

SUMMARY

Depreciation is decrease in the value of depreciable asset due to use, passing of time, change in technology, wear and tear, accident etc. It is necessary to provide depreciation for determining true profit or loss for an accounting period and for making provision for replacement of the scrapped asset in future. As per companies act also it is compulsory to provide depreciation for a company before declaring dividend. There are two methods of accounting treatment of depreciation namely charging depreciation to respective asset account and recording depreciation in provision for depreciation account. Under first methods assets are shown in balance sheet at their book values i.e. cost less depreciation while under other method assets are shown in the balance sheet at their original cost and provision for depreciation account including accumulated depreciation over the years is shown in the balance sheet on liabilities side. There are various methods for providing depreciation but among all straight line method and Reducing balance methods are widely used. When method of providing depreciation is changed depreciation is recalculated by new method from the beginning till the year of change and deficit or surplus is charged to profit and loss account in the year in which the method is changed.