

What Is Depreciation?

Worksheet

Depreciation is the systematic allocation of an asset's cost over its useful life. Under the straight-line method: $\text{Depreciation Expense} = (\text{Cost} - \text{Salvage Value}) / \text{Useful Life}$.

$$\text{BV} = \text{Cost} - \text{AD}$$

BV = Book Value

Cost = Original Cost

AD = Accumulated Depreciation

Questions

1. A machine costs 40,000, has a 4,000 salvage value, and a 6-year useful life. What is its annual straight-line depreciation?
A) \$6,000
B) \$6,667
C) \$7,333
D) \$4,000
2. Which of these best describes depreciation?
A) A cash outflow each year
B) Allocating an asset's cost over its useful life
C) Increasing an asset's market value
D) A one-time expense at purchase
3. What happens to an asset's book value each year under straight-line depreciation?
A) It stays the same
B) It increases by a fixed amount
C) It decreases by a fixed amount
D) It fluctuates randomly
4. An asset with no salvage value costs \$12,000 and has a 4-year life. What is the book value after 3 years?
A) \$9,000
B) \$3,000
C) \$6,000
D) \$12,000
5. A company buys a delivery van for 20,000 with an estimated salvage value of 2,000 and a useful life of 5 years. Find the annual depreciation expense.
6. A factory machine costs 50,000, has a salvage value of 5,000, and a useful life of 10 years. Calculate annual depreciation.
7. A company buys office furniture for \$30,000 with zero salvage value and a useful life of 6 years. What's the annual depreciation, and what's the book value after 2 years?
8. Define: What is depreciation?
9. Define: What is the straight-line depreciation formula?
10. Define: What is salvage value?

Answer Key

1. A) \$6,000 — $D = (40,000 - 4,000) / 6 = 36,000 / 6 = \$6,000$.
2. B) Allocating an asset's cost over its useful life — Depreciation spreads cost over time, not a cash outflow or market-value change.
3. C) It decreases by a fixed amount — Straight-line depreciation reduces book value by the same amount each year.
4. B) \$3,000 — $D = 12,000 / 4 = 3,000/\text{yr}$; after 3 years accumulated = 9,000; book value = $12,000 - 9,000 = \$3,000$.
5. $D = (C - S) / n$ $D = (20,000 - 2,000) / 5$ $D = 18,000 / 5 = \$3,600$ per year
6. $D = (C - S) / n$ $D = (50,000 - 5,000) / 10$ $D = 45,000 / 10 = \$4,500$ per year
7. $D = (30,000 - 0) / 6 = 5,000$ per year Book value after 2 years = $30,000 - (2 \times 5,000) = 20,000$
8. The systematic allocation of a fixed asset's cost over its useful life.
9. $D = (\text{Cost} - \text{Salvage Value}) / \text{Useful Life}$.
10. The estimated resale or scrap value of an asset at the end of its useful life.

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