

Depreciation Expense and Cash Flow Analysis

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We were prompted this week to discuss the impact of the depreciation expense on the cash flow analysis of a capital project and to discuss the types of leasing arrangements and their pros and cons relating to the depreciation expense. As a visitor to this strange world of capitalist finance, I have the increasing conviction that I am learning to play a very complex game centered around the maximization of a magical property called “value”, and that this magical property is measured in an equally mysterious way by something called “money”. What makes this mysterious game so deeply compelling is that it is used to obfuscate the social relations that separate humanity into rulers and ruled. The game does indeed sometimes correspond to the material realities we experience, but it hides more than it reveals. Ok, with that off my chest let me try to figure out how to play this part of the game.

The depreciation expense is “the process of allocating the cost of a fixed asset over the useful lifetime of the asset (Murray, 2019). It can reduce a business’s profit, and thus its tax expense, while not impacting its cash flow (Merritt, 2019). “Leases are legal and binding contracts that set forth the terms of rental agreements in real estate and real and personal property. The contract specifies the amount of rent, the duration of the lease, the responsibilities of both parties and the consequences of breaching the agreement” (Chen, 2022). Leases are a form of incorporeal right, which are “legally enforceable rights to intangible property” (Kenton, n.d.). I will resist the temptation of going down the rabbit hole of trying to define what property is.

Regarding the impact of depreciation on leasing, the most important distinction is between a capital lease, which is treated as an asset purchase under accounting standards, and thus eligible for depreciation and other asset related accounting, and an operating lease, which is not (Hayes, 2024).

A very contemporary example of the impact of depreciation rules on accounting is with the financing of AI data centers, a sector reportedly responsible for a whopping 30 percent of

GDP growth in the US in Q2 2025 (Klachkin, 2025). Changes to accounting regulations by both the Biden administration through its Inflation Reduction Act and the Trump administration through its One Big Beautiful Bill Act (OBBBA) have made it easier to finance the construction of data centers. In particular, the OBBBA has enabled companies “to increase cash flow by accelerating depreciation deductions” by permitting them to reclassify long term as short term assets (De Prima, 2025). This example illustrates how financial management rules are changed to impact the winners and losers of the game.

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