

Depreciation method essay

[Literature](#), [Russian Literature](#)



Depending on the depreciation method that they choice to use, it will reflect the estimate.

As noted in the book, “ when a company changes the way it depreciates an asset in midstream, the change would be made to reflect a change in, either an estimated future benefit from the asset, the patterns of receiving those benefits, or the company’s knowledge about those benefits” (McGraw-Hill Companies, 2010). When this company changes there previous estimate, they don’t have to amend their prior financial statements because they are using the prospectively approach. The company would just show the change on the financial statements from then on. As noted in the book and also under the new pronouncements of FASB, changes in accounting estimates are accounted for prospectively. Any change in depreciation method, the company in situation 1 must give an explanation for the change in principle as preferable to the previous method. These changes will affect the balance sheet and the income statement in the current period and in the future periods. A disclosure note should be added to the financial statements to show the change in accounting estimates. The “ disclosure note should describe the effect of a change in estimates on income before extraordinary items, net income and related per share for the current period” (McGraw-Hill Companies, 2010).

Situation II. In this situation Gary Company has decided to make a change in reporting entity. Gary Company was unsure of doing consolidated financial statements because of the political uncertainties of where Allen Company was located. As of December 31, 2009 all changes were made and consolidated financial statements were issued to both Gary Company and <https://assignbuster.com/depreciation-method-essay/>

Allen Company. These consolidated financial reports would report the financial position and results of operations for both Gary Company and Allen Company.

When changing a reporting entity as listed under SFAS No. 94 requires that the two companies consolidate their operations with their financial subsidiaries, which will then create a new entity that includes them both. With that said, SFAS No. 154 “ requires that financial statements of prior period be retrospectively revised to report the financial information for the new reporting entity in all period” (McGraw-Hill Companies, 2010). The reports should show that the reporting entity exists in the prior period. So the “ net income, income before extraordinary items, and related per share amounts should be indicated in all periods presented” (McGraw-Hill Companies, 2010). A disclosure note must also be present on the financial statements and should describe the reasons for the change and also the reasons it happened. Situation III.

The third situation listed is changing there accounting principle because they are changing their depreciation method to the straight-line method. They have also decided that it is feasible to revise their financial statements from the previous years. Although changes in accounting principle and changes in accounting estimates are not easy to distinguish, I feel that Situation I fits best under changes in accounting principle. Change in accounting principle is when a company decides to change from one general accepted accounting principle to a different one. This company is deciding to change their method of accounting. Under changing there accounting principle they must make

the changes retrospective, which means they must change there prior financial statements to match the current accounting change they have chosen.

As noted in the book, “ financial statements issued in previous years are revised to reflect the impact of the change whenever there statements are presented again for comparative purposes” (McGraw-Hill Companies, 2010). In this situation the company has decided to change their depreciation method to the straight-line method for their plant equipment. With the changes that are made within the priors years, there income statement and there balance sheet figures will change. The earnings per share, inventory, and retained earnings figures will either increase or decrease. If by chance the company finds it impossible to change prior years financial tatements due to have insufficient information they can choose to use the prospective approach.

Then in this case GAAP requires that a disclosure note be posted on the financial statements of why “ retrospective application was impracticable” (McGraw-Hill Companies, 2010). McGraw-Hill Companies, I. (2010). Shared-Based Compensation and Earnings Per Share. In I. McGraw-Hill Companies, Accounting Capstone (pp. 1068-1100).

McGraw-Hill Primis. [www. worldatwork. org/](http://www.worldatwork.org/).

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