

# Depreciation

The fixed assets which are used in business have a definite span of life after the expiry of which the assets will lose their usefulness for the business operations. Fall in the value and utility of such assets due to their constant use and expiry of term time is termed as depreciation.

## Characteristics of Depreciation :

1. Depreciation is decline in the value of fixed assets. (except land)
2. Such fall is permanent in nature
3. Depreciation is a gradual and continuing process.
4. Depreciation is a process of allocation of the cost of an asset to its effective span of life.
5. It decreases only the book value of the asset, not the market value.
6. Depreciation is a non-cash expense.

## Causes of Depreciation :

Some of the main causes of depreciation are :

- 1) By constant use
- 2) By expiry of time
- 3) By expiry of legal time
- 4) By obsolescence : Due to new inventions and improved techniques the old assets

become obsolete and may have to be discarded.

5) By accident.

6) By Depletion: Depletion is the decrease in the value of wasting assets such as mines, oil wells etc, due to their constant use/working.

7. By permanent fall in market price.

Objectives of Providing Depreciation:

Provision of Depreciation on fixed assets helps the business to ascertain the true profit and loss and it also shows the 'true & fair' view of Balance Sheet i.e. the financial position of the business.

Provision for Depreciation is a deductible expense for tax purpose. So, such provisions allows business to avoid over payment of Income tax.

Factors determining the amount of Depreciation:

Following factors are considered while providing for depreciation:

① Total cost of the Asset;

② Estimated Useful Life of Asset and

③ Estimated Scrap Value.