



Depreciation

Definition

Depreciation is a reduction in the value of a “Non-Current Asset” over a particular period of time due to wear and tear.

Methods to Calculate Depreciation

There are two ways to calculate depreciation:

1. Straight-Line Method
2. Reducing Balance Method

Straight Line Method

Under the straight-line method depreciation is calculated directly on the cost of the Non-Current Asset.

(Cost: The initial price of the product)

Straight-line method has **two** ways to be calculated:

i. Cost of Non-Current Asset - Scrap/Residual Value
Total Number of expected life expectancy

ii. (Cost of Non-Current Asset – Scrap/Residual Value) x Rate of Depreciation

Point to Remember: The yearly depreciation charged to income statement will remain the same every year under straight-line method.

Reducing Balance Method

Reducing Balance Method is calculated on the Net Book Value of Non-Current Asset.

Depreciation under reducing balance method is calculated in the following method:

Year 1

$(\text{Cost of Non-Current Asset} - \text{Scrap/Residual Value}) \times \text{Rate of Depreciation}$

Year 2

$(\text{Net Book Value of Non-Current Asset} - \text{Scrap/Residual Value}) \times \text{Rate of Depreciation}$

Year 3

$(\text{Net Book Value of Non-Current Asset} - \text{Scrap/Residual Value}) \times \text{Rate of Depreciation}$

And so on

$[\text{Net Book Value of a Non-Current Asset} = \text{Cost of Non-Current Asset} - \text{Provision of Depreciation of Non-Current Asset}]$

$[\text{Provision for Depreciation} = \text{Sum of all yearly depreciation to a certain period of time}]$

Recording Depreciation

When recording depreciation three t-accounts are to be maintained.

1. Non-Current Asset Account
2. Non-Current Asset Provision for Depreciation Account
3. Non-Current Asset Disposal Account

Non-Current Asset (name of non-current asset) Account

Date	Details	Amount	Date	Details	Amount
Year 1			Year 1		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----
Year 2			Year 2		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----
Year 3			Year 3		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----

Non-Current Asset (name of non-current asset) Provision for Depreciation Account

Date	Details	Amount	Date	Details	Amount
Year 1			Year 1		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----
Year 2			Year 2		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----
Year 3			Year 3		
Date of Disposal	Disposal	XX	Opening Date	Balance b/d	XX
Closing Date	Balance c/d	XX	Closing Date	Income Statement	XX
		----- XXX -----			----- XXX -----

Non-Current Asset (name of non-current asset) Disposal Account

Date	Details	Amount	Date	Details	Amount
Year X			Year X		
Date of Disposal	Cost of Non-Current Asset	XX	Date of Disposal	Provision for Depreciation	XX
Date of Disposal	Income Statement (if there is a profit on sale/disposal of Non-Current Asset)	XX	Date of Disposal	Bank/Cash/Part Exchange	XX
			Date of Disposal	Income Statement (if there is a profit on sale/disposal of Non-Current Asset)	XX
		-----			-----
		XXX			XXX
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