

Other Depreciation Methods:

1) Double declining balance

Compared to other depreciation methods, double-declining-balance depreciation results in larger expense in the earlier years as opposed to the later years of an asset's useful life. The method reflects the fact that assets are more productive in its early years than in its later years. With the double-declining-balance method, the depreciation factor is 2x that of a straight line expense method.

Depreciation formula for the double declining balance method:

Periodic Depreciation Expense = Beginning book value x Rate of depreciation

Advantages:

The major advantage of the double reducing balance method is the tax benefit. Under the reducing method, the business is able to claim a larger depreciation tax deduction earlier on.

Disadvantages:

There are some tax scenarios in which a company may not want a bigger tax break early on. If the company already has a tax loss for the year, it won't benefit from an extra tax deduction.

2) Units of production

Units-of-production depreciation method depreciates assets based on the total number of hours used or the total number of units to be produced over its useful life.

The formula for the units-of-production method:

Depreciation Expense = (Number of units produced / Life in number of units) x (Cost – Salvage value)

Advantages:

Most accurately reflects the pattern of consumption of economic benefits.

Suitable in case of fixed assets that depreciate in proportion to units of activity rather than just the passage of time.

Disadvantages:

Difficult to determine and measure a reasonable basis of activity.

3) Sum of years digits

Sum-of-the-years-digits method is one of the accelerated depreciation methods. A higher expense is incurred in the early years while lower expense is incurred in the latter years of the asset.

In sum-of-the-years digits depreciation method, the remaining life of an asset is divided by the sum of the years and then multiplied by the depreciating base to determine the expense.

The depreciation formula for the sum-of-the-years-digits method:

Depreciation Expense = (Remaining life / Sum of the years digits) x (Cost – Salvage value)

Advantages:

Easier to understand

The effect of decrease in depreciation expense compared to reducing balance method

Disadvantages:

More difficult to calculate.