Depreciation: Units-of-Activity Method

(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	r any time pe	riod:]
Cost of asset	\$	C		
minus Estimated salvage value	\$	ES		
= Depreciable cost	\$	DC	(C - ES)	
Total units of activity expected over asset's life		TU		
Depreciation per unit of activity	\$	DU	(DC / TU)	
Units of activity during current accounting period		U		
Depreciation for current accounting period	\$	DE	(DU X U)	
<u>Journal entry for a full year's depreciation:</u> debit Depreciation expense credit Accumulated depreciation		DE		D
Alternate calculation of units-of-activity depreciation expe	nse for any ti	me period:]
Depreciable cost	\$	DC	(from above)	
times (current activity/total expected activity over life)	Α	(U / TU)	
= Depreciation for current accounting period	\$	DE		

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.

\$

DE (DC X A)