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: $\frac{cost\ (C) - (residual\ value\ (RV)\ or\ salvage\ value\ (SV))}{useful\ life\ (n)}$
2. Double declining balance
    - DOUBLES the straight-line depreciation amount and SAME PERCENTAGE applied to un-depreciated amount in subsequent years.
    - Formula: $2\ x\ \frac{cost\ (C) - (residual\ value\ (RV)\ or\ salvage\ value\ (SV))}{useful\ life\ (n)}$
3. Diminishing balance
    - Depreciate at FIXED PERCENTAGE
    - Formula: $1 - \sqrt[n]{\frac{residual\ value\ (RV)}{cost\ (C)}} = 1 - \frac{residual\ value\ (RV)}{cost\ (C)}^{\frac{1}{n}}$
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)