

Straight Line Depreciation Method

- Guidance
 - Strategy
 - Perspective
 - Momentum

Depreciation Methods

Several methods have been developed for estimating the depreciation expense of tangible fixed assets. The four most common depreciation methods are:

1. Straight line
2. Units produced
3. Sum of years' digits
4. Double declining balance

Depreciation for one year varies depending on the method chosen, but total depreciation throughout the asset's useful life cannot be more than the recovery value. Some depreciation methods give as a result a larger expense in the first years of the asset's life, which has repercussions on the net earnings for the period. The accountant should therefore carefully evaluate all factors before selecting a method for depreciating fixed assets.

Straight Line Method

- For the purposes of this course we will learn the straight line method, which assumes that the asset wears out equally during each accounting period.
- This method is frequently used because it is simple and easy to calculate. The straight line method is based on the asset's number of years of useful life.

Calculating Depreciation

Cost of asset / Years of useful
life =

amount of depreciation for each
year of the asset's life or annual
depreciation expense

Example:

The annual depreciation for a truck that cost \$33,000 with an estimated useful life of five years, using the straight line method, is \$6,600.



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