In finding the depreciation for the non-current asset, there are 3 depreciation methods.

1. Straight-line Method
2. Units-of-Activity Method
3. Double Declining Balance Method

**The first method: Straight-line method = Cost – Salvage value**

**Useful life (in years)**

Salvage value (Residual value) is the value of asset at end of its useful life.

**Problem 3-4**

36,000 – 6,000

8 years

3,750

Dec 31, 2019

Dr. Depreciation Expense-Delivery Truck 3,750

Cr. Accumulated Depreciation – Delivery Truck 3,750

Dec 31, 2020

Dr. Depreciation Expense-Delivery Truck 3,750

Cr. Accumulated Depreciation – Delivery Truck 3,750

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Exp | Accumulated Depreciation | Book Value (Cost – Accumulated Depre) |
| 1st year (2019) | 3,750 | 3,750 | 32,250 |
| 2nd year (2020) | 3,750 | 7,500 | 28,500 |

Assuming that my company bought this delivery truck on July 1, 2019

36,000 – 6,000 x time used (6/12)

8 years

3,750 / 2 = 1,875

Dec 31, 2019

Dr. Depreciation Expense-Delivery Truck 1,875

Cr. Accumulated Depreciation-Delivery Truck 1,875

Dec 31, 2020

Dr. Depreciation Expense-Delivery Truck 3,750

Cr. Accumulated Depreciation – Delivery Truck 3,750

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Exp | Accumulated Depreciation | Book Value (Cost – Accumulated Depre) |
| 1st year (2019) | 1,875 | 1,875 | 34,125 |
| 2nd year (2020) | 3,750 | 5,625 | 30,375 |

Units of Activity Method

Depreciation Expense = (Cost – Salvage value) x Actual units used

Useful life in total Units of activity

= 36,000 – 6,000 x 15,000 miles

100,000 miles

= 0.3 USD/mile x 15,000 miles

= $4,500

Dec 31, 2019

Dr. Depreciation Expense-Delivery Truck 4,500

Cr. Accumulated Depreciation-Delivery Truck 4,500

Depreciation expense for 2020 = Depreciable Cost per unit x Actual units used

= 0.3 USD/mile x 12,000 miles

= $3,600

Dec 31, 2020

Dr. Depreciation Expense-Delivery Truck 3,600

Cr. Accumulated Depreciation-Delivery Truck 3,600

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Exp | Accumulated Depreciation | Book Value (Cost – Accumulated Depre) |
| 1st year (2019) | 4,500 | 4,500 | 31,500 |
| 2nd year (2020) | 3,600 | 8,100 | 27,900 |

Double-Declining Balance Method

Depreciation expense for 1st year = Cost x DDB rate

= 36,000 x ¼

= $9,000

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Exp | Accumulated Depreciation | Book Value (Cost – Accumulated Depre) |
| 1st year (2019) | 9,000 | 9,000 | 27,000 |
| 2nd year (2020) | 6,750 | 15,750 | 20,250 |

Depreciation expense for 2nd year = BV of asset at the beginning of 2nd year x DDB rate

= $27,000 x ¼

= $6,750

Depreciation expense for 3rd year = BV of asset at the beginning of 3rd year x DDB rate

DDB rate = Double of straight-line rate

= 2 x (1/8)

= 1/4

Assuming that my company bought this delivery truck on July 1, 2019, how much is the depreciation in 2019 and 2020 under Double-declining balance method.

Depreciation expense for 1st year = Cost x DDB rate x time used in the year

= 36,000 x ¼ x 6/12

= $9,000 x 6/12

= $4,500

Depreciation expense for 2nd year = BV of asset at the beginning of 2nd year x DDB rate

= 31,500 x ¼

= $7,875

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Exp | Accumulated Depreciation | Book Value (Cost – Accumulated Depre) |
| 1st year (2019) | 4,500 | 4,500 | 31,500 |
| 2nd year (2020) | 7,875 | 12,375 | 23,625 |

How to present the Delivery Truck in the Classified Statement of Financial Position

Delivery Truck 36,000

Less: Accumulated Depreciation-Delivery Truck 3,750 32,250

I will show how to do Problem 3-3 and you can practice Problem 3-5 (6) and (8) yourself.