PIPSO
Pacific Islands Private Sector Organisation

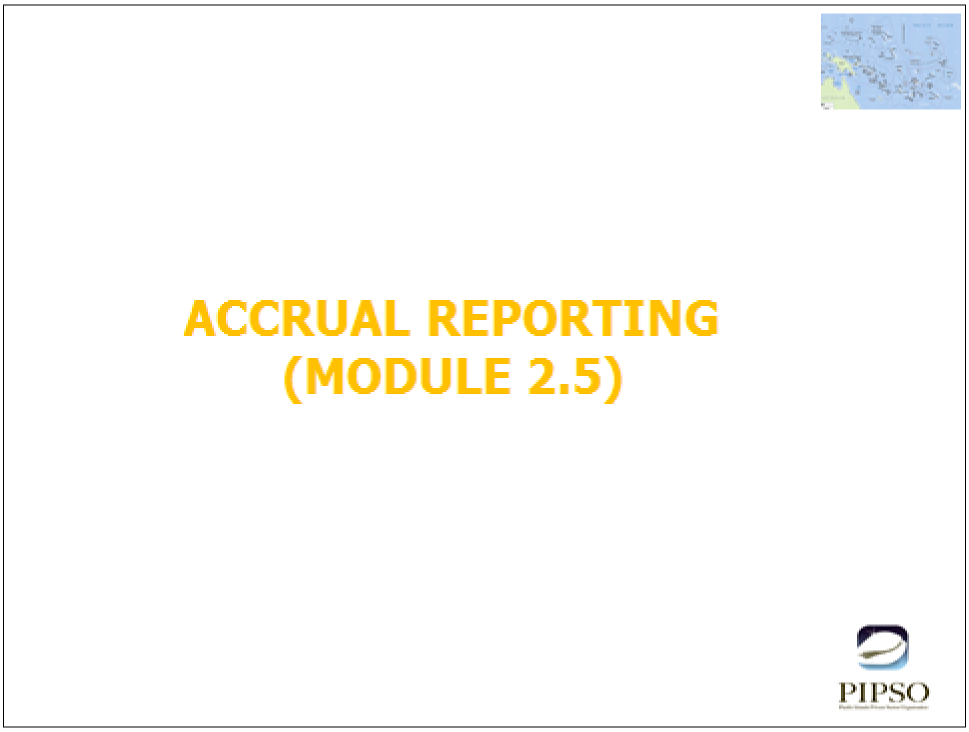
January 1

ACCRUAL REPORTING

2014

This Module introduces accrual accounting & non-current asset recording, including the calculation & recording of depreciation. The Module concludes with the recording of the disposal of non-current assets. Throughout, the differences between cash & accrual accounting are highlighted. Examples & exercises are provided to assist learning.

MODULE 2.5



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PURPOSE

This Module completes the introduction to more complex accrual accounting principles that began in Level 2 Module 1, Accounting Concepts.

Participants are introduced to the accrual accounting methodsthat match revenues & expenses,instead of the cash inflow& outflows, during a period.

Accrual accounting methods are illustrated using practical examples comparing the two systems to show the impact of using an accrual accounting system instead of a cash accounting system. It is important for participants to understand the examples of period-end accrual calculations & recording.

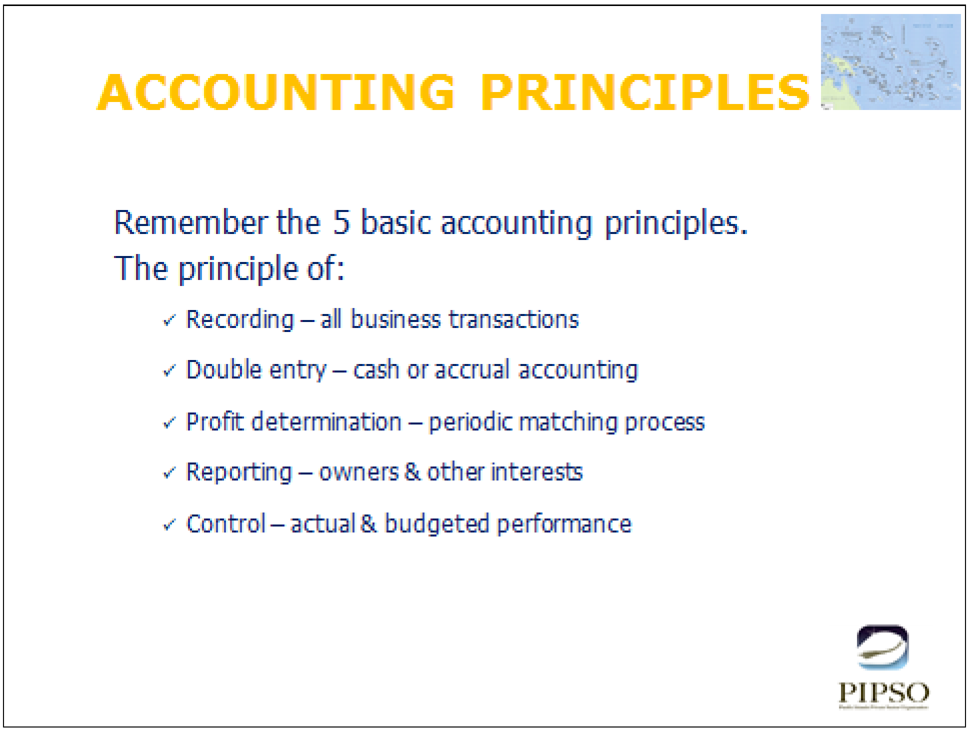
The use of an accrual accounting system is recommended as businesses expand because the information provided is more accurate for management reporting & evaluation purposes.

The accounting treatment of acquisition of non-current assets, depreciation & disposal of these assets is also introduced. The contents of an asset register are explored as a part of the end-of-Module activities. Depreciation is a major reason for differences in reporting cash & accrual accounting.

It is intended that the material covered in this Module will remove some of the mystique surrounding the end-of-period work done by accountants for clients in preparing their financial reports.

On completion of this Module participants should appreciate the difference between cash & accrual accounting practices & the benefits of the accrual system in terms of accurate information. Participants should also have a better appreciation of the work done by their accountant.

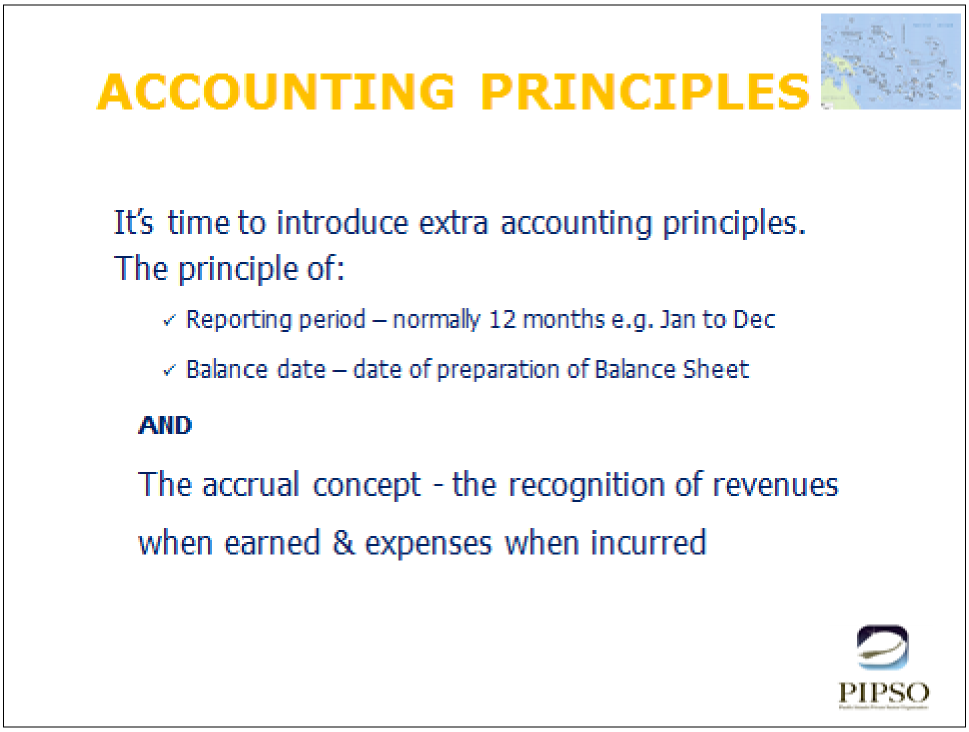
ACCOUNTING PRINCIPLES



The above principles were introduced in Level 2, Module 1, Accounting Concepts on day one of this programme.

