

**Eleventh lecture: Cession of tangible and intangible fixed assets**

**1- Cession of non-depreciable fixed assets**

Upon **cession** of non-depreciable fixed assets, his account shall be closed immediately. We distinguish two cases:

**The first case: Selling price is greater than the value of the fixed asset**

In this case, the **cession** process results in a surplus value recorded as revenue in the account 752 « The surplus value over the exit of non-financial fixed assets » and its equal to the difference between the **selling** price and the fixed asset value. This is done with the following accounting entry :

		Date		
462 or 512		receivables on sale of fixed assets	xx	
		Bank	xx	
	20 or 21	The fixed asset concerned		x
	752	The surplus value over the exit of non-financial fixed assets (cession of fixed assets with surplus-value)		x

**The second case: Value of the fixed asset is greater than the selling price**

In this case, the **cession** process results in a minus value recorded as a cost in the account 652 « The minus value over the exit of non-financial fixed assets » and its equal to the difference between the fixed asset value and the **selling** price. This is done with the following accounting entry :

		Date		
462 or 512		receivables on sale of fixed assets or Bank	x	
		The minus value over the exit of non-financial fixed assets	x	
	20 or 21	The fixed asset concerned ( recording of the exit of non-financial fixed assets)		xx

**Example:** On 03/25/2012, The entity ceded a land for an amount of 3,400,000 DZD. The value of the land is 3,000,000 DZD. The operation was carried out on the account

**The solution :**

Since the selling price is greater than the value of the land, the difference between them represents a surplus value, and the accounting recording of the cession is as follows:

03 / 25 / 2012				
462		receivables on sale of fixed assets ( Land)	3400000	
	211	Lands		3000000
	752	The surplus value over the exit of non-financial fixed assets (land) (cession of land with surplus-value)		400000

## 2- Cession of depreciable fixed assets

Before recording the **cession process**, we must recording the additional **depreciation** related to the year of cession.

Date of cession				
681		allocations to depreciation, and losses in value	xx	xx
	2818	depreciation of the fixed asset concerned (additional amortization from 1/1/N until the date of sale)		

When disposing of a fixed asset, the related depreciation account (account 28x), as well as the related impairment account (account 29x) (if any) must be transferred to the relevant fixed asset account (Account 20 or Account 21)

The transfer of the depreciation account and the value loss account to the concerned fixed asset account constitutes a decrease in the value of the fixation so that the surplus or minus of the value to be recognized in the results account can be determined. **We distinguish two cases:**

**The first case:** the selling price + (A/28x + A/29x) is greater than the original value of the fixed asset (A/20 or A/21)

There is a surplus value  $(A / 752) = \text{sale price} + (A / 28x + A / 29x) - \text{the original value of the installation (A/20 or A/ 21)}$  and the accounting recording of the cession is as follows:

Date of cession				
462 or 512		receivables on sale of fixed assets or Bank	x	
28xx		depreciation of the fixed asset concerned	x	
29xx		Impairment of the fixed asset concerned	x	
	20 or 21	the fixed asset concerned		xx
	752	The surplus value over the exit of non-financial fixed assets (cession of fixed assets with surplus-value)		x

**The second case:** the original value of the fixed asset (A/20 or A/21) is greater than the selling price + (A/28x + A/29x)

There is a minus value (A/652) = the original value of the fixed asset (A/20 or A/21) - sale price + (A/28x + A/29x) and the accounting recording of the cession is as follows:

		Date of cession		
462 or 512		receivables on sale of fixed assets or Bank	x	
28xx		depreciation of the fixed asset concerned	x	
29xx		Impairment of the fixed asset concerned	x	
652		The minus value over the exit of non-financial fixed assets	x	
	20 or 21	the fixed asset concerned (cession of fixed assets with minus-value)		x

**Example:**

An entity acquired an industrial machine on 01/01/2008 for an amount of 2,000,000 DZD, noting that the entity applies the linear depreciation method on its fixed assets at a rate of 20%.

On 01/07/2011, the entity sold this industrial machine, and we assume 2cases:

**The first case:** the selling price was 7200,000 DZD, and the transaction was done on the account.

**The second case:** the selling price was 500,000 DZD, and the process was done by bank check.

**Required**

1- Record the **cession process** of the machine in the first case, and indicate its result.

2- Record the **cession process** of the machine in the second case, and indicate its result.

**The solution :**

Before recording the **cession process**, we must recording the additional **depreciation** related to the year of cession (2011 : 06 months)

$$A_{2011} = 2000000 \times 20\% \times \frac{6}{12} = 200000$$

		07/01/2011		
681	2815	allocations to depreciation, and losses in value depreciation of the industrial machine (additional amortization 06 months)	200000	200000

Accumulated depreciation  $D_{Accumulate d} = 2000000 \times 20\% \times 3.5 = 1400000$

There is no loss of value

**The first case:** the selling price was 720,000 DZD, and the transaction was done on the account.

There is a surplus value = sale price + (A / 28x) - the original value

The surplus value = 720000 + 1400000 – 2000000 = 120000 and the accounting recording of the cession is as follows:

07/01/2011				
462		receivables on sale of fixed assets	720000	
2815		depreciation of the industrial machine	1400000	
	215	industrial machine		2000000
	752	The surplus value over the exit of non-financial fixed assets		120000
		(Disposal of an industrial machine with surplus-value)		

**Note:** The respective industrial machine account (Account 215) and its depreciation account (Account 2815) will be closed.

**The second case:** the selling price was 500,000 DZD, and the transaction was done by bank check.

There is a minus value = the original value – (sale price + (A / 28x) )

The minus value = 2000000 – (500000 + 1400000) = 100000 and the accounting recording of the cession is as follows:

07/01/2011				
512		Bank	500000	
2815		depreciation of the industrial machine	1400000	
	215	industrial machine		2000000
	652	The surplus value over the exit of non-financial fixed assets		100000
		(Disposal of an industrial machine with minus-value)		

**Note:** The respective industrial machine account (Account 215) and its depreciation account (Account 2815) will be closed.

### 3-scraping tangible fixed assets

When a tangible fixed asset is not usable and the entity does not expect any future economic benefits from it or from its exit, it can be scrapped and

transferred into stocks to be used as spare parts for other fixed assets or sold, and the accounting recording of this operation is as follows:

		Date		
28x		depreciation of the industrial machine	x	
29x		Impairment of the fixed asset concerned	x	
36		Inventories from fixed assets	x	
	21x	the fixed asset concerned (Disposal of an industrial machine with minus-value)		xxx

