What Is Depreciation?

Worksheet

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

BV = Cost - AD

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?

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Answer Key

1. A) $6,000 - D=(40,0004,000)/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/yr; after 3 years accumulated=9,000; book value=12,0009,000=$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 5,000) = $20,000

8. The systematic allocation of a fixed asset's cost over its useful life.

9. D = (Cost Salvage Value) / Useful Life.

10. The estimated resale or scrap value of an asset at the end of its useful life.

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