

**EXCHANGE OF NON-MONETARY ASSETS ©**  
**Written by Professor Gregory M. Burbage, MBA, CPA, CMA, CFM**  
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If you are unfamiliar with either the terminology or concepts of gains and losses, refer to *Disposal of Depreciable Assets – General Rule* paper before reading this paper.

Compute the total gain or loss on the transaction, which is equal to the difference between the fair market value of the asset given up and book value (cost minus accumulated depreciation) of the asset given up. *Sometimes the fair market value of the asset received is more clearly evident and should be used to determine the fair market value of the asset given up.*

**AFTER JUNE 15, 2005 the entire gain or loss is to be recognized.**

A typical journal entry is as follows:

|                                      | <u>Debit</u> | or | <u>Credit</u> |
|--------------------------------------|--------------|----|---------------|
| Cash (received or paid)              | xx           |    | xx            |
| Accumulated depreciation (old asset) | xx           |    |               |
| Asset (old asset cost)               |              |    | xx            |
| Loss (debit) or Gain (credit)        | xx           | or | xx            |
| Asset (new asset basis)              | xx           |    |               |

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**PRIOR TO JUNE 15, 2005 losses were recognized in full but all of, none of or only a portion of the gain could have been recognized.**

**Requirements for recognizing gains was as follows:**

1. If the earnings process is considered complete (an exchange of dissimilar assets), the entire gain is recognized, or
2. If the earnings process is not considered complete (an exchange of similar assets) and:
  - a. No cash is involved, no gain is recognized, or
  - b. Some cash is given up, no gain is recognized, or
  - c. Some cash is received use the following formula to determine the gain to be recognized.

**Gain Recognized Formula:**

$$\text{Gain Recognized} = [\text{cash received} / (\text{cash received} + \text{fair value other asset(s) received})] \times \text{gain realized}$$

### Journal Entry Approach:

First, fill in numbers 1, 2 and 3 of the journal entry below. Second, using the above rules for gain or loss recognition by filling in the proper amount for #4. If there were a new asset acquired in the exchange, the amount needed to balance the entry would be the basis in the new asset (#5). If there is no new asset, then the entry should already balance.

A typical journal entry is as follows:

|   | <u>Debit</u> | or | <u>Credit</u> |
|---|--------------|----|---------------|
| 1. Cash (received or paid)              | xx           |    | xx            |
| 2. Accumulated depreciation (old asset) | xx           |    |               |
| 3.     Asset (old asset cost)           |              |    | xx            |
| 4. Loss (debit) or Gain (credit)        | xx           | or | xx            |
| 5. Asset (new asset basis, if any)      | xx           |    |               |

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***For income tax purposes (not GAAP)***, if there is an exchange of similar assets (usually a trade-in of one asset as a down payment or partial down payment on a new asset) no gain or loss is recognized regardless of any cash involved in the transaction.