CONCEPT: DEPRECIATION – SUMMARY OF COMMON METHODS

● ***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:

☐ Depreciation is a ____________ expense. It also does not relate to the __________________ of the asset.

$$Straight\ Line\ Depreciation\ per\ period = \frac{Cost - Residual\ Value}{Useful\ Life, usually\ in\ years}$$

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

$$Depreciation\ per\ unit\ of\ output = \frac{Cost - Residual\ Value}{Useful\ Life, in\ units\ of\ output}$$

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?

Amount of Depreciation per Year				
Date	Straight-Line	Double-Declining-Balance	Units-of-Production	
December 31, Year 1	8,000	16,800	12,000	(36,000 mi)
December 31, Year 2	8,000	10,080	8,000	(24,000 mi)
December 31, Year 3	8,000	6,048	10,000	(30,000 mi)
December 31, Year 4	8,000	3,629	6,000	(18,000 mi)
December 31, Year 5	8,000	3,443*	4,000	(12,000 mi)*
Total Depreciation over Useful Life of Asset				

● Most companies use the ____________________ method for depreciation.

☐ For tax purposes, the IRS permits the use of the ***Modified Accelerated Cost Recovery System (MACRS)***

- The benefit of an accelerated depreciation method (in the first few years owning the asset):

___ Depreciation Expense → ___ Taxable Income → ___ Taxes Paid