EC 11-10 At the beginning of 2009, the Healthy Life Food Company purchased equipment for $42 million to be used in the manufacture of a new line of gourmet frozen foods. The equipment was estimated to have a 10 year service life and no residual value. The straight line depreciation method was used to measure depreciation for 2009 and 2010.

Late in 2011, it became apparent that the sales of the new frozen food line were significantly below expectations. The company decided to continue production for two more years (2012 and 2013) and then discontinued the line. At that time, the equipment will be sold for minimal scrap values.

The controller, Heather Meyer, was asked by Harvey Dent, the company’s chief executive officer (CEO) to determine the appropriate treatment of the change in service life of the equipment. Heather determined that there has been an immediate write-down of the equipment of $12,900,000. The remaining book value would then be depreciated over the equipment’s revised service life.

The CEO does not like Heather’s conclusion becausw3 of the effect it would have on 2011 income. “Looks like a simple revision in service life from 10 years to 5 years to me” Dent concluded. “Let’s go with it that way, Heather.”

**Required**

1. What is the difference in before-Tax income between the CEO’s and Heather’s treatment of the situation?
2. Discuss Heather Meyer’s ethical dilemma.