

Practice Problems

CATEGORY: COST APPROACH

TOPIC: PHYSICAL DEPRECIATION

BREAKDOWN METHOD

Problem – What is the total amount of physical depreciation utilizing the breakdown method?

Curable physical (windows)	Current Cost = \$10,000	Cost to Cure = \$12,500
Curable physical (paint)	Current Cost = \$ 7,000	Cost to Cure = \$ 9,000
Incurable physical (roof)	Cost = \$100,000	Age = 10 Useful Life = 40
Incurable physical (floors)	Cost = \$ 74,000	Age = 10 Useful Life = 15
Building current cost	\$950,000	
Building age	10 years	
Useful Life (long-lived items)	70 years	

Problem Solution – NEXT PAGE

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Building current cost	\$950,000	
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Problem Solution

Current cost		\$ 950,000
Less current cost of physical curable	- \$ 17,000	
Less current cost of incurable physical	- \$174,000	
Undepreciated cost of long-lived components		\$ 759,000
Depreciation of long-lived as %	$10 \div 70 = .14$ (14%)	
Incurable physical for long-lived (\$)	\$759,000 x .14	\$ 106,260
Incurable (short-lived) depreciation		
Roof ($10 \div 40$) x \$100,000 =	\$25,000	
Floors ($10 \div 15$) x \$74,000 =	\$ 49,333	
Incurable (short-lived) total depreciation		\$ 74,333
Depreciation for curable physical (cost to cure)		\$ 21,500
TOTAL PHYSICAL DEPRECIATION		\$202,093