

**Accounting 402**  
**Illustration of a change in accounting principle**

Assume the following facts concerning a plant asset for the Frank-Lex Company:

Asset cost	\$360,000
salvage value	\$ 10,000
estimated useful life	10 years
depreciation method:	Double declining balance

This asset is depreciated during year 1 and year 2 using the Double declining balance method. During year 3, the management of the company decided that the straight line method of depreciation would be more appropriate.

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

**Step one:** Determine the differences in depreciation

	Year		
	1	2	3
depr- Double declining balance			
depr- Straight-line			
Difference			

Cumulative effect = sum of year 1 and year 2 differences = \_\_\_\_\_ Note: Do not include year 3.

**Step two:** Determine the tax effect of the change

**Step three:** Prepare the journal entry(ies) to effect the change:

Date	ACCOUNT	DR	CR
01/01/03	Accumulated Depreciation.		
	Cumulative effect--change in accounting principle		
	To record the cumulative effect of a change in accounting principle		

Date	ACCOUNT	DR	CR
01/01/03	Cumulative effect--change in accounting principle		
	Deferred income taxes		
	To record the tax effect of a change in accounting principle		

**Partial Comparative Income statement for 20X3:**

**Sample Corporation  
Comparative Income Statement-Partial  
for the Years Ended December 31,**

	<u>20X3</u>	<u>20X2</u>
Depreciation expense	<hr/> <hr/>	<hr/> <hr/>
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	<hr/>	<hr/>
Income before extraordinary items and cumulative effect of a change in accounting principle		
Extraordinary item, net of tax		
Cumulative effect of a change in accounting principle, net of tax	<hr/>	<hr/>
Net income	<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per common share:</b>		
Income before extraordinary items and cumulative effect of a change in accounting principle	<hr/>	<hr/>
Extraordinary item, net of tax		
Cumulative effect of a change in accounting principle, net of tax	<hr/>	<hr/>
Net income	<hr/> <hr/>	<hr/> <hr/>
<b>Pro-forma presentation, assuming retroactive application of newly adopted accounting principle:</b>		
Income Before extraordinary items	<hr/> <hr/>	<hr/> <hr/>
Net income	<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share:</b>		
Income before extraordinary items	<hr/> <hr/>	<hr/> <hr/>
Net income	<hr/> <hr/>	<hr/> <hr/>