Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
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Accredited by NAAC – UGC with 'A+ Grade (Cycle IV)

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Coimbatore- 49

DEPARTMENT OF COMMERCE WITH INFORMATION TECHNOLOGY

21UCR402 – FUNCTIONAL ACCOUNTING
Unit-1: Straight-line Method of Calculating Depreciation

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Straight Line Method (SLM) – Concept

Key points:

- ✓ Depreciation amount remains **constant** each year.
- ✓ Easy to calculate and understand.
- ✓ Suitable for assets that give **equal benefit every year**, like furniture, buildings, and computers.

Formula:

$$\text{Annual } \textit{Depreciation} = \frac{\textit{Cost of Asset} - \textit{Residual Value}}{\textit{Useful Life}}$$

Straight Line Method (SLM) – Example

A machine is purchased for ₹1,00,000. Its residual value (value at end of life) is ₹10,000.Its useful life is 5 years.

Step 1:

Annual Depreciation=1,00,000−10,0005=90,0005=₹18,000

Annual Depreciation=51,00,000−10,000=590,000=₹18,000

Step 2:

Depreciation each year Every year,

depreciation charged = ₹18,000

Straight Line Method (SLM) – Example

Step 3: Value of asset after depreciation

End of Year 1: ₹1,00,000 – ₹18,000 = **₹82,000**

End of Year 2: ₹82,000 – ₹18,000 = **₹64,000**

End of Year 3: ₹64,000 – ₹18,000 = **₹46,000**

End of Year 4: ₹46,000 – ₹18,000 = **₹28,000**

End of Year 5: ₹28,000 – ₹18,000 = **₹10,000** (Residual value)

Straight Line Method (SLM) – Example

Step 3: Value of asset after depreciation

End of Year 1: ₹1,00,000 – ₹18,000 = **₹82,000**

End of Year 2: ₹82,000 – ₹18,000 = **₹64,000**

End of Year 3: ₹64,000 – ₹18,000 = **₹46,000**

End of Year 4: ₹46,000 – ₹18,000 = **₹28,000**

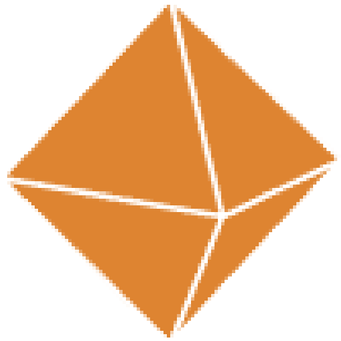
End of Year 5: ₹28,000 – ₹18,000 = **₹10,000** (Residual value)

Straight Line Method (SLM) – Example

Asset Depreciation Over Time

Initial Value

₹1,00,000



Annual Depreciation

₹18,000 per year

Value Reduction

Asset value decreases annually

Residual Value

₹10,000 after 5 years

Case Study: Straight Line Method (SLM)

Riya Enterprises purchased a photocopy machine on 1st April 2022 for ₹1,20,000.

The estimated useful life of the machine is 6 years, and the residual value at the end of its life is expected to be ₹12,000.

The company follows the Straight Line Method (SLM) for calculating depreciation.

Tasks:

1.Calculate the annual depreciation amount.

2.Find the value of the machine at the end of 2 years.

3.State one reason why a company may prefer the Straight Line Method.

Case Study: Straight Line Method (SLM)

Solution

1. Annual Depreciation Amount

Formula:

$$\text{Annual } \textit{Depreciation} = \frac{\textit{Cost} - \textit{Residual Value}}{\textit{Useful Life}}$$

Substitute values:

$$= \frac{1{,}20{,}000 - 12{,}000}{6}$$

$$= \frac{1{,}08{,}000}{6} = ₹18{,}000 \textit{ per year}$$

Annual Depreciation = ₹18,000

2. Value of Machine at the End of 2 Years

$$\text{After } \textit{1 year} = 1{,}20{,}000 - 18{,}000 = ₹1{,}02{,}000$$

$$\text{After } \textit{2 years} = 1{,}02{,}000 - 18{,}000 = ₹84{,}000$$

Value after 2 years = ₹84,000

Case Study: Straight Line Method (SLM)

3. Reason for Preferring SLM:

Simple and easy to calculate

or

Depreciation remains constant every year

or

Suitable for assets giving equal benefit each year

1. Method with equal yearly depreciation — **SLM**
2. Value left at the end of useful life — **Residual**
3. Depreciation remains _____ under SLM —

   Constant

THANK YOU