Chapter – 1

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CHAPTER-1

Introduction:

Depreciation is the allocation of cost of a fixed asset to the periods that are expected to benefit from its use. It is the gradual conversion of the cost of a fixed asset into expense. The accounting profession requires that depreciation be charged on a "systematic" basis to each accounting period during the life of a fixed asset.\(^1\) Therefore arbitrary assignment of the cost of a fixed asset to accounting period is not acceptable. It is necessary to charge depreciation even if the market value of a fixed asset has appreciated, because depreciation is a process of allocation, not valuation. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. A similar view is echoed in the International Accounting Standards (IAS NO. 4) issued by International Accounting Standards Committee 1976, accounting to which depreciation is defined as "The allocation is of depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to income directly or indirectly. Depreciation is charged only on depreciable assets which are defined as assets."\(^2\)

(a) Which are expected for the use during more than one accounting period.
(b) Have a limited useful life, and
(c) Are held by an enterprise for use in the production or supply of goods and services, for rental to others or for administrative purposes and not for

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1- The Institute of Chartered Accountants of India Accounting Standard 6 (Revised) Depreciation Accounting New Delhi, 1994.
the purpose of sale in ordinary course of business.

Depreciation accounting has assumed greater significance particularly during the 20th century due to various factors. The foremost amongst them is that depreciation now constitutes a sizeable portion of the cost production in view of the large-scale mechanization of production process of industries. Secondly, in view of rising cost of fixed assets a decision involving replacement of old fixed assets or expansion of existing plant and machinery cannot be taken without taking into consideration the impact of depreciation.

A sound pricing policy of a product cannot be evolving without careful study of depreciation charge. In modern capital-intensive industries, depreciation charge as a percentage of total cost is as high as 15% to 20%, thus we find that depreciation accounting has emerged as an important area of study in the field of accounting. It would therefore, be necessary for every business organization to formulate its depreciation policy.

Depreciation policy has to indicate as to what asset will be subject to charge of depreciation, determination of residual value, determination of economic life of these fixed assets method of depreciation and rate of depreciation. A modern business organization while formulating its depreciation policy should be guided by the accounting standard issued by 'The Institute of Chartered Accountants of India', the apex body in the field of accounting in India. The depreciation policy likes, any other financial policy should satisfy the well-accepted operational criterion for financial management decision namely, maximization of owner's wealth.
Therefore, every improvement in depreciated policy should have maximization of owner's wealth as its basic objective. That is to say it should result in providing for adequate amount of profit so that sufficient provision is available to the company at the end of useful life of the asset.

Scanning of the existing literature regarding depreciation accounting in India reveals that the studies have centered round issues like historical cost. The replacement cost as a basis for charging depreciation, impact of tax consideration on depreciation accounting and practices and impact of price level changes on provision for depreciation. The present state of research in the area of depreciation accounting is best summed up by what W.A. Paton Has stated i.e. “There continues to be a great deal of sloppy thinking and careless description with respect to the subject of depreciation cost leading at times to serious misunderstanding and questionable policies.”¹ In India no serious research effort seems to have been done to study, various Issues Involved in depreciation. The present study makes a modest attempt to fill up the gab in literature in the area of depreciation policy and accounting.

**Meaning And Definitions: -**

Now it is better to study meaning and definition of some important words relating to depreciation accounting.

**Meaning of Depreciation: -**

Depreciation is noting but an expense of a business just a

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wages, rent, cost of raw material consumed etc., but one unfortunate thing about depreciation is that it is not visible like other expenses till the very end. In the case of other expenses the expenditure is patent and known in amount with reasonable accuracy. When a depreciable asset is bought who can say as to how long it will last, how seen it will be displaced by some invention and even if in fact it does not last as long as expected. It does not mean this that provision for depreciation may not be accurate and thus net profit may not be valued in the books and stated in the balance sheet at its real worth.