- The simplest way to record all business transactions is using a business bank account
- The business cash book for receipts & payments reconciled from time to time with the bank statement complies with the double entry principle
- For a micro/small business match cash inflow & outflow or as you grow record profit periodically using revenues & expenses recorded on an accrual basis
- Report financial information to owner & other interested parties as required& management as frequently as practical
- Manage assets, liabilities & financial information in a controlled environment & budget ahead to compare with actual performance & take action as required

The following slide introduces the financial reporting period, 12 months, normally used for reporting to the authorities& financiers, which we all take for granted, together with the balance sheet as at the close of business on the last day of the reporting period. Put simply, we record transactions over a fixed period to determine the health of the business at the end of that period.

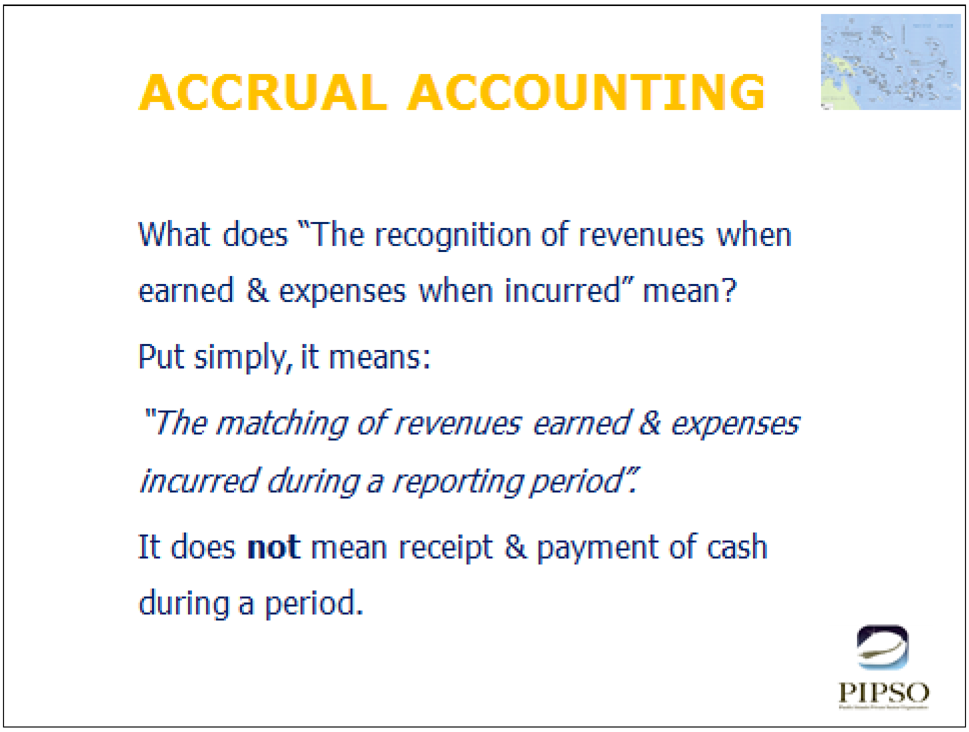


Why report using the accrual principle?

- Because the information generated from the financial accounting reports is a more accuraterepresentation of business performance, revenues less expenses, during a period & the value of a business at the last day of the period.
- The information is used in a variety of ways for planning & management purposes as demonstrated later Modules in this Toolkit:
    - Financial Statements (Module 2.6)
    - Business Costs & Pricing (Module 3.2)
    - Funding, Debt & Equity (Module 3.5)
    - A Bank's View of Finance (Module 3.6)
    - Valuing a Business (Module 3.7)

This does not mean that reporting & understanding cash flows is any less important. Cash flows are also used concurrently for valuation & reporting purposes.

ACCRUAL ACCOUNTING



Whenever business transactions cover a period that extends beyond oneaccounting/budget reporting period, e.g. the purchase of assets with lives of many years, there is the potential for materially different reporting outcomes using cash & accrual reports.

Even in the short term, payments for periods from 3 to 12 months will distort monthly cash reports, i.e. payments in arrears or advance. While this does not reduce the importance of cash flow reports, it does suggest that there may be another (better) way to report transactions than using only cash flows.

For larger businesses, the accrual method that recognises & matches the period when revenues are **earned**& expenses**incurred**is preferred & may be even be required.

The differences between cash & accrual reporting are indicated in the table below.

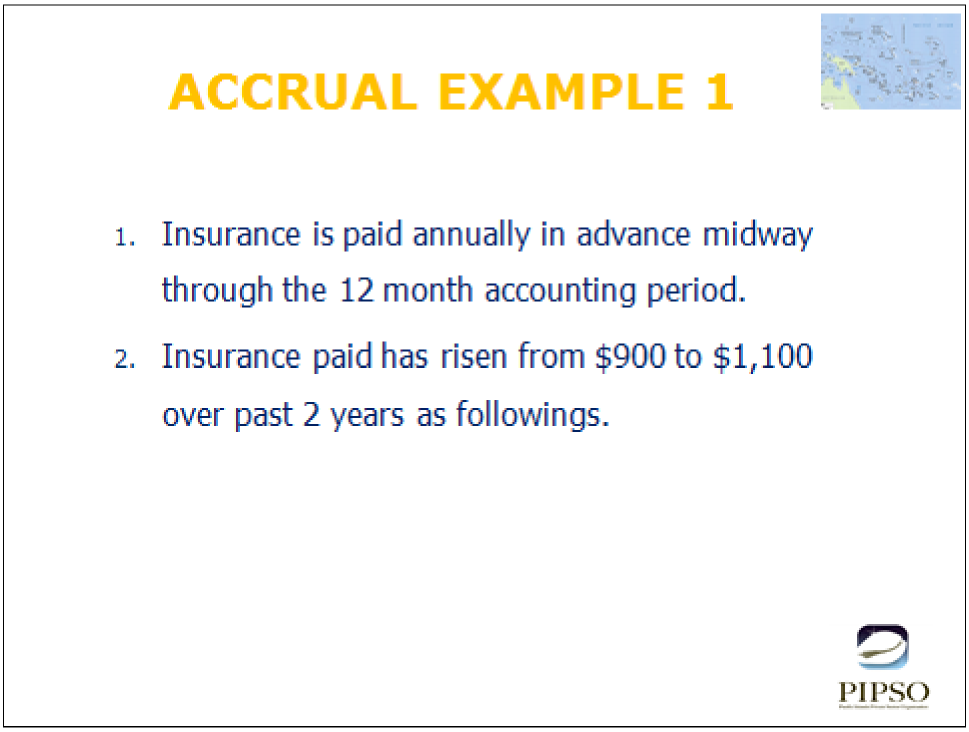
Cash basis	**Accrual basis**
Records receipts as though the same as revenue	revenues are recorded as earned, which may be before or after receipt
Records payments as though the same as expenses	Expenses are recorded as they are incurred, which may be before or after they are paid
Financial statements match receipts & payments	Financial statements match revenues & expenses, not cash in & out

