Depreciation is the allocation of the cost of a plant or fixed asset (equipment, building, truck, etc.) to expense over the useful life of the asset. Straight-line depreciation means the same amount of depreciation expense for each full year.

## Straight-line depreciation expense for a full year =

(Cost of the asset minus the expected salvage value)
divided by the years of useful life
Calculation of straight-line depreciation expense for one full year:

| Cost of asset | \$ | 140,000 | C |  |
| :---: | :---: | :---: | :---: | :---: |
| minus Expected salvage value | \$ | 20,000 | ES |  |
| = Depreciable cost | \$ | 120,000 | DC | (C-ES) |
| Years of useful life |  | 10 | YRS |  |
| Depreciation expense for full year | \$ | 12,000 | DE | (DC / YRS) |

or
Alternative calculation of straight-line depreciation expense for one full year:

| Depreciable cost (from above) | \$ | 120,000 | DC <br> SR (from below) |  |
| :---: | :---: | :---: | :---: | :---: |
| times Asset's straight-line depreciation rate |  | 10\% |  |  |
| Depreciation expense for full year | \$ | 12,000 | DE | (DC $\times$ SR) |

Journal entry for each full year of depreciation:
debit Depreciation expense 12,000 DE
credit Accumulated depreciation $\quad 12,000 \mathrm{DE}$

## Notes:

The depreciation recorded in the general ledger and reported on the financial statements is usually different from the amounts reported on the company's tax return.

DE Plant assets purchased in the middle of the accounting year will have one-half of a year's depreciation expense in the year it is acquired.

SR Calculation of straight-line depreciation rate per year:

Constant
divided by Years of asset's useful life
Straight-line depreciation rate per year


An asset with a 25 year life will have a straight-line depreciation rate of $4 \%$ per year ( $100 \%$ / 25 yrs.). An asset with a 5 year life will have a straight-line depreciation rate of $20 \%$ per year ( $100 \% / 5 \mathrm{yrs}$.).