For particular depreciable assets, objective verifiable value based upon external transactions are available at only two point of time i.e. at the moment of acquisition and at the moment of disposal. If the above two events occur within the same accounting year, no such thing arises as mentioned in the first paragraph. But in the case of depreciable assets these two events happened in two different financial years. Because of this reason the word “depreciation” is used in hundred and one senses in accounting and in business literature. Few most commonly meanings are given below: -

(i) **Depreciation as fall value:** -

When a person buys an asset such as a motor vehicle it depreciate by a stated amount as soon as he drives it out of the show room or as soon as it has been subjected to a very little use. Its fall in the price is not necessarily accompanied by any decrease in usefulness. This fall in value may be shown in the accounts as provision for depreciation.
(ii) **Depreciation as physical detraction:**

When a depreciable asset is put into use, it consumes its productive activity one by one. So this physical deterioration of depreciable asset may be made good by way of provision for depreciation.

(iii) **Depreciation as Allocation of cost:**

Depreciable asset is nothing but only a prepaid cost say a fixed assets having life of 3 years and cost Rs.4500/- In this example Rs. 4500/- are paid cost that must be allocated in three years revenue account by way of depreciation.

(iv) **Depreciation as to retain funds within the business to maintain The productive capacity of the company:**

During the course of the time the process have so changed that the provision based on actual cost has become insufficient for the replacement of fixed asset. The money needed for replacement over the historical cost would have to be found from other reserve of the cement company or by raising fresh capital.

**Definitions:**

(1) **Depreciation**

(i) "Depreciation represents that part of the cost of a fixed asset which is finally put out use by him. Provision against this loss of capital is an integral cost of conducting the business during effective commercial life of the asset and is not dependent upon the amount of profit earned.”
(ii) "Depreciation is nothing but difference between the original cost and the probable break-up value would reprise the loss to be suffered by the business on account of use of such assets and would have therefore to be equitable distribution over the estimated life of such asset."

(iii) "Depreciation may be defined as the permanent and continuing diminuend diminution in the quality, quantity or value of an asset."

(iv) "Depreciation is not disposition part of the profit but an expense without which profit can never be earned." \(^1\)

(v) "Lost usefulness, expired utility, the diminution of service yield from a fixed asset or a fixed assets group that can not or will not be restored by repairs or by replacement of parts caused by wear and tear from use, disuse poor maintenance , obsolescence, progress of the art and inadequacy or unsuitability to the particularly enterprises is depreciation."

(vi) Committee on the terminology of The American Institute assets that, ".............. A cost or other basis value is allocated to accounting periods by a rational and systematic method which, however does not attempt to relate the sum allocated to an accounting period to either the occurrences affecting the length, of the life or the changes in value of the property within the period."

(vii) "To the educated man on the street depreciation means a decrease in

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the some sort of the value. In the accountants (and the tax collector) depreciation has nothing to do with any kind of value, but is the systematic writing off the cost an asset generally by means of method, which distributes the depreciation charges uniformly over the full estimated service life. "By Paul T. Norton Jr.

(viii) "Depreciation represents that part of the cost of a fixed asset to its owner which is not recoverable when the assets is finally put out of use by him i.e. which is not covered by its scrap value. Provision against this loss of capital is an integral cost of conducting the business during the effective commercial life of the assets and is not dependent up the amount of profit earned". by The Institute Of Chartered Accounts In Australia.

(ix) "Depreciation is measure of the realization of the investment of fixed assets out of the revenue of the current year. As fixed assets distribute to the working capital their depreciation is a contributing towards working capital."

(x) "Depreciation is an accruing loss of value which begins with cost new and ends with scrap value of the end of the assets useful life."

(xi) "The day by day expiration in the service cost of a fixed asset is called depreciation."

(xii) "Depreciation is the accrued liability for the deferred or periodic renewals of plant."
(xiii) "...............to spread the cost of final renewals as uniformly as possible over the periods benefited so that we shall not deceive ourselves to losses and consequently as to profits."¹

(xiv) "Depreciation is a loss in service value of plant not restored by current maintenance resulting form causes against which no insurance is carried such a wear and tear decay action of the element inadequacy obsolescence’s changes in the art changes in the demand and requirement of public authorities."

(xv) "Depreciation may be defined as a diminution in the use value of an asset either through wear and tear as in the case of building plant and machinery etc. or through passage of time as in the case of lease, patent etc."²

(xvi) "Depreciation means fall in going concern or owner’s cost value of wasting assets, computed on the basis of cost expired during the period of their use in seeking profits, increase of value or other advantage. Depreciation is a part of the cost of seeking profits, equal in importance or other revenue expenditure."²

(2) **Depreciation for the year:**

(i) Definition, which implies that depreciation for the year is a measure expressed in monetary terms of the physical deterioration or indeed of any thing that actually occurs with in the period, are unacceptable .the annual

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¹- Humphrey, A.C."discuse of the depreciation of public utility properties as affecting their valuation and fair return by J.W. Aford proceedings American Society of Civil Engineers, Jan 1914.

charge in an allocation to the year of a proportionate part of total cost or loss estimated with reference to longer period.”