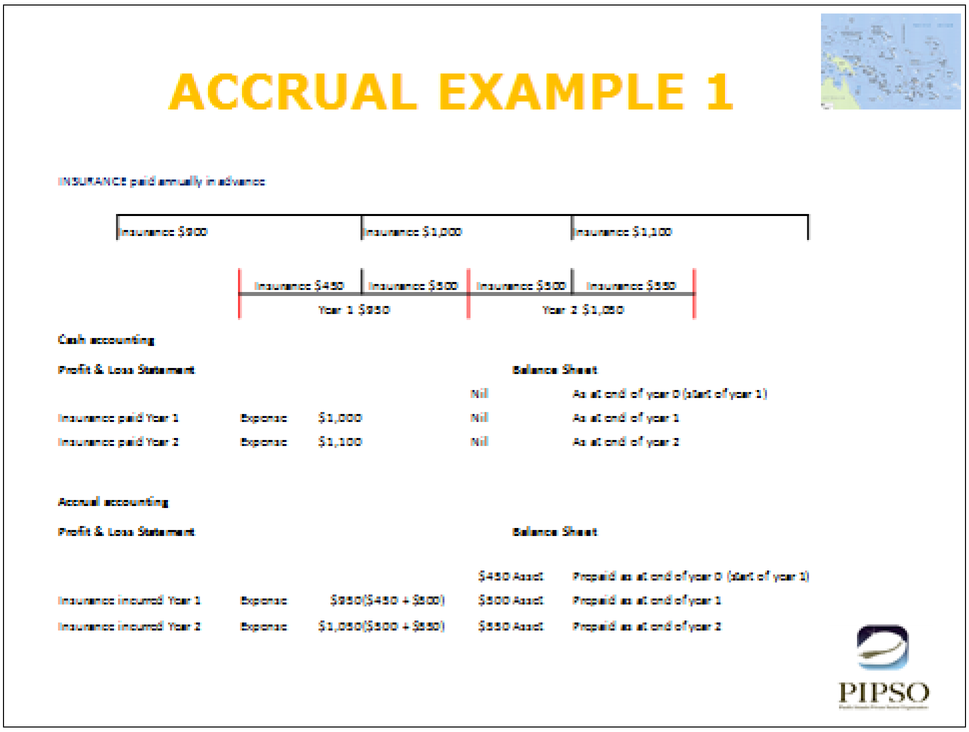
Receivables are not recorded, requires an external system	Receivables are recorded at time of sale, not receipt of cash
Payables are not recorded, requires an external system	Payables are recorded at time of purchase, not payment of cash
Does not track credit transactions, requires an external system	All credit transactions are recorded at the time of the transaction, not cash flow
Depreciation is not recorded, requires an external system	Records depreciation periodically
No method for tracking partial payments, requires an external system	Sales & purchases recorded at time of transaction. Receipts & payments recorded in cash book & balance sheet

Examples are a good way to highlight the differences between cash & accrual reporting. To this end a series of examples follows.

EXAMPLE 1 - Insurance

Insurance is a typical business transaction that occurs generally billed & paid on an annual basis, but not on the annual balance date. At balance date there will either be an amount paid for the following year as insurance is an amount prepaid for a period, usually 12 months.





Reporting for years 1 & 2 using a cash accounting system would be as follows:

Report	A/C type	Year 1	Year 2
Income statement	Expense	$1,000	$1,100
Balance sheet	Asset	Nil	Nil

Reporting for years 1 & 2 using an accrual accounting system would be as follows:

Report	A/C type	Year 1	Year 2
Income statement	Expense	$950	$1,050
Balance sheet	Asset	$500	$550

If reports were prepared on a monthly basis the income statement would bring to account an expense equal to 1/12 of the annual cost while the asset appearing in the balance sheet asset would reduce by the amount brought to account each month.

EXAMPLE 2 – Salaries & wages

Salaries are usually paid on a fortnightly or monthly basis using a seven working day week. Wages are normally paid on a weekly basis based on a five, five & a half or six day working week. In either event the payment & end-of-period are not normally the same date. There can be a significant difference in the timing which means that the cash payments do not reflect the earnings during a reporting period.

The following simplified example highlights this difference.

ACCRUAL EXAMPLE 2

1. $7,000 wages are paid weekly (on a 7 day week basis) in arrears on Friday each week.
2. Wages for the month of August are for 31 days.
3. July ended on a Monday.
4. August ends on a Thursday.

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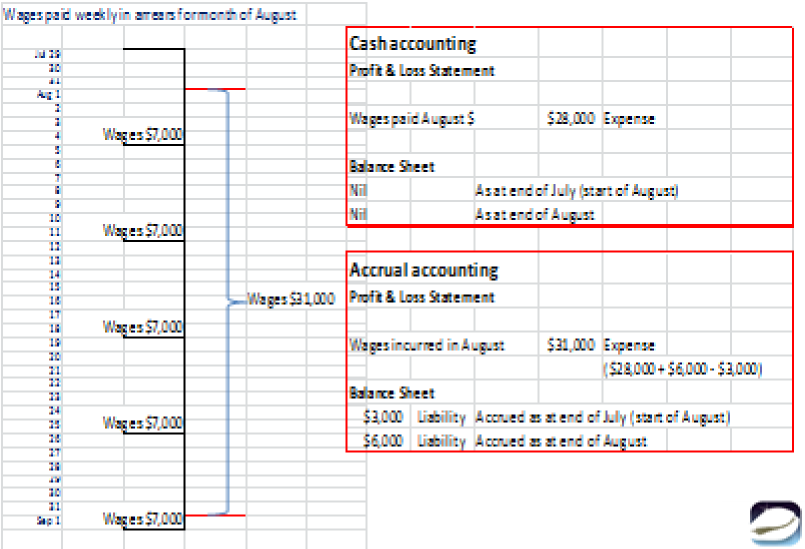
ACCRUAL EXAMPLE 2



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Reporting for August using a cash accounting system would be as follows:

Report	A/C type	August
Income statement	Expense	$28,000
Balance sheet	Liability	Nil

Reporting for August using an accrual accounting system would be as follows:

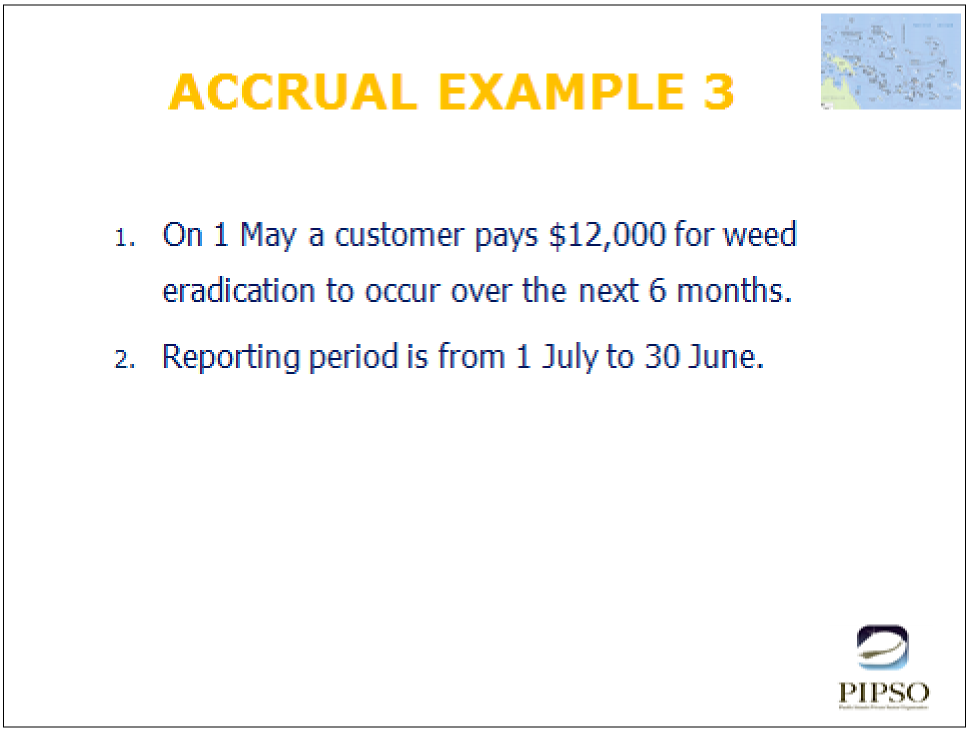
Report	A/C type	August
Income statement	Expense	$31,000
Balance sheet	Liability	$6,000

