

REPORT:

Comparative Analysis of depreciation method:

Straight-Line method vs diminishing balance method

Comparative analysis of Depreciation methods:

- 1. Straight-Line Method (SLM):**
 - Equal depreciation charged every year.**
 - Easy to calculate and understand.**
 - Book value decreases steadily.**
 - Best for assets used evenly over their life.**

(e.g. furniture, buildings)

2. Diminishing Balance Method (DBM):

- Depreciation charged on the reducing book value each year.
- Higher in earlier years, lower in later years.
- Book value decreases quickly at first, then slowly.
- Best for assets that lose value faster in early years (e.g., machinery, vehicles)

Key differences:

- Depreciation Amount: SLM= constant
DBM= decreasing
- Impact on Profits: SLM = steady expense
DBM = higher expense early, lower later.
- Book value pattern: SLM= Linear fall
DBM= steep fall then flattening.

CONCLUSION:

- Both methods have their own merits and are suitable for different types of assets and business scenarios. The choice of method depends on the nature of the asset and the business's financial strategy.
- SLM is suitable when uniform expense allocation is desired.
- DBM is better when assets lose efficiency/value quickly in early years.