

Equipment Purchase with a Loan and a Trade-In

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The purchase of equipment requires adjusting multiple accounts. The trade of old equipment, paying off an old loan, creating a new loan, loan fees, a down payment, and the new fixed asset purchase can all be recorded in one general journal.

 **Note:** We recommend you speak with your accountant prior to entering this journal entry as they may want you to continue depreciating the traded asset instead of rolling the remaining value to the new asset, as this document describes.

Prerequisites

Prior to starting the transaction, you will need to know the current book value of the existing assets and loans that are part of the trade. To find the current book value of fixed assets:

- » To find the current book value of fixed assets, select Setup > Fixed Assets > Fixed Assets > Balances or select Reports > Reports > Fixed Assets > Fixed Asset Activity report.
- » To find the loan balances and accumulated depreciation balances, select Setup > Accounts > Accounts > Balances tab.

This document contains the following steps:

Equipment Purchase with a Trade and a Loan

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Equipment Purchase with a Trade and a Loan

 Example: A company purchased a 2012 Truck for \$38,000 with a \$4,000 cash down payment and a new loan of \$26,275. A 2009 GMC Pickup was traded in with a \$34,075 Book Value, Accumulated Depreciation of \$25,900, a loan balance of \$3,800 (with legal fees of \$390 and interest of \$85). They received \$12,000 for the trade in resulting in a Gain of \$3,825 ($12,000 - (34,075 - 25,900)$).

1. Select **Processes > General Journal Entries**.
2. Select the **Company**.
3. In the **Name** box select the equipment dealer.
4. In the **Transaction Type**, select **General Journal Cash/Accrual**.
5. In the **Date** box, enter the purchase date.

Step A: Asset Purchased - Create New Fixed Asset

1. In the first **Account** field, **right-click** and select **New Fixed Asset Item**.
2. Enter the **Name** for the new fixed asset, for example 2012 Pickup Truck.
3. In the **Assets** box, select the group for the new fixed asset.
4. Enter other details for the new fixed asset, such as Depreciation Expense and Accumulated Depreciation Account
5. Click **Save**.
6. In the **Debit** column, enter the amount paid for the new asset. Example, 38,000.

Account	Quantity	Associated Account	Debits	Credits	Line Description
2012 Farm Truck	0.00000		\$ 38,000.00	\$ 0.00	
2009 GMC Pickup	0.00000		\$ 0.00	\$ 34,075.00	Remain book value of traded 2009 GMC Pickup
Accumulated Depr - Machinery	0.00000	2009 GMC Pickup	\$ 25,900.00	\$ 0.00	Accumulated Depreciation on 2009 GMC Pickup at time of trade
Gains on Asset Sales	0.00000		\$ 0.00	\$ 3,825.00	Gain from the trade of 2009 GMC Pickup (12,000 trade in value - 8,175 remaining book value)
2009 GMC Pickup Loan	0.00000		\$ 3,800.00	\$ 0.00	Payoff of old pickup loan
Interest Expense - Equipment	0.00000	2009 GMC Pickup Lo	\$ 85.00	\$ 0.00	Interest to pay off on old pickup loan
Legal Expense	0.00000		\$ 390.00	\$ 0.00	Legal fees charged in the transaction
First National Bank	0.00000		\$ 0.00	\$ 4,000.00	Cash down payment
2012 Truck Loan	0.00000		\$ 0.00	\$ 26,275.00	New Loan

Debit Total: \$68,175.00
Credit Total: \$68,175.00
Difference: \$0.00

Step B: Asset Traded

1. In the **Account** field, select the fixed asset that was traded, for example 2009 GMC Pickup. Enter the book value amount in the Credits column, for example \$34,075.00.

Step C: Accumulated Depreciation (if you are not using accumulated depreciation, skip to step D)

1. In the next **Account** field, select the **Accumulated Depreciation** account.
2. In the **Debits** column, enter the total amount previously depreciated for the traded asset, for example \$25,900.00.
3. Right-click in the row and select **Add/Remove Columns**.
4. Select the **Associated Account** field, then click **OK**.
5. In the **Associated Account** field, tag the item by selecting the fixed asset traded in, for example 2009 GMC Pickup.
6. If there was more than one asset traded, select the next fixed asset and repeat the same steps for this asset.

Step D: Record Gain\Loss on Traded Item

1. In the next **Account** field, select the **Gain\Loss on Sale of Assets** account (If you have separate accounts for both gain and loss select the appropriate account).

2. Enter the **Amount** of the gain or loss. This should be: Trade Value – (Book Value of Asset Traded – Accumulated Depreciation of Asset Traded) A loss should be a debit and a gain should be a credit. In this example enter a gain of 3,825.

Step E: Pay Off Old Loan

1. In the next **Account** field, select the existing **Loan** account being paid off, for example 2009 Truck Loan.
2. Enter the **current book value** in the **Debits** column, for example \$3,800.

 Note: Refer to the prerequisite above for instructions on finding the current book value of the existing loan.

Step F: Interest Payment on Old Loan

1. In the next **Account** field, select the **Interest** expense account.
2. Enter the **Amount** in the **Debits** column., for example \$85.00.
3. In the **Associated Account** field, tag the item by selecting the fixed asset traded in, for example 2009 Truck Loan.

Step G: Loan Fees

1. In the next **Account** field, select the **expense** account for loan fees such as Legal services.
2. Enter the **fees** in the **Debits** column, for example \$390.00.

Step H: Cash Down Payment

1. In the next **Account** field, select the **bank account**, for example First Nation Bank.
2. Enter the **down payment** amount in the **Credits** column, for example \$4000.00.

Step I: Create a New Loan

1. In the next **Account** field, **right-click** and select **New Account**.
2. Enter the **Name** for the loan. **Note:** Add "Loan" in the name so you are able to easily distinguish the loan from the asset in future transactions.), for example 2012 truck Loan.
3. Select **Liabilities** in the **Account Type**.
4. Select **Equipment Loan** in the **Account Category**. Other details can be added as needed.
5. Click **Save**.
6. Enter the **amount of the loan** in the **Credits** column, for example \$26,275. (Alternately on the last line of the journal entry you can click on the Difference button on the screen and it will fill in the value of the last line).

Step J: Complete Journal Entry

1. Enter a **Notation** if desired. The notation is recorded to all journals in a general journal transaction. As an option, you may add a column called line description to the grid to enter in a different description for each line of the journal entry.
2. Click **Save**.