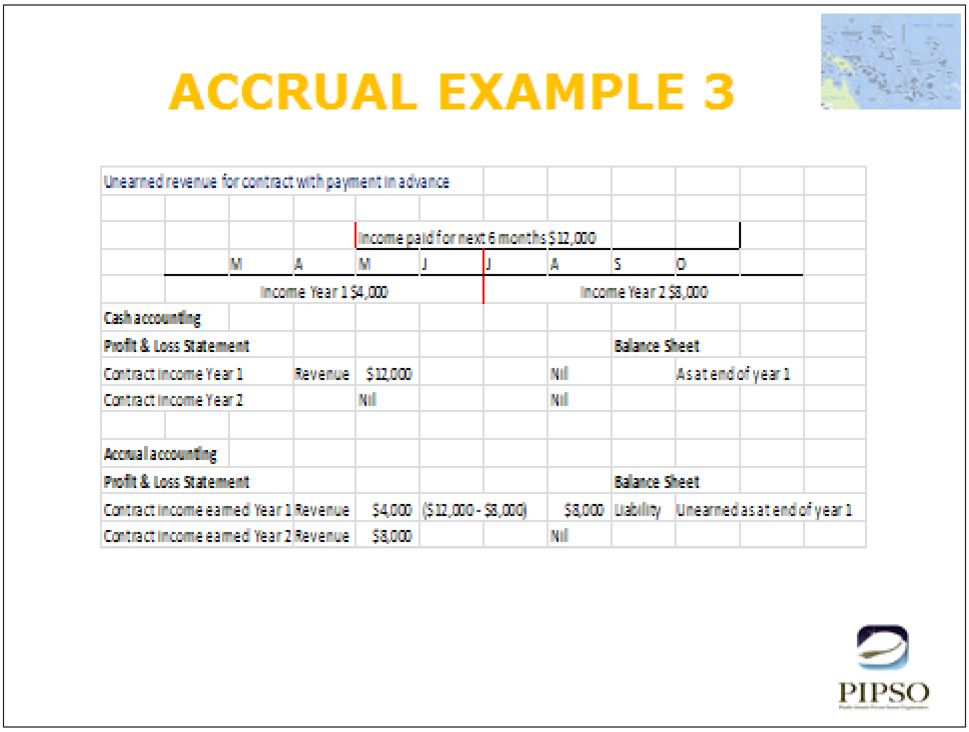
Reports prepared on a monthly will vary every month based on the difference, measured in days, between the monthly reporting date & the payroll pay-day, e.g. the liability as at the end of July was $3,000 being 3 days.

A further complication may occur if the pay-day is not for the period (week, fortnight or other) ending on that day. Sometimes they are paid a day in advance or arrears of the date they are paid to, e.g. paid on Friday for work completed up to & including the preceding Thursday.

EXAMPLE 3–Weed eradication revenue

Sometimes customers choose to pay for services in advance. This is good for cash flow, but clearly the revenue from this cash flow is not earned until the work is done. The revenue must be recognised progressively as work is completed & therefore, at a balance date the contact (cash payment) amount will be partially earned & partially unearned revenue in the books of record as follows.





Reporting as at 30 June in year 1 using a cash accounting system would be as follows:

Report	A/C type	Year 1	Year 2
Income statement	Revenue	$12,000	Nil
Balance sheet	Liability	Nil	Nil

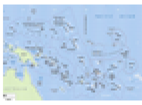
Reporting as at 30 June in year 1 using an accrual accounting system would be as follows:

Report	A/C type	Year 1	Year 2
Income statement	Revenue	$4,000	$8,000
Balance sheet	Liability	$8,000	Nil

Reports prepared on a monthly will vary every month based on the work done during the month. Assuming the work is done uniformly over the 6 month period the revenue will be recognised at the rate of $2,000 per month, while the asset (unearned revenue) will decrease by $2,000 per month to recognise the additional revenue earned as the work is performed.

Now let’s do some revision based on short, multiple choice questions.

ACCRUAL ACCOUNTING



Time for some exercises.

Participants are to complete the multiple choice questions (Activity 2.5.1).

Discuss answers with the whole group.

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Activity 2.5.1

Multiple Choice Questions

Highlight the correct answers. Unless specified, questions do not include VAT/GST.

1. Which two of the following items are current assets?
   (a) Accrued revenue & accrued expense
   (b) Accrued revenue & revenue in advance
   (c) Accrued revenue & prepaid expenses
   (d) Prepaid expenses & accrued expenses

2. The accounts show that $500 value of insurance is paid in advance & related to the next financial year. This is:
   (a) Accrued expense
   (b) Prepaid expense
   (c) Accrued revenue
   (d) Revenue in advance

3. A real estate sale, on commission, was made in June to be settled in July. The commission revenue account for the year ended 30 June is:
   (a) Increased
   (b) Decreased
   (c) Unchanged
   (d) Not affected until July

4. Insurance expense includes an amount of $400 paid relating to next financial year. The same account does not include an amount owing in the current year of $600. How should insurance expense be adjusted?
   (a) Make one entry for $200
   (b) Add $200 to the insurance expense account
   (c) Prepare balance day adjustments for both accrued & prepaid expense
   (d) Prepare balance day adjustments for both accrued revenue & prepaid expense

5. Salaries are paid to close of business Wednesday 27 June totalling $135,000. The gross pay for the five day week (Monday to Friday) is $2,800 & the next pay day is Wednesday 4 July. How much accrued salaries should be added to the salaries account for the year ended 30 June?
   (a) $560
   (b) $1,120
   (c) $1,680
   (d) $2,240

6. Interest is due on a loan from Our Bank at 30 June & has not been paid. At 30 June this amount represents:
   (a) Accrued expense
   (b) Prepaid expense
   (c) Unearned revenue
   (d) Prepaid revenue

7. Sales less sales returns are $230,000. The opening inventories are $17,000 & the closing inventories are $24,000. Freight inwards is $700, freight outwards is $500 & customs duty is $900. Purchases less returns are $118,000. How much is the gross profit?
   (a) $103,400
   (b) $116,900
   (c) $117,400
   (d) None of the above

8. Asset & liability accounts are not closed at the end of an accounting period because:
   (a) They are not a part of profit determination
   (b) They appear in the balance sheet
   (c) Their account balances stay open
   (d) All of the above

9. Which of the following accounts is a current liability?
   (a) Mortgage loan
   (b) Accrued revenue
   (c) Prepaid expense
   (d) Accrued expense

10. After calculating the gross profit it was discovered that a purchase invoice relevant to the financial year was not included in the purchases account. The previously calculated gross profit figure is:
    (a) Understated
    (b) Overstated
    (c) Not affected
    (d) None of the above

11. At the start of the year the equity balance was $33,000. During the year the owner brought a car valued at $12,090 into the business & drew out of the business $4,060 in cash. The net loss for the year was $6,200. How much is the closing balance of equity?
    (a) $10,650
    (b) $34,830
    (c) $42,950
    (d) $47,230

