

CONCEPT: DEPRECIATION: CHANGE IN ESTIMATED USEFUL LIFE

- The useful life of an asset is _____ at the time of purchase. This estimate may be re-evaluated with new data:
 - A change in the useful life is regarded as a ***change in accounting estimate***
 - These types of changes force us to adjust our calculations going _____
 - We do not make any _____ adjustments to any previous year's depreciation expense
 - Generally, these changes in estimate will deal with straight-line depreciation in this class
 - Use the _____ depreciable value of the asset and re-calculate annual depreciation expense
 - A company may also re-assess the salvage value; just use the updated salvage value in your calculation

$$\text{Remaining Depreciable Value} = \text{Initial Cost} - \text{Accumulated Depreciation} - \text{Salvage Value}$$

On January 1, Year 1, ABC Company purchased a machine for \$65,000. On that date, the company estimated a five-year useful life and \$5,000 salvage value. On July 1, Year 2, the company re-evaluated its estimated life for the machine to six years from that date. The company uses the straight-line method for depreciation. Calculate depreciation expense for Year 2 along with the net book value of the machine on December 31, Year 2.

- 1) Calculate Accumulated Depreciation through July 1, Year 2

- 2) Calculate Remaining Depreciable Value on July 1, Year 2

- 3) Calculate Depreciation Expense from July 1, Year 2 through December 31, Year 2

- 4) Calculate Total Depreciation Expense for Year 2

- 5) Calculate Net Book Value on December 31, Year 2

PRACTICE: Roller Coaster Tycoons purchased a concession stand for \$360,000. Initially, the concession stand was depreciated straight-line over a ten year useful life with no residual value. After six years in use, RCT assessed that the concession stand would be useful for only two more years. What is depreciation expense in year 7?

- a) \$18,000
- b) \$36,000
- c) \$54,000
- d) \$72,000
- e) \$90,000

PRACTICE: Changing Minds Company purchased a building for \$480,000 and depreciated on a straight-line basis over 40 years, estimating a residual value of \$60,000. The company depreciated the building for twenty years and then estimated that the building would only remain useful for another twelve years. At this time, the company also re-evaluated the residual value at \$30,000. What will be depreciation expense in year 21?

- a) \$15,000
- b) \$17,500
- c) \$20,000
- d) \$21,000
- e) None of the above