III. EXTRAORDINARY REPAIRS AND BETTERMENTS

Assume the revisions accounted for in Part II had not occurred. Ordinary Repairs are charged to Repair and Maintenance Expense. Extraordinary Repairs extend service (useful life) and therefore should be capitalized (debit accumulated depreciation) with depreciation per year adjusted accordingly. Betterments improve performance and should also be capitalized (debit the asset). Suppose that in the process of making Ordinary Repairs after three years of use, Darin decided to upgrade his computer with a new chip and to create networking capabilities by installing a microchannel board. The total cost was $2,000 and remaining Useful Life increased from 2 to 4 years. Because the useful life increased, the expenditure was an extraordinary repair.

	DR.	CR.
Accumulated Depreciation	2,000	
Cash		2,000
To record Extraordinary Repairs.		

Accumulated Depreciation

2,000	3,600
	Bal. 1,600

Cost	$6,000
3 year depreciation	3,600
Book Value	$2,400
Extraordinary Repairs	2,000
Adjusted Book Value ($6,000 - $1,600)	$4,400

NEW DEPRECIATION

$$\frac{\text{Adjusted Book Value} - \text{Residual Value}}{\text{Remaining Life}}$$

$$= \frac{\$4{,}400 - 0}{4}$$

$= \$1{,}100/\text{year}$

IV. DISPOSAL OF PLANT ASSETS

A number of possibilities existed when disposing of the company's 286 Computer/cash register costing $6,000 with no scrap originally expected to last 5 years. Assume Straight Line Method and that all transactions were independent. Note: Read transaction description first.

		DR.	CR.
A.	Accumulated Depreciation, Computer	6,000	
	Computer		6,000
READ FIRST-->	Disposal of fully-depreciated Computer.		
B.	Loss on disposal of Computer	1,200	
	Accumulated Depreciation, Computer	4,800	
	Computer		6,000
	Disposal of 4-year-old worthless Computer.		
C.	Cash	1,000	
	Accumulated Depreciation, Computer	4,800	
	Loss from Earthquake	200	
	Computer		6,000
	To record destruction of the 4-year-old Computer and Insurance proceeds of $1,000.		
D.	Cash	500	
	Loss on Sale of Equipment	700	
	Accumulated Depreciation, Computer	4,800	
	Computer		6,000
	Computer sold for $500 after 4 years, loss recorded.		
E.	Cash	1,500	
	Accumulated Depreciation, Computer	4,800	
	Gain on Sale of Equipment		300
	Computer		6,000
	Computer sold for $1500 after 4 years, gain recorded.		
F.	Computer (New)	7,000	
	Accumulated Depreciation	4,800	
	Loss on exchange of Computer	1,000	
	Computer		6,000
	Cash		6,800
	To record trade-in of 4-year-old Computer paying $6,800 for the new $7,000 Computer, material loss recognized. See Note 1.		
G.	Computer (New)	6,200	
	Accumulated Depreciation, Computer	4,800	
	Computer		6,000
	Cash		5,000
	To record trade-in of 4-year-old Computer for a new $7,000 Computer paying $5,000 Cash. No book gain recognized. See Note 2.		

Note: Book Value is $1,200.

Note: $2,000 was allowed in trade for a computer with a book value of $1,200. A gain is not recorded, and the difference is subtracted from the list price of the new computer.

Note 1: In the case of material losses, accounting principles require the loss be recorded. The IRS does not allow for a loss, regardless of materiality, and the asset's value is increased. The result, two sets of accounting records must be kept. Here, $200 was allowed in trade for a computer with a $1,200 book value. The AICPA requires this material $1,000 loss be recorded. IRS rules require the computer be recorded at $8,000.

Note 2: Tax rules and accounting principles agree that gains on the trade-in of plant assets should be absorbed by the new asset of like purpose. Accordingly, the new asset is recorded at less than list price.