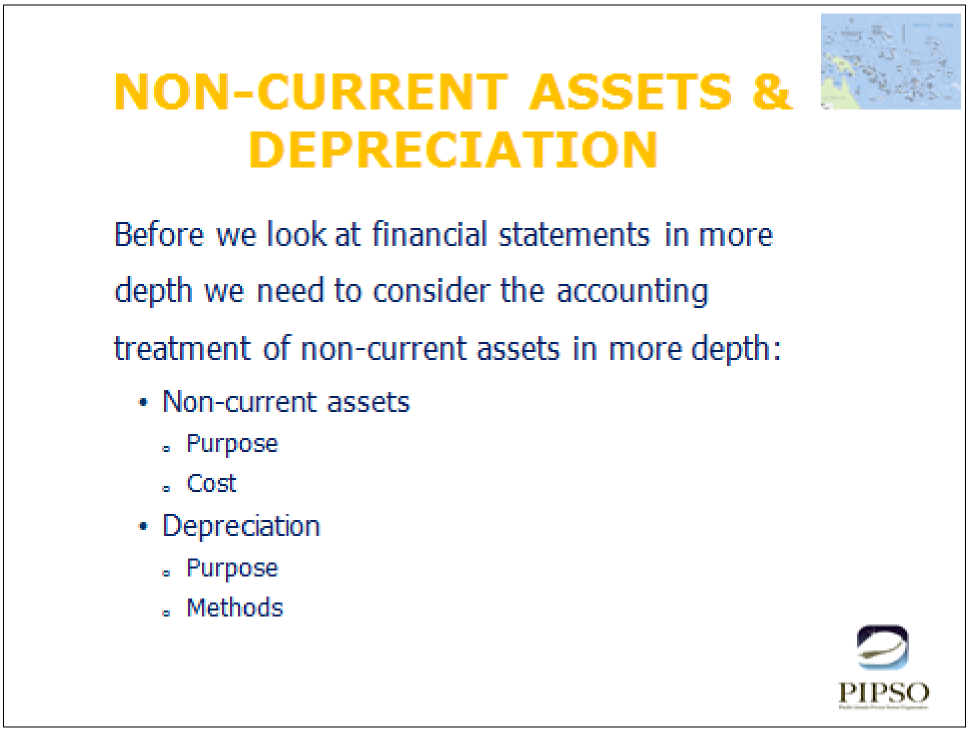
12. Accrued revenue is a:
    (a) Current asset
    (b) Non-current asset
    (c) Current liability
    (d) Non-current liability

NON-CURRENT ASSETS & DEPRECIATION

The recording & reporting of non-current assets & depreciation is normally undertaken by a qualified accountant on behalf of a client as the accountant is familiar with accepted accounting & taxation authority requirements & standard account recording practices& approved depreciation rates. Most clients lack the knowledge of where to find this information. In this event it will be recorded annually only &may not figure in monthly reporting.

Underan accrual reporting system it should be include.

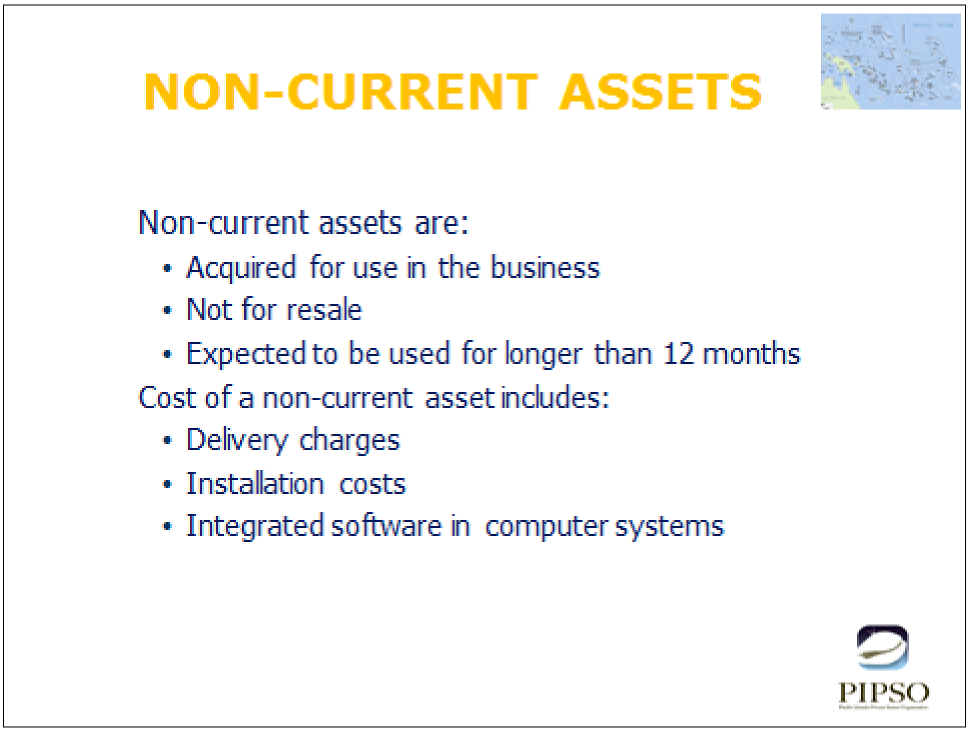
The broad principles for reporting non-current assets & depreciation are explored next.



An asset must have a life in excess of 12 months (usually several years), be for use in the business (not for resale) &be used for a business purpose if it is to be owned & depreciated as a business asset.

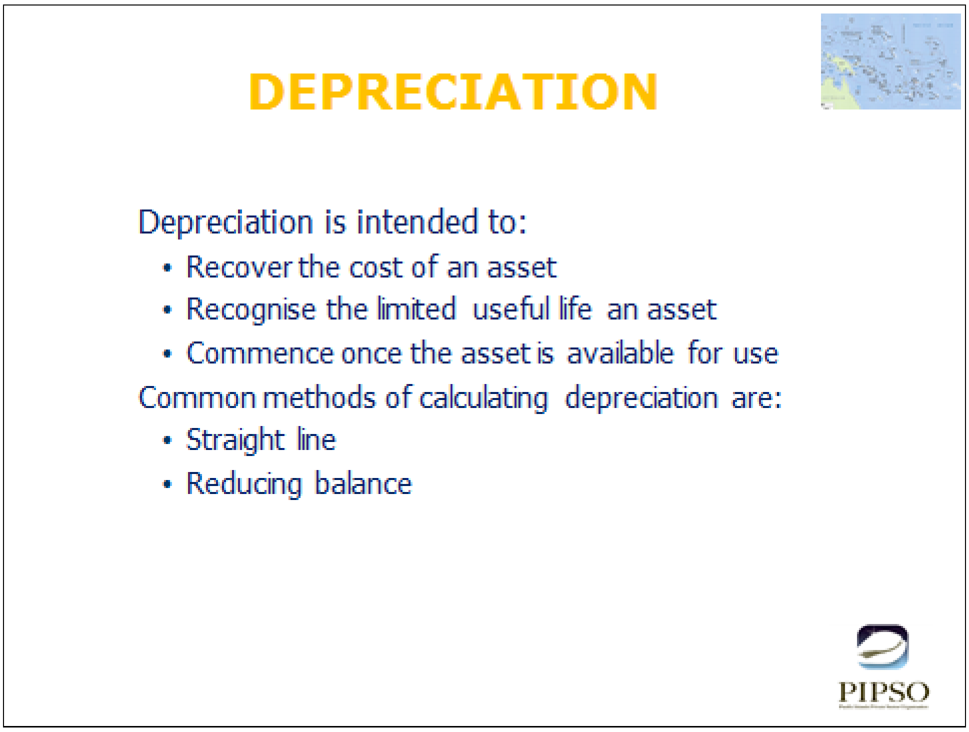
In a small business it is common for assets to be used for business & private purposes. Where there is a dual business & private purpose, the depreciation should reflect the business use only. It is also possible & legitimate (legal) to have a different rate of depreciation for accounting & taxation purposes.

The cost of a business asset should also include delivery & installation costs & the total of these costs are then depreciated over the life of the asset.

