Depreciation

**Definition:** allocation of the COST OF ASSET or its REVALUED AMOUNT, over its USEFUL LIFE.

**Depreciation Method**

1. **Straight line**
   - The SIMPLEST and most COMMONLY used method.
   - Produces a CONSTANT depreciation expense.
   - Formula: \[ \text{cost} \left( C \right) - \left( \text{residual value (RV) or salvage value (SV)} \right) \over \text{useful life (n)} \]

2. **Double declining balance**
   - DOUBLES the straight-line depreciation amount and SAME PERCENTAGE applied to un-depreciated amount in subsequent years.
   - Formula: \[ 2 \times \text{cost} \left( C \right) - \left( \text{residual value (RV) or salvage value (SV)} \right) \over \text{useful life (n)} \]

3. **Diminishing balance**
   - Depreciate at FIXED PERCENTAGE
   - Formula: \[ 1 - \left( \sqrt{\text{residual value (RV)} \over \text{cost} \left( C \right)} \right)^n = 1 - \left( \text{residual value (RV)} \over \text{cost} \left( C \right) \right)^{1 \over n} \]

4. **Units of production**
   - Have FIXED RATE per unit of production.
   - Produces VARIABLE depreciation expense.
   - Formula: depreciation per unit \( x \) number of units produced

**Journal Entry**

DR Depreciation Expense

CR Accumulated Depreciation Expense

(Recognise the depreciation expense of an asset)