Example on Computation of Depreciation

Depreciation of each fixed asset can be calculated using the method approved by the MC. Two simple and commonly used methods are shown below:

Straight-line Method

Evenly distribute the cost of a fixed asset, less the expected final disposal value (if any), over its expected useful life:

$$\textbf{Depreciation charge} = \frac{\textbf{cost of fixed asset – expected disposal value}}{\textbf{useful life}}$$

(note: expected disposal value could be $0)

Reducing Balance Method

Apply a fixed rate (percentage) of depreciation to the asset each year:

Depreciation charge = net book value x rate of depreciation

Example

Cost of equipment = $8,000
Estimated useful life = 4 years
Expected disposal value at the end of useful life = $500
Depreciation rate for reducing balance method = 50%

	Straight-line Annual depreciation = ($8,000-$500) / 4 HK$	**Reducing Balance** Annual depreciation = net book value x 50% HK$
Cost	8,000	8,000
Depreciation - year 1	1,875	4,000
Net book value	6,125	4,000
Depreciation - year 2	1,875	2,000
Net book value	4,250	2,000
Depreciation - year 3	1,875	1,000
Net book value	2,375	1,000
Depreciation - year 4	1,875	500
Net book value (diposal value)	500	500

Accounting Entries for Depreciation (Year 4)	Dr	Cr
DR. Depreciation	$1,875	
CR. Accumulated Depreciation		$1,875