(ii) Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation reasonable estimates may be properly taken into account occurrence during the year it is not intended to be a measurement of the effects of all such occurrences.

(3) Ordinary or normal depreciation

Depreciation Caused by normal wear and tear, action of elements, ordinary obsolescence’s and inadequacy is called ordinary depreciation.

(4) Extra-ordinary Depreciation:

Depreciation caused by unusual wear and tear, unexpected disintegration, unforeseen obsolescence and inadequacy. This is not accelerated deprecation.

(5) Accrued Depreciation:

(i) It refers to the total depreciation to data on fixed assets still in service.

(ii) Accrued depreciation represents the depreciation, which has taken place between the data of acquisition and the present data. Depreciation is Continuous but it is customary to record it only at the close of each accounting period and upon the disposition.

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1 The General of Accountancy, Dec 1943. Page 485
(6) **Accreted Depreciation:**

Depreciation at a larger than usual rate it is usually related to rapid cost recovers for tax purpose.

(7) **Incomplete Depreciation:**

Incomplete depreciation is the total amount of accrued or accumulated depreciation on a depreciation reasonable estimate may be for general classes.

(8) **Complete Depreciation:**

When the service life of a depreciation asset terminates depreciation is complete.

(9) **Average depreciation:**

Average depreciation is the amount of the values decline for all assets of one group such as all machines in a company.

(10) **Unit Depreciation:**

Unit depreciation is the total amount of the value decline for one individual asset such as one machine.

(11) **Observed Depreciation:**

Observed depreciation is determined by physical inspection or appraisal of operating condition. It is an engineering term bearing no necessary relation to the accountant’s concept of depreciation.
(12) **Depreciation Reserve:**

(i) “Depreciation reserve is a recognition of the liability of the undertaking to meet the loss due to depreciation when such a loss occurs.”

(ii) “........................ set up a reserve which merely measures the utility’s liability for depreciation which has accrued at the present time but which will be realized at some time in the future.”

(iii) “A depreciation reserve is an account in which there is periodically transferred from the operating income a sum known as depreciation. This account is commonly shown as a deduction from the proper fixed assets items.”

(iv) “The depreciation reserve is the deduction for depreciation from the original property accounts while the depreciation funds contains the asset accumulated to replace the accrued depreciation.”

(13) **Depreciation Fund:**

When money or marketable securities are set a side for the purpose of replacing or providing assistance in replacing depreciable assets, amount representing this fund is invested out side the business of the company.

(14) **Provision for depreciation:**

That portion of the cost or other basis of a fixed asset or fixed asset group charged against the operation of a accounting period.

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(15) Depreciation stop date:

It is the estimated date at which the assets usefulness will have expired.

(16) Depreciation Base:

The recorded cost or other basis (appraised cost when recorded Original cost is not known of a fixed assets or a fixed asset group that is to be recovered through depreciation accountings. Replacement cost or historical cost is the generally accepted depreciation base.

(17) Net Book Value:

It refers to depreciated value.

(18) Depreciation accounting:

(i) Depreciation accounting is a system of accounting which aims at distributing to cost or other basis value of tangible capital assets less salvage (if any) over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation not of valuation” ¹

(ii) “The purpose of depreciation accounting is to allocate in a systematic manner, the costs of productive facilities over their useful life so as to measure periodic income as precisely as possible. A system, which relates periodic depreciation charge to the actual use of facilities or their economic usefulness, is probably better for this purpose than one, which is related

¹ American Institute of Accounts- Accounting Research Bulletin No. 22 May. 1944.
only to the passage of time but in any event the charge must be systematic, objectively measured and on a consist and basis from year to year.  

(iii) “Depreciation accounting is the process of allocating the cost or other basis of measurement of the service rendered by items of plant and equipment to the products and used those service”

(iv) “Depreciation is nothing more not less than accounting method of equalizing the cost of replacing and retiring property over a long period of time in order to avoid distorting the operation and maintenance accounts in any relatively short period.”