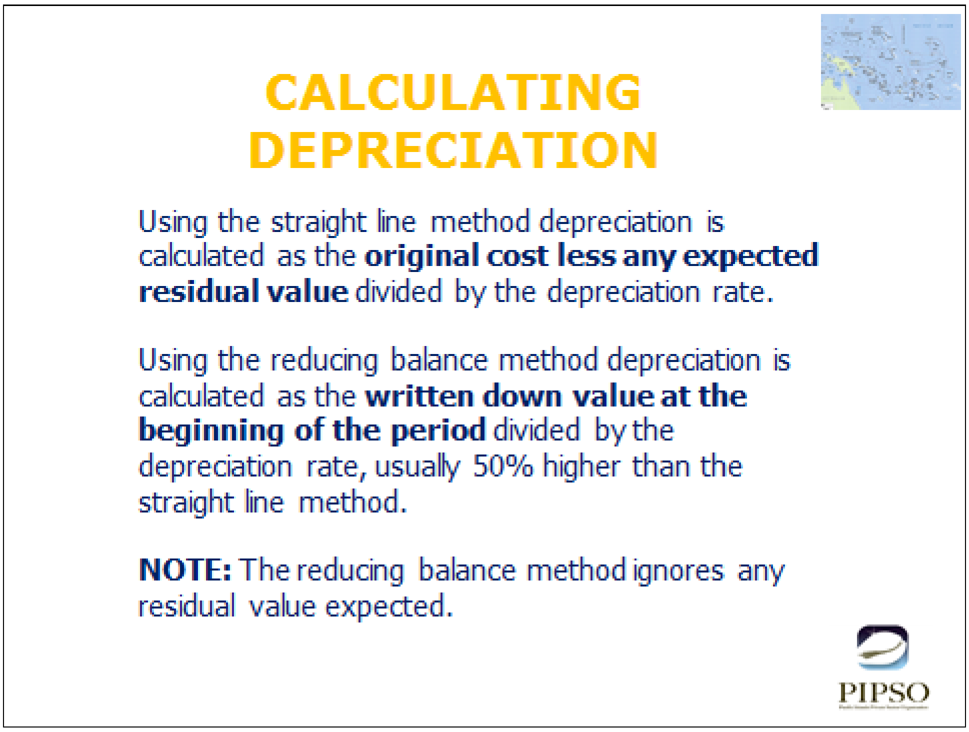


IMPORTANT: Accumulated depreciation is the recoupment (recovery) of the past cost, not a reserve for the purchase of a future asset.

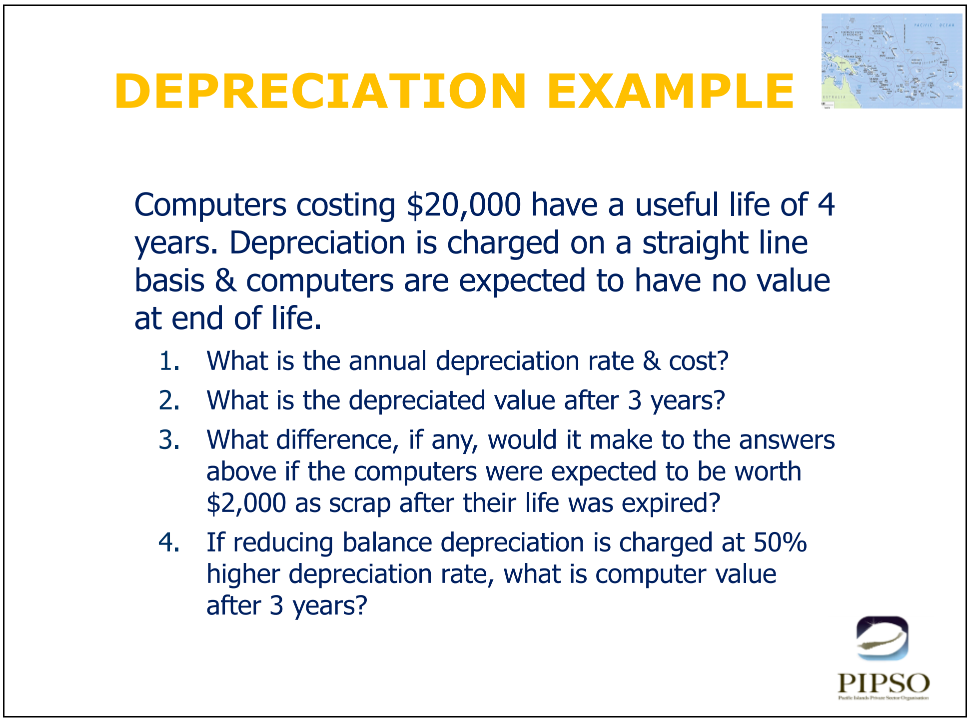
The life of an asset & any proposed residual value should reflect its useful life to the business once it commences being used. Two methods of depreciation, straight line & reducing value, will now be considered. There are others, but they are less commonly used for specialised purposes & may not be accepted by tax authorities for calculation purposes.



ACCOUNTING FOR DEPRECIATION



Let's crunch some numbers now.



DEPRECIATION EXAMPLE

1. Annual depreciation rate & cost? **25%, $5,000**
2. Depreciated value after 3 years? **$5,000 ($20,000-$15,000)**
3. What difference, if any, would it make to the answers above if the computers were expected to be worth $2,000 as scrap after their life was expired? **$6,500 ($18,000x1/4+$2,000)**
4. If reducing balance depreciation is charged at 50% higher depreciation rate, what is computers value after 3 years? **$4,883 ($20,000x0.625x0.625x0.625)**

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Calculations are as follows:

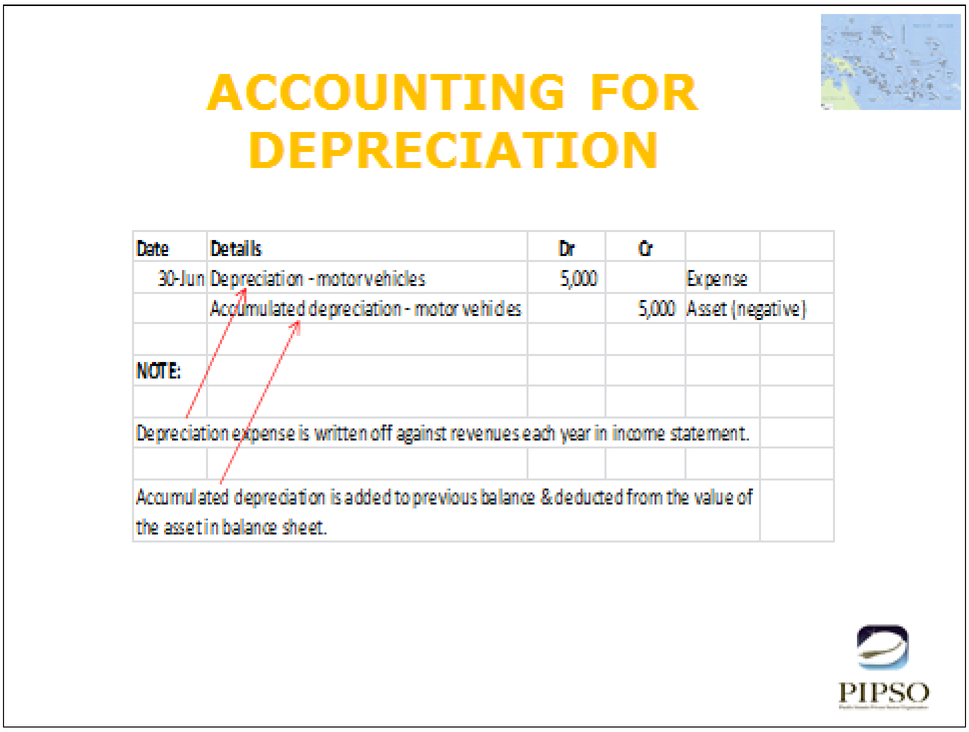
Annual depreciation rate	= $20,000 / 4
	= $5,000
Accumulated depreciation	= $5,000 x 3
(After 3 years)	= $15,000
Depreciated (book) value	= $5,000
Revised depreciation rate	= ($20,000 - $2,000) / 4
	= $4,500
Accumulated depreciation	= $4,500 x 3
(After 3 years)	= $13,500
Depreciated (book) value	= $6,500
Cost	= $20,000
Depreciated value (Year 1)	= $20,000 x (1 - 0.375)
	= $20,000 x 0.625
Depreciated value (Year 3)	= $20,000 x 0.625 x 0.625 x 0.625
	= $4,883

NOTE: there is little difference in the calculation of accumulated depreciation under either method at the end of year 3.

