

1 **Q. Provide any evidence indicating that the half-year rule for depreciation is in**  
2 **accordance with GAAP.**

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4 A. The Canadian Institute of Chartered Accountants Handbook (the Handbook) Section  
5 3061 establishes standards for the recognition, measurement, presentation and disclosure  
6 of property, plant and equipment by profit-oriented enterprises. Although it does not  
7 make specific reference to the “half-year” rule, it does provide overall guidance on how  
8 depreciation should be determined. The following are extracts from Handbook Section  
9 3061:

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11 .28 *Amortization should be recognized in a rational and systematic manner*  
12 *appropriate to the nature of an item of property, plant and equipment with a limited life*  
13 *and its use by the enterprise. The amount of amortization that should be charged to*  
14 *income is the greater of:*

- 15  
16 (a) *the cost less salvage value over the life of the asset; and*  
17 (b) *the cost less residual value over the useful life of the asset.*

18  
19 .31 Different methods of amortizing an item of property, plant and equipment result in  
20 different patterns of charges to income. The objective is to provide a rational and  
21 systematic basis for allocating the amortizable amount of an item of property, plant and  
22 equipment over its estimated life and useful life.

23  
24 The half-year rule is consistent with this principle and is therefore in accordance with  
25 GAAP.