

## Differentiating Depreciation Methods

There is one main difference between straight line depreciation and accelerated depreciation. Straight line is decided by taking the cost of the assets, figuring out the salvage cost when the use of the asset is finished and how many years of use the asset has. A person then takes the cost minus salvage and divides the remainder by the number of years of use. This amount is the depreciation expense subtracted each year from the cost. The accelerated depreciation does not have the same amount of depreciation subtracted each year. It does have the cost minus salvage value to figure out the amount to use but is then divided out differently. A person takes the sum of the years of a product's useful life, such as three years is  $3 + 2 + 1 = 6$ , then a person would divide the depreciation amount by  $3/6$  the first year,  $2/6$  the second and finally  $1/6$  for the final year. So the amount of depreciation expense is larger to smaller with accelerated and equal amounts for straight line.

The advantages of straight line method are it is easier and faster to figure. The advantage of accelerated method is it is more accurate when figuring depreciation expense. The accelerated method has an advantage and disadvantage concerning taxes. A company can use the accelerated method to take advantage of bigger tax breaks at the beginning of an assets life, but since this amount drops during the lifespan if the company needs added tax breaks it will not receive them from these assets in the future. With the straight line method the amount of tax breaks are even

through the life of the product. Most companies choose this form of depreciation for reporting purpose on taxes but will use the accelerated method to figure taxable income.

As mentioned before the advantage of straight line depreciation is it is easier to figure and uses the same total each year for deduction of depreciation expense but the disadvantage is that if use for taxable income and reporting a company does not get a bigger tax break at the beginning of the assets life when they have just put out the cost for the item and may need a bigger tax break.