Accounting entries

1. The accounting journal entry to record depreciation for a period is a DEBIT to the expense account (Depreciation) &a CREDIT to the assets account (Accumulated Depreciation).

2. The depreciation expense (the debit entry) is written off periodically through the Income statement, while the accumulated depreciation (the credit entry) is a negative asset account &is deducted from the value of the relevant asset leaving a net asset balance called “depreciated” or “book” value. Over time this value decreases.

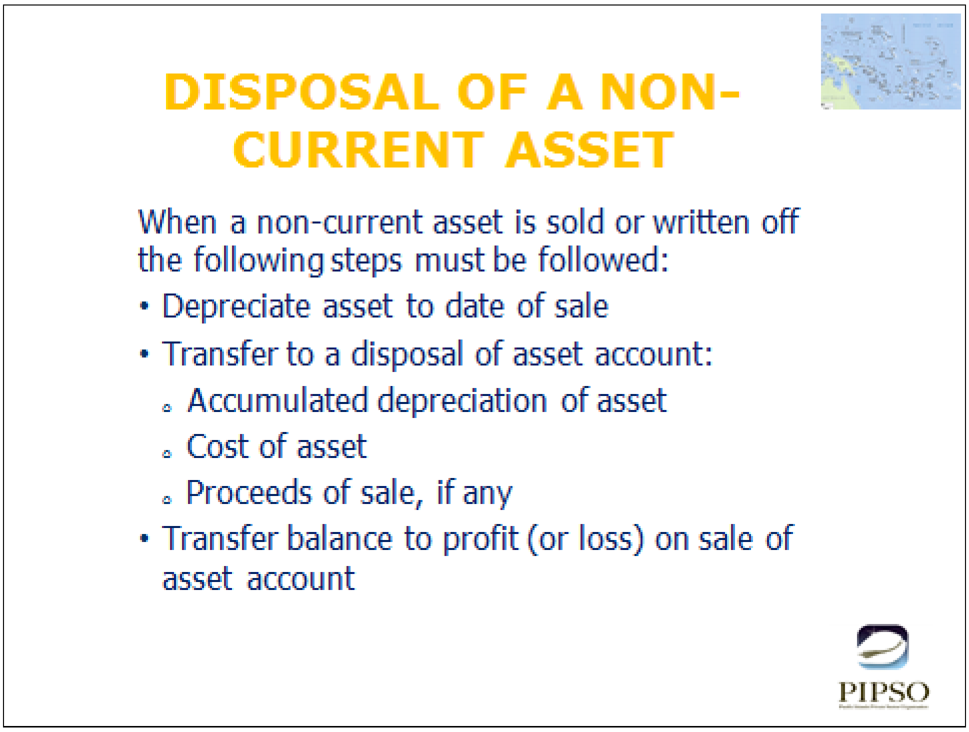


ACCOUNTING FOR DEPRECIATION

Date	Details	Dr	Cr		
30-Jun	Depreciation - motor vehicles	5,000		Expense	
	Accumulated depreciation - motor vehicles		5,000	Asset (negative)	
NOTE:					
Depreciation expense is written off against revenues each year in income statement.					
Accumulated depreciation is added to previous balance & deducted from the value of the asset in balance sheet.					

IMPORTANT: as stated above, “accumulated depreciation” is actually a negative assets account to be deducted from the asset it relates to & may also be referred to as “provision for depreciation”.

DISPOSAL OF NON-CURRENT ASSETS



When a business disposes of, or writes off, an asset, it does so using a special "contra" account, "disposal of asset". This account exists only to capture the current asset value is the books of account, to receive the proceeds of the sale, if any, & record the profit or loss on the disposal.

The account of the asset disposed of is closed &transferred to the disposal account. All accumulated depreciation of the asset sold is transferred to the disposal account, closing the accumulated depreciation account. The proceeds of sale, if any, are recorded in the disposal account &the profit or loss on disposal is transferred to the income statement. The "disposal of asset" account then closes, i.e. must finish with a "nil" balance once all transactions have been processed through it.

Let's look at an example.

DISPOSAL OF A NON-CURRENT ASSET

Example of a disposal

- A vehicle was purchased on 30 June 2008 for $60,000. Its useful life was assessed as 10 year & has been depreciated on a straight line basis.
- On 31 August 2013 the vehicle was sold for $25,000.
- The accounting transactions to record the sale are as follows.

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DISPOSAL OF A NON-CURRENT ASSET

Date	Details	Dr	Cr		
31-Aug	Depreciation	1,000		Expense	
	Accumulated Depreciation - motor vehicles		1,000	Asset (negative)	
31-Aug	Disposal of motor vehicles	60,000		Clearing	
	Motor vehicles		60,000	Asset	
31-Aug	Accumulated depreciation - motor vehicles	31,000		Asset	
	disposal of motor vehicles		31,000	Clearing	
31-Aug	Cash at bank	25,000		Asset	
	Disposal of motor vehicles		25,000	Clearing	

Questions

1. What is the profit/loss on the sale?
2. What is the last entry to record the disposal?

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Entry 1 above records the motor vehicle depreciation for the 2 months to end August $1,000 or $500 per month

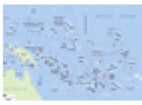
Entry 2 transfers the cost of the asset from the asset account (motor vehicles) to the disposal of motor vehicles account, $60,000

Entry 3 transfers the accumulated depreciation - motor vehicles (including the $1,000 from entry 1) to the disposal of motor vehicles account

Entry 4 records the receipt of the funds from the sale of the motor vehicle, $25,000.

Entry 5 (answer to Question 2 - which follows) records the loss on the sale of the motor vehicle

A final entry would transfer the loss on sale of motor vehicle to the income statement at the end of the reporting period.



DISPOSAL OF A NON-CURRENT ASSET

Loss is calculated as:

Cost of MV	$60,000
Less Accum depreciation	$31,000
	$29,000
Cash proceeds	$25,000
Loss on sale of MV	$ 4,000

Transaction entry required is:

31-Aug	Loss on sale of motor vehicles	4,000		Expense
	Disposal of motor vehicles		4,000	Clearing

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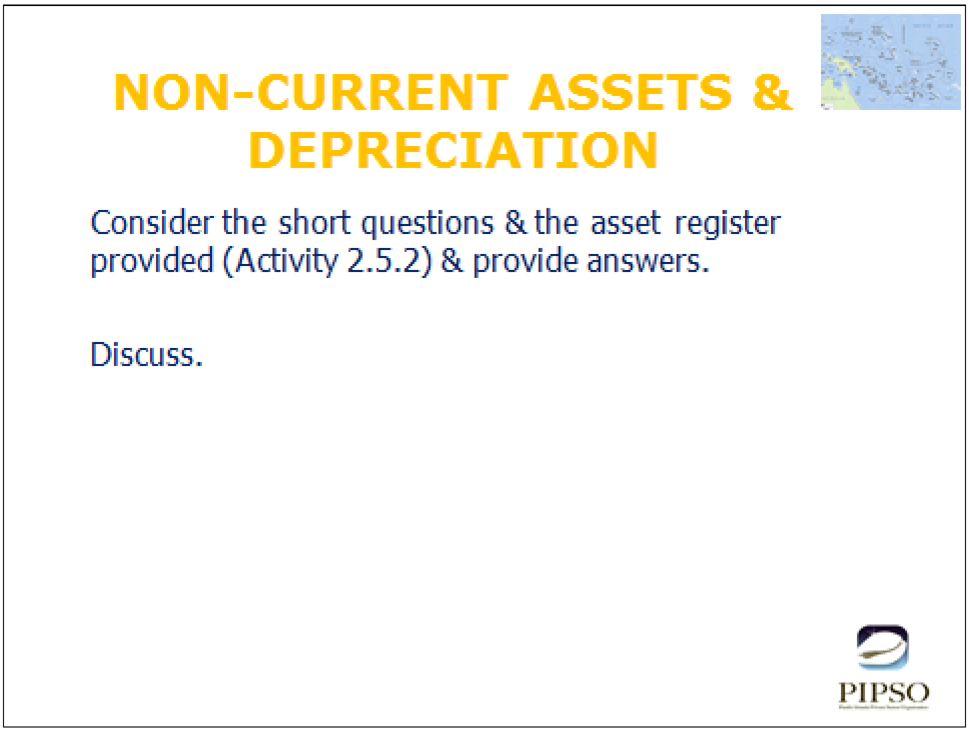

ACTIVITY 2.5.2

DEPRECIATION QUESTIONS

SECTION A: TRUE OR FALSE

1. All assets of a business are depreciable.
2. Depreciation should start from the date of purchase regardless of when the asset is installed and commissioned to use.
3. Installation costs and delivery expenses of an asset are added to the cost of the asset.
4. The profit on sale of an asset is revenue to the business.
5. An asset register contains details of cost, depreciation and written down value for each non-current asset individually.
6. Depreciation is the term used to record the reduction in value of a non-current asset in a given financial year.

