

a. Exchange Has Commercial Substance When an exchange has commercial substance, gains or losses are recognized immediately. However, defer this gain: ** – Gain on exchange: \$1,300 ** Adjust the cost of the new computer to defer the gain: ** – Cost of the computer without recognizing the gain: \$3,300 – \$1,300 = \$2,000 (Deferred gain reduces the asset's recognized value) ** Journal Entry: ** – Debit Computer: \$2,000 – Debit Accumulated Depreciation – Truck: \$18,000 – Credit Truck: \$20,000 – Credit Cash: \$500 In both scenarios, the entries reflect the appropriate handling of gains based on whether the transaction impacts future cash flows (commercial substance) or not.