(v) Depreciation accounting seeks to allocate that capital out -law to the accounting periods in which it is expected; it will contribute towards the earnings of revenue.

(v) Depreciation accounting is a mathematical process of distributing the cost of an asset over the various accounting periods in which it is deemed the asset will earn revenue depreciation is thus when so viewed merely part of the accounting procedure of the matching revenue.

(19) Replacement or Renewal:

(i) The substitution of one depreciable asset for another, especially of a new for an old.

(ii) Replacement is the amount, which would be required to purchase another asset of the same type to replace the existing one.

(20) Deferred Maintenance:

It refers to repairs and part replacement which are necessary to keep an asset in good operation, but which have not been made.

(21) Betterment:

An expenditure having the effect of expending the useful life of an existing fixed asset, increasing its normal rate of output, lowering its unit cost operation or other adding to the worth of benefits it can yield.

(22) Service Life: -

The age of an asset at retirement, retirement means of removal of a fixed asset from service.

(23) Expectancy or expected life:

Expectancy of an asset still in service is the price of time from the price of time from the observation date to the date when it is forecast that the depreciable asset will be retired.

(24) Economical life:

The period during which a depreciable, asset is capable of veiling services to its owner. An asset may be retired before the end of its physical life due to obsolescence and inadequacy, which makes its service uneconomic to its owner.
(25) **Portable Service Life:**
   The age of the asset plus expectancy is called probably service life.

(26) **Average Service Life:**
   It is the arithmetic means of the service lives of a group of units.

(27) **Service Capacity:**
   The number of service unit that a machine operation or plant can yield within a specified of time. It is also called productive capacity.

(28) **Wear and Tear:**
   A factor of depreciation caused by ordinary use, disuse or lapse of time and action of elements.

(29) **Mortality:**
   The tendency of an asset or class of assets of expels or depreciates through use of passage of time.

(30) **Obsolescence:**
   (i) Obsolescence is a fall in the value of an asset as a result of the same being out dated or as a result of new in vent ions coming in to the market.
   (ii) Obsolescence the process of becoming obsolete is caused by new inventions and change economic conditions. The effect of obsolesce is to render certain depreciable assets useless at a data price to the end of their normal useful life.
   (iii) "Obsolescence may arise from changes in the art, shifting of business centers, loss of trade, Inadequacy, sup session, prohibitory laws and other,
this which apart from physical depreciation operate to cause plant elements or the plant as a whole suffer diminution in value.¹

(iv) Obsolescence indicates the decrease in the value of an asset because of improvements in technological progress, results from the passage of time simply because it depends the progress of society.

(v) "Obsolescence is the loss of usefulness occasioned by progress of the arts or by such other external causes as changed in consumer demand and legislation or regulation leading to the reduction of future progress."

(vi) "A fixed assets that is decoded because there is no longer a demand for the product that it produces or because a newer machine can produce at little expenses or can produce a product of superior quality is said to be obsolete.

(31) Fluctuation:
It is nothing but a variation either upward or down words in the mark value of an asset brought through economy factors.

(ii) Fluctuation is variation in the market values of an asset, which may be more or less the cost price.

(32) Amortization:
(i) It means the gradual extinction of an asset or cost over the period of its benefit.

¹ United State Supreme Court, 1932.
(ii) It is the reduction in the value of intangible asset, which may be subject to amortization.

(33) Depletion:

(i) It refers to a demotion in quantity and value of an asset due to extraction e.g. A mine becomes gradually deplete as the coal is constantly extracted from it.

(ii) It is the reduction in the value of natural deposits and resources such as timber tracts, oil well and mines caused by their conversion into salable product.

(iii) The reduction in the value of a natural resource resulting from its exhaustion is called depletion.

(iv) 'Depletion is the allocation of cost of natural reason to current and future periods based on the physical exhaustion of the resource in the process of production.'

34. Appreciation is an increase in the value of an asset.

35. Extra Ordinary Obsolesces

"It is that kind of obsolesces resulting upon development of more economical methods of production frequently due to radical changes and lower costs and sometimes due to new legislation which may render the continued operation of the old assets unprofitable or impossible or sometimes due to changes in the economic condition."