SECTION B: MULTIPLE CHOICE

Question 1

Depreciation is a/an:

a) Revenue.
b) Asset.
c) Liability.
d) Expense.

Question 2

Accumulated depreciation is shown in the:

a) Income statement as an expense.
b) Balance sheet under current assets.
c) Balance sheet under non-current asset.
d) Profit & loss account as an expense.

Question 3

On 1 July 2008 S. Leila purchased a new machine for $12,000, which she estimated would last her five years, at which time it would be worth $500. Calculate the depreciation for the year ended 30 June 2009 using the straight line method.

a) $2,500
b) $2,300
c) $2,400
d) $500

Question 4

On 1 January 2009 Paulo Leva purchased new equipment for $28,000. The new equipment is expected to have a useful life of 10 years with a scrap value of $3,000. Paulo used reducing balancing method @ 15% p.a. to depreciate the equipment.

Calculate the depreciation for the year ended 30 June 2009.

a) $4,200
b) $2,100
c) $3,750
d) $9,750

Question 5

The profit on sale of an asset is:

a) Revenue.
b) An asset.
c) A liability.
d) An expense.

Question 6

Plant costing $300,000 on August 30, 2003 was to be depreciated at 10% using the straight line method. The residual value after 10 years was estimated at $10,000. It was scrapped after year 10 as planned and $12,500 was received for the plant. What was the loss/profit?

a) $2,500 loss
b) $2,500 profit
c) $7,500 profit
d) Nil

SECTION C: ASSET REGISTER

Asset Register (extract)														
For financial year ended 30 June 2013														
Unit				Disposals			Additions				Depreciation Method			
Description of each unit	Original cost $	Item No	Opening written down value	Date	Amount	Adjustment	Date	Amount	Total value for depreciation	Rate	Straight Line	Diminishing Balance	Closing written down value
Chain saw	840	31	300						300	60		180	120
Victa Ride on Mower	1,800	32	1152						1152	36		415	737
Watering system	4,700	33	3507						3507	18		631	2876
Electric welder	1,310	34	1085	1-Feb-13	1000	-28			1085	9		57	0
Box trailer	1,760	35	1285						1285	27		?	?
Shade houses	6,700	36	6097						6097	18		1097	5000
Tractor - Kubota		37					21-Dec-12	31,485	31485	27		4250	27235

QUESTIONS ON ASSET REGISTER

Answer the following questions in the space provided with reference to the asset register (extract) above.

1. What method of depreciation is being used?

2. What rate of depreciation is used to write off the watering system?

3. How much depreciation still has to be written off the shade houses?

4. Why is there no opening balance for the Tractor?

5. Complete the two missing figures for the trailer.

6. Fully explain what happened to the electric welder during the year.

This exercise ends this Module.

ANSWERS TO ACTIVITIES

ACTIVITY 2.5.1

Multiple Choice Questions

Highlight the correct answers. Unless specified, questions do not include the impact of GST.

1. Which two of the following items are current assets?
   (a) Accrued revenue & accrued expense
   (b) Accrued revenue & revenue in advance
   (c) Accrued revenue & prepaid expenses
   (d) Prepaid expenses & accrued expenses
2. The accounts show that $500 value of insurance is paid in advance & related to the next financial year. This is:
   (a) Accrued expense
   (b) Prepaid expense
   (c) Accrued revenue
   (d) Revenue in advance
3. A real estate sale, on commission, was made in June to be settled in July. The commission revenue account for the year ended 30 June is:
   (a) Increased
   (b) Decreased
   (c) Unchanged
   (d) Not affected until July
4. Insurance expense includes an amount of $400 paid relating to next financial year. The same account does not include an amount owing in the current year of $600. How should insurance expense be adjusted?
   (a) Make one entry for $200
   (b) Add $200 to the insurance expense account
   (c) Prepare balance day adjustments for both accrued & prepaid expense
   (d) Prepare balance day adjustments for both accrued revenue & prepaid expense
5. Salaries are paid to close of business Wednesday 27 June totalling $135,000. The gross pay for the five day week (Monday to Friday) is $2,800 & the next pay day is Wednesday 4 July. How much accrued salaries should be added to the salaries account for the year ended 30 June?
   (a) $560
   (b) $1,120
   (c) $1,680
   (d) $2,240
6. Interest is due on a loan from Our Bank at 30 June & has not been paid. At 30 June this amount represents:
   (a) Accrued expense
   (b) Prepaid expense
   (c) Unearned revenue
   (d) Prepaid revenue

7. Sales less sales returns are $230,000. The opening inventories are $17,000 & the closing inventories are $24,000. Freight inwards is $700, freight outwards is $500 & customs duty is $900. Purchases less returns are $118,000. How much is the gross profit?
   (a) $103,400
   (b) $116,900
   (c) $117,400
   (d) None of the above
8. Asset & liability accounts are not closed at the end of an accounting period because:
   (a) They are not a part of profit determination
   (b) They appear in the balance sheet
   (c) Their account balances stay open
   (d) All of the above
9. Which of the following accounts is a current liability?
   (a) Mortgage loan
   (b) Accrued revenue
   (c) Prepaid expense
   (d) Accrued expense
10. After calculating the gross profit it was discovered that a purchase invoice relevant to the financial year was not included in the purchases account. The previously calculated gross profit figure is:
   (a) Understated
   (b) Overstated
   (c) Not affected
   (d) None of the above
11. At the start of the year the equity balance was $33,000. During the year the owner brought a car valued at $12,090 into the business & drew out of the business $4,060 in cash. The net loss for the year was $6,200. How much is the closing balance of equity?
   (a) $10,650
   (b) $34,830
   (c) $42,950
   (d) 47,230
12. Accrued revenue is a:
   (a) Current asset
   (b) Non-current asset
   (c) Current liability
   (d) Non-current liability

ACTIVITY 2.5.2

DEPRECIATION – SHORT QUESTIONS ANSWERS

Section A: True or False

7. All assets of a business are depreciable. F
8. Depreciation should start from the date of purchase regardless of when the asset is installed and commissioned to use. F
9. Installation costs & delivery expenses of an asset are added to the cost of the asset. T
10. The profit on sale of an asset is revenue to the business. T
11. An asset register contains details of cost, depreciation and written down value for each non-current asset individually. T
12. Depreciation is the term used to record the reduction in value of a non-current asset in a given financial year. T

Section B: Multiple Choice

1.	d	2.	c
3.	b	4.	b
5.	a	6.	b

Section C: Questions on Asset Register

(a) What method of depreciation is being used?

Reducing balance

(b) What rate of depreciation is used to write off the watering system?

18% per annum

(c) How much depreciation still has to be written off the shade houses?

$5,000

(d) Why is there no opening balance for the Tractor?

Purchase during the financial year (21 December 2012)

(e) Complete the two missing figures for the trailer.

$347, $938

(f) Fully explain what happened to the electric welder during the year.

Depreciation for 7 months to 1 February was $57
Electric welder sold on 1 February 2013
Price (ex GST) was $1,000
Depreciated value was then $1,028 ($1,085 less $57)
Loss on sale was therefore $28