AS-6
Depreciation Accounting

1) Mandatory for all entities
2) This AS is not applicable for following assets:
   i) Regenerating resources
   ii) Non-regenerating resources (i.e. Mines)
   iii) Live Stock
3) Depreciation is systematic allocation of depreciable amount on depreciable asset, which is written off over useful life of asset.
4) Depreciable asset means assets:
   i) whose life is limited
   ii) whose life is more than one year
   iii) held for use in production of goods or rendering of services
   For example: Plant, Machinery, Furniture, Building, Leasehold Land etc.
5) Depreciable amount is cost or revalued amount after deducting scrap value.
6) Useful life means part of economic life (total life) of assets. It is estimated by management which is reviewed annually.

Factors affecting useful life:
   i) Obsolescence
   ii) Accidents
   iii) Management estimates
7) Depreciation will be charged each year, irrespective of its use.
8) Systematic allocation means using that method of depreciation, which matches benefit with cost. Generally following methods are used:

a)
$$SLM = \frac{\text{Cost - Scrap Value}}{\text{Useful life}}$$

b) **WDV Method: -**

$$= 1 - \left(\frac{\text{Scrap Value}}{\text{Cost}}\right)^{1/\text{Life}}$$

$$= 1 - \left(\frac{25000}{500000}\right)^{1/17.5}$$

$$0.05^{\,1/17.5}$$

12 times √ of 0.05	0.999268887444
-1 from above figure	-0.000731112556
Divide useful life (17.5)	-0.000041778
+1 from above figure	0.999958222
12 time [*=]	0.842715
Dep. Rate %	15.73%

Depreciation method can be changed

9) Depreciation method will changed retrospectively
   i) This is called change in policy, when ever policy is changed following need to be disclosed:
      a) old policy
      b) new policy
      c) reasons of change in policy
      d) effect/ impact of change on current year profit

   ii) Reason of changing policy
      a) better presentation of financial statement
      b) compliance with law
      c) compliance with AS

10) whenever any addition or extension are made to any asset then
--> If such additions are integral asset, then addition are depreciated over life of principal assets
new hard disk in computer will be depreciated over life of computer
--> If such addition are non-integral then such additions are depreciated as separate asset
printer will be depreciated over life of printer

11) scrap value will be reviewed each year and depreciated computed accordingly.

12) In case any entity applies dep. policy specified by governing law, it will be assumed compliance with AS.

Guidance note by Ltd. Co.
13) Different method of depreciation can be applied an assets of entity, provide it is Justified.

14) Small value asset will be depreciated in the year of purchase.
Assets up to Rs. 5000/- are considered as small value.

15) Depreciation is calculated on period basis for addition or deletion made.

16) Disclosure Requirement:
   a) Depreciation
   b) Accumulated Depreciation
   c) Life/ Rate of Depreciation