

# DEPARTMENT OF COMMERCE D. P. VIPRA COLLEGE



## Depreciation

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# Introduction

- The Accounting Standard deals with depreciation accounting and applies to all depreciable assets.
- Depreciation is allocated so as to charge a fair proportion of depreciable amount in each accounting period during expected useful life.
- This standard is inextricably connected with another standard AS-10

# **Applicability of AS-6 AS-6 is applicable to all**

depreciable assets, except the following:

- ✓ Forests, Plantation and other similar regenerative natural resources
- ✓ Wasting Assets
- ✓ Expenditure on R & D
- ✓ Goodwill
- ✓ Live-stock
- ✓ Land – unless it has limited life

# Meaning

- Depreciation means decline in the value of depreciable assets on account of use and effluxion of time.
- Depreciation is a gradual, continuous & permanent decrease in the value of an asset. Timeline: 1984: Introduced 1994: Revised 1995: Applicable to Non-Corporates as well.

## Definition:

- AS-6-Para3, Depreciation Accounting defines depreciation as a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology or market changes.
- Depreciation includes amortization of assets whose useful life is predetermined. Amortization is a phrase used for Intangible assets.

# Depreciable Assets

**Depreciable Assets are those assets which:**

- ✓ are expected to be used for more than 1 accounting period.
- ✓ Have a limited useful life.
- ✓ Are held for the purpose of production of goods & services and NOT for sale in the ordinary course of business

# Features & Causes

## ☐ Features of Depreciation

☐ Depreciation is a part of operating cost.

☐ It is a reduction in the value of an asset.

☐ The decrease in the value of an asset is gradual & continuous.

## **Causes of Depreciation**

☐ Physical wear & tear

☐ Physical Deterioration

☐ Expiry of legal right

☐ Obsolescence

# Methods of Depreciation:

- ✓ Fixed Installment Method
- ✓ Diminishing Balance Method
- ✓ Insurance Policy Method
- ✓ Revaluation Method
- ✓ Replacement Method
- ✓ Depletion unit Method
- ✓ Machine hours rate method
- ✓ Annual valuation Method
- ✓ Depreciation fund method
- ✓ Annuity Method



**Thanks you**