
4.8. SUMMARY

Depreciation is a gradual, continuous and permanent decrease in the value of an asset. AS-6 was issued by ICAI in 1982 and revised in 1994. AS-6 deals with depreciation, its calculation, periodicity and accounting treatment of annual depreciation. The applicability of AS-6 is to all types of depreciable assets except forest, plantation, natural resource, wasting assets, R&D, livestock and intangible assets. There are various methods of calculating depreciation but two methods i.e. Straight line method and diminishing/reducing balance method are widely used. The Philosophy behind depreciation is to present a fair financial statement. It is mandatory in terms of Companies Act. Depreciation accounting is here to stay despite the disputes between, 'Historical Cost vs. Substitution Cost and confusions regarding calculation of residual value.

4.9. TERMINAL QUESTIONS

- (1) Explain the following terms with examples:-
 - a. Depreciable Assets;
 - b. Wasting Asset;
 - c. Intangible Asset;
 - d. Historical Cost;
- (2) Why depreciation? Explain the concept and give reasons to your answer.
- (3) Distinguish between 'Straight line method' and 'Reducing balance method' of calculating depreciation.