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

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

Where

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

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

Depreciation applied to each of the 4 years:

- Year 1: Depreciation charge 60% x cost = (6,000)
- Year 2: Dep’n charge 60% x carrying amount (2,400)
- Year 3: Dep’n charge 60% x carrying amount (960)
- Year 4: Dep’n charge 60% x carrying amount (384)

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)