**UNIT – IV**

Method of Depreciation: Straight Line Method of Depreciation-Declining Balance Method of Depreciation -Sum-of-the-Years-Digits Method of Depreciation-Sinking Fund Method of Depreciation- Service Output Method of Depreciation.

# DEPRECIATION INTRODUCTION

Any equipment which is purchased today will not work for ever. This may be due to wear and tear of the equipment or obsolescence of technology. Hence, it is to be replaced at the proper time for continuance of any business. The replacement of the equipment at the end of its life involves money. This must be internally generated from the earnings of the equipment. The recovery of money from the earnings of an equipment for its replacement purpose is called *depreciation fund* since we make an assumption that the value of the equipment decreases with the passage of time. Thus, the word “depreciation” means *decrease* in value of any physical asset with the passage of time.

# METHODS OF DEPRECIATION

There are several methods of accounting depreciation fund. These are as follows:

1. Straight line method of depreciation
2. Declining balance method of depreciation
3. Sum of the years—digits method of depreciation
4. Sinking-fund method of depreciation
5. Service output method of depreciation

# Straight Line Method of Depreciation

In this method of depreciation, a fixed sum is charged as the depreciation amount throughout the lifetime of an asset such that the accumulated sum at the end of the life of the asset is exactly equal to the purchase value of the asset. Here, we make an important assumption that inflation is absent.



































