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 expense** for one full year:

Cost of asset	$ _____	**C**	
minus Expected salvage value	$ _____	**ES**	
= Depreciable cost	$ _____	**DC**	(C - ES)
Years of useful life	_____	**YRS**	
Depreciation expense for full year	**$** _____	**DE**	(DC / YRS)

or

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

Depreciable cost (from above)	$ _____	**DC**	
times Asset's straight-line depreciation rate	_____ %	**SR**	(from below)
Depreciation expense for full year	**$** _____	**DE**	(DC x SR)

Journal entry for each full year of depreciation:

debit	Depreciation expense	_____ **DE**	
credit	Accumulated depreciation		_____ **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	100%		
divided by Years of asset's useful life	_____	**YRS**	
Straight-line depreciation rate per year	**%** _____	**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.).

See **Filled-In Form D1** for an illustration.

Learn more about depreciation at www.AccountingCoach.com