

ACCOUNTING 402
ACCOUNTING FOR NONMONETARY TRANSACTIONS
EXCHANGE OF ONE PRODUCTIVE ASSET FOR ANOTHER PRODUCTIVE ASSET

CASE 1: Basic facts: Company A exchanges Machine A for Machine B. No boot is involved

BASIC DATA:	COMPANY A MACHINE A	COMPANY B MACHINE B
Cost	\$ 5,000	\$ 6,000
Accumulated depreciation	<u>2,000</u>	<u>3,000</u>
Book value	\$ <u>3,000</u>	\$ <u>3,000</u>
Fair value	\$?	\$ 4,000

Journal entries if the transaction is deemed to have *commercial substance* for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

Journal entries if the transaction is deemed to lack *commercial substance* for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

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Case 2: Basic Facts: Company A exchanges Machine A for Machine B and receives \$500 cash as part of the total consideration.

BASIC DATA:	COMPANY A MACHINE A	COMPANY B MACHINE B
Cost	\$ 5,000	\$ 6,000
Accumulated depreciation	<u>2,000</u>	<u>3,000</u>
Book value	<u>\$ 3,000</u>	<u>\$ 3,000</u>
Fair value	\$?	\$ 4,000

Journal entries if the transaction is deemed to have commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

Journal entries if the transaction is deemed to lack commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

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CASE 3: Basic Facts: Company A exchanges Machine A and \$500 cash for Machine B.

BASIC DATA:	COMPANY A MACHINE A	COMPANY B MACHINE B
Cost	\$ 5,000	\$ 10,000
Accumulated depreciation	<u>2,000</u>	<u>4,000</u>
Book value	\$ <u>3,000</u>	\$ <u>6,000</u>
Fair value	\$?	\$ 4,000

Journal entries if the transaction is deemed to have commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

Journal entries if the transaction is deemed to lack commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

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CASE 4: Basic Facts: Company A exchanges Machine A and \$500 cash for Machine B.

BASIC DATA:	COMPANY A MACHINE A	COMPANY B MACHINE B
Cost	\$ 14,000	\$ 10,000
Accumulated depreciation	<u>6,000</u>	<u>4,000</u>
Book value	<u>\$ 8,000</u>	<u>\$ 6,000</u>
Fair value	\$?	\$ 4,000

Journal entries if the transaction is deemed to have commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit

Journal entries transaction is deemed to lack commercial substance for both parties:

Company A's books

Company B's books

Account	Debit	Credit

Account	Debit	Credit