



MOSS ADAMS LLP
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Accounting Research Manager
 Accounting Standards
 360 Property, Plant, and Equipment
 10 Overall
 Depreciation, Amortization, and Depletion
 U.S.: Component, Group and Composite Depreciation

Component, Group and Composite Depreciation (U.S. GAAP)

Summary

When replacement components are significant in cost and have shorter lives than the basic unit, **depreciation** desirably should be provided by component. For example, if a conveyor belt has a shorter life than its related machinery, depreciating it separately will result in a more accurate determination of **depreciation** and will facilitate accounting when the component is replaced.

For practical purposes, property items are frequently **grouped** and an average life applied to determine **depreciation**. **Groupings** may be by year of acquisition, by type (all drill presses), by classification (all machinery), by location, or by a combination of these ways. **Depreciation** based on **groups** that include items with varying lives is referred to as composite **depreciation**. No gains or losses should be recognized on normal dispositions when this technique is used (see the "10 Overall - Retirements, Sales, and Exchanges - Dispositions for Noncash Consideration" section of this chapter).

Although providing **depreciation** on individual property units is generally more accurate, **group** methods of **depreciation** are acceptable. However, the disparities of the lives of the assets in a **group** should not be so great as to materially understate **depreciation** in the earlier years. Such would generally be the case, for example, if a building with a 50-year life were **grouped** with machinery having a 10-year life.

When **group** methods are applied, periodic studies should be undertaken to ensure that the average life being used is appropriate.

U.S. GAAP Literature

SEC Staff Views

☐ SAB Topic 5B, Miscellaneous Accounting - Gain or Loss from Disposition of Equipment
 (FASB Accounting Standards Codification Section 360-10-S99)

Interpretations

Property, Plant, Equipment and Natural Resources

-  Depreciation - Component Depreciation
-  Depreciation - Group and Composite Depreciation

BNA Portfolios

-  5116 - Accounting Principles and Financial Statements
-  5143 - Asset Retirement Obligations



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