# How to Calculate Depreciation Using the Double Declining Balance Method

Fixed asset depreciation is a key component in a company's tax strategy. It decreases the taxable income, which reduces the total tax payable. The Generally Accepted Accounting Principles, or GAAP, provide businesses with five different depreciation methods, offering a range of strategies that suit their specific financial and tax planning needs. Let's discuss the double declining balance method.

This method is also referred to as the reducing balance method and it's a form of accelerated depreciation. This method depreciates assets at twice the rate of the standard declining balance method. This approach is frequently adopted by businesses for its efficiency. Similar to the traditional declining balance method, the double declining balance is a good option for assets that depreciate significantly in the early stage of their useful life.

Let's look at an example: imagine a company buys a piece of machinery for say $10,000, with a 5-year lifespan. They opt for the double declining balance method. The formula for this is: two times the depreciation rate times the current book value, so at the end of the first year the machinery's value is $10,000 minus the $4,000 of depreciation, which leaves them with a $6,000 book value. In the second year, starting with that $6,000, the depreciation expense is now $2,400 and then that leaves a book value of $3,600 at the second year's end.

This method results in higher depreciation expenses earlier on, mirroring the greater productivity and efficiency of the newer assets. It's a great option to manage assets that depreciate quickly.

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