



Frequently Asked Questions How to Record the Trade In of an Asset

This is the suggested procedure for recording the trade in of an asset.

That is where you are selling one asset, and using the sale proceeds against the purchase price of the new asset. Usually this happens with motor vehicles, you trade in your old car against your new car.

Instead of recording the sale proceeds through the cash book, we use these proceeds to reduce the amount we are paying for the new asset. So, there are two things that need to happen, we need to sell one asset and then purchase another asset as part of the same transaction. We then need to calculate the profit/loss on sale or to reduce the pool amount by, if you are using pooled assets.

EXAMPLE:

Subsidiary Ledgers

In this example, we are trading in one of our cars PIP123. We have an invoice for our new car showing a purchase price of \$33,177, which includes GST of \$2890.18 and other costs which do not have GST on them of \$1385.00. The dealer is giving us a trade in of \$22,000 which is \$20000 and GST of \$2000.

The first thing we need to do is to create a new asset for the new car. Then, we will enter the creditors invoice to record the purchase of the new car and the sale proceeds of the trade in. This is shown below:

The screenshot shows the 'Enter Creditor Invoices' window for Arrow Research Corporation. The window contains the following fields and data:

Invoice Number: 100012
 Invoice Date: 15/08/2004
 Creditor Code: NEWOAK
 Payment Date: 15/08/2004
 Current Period Invoice: [empty]
 NEW OA: [empty]
 New Oak Ford: [empty]
 Note: [empty]

T	Stock/Expense..	Quantity	Order Qty	Cost	Disc%	Tax%	Amount
A	SUX999			30286.91			30286.91
E	GSTIN			2890.09			2890.09
E	CNTFA						-20000.00
E	GSTOUT						-2000.00
S							

Des: [empty] OnO: [empty] Total: 11177.00

Master File Notes: [empty]
View

Prompt: Enter the CODE for a STOCK, EXPENSE, ASSET or BLOCK line (S/E/A/B) or: ESCA View: Enter Cre

Firstly, we have the cost of the new car (excluding the GST amount), which is posted to the new asset account. Secondly, we have the GST Claimed back on the purchase of the new car. We then have the trade in value (less the GST) being posted to the

Fixed Asset Clearing Account, and finally, the GST charged on the trade in value. This equate to the amount we will pay the dealer while recording the correct purchase and sale prices of both assets. Make sure you use the correct purchase date on the invoice as this will be recorded in the fixed asset ledger as the date of purchase.

NOTE: you should key the trade in amount to the Fixed Asset Clearing Account that is nominated in your General Ledger Key account parameters.

Next, you need to record the sale in the Fixed Assets Module. Choose Enter, then Enter Sales. You need to ensure that you use the correct date of sale to process the sale, in this case it is the same date as the purchase of the new asset. This is important if you choose to calculate depreciation on a daily basis and wish to calculate depreciation up to the date of sale.

Then enter the lines to sell the asset. If you have the module option set to allow individual reversal on sale, then Arrow will ask what you want to do with the deprecation for the current year. If you wish to calculate depreciation up unto the date of the sale, then choose Years.

DO NOT KEY IN A TAX % AS THIS HAS BEEN PICKED UP AS PART OF THE CREDITORS INVOICE AMOUNT.

Keying a tax % will cause Arrow to divide the amount you key in by 11 to calculate a GST component. This will be reporting the GST twice.

Fixed Assets for Arrow Research Corporation - D

File Enter Process View Print Close Menus Window Help

Enter Asset Sales

Sale Number: 100003 Current Period Sale

Sales Date: 15/08/2004

Detail:

T	Asset..	Note	%Sold	Qty	Tax%	Value
S	PIP123	FORD FALCON GHIA	100.00			20000.00

Cost Price Book: 32583.91 Tax:

Book Value Book: 31338.58 Tax:

Asset Descn: FORD FALCON GHIA Total:

Master File N View

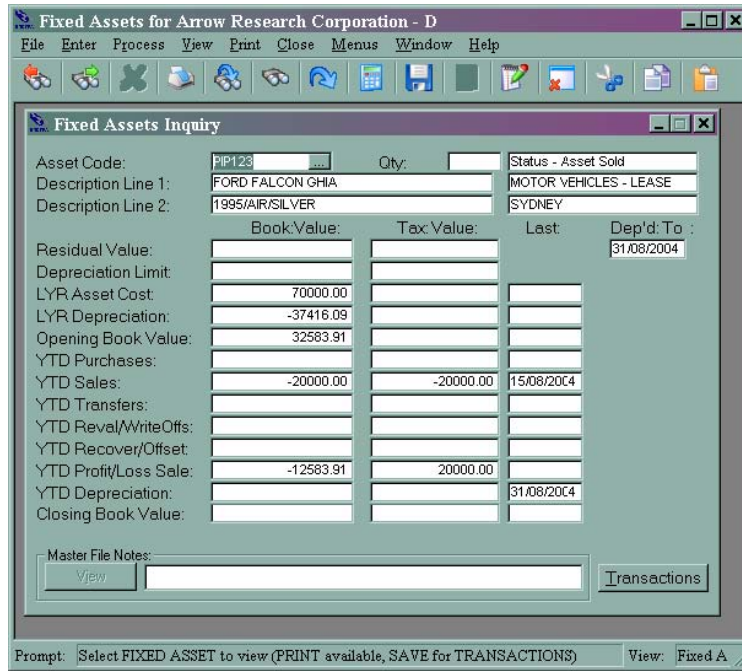
Arrow Financials

Select DEPRECIATION to REVERSE for SALE - YEARS, PERIOD, ALL or NONE

Yes Per All None

Prompt: Select!

Once you have keyed the sale entry, you can go immediately to the view option to see the resulting profit/loss on sale of this item. You do not have to calculate depreciation to see this. If it is incorrect, simply edit the sale entry to correct it. Make sure that you enter the amount of the sale LESS the GST amount.



General Ledger

The entries in the general ledger reflect the sale value, the calculation of the profit/loss and the purchase of the new asset. Note that the GST is all shown in the first journal, for the creditors invoice. There is no GST in the second journal, as it simply calculates the profit/loss on sale.

