

Accounting 402
Illustration of a change in accounting estimate

Assume the following facts concerning a plant asset for the Jones Company:

Asset cost	\$360,000
salvage value	\$ -0-
estimated useful life	10 years
depreciation method:	straight-line

This asset is depreciated during year 1 and year 2 using the straight-line method. During year 3, the management of the company decided that, based on the experience of using the asset during the first two years of its life, that the original estimate of useful life should have not been 10 years but rather should have been 8 years.

Discuss and illustrate how this change in accounting would be reported.

Step one: Determine the amount of depreciation accumulated on the asset as of January 1, 20X3.

Step two: Determine how much depreciation remains to be taken on the asset in the future.

Step three: Depreciate the remaining depreciation over the remaining life of the asset.