

## To Extend or Not To Extend Asset Lives

The September 2016 article by Howard B. Levy, “Depreciable Asset Lives: The Forgotten Estimate in GAAP,” was an informative and well-written article, the topic of which is of interest to me.

I am currently in public practice with my own firm, but am also on the board of directors of a public entity and chairman of its audit committee. I recently had a difference of opinion with the auditors and management on the useful lives of some assets. The practice has been for public companies to extend the useful lives of assets for financial reporting purposes to keep the quarterly net profit as high as possible, then report a non-operating loss when assets are disposed of. The practice for closely held companies has been the opposite, that is, to use shorter useful lives.

I contacted the AICPA Technical Services Hotline and was informed that in fact there is no GAAP when it comes to depreciable asset lives. The closest thing that comes to it is an exposure draft of a proposed statement of position on accounting for certain costs and activities related to property, plant, and equipment dated June 29, 2001. When the statement was issued, there was tremendous opposition, and so it was tabled.

Levy’s article appears to show that there is GAAP for property, plant, and equipment by reciting various topics over the past 60 years, when in fact there are no clear guidelines in place.

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## The Author Responds

I greatly appreciate Beckett’s comments and the fact that he found my article of value. I must admit, however, that I am unaware of any current trend among public companies to intentionally stretch estimated asset lives to minimize depreciation expense for earnings management purposes, in my view a highly dangerous practice. Although this idea, which is not set forth anywhere in FASB literature, is beyond the scope of my article on asset lives, I offer the following additional advice. I hope Beckett and other readers will find it helpful.

In my opinion, when asset disposal gains and losses are reported separately, rather than as depreciation adjustments, they should not be classified among non-operating income or expenses unless the asset was a nonoperating asset (e.g., investment property). My view is that nonoperating (other) income and expense in a multi-step statement of operations—that is, one that presents a subtotal for operating income followed by other income and expenses—generally should include only credits and charges relating to financing and investment activities rather than operating activities, as those terms are used and described in ASC 230. The only authoritative support for this notion appears, albeit somewhat subtly, in paragraph 7 of Rule 5-03 of SEC Regulation S-X, which require only that “amounts earned from (a) dividends, (b) interest on securities, (c) profits on securities (net of losses), and (d) miscellaneous other income [undefined]” be excluded from operating income. Despite the absence of any definition or guidance as to the meaning of “miscellaneous other income,” it does not appear to relate to the frequency of occurrence or unusual nature of the credits or charges, as discussed in GAAP [ASC 225-20-45-16]. Instead, logic seems to dictate that the

deciding factor ordinarily should be the relationship of the item to the issuer’s normal business operating activities.

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