Depreciation and Amortization

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1. **Depreciation**
    - The systematic allocation of a tangible fixed asset's cost over its useful life (e.g., machinery, buildings, vehicles).
2. **Amortization**
    - The equivalent concept applied to intangible assets with a finite useful life (e.g., patents, licenses, software).
3. **Common Depreciation Methods**
    - **Straight-line**: equal expense each year.
    - **Reducing balance**: higher expense in early years, declining over time.
    - **Units of production**: expense based on actual usage/output.
4. **Key Inputs**
    - Cost of the asset, estimated useful life, and residual (salvage) value at the end of its useful life.
5. **Why Assets Are Depreciated**
    - Reflects the "using up" of an asset's economic benefit over time, matching its cost against the revenue it helps generate.
6. **Accumulated Depreciation**
    - A contra-asset account that tracks total depreciation charged to date, reducing the asset's carrying (book) value on the balance sheet.