

How to Calculate Depreciation Using the Sum of the Year's Digits (SYD) Method

Fixed asset depreciation is an important tax strategy for many companies. It lowers the amount of earnings that taxes are based on, which in turn reduces the amount of taxes owed. Generally Accepted Accounting Principles, or GAAP, give business owners the choice of five different methods of depreciation to use. In this video, we'll discuss a unique one, the sum of the year's digits depreciation method or SYD for short. The SYD method involves adding up the digits of the asset's useful life years and then using this sum to determine annual depreciation. Now this results in higher depreciation charges in the early years, which then gradually decrease over the life of the asset.

So let's say a company buys equipment for \$50,000, with a useful life of 5 Years. First step is to calculate the sum of the year's digits. So for 5 years, it's $1 + 2 + 3 + 4 + 5$, which equals 15. So in the first year, we used the fraction $5/15$ of the depreciable basis for depreciation. So it's $5/15$ of the original value, minus the salvage value. In the second year, now it's $4/15$ and then $3/15$ in the third year and so on, and at the end of the 5 years, the accumulated depreciation will equal the original cost of the equipment and the book value will be zero.

SYD is especially useful for assets that have higher productivity or benefits in the assets earlier years. It aligns the depreciation expense with the actual usage and benefits derived from that asset. So the sum of the year's digits method is a practical and accelerated way to manage depreciation, especially for certain types of assets.

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