4.4 Depreciation

▶ Use straight-line depreciation.

▶ Use double declining-balance depreciation.

▶ Use sum of the years-digits depreciation.

Straight-Line Depreciation

Most assets lose their value over time. In other words, they **depreciate** and must be replaced once their useful life is reached. Several accounting methods are used to determine an asset's depreciation expense over the period of its useful life. The simplest method of depreciation is the straight-line method, in which the same amount is expensed each year.

Straight-Line Depreciation

Straight-line depreciation is calculated by dividing the difference of the purchase price and the salvage value by the years of useful life.

$$\text{Annual depreciation} = \frac{(\text{purchase price}) - (\text{salvage value})}{\text{years of useful life}}$$

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You can access depreciation schedule calculators at *Math.andYou.com*.

EXAMPLE 1 Making a Depreciation Schedule

You start a small business and rent an office. You furnish the office with $25,000 worth of office equipment. The useful life of the equipment is 5 years, and the salvage value is $5000. Make a straight-line depreciation schedule showing the depreciation you are allowed to expense each year.

SOLUTION

$$\text{Annual depreciation} = \frac{25,000 - 5000}{5} = \$4000$$

Straight-Line Depreciation

	A	B	C	D
1	Year	Value before Depreciation	Depreciation	Value after Depreciation
2	1	$25,000	$4,000	$21,000
3	2	$21,000	$4,000	$17,000
4	3	$17,000	$4,000	$13,000
5	4	$13,000	$4,000	$9,000
6	5	$9,000	$4,000	$5,000
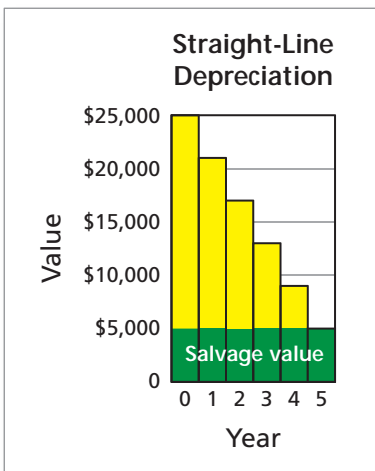
✓ **Checkpoint**

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Make a straight-line depreciation schedule for the office equipment using a useful life of 7 years and a salvage value of $4000.