

ACCOUNTING STANDARD -6 (Depreciation Accounting)

1. This is mandatory for all entities.
2. **Depreciation means systematic allocation of cost of fixed assets over useful life of assets, in each accounting year.**
 - A. Systematic allocation can be by applying WDV, SLM or any other appropriate method.
 - B. Useful life is expected usage period of entity. This life is estimated by entity based on prevailing factors. Useful life is part of economic life. (Total life of assets)
 - C. Depreciation will be charged in each year irrespective of use of assets. It means depreciation is expenses irrespective of actual use.
 - D. Useful life is determined based on following terms
 - i) Technology
 - ii) Legal Limits
 - iii) Expected wear & tear
 - E. Fixed assets mean those assets which are depreciable. Depreciable assets are assets:
 - i) Having limited life
 - ii) But exceeding one year
 - iii) Which are held for use in production of goods & rendering of services or administrative services.

EXCEPTIONS:

Followings items are not covered in AS-6

- Natural Resources like mines, live stock, forest
- Investments (Investment deals in AS-13)
- Stocks (Stock deals in(AS-2)
- Goodwill (Goodwill deals in(AS-26)



3. Deprecation method formula

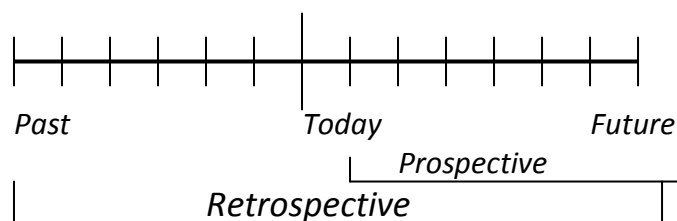
$$\text{SLM (Amount)} = \frac{\text{Original Cost} - \text{estimated scrap value}}{\text{Estimate Useful Life}}$$

$$\text{WDV (Rate)} = \frac{1 - (\text{Sale Value})^{(1/\text{life})}}{\text{Cost}}$$

4. Change in variable:

Following changes can be made its effects will be either **prospective or retrospective**.

- i) Useful Life: PROSPECTIVE CHANGE
- ii) Scrap Value: PROSPECTIVE CHANGE
- iii) Methods of Depreciation: RETROSPECTIVE CHANGE



Note: As per Para 21 of AS-6, whenever method of depreciation is changed then:

- Disclose New Policy
- Disclose Old Policy
- Effect of changes of current year profits
- Reason of changes

Following can be reasons of changes:

- Application of law
- Application of AS
- Format of Better Presentation

5. **Whenever any conditions are made to assets, then such additions can be:**

- Integral (Part of Principle Assets like Hard Disk Drive)
- Non Integral (other from Principle Assets like Printer)
- Integral additions will be depreciated on remaining life of principal assets.
- Non-Integral additions will be depreciation on their life basis.

6. **Disclosure Requirement**

- Depreciation Charged
- Accumulated Depreciation
- Life of Assets
- Method of Depreciation

should be disclosed

**AS-Accounting Standard*



Yogesh Gupta

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For more details: **Free Student Service**
yogeshgupta.mdu@gmail.com

Cell: +91 805 963 5006, +91 901 792 0942 (Facebook, Twitter, Orkut)