

FAQ

Q1. What is depreciation?

A1. Depreciation is the reduction in the value of depreciable assets.

Q2. Which factors affect depreciation?

A2. Factors affecting depreciation are usage, passing of time, obsolescence, wear and tear, accident and natural calamities.

Q3. What is depreciable asset?

A3. Depreciable asset is the asset, which is expected to be used by the entity for more than 1 accounting period, having limited useful life and held for use in production of goods and services directly or indirectly and is not held for the purpose of sale in ordinary course of business.

Q4. What are Objectives of providing depreciation?

A4. Objectives of providing depreciation are:

- (i) Matching cost with revenue
- (ii) Presentation of true and fair view
- (iii) Funds for immediate replacement of asset
- (iv) Restriction on payment of dividend
- (v) Reduces the tax liability
- (vi) Legal obligation

Q5. Which Factors are considered for calculating depreciation?

A5. The amount of depreciation is calculated keeping in mind .

- (i) Cost of the asset
- (ii) Estimated useful life of the asset
- (iii) Estimated residual value or scrap value of depreciation assets.

Q6. By which methods, depreciation is recorded in the books of accounts?

A6. There are two methods of recording depreciation in the books of accounts.

- (1) By charging Depreciation to Asset Account.
- (2) By Creating Provision for Depreciation Account.

Q7. Which are the methods of calculating depreciation?

A7. There are various methods of providing depreciation like:

- (i) Straight line Method
- (ii) Diminishing Balance Method
- (iii) Sum of 'Years Digit Method
- (iv) Annuity Method
- (v) Double Declining Balance
- (vi) Sinking Fund Method etc.

Q8. Does the amount of depreciation per year changes with the change in method of calculating depreciation?

A8. Yes. The amount of depreciation per year changes with the change in method of calculating depreciation because every method takes into account different basis for calculating depreciation.

Q9. When can one adopt different method of charging depreciation?

A9. Changes in depreciation method can be justified only if the change is done to comply with certain conditions like:

- (a) Compliance of statute
- (b) Compliance of Accounting standard
- (c) Better or appropriate presentation of financial statement

Q10. What is the accounting treatment in case of change in the method of providing depreciation?

A10. Accounting treatment required to be given in case of change in the method of providing depreciation are:

- (i) Depreciation should be recomputed with the help of new method from the date of use or acquisition or installation till the date of change in method.
- (ii) The difference between the total depreciation under the new method and old method may be surplus or deficiency.
- (iii) If the difference is surplus i.e. [more depreciation has been provided under old method than required under new method] the amount should be credited to P & L A/c under the head "Depreciation written back"

If the difference result is deficiency, the resultant amount should be charged to P & L A/c.