

What Is Depreciation?

The term depreciation refers to an accounting method used to allocate the cost of a tangible or physical [asset](#) over its useful life. Depreciation represents how much of an asset's value has been used. It allows companies to earn revenue from the assets they own by paying for them over a certain period of time.

KEY TAKEAWAYS

- Depreciation ties the cost of using a tangible asset with the benefit gained over its useful life.
- There are many types of depreciation, including straight-line and various forms of accelerated depreciation.
- Accumulated depreciation refers to the sum of all depreciation recorded on an asset to a specific date.
- The carrying value of an asset on the balance sheet is its historical cost minus all accumulated depreciation.
- The carrying value of an asset after all depreciation has been taken is referred to as its salvage value.