MEANING OF KEY TERMS USED IN THE CHAPTER

1. Depreciation	Depreciation means fall in the value of tangible asset because of: (i) usage, *i.e.*, wear and tear; (*ii*) efflux of time; (*iii*) obsolescence; or (*iv*) accident.
2. Depletion	The term 'Depletion' is associated with extraction of natural resources like quarries, mines, etc.
3. Amortisation	Amortisation means writing off intangible assets over their estimated useful life.
4. Obsolescence	It refers to decline in the economic value of the asset due to innovation or improved technique, change in taste or fashion or inadequacy of existing asset due to improved demand.
5. Original or Historical Cost	It means cost incurred to acquire the asset up to the point it is ready for use. It is the basis for depreciation.
6. Residual Value	It is the estimated sale value of the asset at the end of its useful economic life.
7. Accumulated Depreciation	It is a method of recording depreciation under which depreciation is credited to 'Provision for Depreciation Account or Accumulated Depreciation Account'. It is the total depreciation expenses already charged as expense in different accounting periods.
8. Straight Line Method	It is a method of providing depreciation under which net cost of the asset (Historical Cost – Realisable Value) is written off equally over the useful life of the asset.
9. Written Down Value Method	It is a method of providing depreciation under which a percentage of depreciation is applied every year on the book value (*i.e.*, cost *less* depreciation).

CHAPTER SUMMARY

- **Depreciation** is the cost of fixed asset that has expired because of its usage and/or with efflux of time.
- **Causes of Depreciation** are:
  (*i*) wear and tear, (*ii*) efflux of time, (*iii*) obsolescence and (*iv*) accident.
- **Objectives of providing Depreciation** are to:
  (*i*) ascertain correct profit or loss.
  (*ii*) show a true and fair view of the financial position.
  (*iii*) show the assets at their correct values.
  (*iv*) determine the correct cost of production.
  (*v*) retain funds out of profit, for replacement.
  (*vi*) comply with legal provisions.

- **Depreciation** can be recorded either by:

  (*i*) crediting the depreciation to respective Asset Account; or

  (*ii*) crediting the depreciation to Provision for Depreciation Account.

- **Accumulated Depreciation:** It is the total depreciation charged as expense in different accounting periods.

- **Methods of Recording (Accounting) Depreciation:** Depreciation can be recorded in the books of account in the following two methods: (*i*) *When Depreciation is charged or credited to Assets Account:* Under this method, depreciation is charged directly to the Asset Account. (*ii*) *When Depreciation is credited to Provision for Depreciation Account or Accumulated Depreciation Account:* Under this method, depreciation is credited to Provision for Depreciation Account.

- There are two **Methods of charging depreciation:**

  (*i*) Straight Line Method and (*ii*) Written Down Value Method.

- **Gain (Profit) on Sale of Fixed Asset:** Sale Proceeds – Book value as on date of sale.

- **Loss on Sale of Fixed Asset:** Book value as on date of sale – Sale Proceeds.

- **Asset Disposal Account:** An account to which the balance in Asset Account is transferred. Also, the amount received on sale is credited to the account and the resultant gain (profit) or loss is transferred to the Profit & Loss Account.

Important Points for Asset Disposal Account

- Asset Disposal Account is debited with the Historical Cost of the asset (*i.e.*, cost at which it was purchases less depreciation provided till date) disposed off, *i.e.*, sold.
- Asset Disposal Account is credited with (a) the Accumulated Depreciation on the asset sold, and (b) the Sale Proceeds of the asset sold.
- Excess of debit side total over credit side total means loss on sale of asset and is transferred to debit of Profit & Loss Account.
- Excess of credit side total over debit side total means gain (profit) on sale of asset and is transferred to the credit of Profit & Loss Account.