Depreciation  
2,436

**Balance sheet:**  
Show the accumulated depreciation as a deduction from cost, resulting in the Net Book Value (Carrying amount)

**Balance Sheet (year 1)**  
Non current assets £
Motor vehicles Cost 10,000  
Less depreciation (2,436)  
Net book value (NBV) 7,564

**Balance Sheet (year 2)**  
Non current assets £
Motor vehicles Cost 10,000  
Less accumulated depreciation (4,872)  
Net book value (NBV) 5,128

b) Reducing balance method

- Deducts a fixed percentage from the net book value each year (this is the cost / fair value in the first year and cost less accumulated depreciation in subsequent years)
- This means higher depreciation charges in earlier years and lower charges in later years

\[
D = (1 - \sqrt[n]{S/C}) \times 100\%
\]

Where  
\(D\) = depreciation percentage \(n\) = useful life of asset in years \(S\) = scrap (residual) value of asset \(C\) = cost or fair value of asset

\[
D = (1 - \sqrt[4]{256/10,000}) = 1 - 4/10 = 0.6 = 60\%
\]

Depreciation applied to each of the 4 years:

<table>
<thead>
<tr>
<th>Cost</th>
<th>£10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1: Depreciation charge 60% x cost</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>4,000</td>
</tr>
<tr>
<td>Year 2: Dep’n charge 60% x carrying amount</td>
<td>(2,400)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>1,600</td>
</tr>
<tr>
<td>Year 3: Dep’n charge 60% x carrying amount</td>
<td>(960)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>640</td>
</tr>
<tr>
<td>Year 4: Dep’n charge 60% x carrying amount</td>
<td>(384)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>256</td>
</tr>
</tbody>
</table>

Comparaison

- The end result does not matter
- Annual profit and net book value are different
  - Pattern of profitability is different
- Straight line is constant depreciation (regular reduction in net book value)

<table>
<thead>
<tr>
<th>Depreciation</th>
<th>2,436</th>
</tr>
</thead>
</table>

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