

JAIIB



Accounting & Financial Management for Bankers

Module A : Chapter 6 **Depreciation**

WHAT IS DEPRECIATION?



Depreciation

[\ di-'prē-shē-,ā-shun]

An accounting method used to allocate the cost of a tangible or physical asset over its useful life.

Depreciation is a reduction in the value of asset.

Value decline is gradual and continuous.

Value declines due to its use and wear-tear.

Depreciation is part of operating cost.

CAUSES OF DEPRECIATION



NEED OF DEPRECIATION



To know the correct profits.

To show correct financial positions.

To make provisions for replacement of assets.

SINKING FUND

FACTORS OF DEPRECIATION

A diagram showing three factors of depreciation. Each factor is represented by a grey circle on the left, connected by a thin line to a dark blue horizontal bar on the right containing the text. The factors are: Cost of Asset, Estimated Residual or Scrap Value, and Estimated number of years of useful life.

Cost of Asset

Estimated Residual or Scrap Value

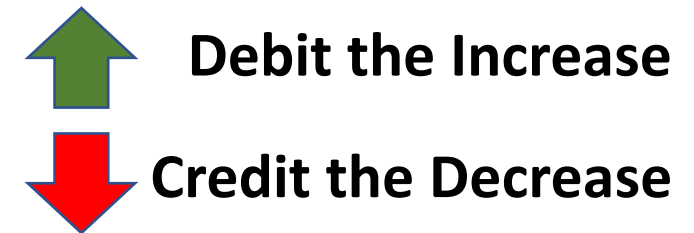
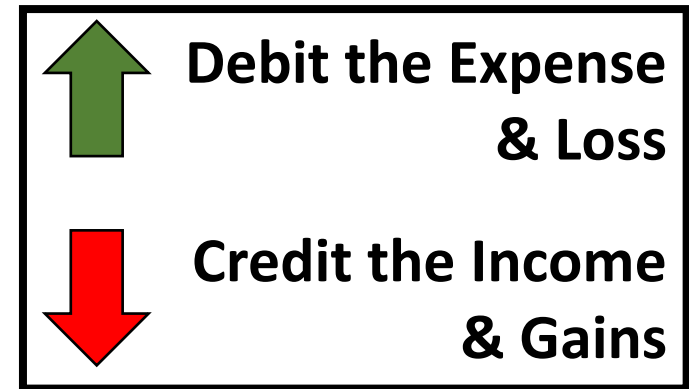
Estimated number of years of useful life.

ACCOUNTING TREATMENT OF DEPRECIATION

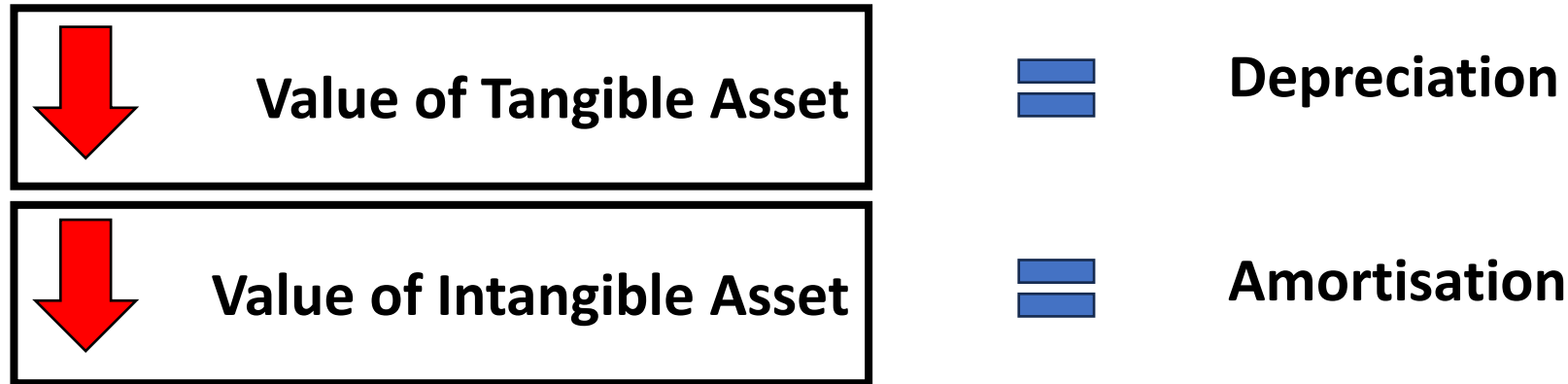
- Depreciation is an Expense (nominal) Account.

Particulars	L.F.	Dr.	Cr.
Depreciation a/c Dr. To Asset a/c (Being depreciation of the asset for 'Time period'.)		xx	xx

- At end of accounting period, balance in Depreciation account goes to debit of Profit & Loss Account.
- The reduced value of the asset is shown in balance sheet.



DEPRECIATION or AMORTISATION



Ind AS 38

- Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
- This Standard defines intangible asset as, “ an identifiable non monetary asset without physical substance”.

LET'S SOLVE!

Which one of the following statements is not correct?

- a) Depreciation is a non-cash expense.
- b) Depreciation is the process of valuation of assets.
- c) The main cause of depreciation is wear and tear caused by usage.
- d) Depreciation must be charged so as to ascertain true profit or loss of a business.

Thank You

For More Info Contact us:



+91 8146207241



hello@edutap.co.in



www.edutap.co.in