

Think Break #11 Answer

Double declining balance depreciation rate

$$R_{DB} = 2 \times (1/3) = 2/3 (= 66.67\%)$$

1) Year 1 Depreciation

$$= \$7,000 \times 2/3 = \$4,667$$

2) Ending basis in 1st year

$$= \$7,000 - \$4,667 = \$2,333$$

3) Year 2 Depreciation

$$= \$2,333 \times 2/3 = \$1,555$$

4) Ending basis in 2nd year

$$= \$2,333 - \$1,555 = \$788$$

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Cannot take \$1,555 depreciation in year 2 since implies ending basis < salvage value

Set year 2 depreciation so asset fully depreciated during year 2

3) Year 2 Depreciation

$$\$2,333 - \underline{\$1,333} = \$1,000$$

$$\text{Depreciation} = \$1,333$$

4) Ending basis in 2nd year

$$= \$2,333 - \$1,333 = \$1,000$$