CONCEPT: DEPRECIATION – DECLINING BALANCE METHOD

● ***Depreciation –*** breaks up the up-front cost of a long-term asset over its _______________

□ When calculating depreciation (in all methods), we must know three things about the asset:

1. ***Cost*** – The initial cost of the asset
2. ***Useful Life*** – how long the company _________ the asset to help generate revenue
3. ***Residual Value*** – how much the company _________ the asset to be worth at the end of its useful life

- Residual Value is also called *salvage value* or *scrap value*

□ The ***Declining Balance*** method is an _______________ depreciation method

- More depreciation is taking in the _______ years. This leads to _______ income and _______ taxes
- We focus on the ***double-declining-balance (DDB) method***

Steps for calculating DDB depreciation:

1. Calculate the ***DDB Depreciation Rate*** that will be used each year. This is not depreciation expense, just a rate!

$$DDB\ Depreciation\ Rate\ per\ year = \frac{1}{Useful\ Life, in\ years} * 2$$

2. Multiply the ***DDB Depreciation Rate*** by the ***Beginning Net Book Value*** for that year. This is ________________
3. Calculate the ***Beginning Net Book Value*** minus ***Depreciation Expense*** for the ***New Net Book Value***.
4. Repeat until the final year.
5. The ***Final Year Depreciation Expense*** is a _________ to get us to our __________________

EXAMPLE: On January 1, Year 1, Johnson & Johnson & Johnson Company purchased a delivery truck for $42,000. The company estimated a useful life of 5 years and a residual value of $2,000. What would be the entry to record depreciation when preparing the December 31, Year 1 financial statements and the net book value on that date?

Cost = ____________; Estimated Residual Value = ____________; Estimated Useful Life = ____________					
Date	DDB Rate	Beginning Net Book Value	Depreciation Expense	Accumulated Depreciation	Ending Net Book Value
January 1, Year 1					
December 31, Year 1					
December 31, Year 2					
December 31, Year 3					
December 31, Year 4					
December 31, Year 5					
December 31, Year 6					

PRACTICE: ABC Company purchased a new machine on January 1, Year 1 for $44,000. The company expects the machine to last ten years. The company thinks it could sell the scrap metal from the machine for $4,000 at the end of its useful life. If the company uses the double-declining method for depreciation, what will be the net book value of the machine on December 31, Year 2?

a) $25,600
b) $26,400
c) $28,000
d) $28,160

PRACTICE: DBQ Company purchased a machine on January 1, Year 1 for $60,000. The company estimated a five year useful life and $8,000 residual value. If the company uses the double-declining-balance method for depreciation, what will be the amount of accumulated depreciation on December 31, Year 2?

a) $33,280
b) $38,400
c) $41,600
d) $48,000

PRACTICE: XYZ Company purchased a machine on January 1, 2018 for $120,000. The company estimated a four year useful life and $4,000 residual value. If the company uses the double-declining-balance method for depreciation, what will be the amount of depreciation expense for the year 2021?

a) $7,500
b) $11,000
c) $15,000
d) None of the above