Depreciation

Accounting & Finance

Spreading an asset's cost across the years it is used.

Straight line

- Equal charge every year
- (Cost − residual) ÷ useful life
- Simple and predictable
- Suits assets used evenly
- Most common in practice

Reducing balance

- Fixed percentage of carrying value
- Higher charge in early years
- Never quite reaches zero
- Suits assets losing value fast
- Common for vehicles and IT

THE DIFFERENCE THAT MATTERS

The choice changes yearly profit but never the total charged over the asset's life.

Depreciation applies to tangible assets, amortisation to intangibles, and depletion to natural resources.