

HOW-TO GUIDE

# How to Calculate Accumulated Depreciation: Step-by-Step Guide [2026]

Key insights and actionable frameworks



## Overview

### What is the quick formula for calculating accumulated deprec

Accumulated depreciation is the cumulative total of depreciation expense recorded against a fixed asset since its acquisition. It is not a separate expense—it represents the sum of all depreciation charges across accounting periods. Straight-line formula: Annual Depreciation = (Original Cost - Salva

## **S1** What is accumulated depreciation?

Accumulated depreciation represents the total reduction in an asset's value since purchase. It appears on balance sheets as a "contra-asset" account, meaning it offsets the asset's gross cost to show net book value. Unlike depreciation expense (which appears on the income statement annually), accumu

## **S2** How do different depreciation methods work?

Choosing the right depreciation method affects both financial statements and tax liability. India's tax authorities (under the Income Tax Act, 1961) prescribe the Written Down Value (WDV) method, while companies reporting under IND AS can use straight-line depreciation for book purposes. Straight-li

## STEPS 3 - 4

S3

### How do you calculate accumulated depreciation step

Step 1: Identify the asset details Gather these critical data points before calculating: Original cost: Purchase price plus installation, delivery, and setup fees Salvage value: Estimated residual value at the end of the asset's useful life Useful life: In years or in units of production Date placed

S4

### Which tools help calculate accumulated depreciatio

Several solutions automate calculations and reduce errors: Tally ERP 9: Standard in Indian companies; automatically calculates depreciation by multiple methods SAP S/4HANA: Enterprise-grade fixed asset management with depreciation tracking Microsoft Dynamics 365: Cloud-based accounting with automate

## **S5** How can you optimize depreciation for your business

Strategy 1: Use accelerated methods for tax efficiency Under the Income Tax Act, the Written Down Value (WDV) method accelerates depreciation compared to straight-line. This lowers taxable income in early years, deferring tax liability. Example: A Rs 10,00,000 asset depreciates Rs 3,00,000 in Year 1

## **S6** Conclusion

Accumulated depreciation is calculated by summing annual depreciation charges from acquisition to the current period using straight-line (Cost - Salvage / Life), declining balance (Book Value × Rate), or units of production methods. Record on balance sheets as contra-asset reducing book value, align

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