12,000 **DE** 

## **Depreciation: Straight-line Method**

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 expens	e for on	e full year:		
Cost of asset	\$	140,000	С	
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:				
Alternative calculation of straight-line depreciati	on expe	e <b>nse</b> for one fu	ıll yeaı	r:
Alternative calculation of <b>straight-line depreciati</b> Depreciable cost (from above)	on expe	ense for one fu 120,000	III yeai	r:
Alternative calculation of <b>straight-line depreciati</b> Depreciable cost (from above) <i>times</i> Asset's straight-line depreciation rate	on expe	ense for one fu 120,000 10%	DC SR	r: (from below)
Alternative calculation of <b>straight-line depreciati</b> Depreciable cost (from above) <i>times</i> Asset's straight-line depreciation rate <b>Depreciation expense for full year</b>	on expe \$ \$	ense for one fu 120,000 10% <b>12,000</b>	DC DC SR DE	r: (from below) (DC x SR)
Alternative calculation of <b>straight-line depreciati</b> Depreciable cost (from above) <i>times</i> Asset's straight-line depreciation rate <b>Depreciation expense for full year</b>	on expe \$ \$ \$	ense for one fu <u>120,000</u> 10% <u>12,000</u>	DC SR DE	r: (from below) (DC x SR)
Alternative calculation of <b>straight-line depreciati</b> Depreciable cost (from above) <i>times</i> Asset's straight-line depreciation rate <b>Depreciation expense for full year</b> <u>Journal entry for each full year of depreciation:</u>	on expe \$ \$	ense for one fu 120,000 10% <b>12,000</b>	DC SR DE	r: (from below) (DC x SR)

## Notes:

credit

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:
   100%

   Constant
   100%

   divided by Years of asset's useful life
   10

   Straight-line depreciation rate per year
   10%

   SR (100% / YRS)

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 yrs.).

Accumulated depreciation