

EXAMPLE 4 Making a Depreciation Schedule

You own an Internet business. You purchase \$200,000 worth of servers that you will depreciate as business expenses. Make a double declining-balance depreciation schedule using a useful life of 10 years and a salvage value of \$25,000.

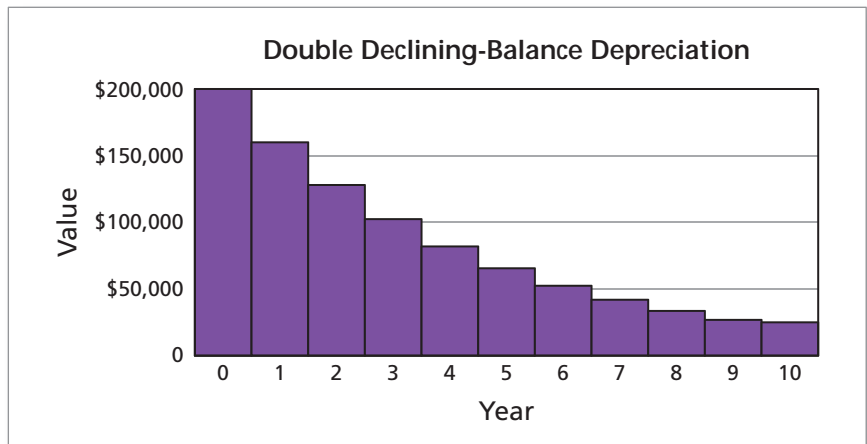
SOLUTION

$$\text{Annual rate of depreciation} = \frac{2}{10} = 20\%$$



		A	B	C	D
		Year	Value before Depreciation	Depreciation	Value after Depreciation
1					
2	1		\$200,000	\$40,000	\$160,000
3	2		\$160,000	\$32,000	\$128,000
4	3		\$128,000	\$25,600	\$102,400
5	4		\$102,400	\$20,480	\$81,920
6	5		\$81,920	\$16,384	\$65,536
7	6		\$65,536	\$13,107	\$52,429
8	7		\$52,429	\$10,486	\$41,943
9	8		\$41,943	\$8,389	\$33,554
10	9		\$33,554	\$6,711	\$26,843
11	10		\$26,843	\$1,843	\$25,000

This value must be adjusted so that the value after depreciation does not go below the salvage value.



✓ Checkpoint

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Using double declining-balance depreciation, how much more of the value did you expense during the first 4 years compared to straight-line depreciation?