

Depreciation: Units-of-Activity Method

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(Also referred to as the Units-of-Production 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. The units-of-activity method moves the asset's depreciable cost to depreciation expense based on the asset's usage instead of the passing of time. *Since this method of depreciation is not based on years, partial years are not relevant.*

Units-of-activity depreciation expense = Asset's depreciation per unit of activity times the number of units of activity during the current period

Calculation of **units-of-activity depreciation expense** for any time period:

Cost of asset	\$ 140,000	C	
<i>minus</i> Estimated salvage value	\$ 20,000	ES	
= Depreciable cost	\$ 120,000	DC	(C - ES)
Total units of activity expected over asset's life	300,000	TU	
Depreciation per unit of activity	\$ 0.40	DU	(DC / TU)
Units of activity during current accounting period	30,000	U	
Depreciation for current accounting period	\$ 12,000	DE	(DU X U)

Journal entry for a full year's depreciation:

debit	Depreciation expense	12,000	DE	
	credit	Accumulated depreciation		12,000 DE

Alternate calculation of units-of-activity depreciation expense for any time period:

Depreciable cost	\$ 120,000	DC	(from above)
<i>times</i> (current activity/total expected activity over life)	30000 / 300000	A	(U / TU)
= Depreciation for current accounting period	\$ 12,000	DE	(DC X A)

Notes:

TU The total number of units of activity over the useful life of the asset could be the number of units of products manufactured with equipment, air miles of an airplane, number of copies produced with a photocopier, number of rentals of a tuxedo, etc.

For a blank form see **Form D4**.

Learn more about depreciation at www.AccountingCoach.com.