**The Linear Depreciation Method - Example**

**Solved example:**

The acquisition cost of a machine tool is 1 250 000 CZK, the final value is assessed at 97 200 CZK and the service life is 5 years.

Assignment:

1. Based on the assumptions above and using the linear depreciation method, calculate:

* annual depreciation (annual depreciation amount) in CZK,
* annual depreciation rate in %,
* annual depreciation based on the calculated annual depreciation rate in %,
* residual value in CZK after 4 years of use (depreciation).

1. Repeat these calculations assuming that the company does not consider the final value (or that *FV* = 0); calculate:

* annual depreciation (annual depreciation amount) in CZK,
* annual depreciation rate in %,
* annual depreciation based on the calculated annual depreciation rate in %,
* residual value in CZK after 4 years of use (depreciation).

Solution:

a)

*  ;

 ;

*  ;

 ;

*  ; *(the difference was caused by rounding)*
*  .

b)

*  ;
*  ;
*  ;
*  .

**Depreciable Intangible Assets – Tas Depreciation**

**Solved example:**

The acquisition price of a newly acquired machine tool is 1 250 000 CZK; the entrepreneur did not use the option to increase depreciation in the first year of depreciation.

Assignment:

1. classify this tangible asset into the corresponding depreciation group;
2. draw up a depreciation plan for a straight-line depreciation;
3. draw up a depreciation plan for an accelerated depreciation.

Solution:

a) depreciation group: 2 depreciation period: 5 years

b) and c) depreciation plan:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | b) for straight-line depreciation | | c) for accelerated depreciation | |
|  | Annual depreciation in CZK | Residual value in CZK | Annual depreciation in CZK | Residual value in CZK |
| 1 | 137 500 | 1 112 500 | 250 000 | 1 000 000 |
| 2 | 278 125 | 834 375 | 400 000 | 600 000 |
| 3 | 278 125 | 556 250 | 300 000 | 300 000 |
| 4 | 278 125 | 278 125 | 200 000 | 100 000 |
| 5 | 278 125 | 0 | 100 000 | 0 |

 

 

  etc.

# EXAMPLES TO PRACTICE

**EXAMPLE 1:**

The acquisition price of a refrigerating equipment is 3 000 000 CZK, its estimated final value is 233 280 CZK and its expected service life is 5 years.

Assignment:

1. Based on the assumptions above and using the linear depreciation method, calculate:

* annual depreciation (annual depreciation amount) in CZK,
* annual depreciation rate in %,
* annual depreciation based on the calculated annual depreciation rate in %,
* residual value in CZK after 4 years of use (depreciation).

1. Repeat these calculations assuming that the company does not consider the final value (or that *FV* = 0); calculate:

* annual depreciation (annual depreciation amount) in CZK,
* annual depreciation rate in %,
* annual depreciation based on the calculated annual depreciation rate in %,
* residual value in CZK after 4 years of use (depreciation).

**EXAMPLE 2:**

The acquisition price of a newly acquired refrigerating equipment is 3 000 000 CZK.

Assignment:

1. for the purpose of tax write-offs, classify this tangible asset into the corresponding depreciation group;
2. draw up a depreciation plan for a straight-line depreciation;
3. draw up a depreciation plan for an accelerated depreciation;

Solution:

a) depreciation group: depreciation period:

b) and c) depreciation plan:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | b) for straight-line depreciation | | c) for accelerated depreciation | |
|  | Annual depreciation in CZK | Residual value in CZK | Annual depreciation in CZK | Residual value in CZK |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |
| 4 |  |  |  |  |
| 5 |  |  |  |  |