

Study Tip

Accountants also use the term *recovery period* for useful life.

EXAMPLE 2 Making a Depreciation Schedule

A wheat farmer buys a new grain harvester for \$300,000. Make a straight-line depreciation schedule using a useful life of 10 years and a salvage value of \$50,000.



A combine harvester is a machine that harvests grain. It combines reaping, binding, and threshing into one operation. The straw left behind is either chopped and spread on the field or baled for feed and bedding for livestock.

SOLUTION

$$\text{Annual depreciation} = \frac{300,000 - 50,000}{10} = \$25,000$$

	A	B	C	D
		Value before		Value after
	Year	Depreciation	Depreciation	Depreciation
1	1	\$300,000	\$25,000	\$275,000
2	2	\$275,000	\$25,000	\$250,000
3	3	\$250,000	\$25,000	\$225,000
4	4	\$225,000	\$25,000	\$200,000
5	5	\$200,000	\$25,000	\$175,000
6	6	\$175,000	\$25,000	\$150,000
7	7	\$150,000	\$25,000	\$125,000
8	8	\$125,000	\$25,000	\$100,000
9	9	\$100,000	\$25,000	\$75,000
10	10	\$75,000	\$25,000	\$50,000

In straight-line depreciation, the same amount is expensed each year. Graphically, this creates a linear pattern, hence the name “straight-line depreciation.”

✓ Checkpoint

Help at [Math.andYOU.com](https://www.mathandyou.com)

Depreciation schedules do not necessarily represent the actual value that an asset could be sold for after a certain number of years of use.

Suppose that after claiming 5 years of depreciation, the farmer sells the combine for \$180,000. How should he account for the income on his tax return? Explain your reasoning.



Wheat farmers in the United States harvest about 2 billion bushels of wheat each year.