Immersive Reader

5.2 Straight Line Method

DEPRECIATION

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Intended Learning Outcomes

At the end of the lesson, the student shall be able to:

1. Describe how the straight line method works as a depreciation method.
2. Apply the formulas/equations in a straight line method to solve word problems.

STRAIGHT LINE METHOD

In this method, the loss in value is considered to be directly proportional to the age of the property. NO interest is assumed to be paid on the amount set aside in the depreciation fund.

Useful Equations/Formulas

$$d = \frac{C_O - C_L}{L} \qquad\qquad D_n = nd \qquad\qquad C_n = C_O - D_n$$

where:

$d \longrightarrow$ annual depreciation cost

$C_O \longrightarrow$ original or first cost

$C_L \longrightarrow$ book value at the end of life of the property
$\qquad \longrightarrow$ salvage or scrap value

$L \longrightarrow$ useful life of the property in years

$D_n \longrightarrow$ total depreciation up to " n " years

$C_n \longrightarrow$ book value at the end of " n " years

Reference: *Engineering Economics* by Hipolito Sta. Maria

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