

Bookkeeping Tips

How to Change an Asset's Useful Life

If you are like our 30,000 members, your responsibilities go beyond keeping the books. In fact, you may be expected to know whatever the boss needs you to know. For this reason, each month we report practical accounting and tax techniques in our free technical briefing for members, *The General Ledger* (www.aipb.org/general_ledger.html).

For example, say that your firm made an estimate of an asset's life, then a new estimate several years later. How does the change affect annual depreciation? Here is the answer.

Example: Your company purchases a machine on Jan. 1, 20X1, for \$40,000. The machine has a useful life of 10 years and no residual value and is depreciated using the straight-line method. Then, on Jan. 1, 20X5, your firm increases its estimate of the total useful life to 12 years. What is the depreciation expense for 20X5 and subsequent years? To compute:

Original cost	\$40,000
Accumulated depreciation through 12/31/X4 (40,000/10 years = 4,000 x 4*)	<u>16,000</u>
Undepreciated balance on 1/X5	<u>\$24,000</u>

* 4 prior years of depreciation

On Dec. 31, 20X5, the following entry is recorded:

Depreciation Expense	3,000*	
Accumulated Depreciation		3,000

* 12 years (new estimated total life) – 4 years already depreciated = 8 years to be depreciated

24,000/8 yrs. = \$3,000 new annual depreciation expense for 20X5 and subsequent years.

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The American Institute of Professional Bookkeepers (AIPB), is the national association for bookkeepers, currently with 30,000 active members

AIPB was founded in 1987 for the following purposes:

- To recognize bookkeepers as accounting professionals
- To make sure that each member has the latest bookkeeping, accounting and tax information
- To answer members' everyday bookkeeping and accounting questions on the telephone at no charge.
- To provide bookkeepers with low-cost continuing professional education.
- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership