DEPRECIATION METHODS

**Straight-line Method**-allocates an equal amount of depreciation to each year of an asset's useful life.

Original Cost
Less: Salvage Value
------------------------------------
= Base
Divided by Useful Life
------------------------------------
= Depreciation/Year

OR

1/Useful Life = Straight-Line Rate

Original Cost
Less: Salvage Value
------------------------------------
= Base
Times Straight-Line Rate
------------------------------------
= Depreciation/Year

**Units-of-Production Method**-allocates an equal amount of depreciation for each produced by the asset.

Original Cost
Less: Salvage Value
------------------------------------
= Base
Divided by Useful Life in Units
------------------------------------
= Depreciation/Unit
Times Units Used
------------------------------------
= Depreciation

**Accelerated Depreciation**-depreciation methods that recognize larger amounts of depreciation earlier in the life of the asset; assets are assumed to be more productive when newer.

**Declining-Balance Method**-determines depreciation by multiplying book value by twice the straight-line rate.

1/Useful Life X 2 = Rate

Book Value
Times Rate
------------------------------------
= Depreciation/Year

**NOTE:** When using the double-declining balance depreciation method, do not deduct salvage value. You must plug depreciation for the last year. This amount should not exceed salvage value.
**Sum-of-the-Year's-Digits**-add up the years of useful life and use this amount to create a fraction to multiply by original cost less salvage to determine depreciation.

\[
\text{Sum of the Years} = \frac{n(n + 1)}{2} \quad \text{where } n = \text{the useful life}
\]

Original Cost
Less Salvage Value

\[\frac{\text{Original Cost}}{\text{Less Salvage Value}}\]

= Base
Times Year's Fraction

\[\frac{\text{Base}}{\text{Year's Fraction}}\]

= Depreciation/Year