

### ***Week 3 - DQ 2***

***What are the different methods used to calculate depreciation?***

***How does a company decide which method it should utilize?***

***How does its choice affect the financial statements?***

***Should companies standardize the method of depreciation to enhance comparability?***

***Explain your answer.***

***Response #1*** The methods used to calculate depreciation are the activity method, the straight-line method, decreasing charge methods (sum-of-the-years'-digits and declining-balance method), and special depreciation methods (group and composite methods and hybrid or combination methods). The activity method is based on the assumption that depreciation is "a function of use or productivity, instead of the passage of time" (Kieso, Weygandt, & Warfield, 2007, p. 525). The straight-line method, instead, thinks of depreciation as a function of time instead of usage. Decreasing-charge methods, also called accelerated depreciation methods, find companies charging more depreciation in earlier years when the asset is most productive. Special depreciation methods can be adopted by a company that feels there are unique characteristics to an asset. A company decides on which method it should utilize after considering what type of depreciable base will be used for the asset and its estimated useful life. Other factor such as the work is being done and the industry the company is operating in will play a role in which method the firm believes is best for them. The choice of a method will affect the financial statements of the company. The company will credit Accumulated Depreciation when depreciating assets. This allows users of the financial statements to see the asset's original cost and the depreciation the company charged to expense. Companies should disclose the period's depreciation expense, the balances of major classes of depreciable assets, accumulated depreciation, and provide a description of the methods used in its computation (Kieso, Weygandt, & Warfield, 2007). Finally, I do not believe companies should standardize the method of depreciation to enhance comparability. There are so many different types of assets and they have different functions, schedules of depreciation, and estimated use lifespan. There are several methods used to calculate depreciation because of how many different needs there are for companies to do things in a manner that works specifically for them. I believe as long as the methods are disclosed and explained, each firm should be able to do as they see necessary when calculating depreciation.

***Reference: Kieso, D.E., Weygandt, J.J., & Warfield, T.D. (2007). Intermediate Accounting (12th ed.). Hoboken, NJ: John Wiley & Sons.***

**Response #2** There are several methods used to calculate depreciation. First, we have the special depreciation methods and include the group and composite methods, and the hybrid or combination methods. Second, the decreasing charge methods, which includes the sum-of-the-years'-digits method and the declining method. Third, we have the activity method, which depreciates assets as a function of productivity. Fourth, we have the straight line method, which depreciates assets as a function of time. Companies choose the method based on their needs. For example, a company will choose the activity method if it assumes that depreciation is a function of use or productivity, instead of the passage of time. Companies may choose the straight-line method because of its simplicity. Companies may choose an accelerated method if it believes the asset is most productive in earlier years. Each method will have a different depreciation amount, which will decrease assets on the balance sheet and increase expenses on the income statement accordingly. I do not think is a good idea that companies standardizing the method of depreciation because each asset is different and it depreciates differently. I am more of the idea to depreciate the asset over its useful life.

**Response #3** There are four different methods used to calculate depreciation. These methods are activity method, straight-line method, decreasing charge method, and special depreciation method. A company would utilize whichever method they would need. The activity method if they want to use depreciation as a "function of use or productivity, instead of the passage of time" (Intermediate Accounting, 2007, p. 525). The straight-line method if they want to consider depreciation as "a function of time rather than a function of usage" (Intermediate Accounting, 2007, p. 526). The decreasing-charge method if they want a higher depreciation value at the beginning of the usage years and a lower depreciation in the ending years. The special depreciation method would be used if there were specific reasons such as a unique asset or the nature of their business. The effects of the financial statements would ultimately include decrease in value for the asset and an increase in expenses relating to the asset. Ultimately, a company should not standardize a method of depreciation to enhance comparability because different assets depreciate at different rates than other assets. While one asset may depreciate quickly, another may not depreciate as quickly and this would affect the amount of worth of the asset if handled incorrectly.

**Response #4** Different methods used to calculate depreciation include the straight-line method, activity method, special depreciation methods, and decreasing charge methods. It would depend on the type of company and what type of products and assets used by the company that would determine which method they should utilize. The company's choice would affect their income statement if for example they were depreciating computers and office equipment. The first few years would be affected the most and less over the later years of the equipment. Companies should not standardize the method of depreciation to enhance comparability because different assets would depreciate differently.

