

SREERAM COACHING POINT

AS - 6
Depreciation
Accounting

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Depreciation is to be measured / provided only for “Depreciable Assets”.

Depreciable Assets are those assets which are expected to be used for more than one accounting period, having limited useful life and held by enterprise to be used in its basic and ordinary activities

Depreciation Amount depends on 3 Factors

Historical cost or other amount in place of historical cost
like revalued amount

1. Estimated useful life
2. Estimated residual/scrap value of depreciable assets

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Depreciable Amount = Historical Cost – Estimated Residual Value

Depreciation can be provided under “Straight Line Method” and “Written Down Value Method”. The method of depreciation depends on the following factors:

(a) Type of asset (b) Nature of Asset (c) Circumstances prevailing in the business.

Note: The method adopted should be applied consistently from period to period

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CHANGE IN METHOD OF DEPRECIATION

Only in the following circumstances, method of depreciation can be changed

1. For compliance of statute
2. For compliance of accounting standards
3. For more appropriate presentation of the financial statements

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PROCEDURES IN CASE OF CHANGE IN METHOD OF DEPRECIATION

1. Recalculate the depreciation in accordance with new method of depreciation from the date of the asset coming into use.
2. Difference between the total depreciation under the two different methods may result in surplus/deficiency.
3. Transfer such surplus/deficiency to Profit & Loss a/c in the year of such change.
4. Such change in method should be treated as change in accounting policy as per AS-5

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CHANGE IN HISTORICAL COST

When the historical cost of an asset has changed due to increase or decrease in long term liability on account of exchange fluctuations, price adjustments, or similar factors, the depreciation on the revised balance of depreciable amount should be provided over the residual useful life

REVALUATION OF ASSETS

Where the depreciable assets are revalued, the depreciation for future years should be based on the revalued amount.

If the revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.

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ADDITION / EXTENSION TO EXISTING ASSET

If the addition/extension retains a separate identity and is capable of being used after the existing assets is disposed off, depreciation should be provided independently on the basis of an estimate of its own useful life

CHANGE IN THE ESTIMATED USEFUL LIFE

If there is a revision of the estimated useful life, the balance of depreciable amount should be charged over the revised remaining useful life.

Change in useful life is a change in estimate as per AS-5

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DISPOSITION OF DEPRECIABLE ASSET

1. Net surplus/deficiency (i.e. sale proceeds less written down value) is credited or charged to P & L a/c
2. If the amount of surplus/deficiency is material, it should be disclosed separately (AS-5)