WORKED GUIDE / 03 / XI · CA Foundation

Straight-line depreciation

One formula. A clear reason.

The idea

Annual depreciation = (Cost − Estimated residual value) ÷ Estimated useful life.

Work through the calculation

Step	Calculation / answer
Depreciable amount	₹60,000 - ₹6,000 = ₹54,000
Annual straight-line depreciation	₹54,000 ÷ 6 years = ₹9,000 per year
For 6 months of use	₹9,000 × 6/12 = ₹4,500
Carrying amount after one full year	₹60,000 - ₹9,000 = ₹51,000

The annual straight-line charge remains equal when the estimates are unchanged. Charge only for the relevant period of use in a part year.

A common mistake: dividing the whole cost by useful life when a residual value is given.

Think it through

Does depreciation mean the business pays cash each year?

Answer: No. Depreciation allocates the depreciable amount as an expense over useful life. Recording depreciation itself is not a cash payment.

Use this short learning aid alongside your prescribed textbook, complete class notes and question practice.