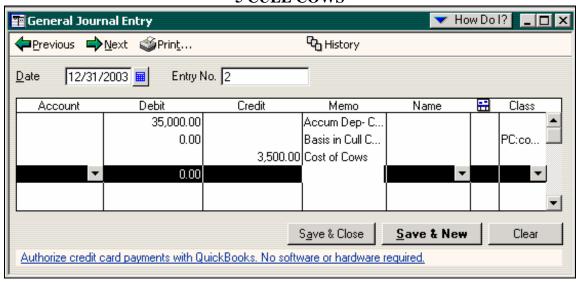
(Solution)



## DISPOSAL JOURNAL ENTRY (CULL BULL)



### DISPOSAL JOURNAL ENTRY 5 CULL COWS



### DISPOSAL JOURNAL ENTRY (DEAD COW)