36. Inadequacy:
(i) It is a loss of usefulness brought by business change due to an alternation in the character rate or quantum of production.

(ii) “A fixed asset that is replaced because its capacity is insufficient to meet the demands of the business is said to be inadequate.”

37. Accounting:
“Accounting is the language of commerce.............the language in which the history of a business is recorded, its operation are summarized, its financial condition is state and its budget Forecasts are expressed.”

38. Lapsing Schedule:
It is a work sheet showing costs of individual fixed assets, depreciation charges balance to be charged in future, retirements and addition etc. This is used when straight-line method is followed .Its purpose is to provide the details of on annual or other periods. Provision for depreciation, write-off costs fully carp orated or of depreciated and UN depreciated costs of items disposed off, and verification of the balance accumulated depreciation expense at the end.

39. Plant Register or ledger:
It is a systematic record of fixed asset or group of fixed assets providing basic information for the proper functioning of depreciation accounting.

1. H.V. Füney, “General Accounting New York, Practice...hall, Inc.
(40) **Rate of Depreciation:**

“It is a percentage, the application of which to depreciation base yields an amount of depreciation.”

(41) **Blanket Rate:**

“It is the rate of depreciation that applied to cost of all the fixed asset of one kind.”

(42) **Block Account:**

The usual collective name for the fixed assets of a concern is “Block Account.” The various fixed slated at their original cost are referred to at “Total Block Expenditure”, “Gross Block Expenditure” or “Account”. “Depreciated Block” means the original cost minus the total depreciation provided since acquisition of the various fixed assets.

(43) **Fixed assets:**

(i) Fixed assets are those of a permanent nature by mean of which the concern it carried on and which are held for the purpose of earning income and not for the purpose of resale.

(ii) Fixed assets are service assets held in the business for aiding production available for use during their estimate life. Fixed assets produce income indirectly through their use in operation. The amount invested in these assets is not realized all at once from the total sales of the financial year. The reason is obvious that fixed assets become out of use of the expiry of the accounting year. The amount, therefore realized gradually from each unit of sales made during the serviceable life of assets.
(iii) “Fixed assets are those acquired for the purpose of in the business with the object of earning revenue which is not intended for resale at a profit conversion into cash in the ordinary course of business.¹

(iv) “Fixed assets are those properties, tangible or in tangible which the business has acquired for use in producing goods or furnishing services and which are not for re-sale so long they are serviceable.”

(44) Fixed Tangible Assets:

The properties perceptible to the senses are having physical substance.

(45) Fixed Intangible Assets:

An asset is intangible if its value resides not in to physical properties of the asset itself, but in the rights who its possession confers upon its owner.

(46) Wasting Asset:

A Fixed asset has a limited useful life.

(47) Maintenance or repairs:

The expenses incurred with a view of keeping a fixed asset as merely passable up to its original efficiency.

(48) Diiffered maintenance:

The cost of restoration of a capital asset to its full productive capacity after damage, accident or prolonged use with out increase in the previous estimated service life or capacity. Delayed repairs measure by the out lay

requires restoring a plant or individual asset to full operating office.

(49) Cost;
(i) "Cost means that which must be given in order to acquit or produce, affect some thing the price paid for a thing."  

(ii) "An expenditure or out lay of cash other property capital stock or services given in exchange."  

(50) The Economic Cost:
"It may be defined as applied exchangeable value minus interest on owner’s capital."  

(51) Value: -
"Value a used in accounts signifies the amount at which an item is stated in accordance with the accounting principles related to that items."  

(52) Cost Value:
The value represented by the price ,which was paid for.

(53) Book Value or Balance Sheet Value:
"The amount of the cost of assets which remains be written off against revenue over the remainder at the expected life of these assets."  

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1- According to the shorter Oxford English Dictionary.
2. According to a dictionary for account.
3. P.D. Leake, “Depreciation and wasting assets.”
4. The Committee on Terminology of the American Institute of Accounting
(54) *Scrap Value or Salvage value:*

(i) The actual or estimated selling price as second-hand material or as junk or scrap of fixed assets at retirements less any cost, actual or estimated of dismantling or deposited. The salvage value is equal to the estimated resale value at the time of retirement minus any costs of removing the items of making the sales.

(ii) The scrap value is the value of the assets when realized in the best possible way after it has been worn.

(iii) The scrap value is the value of an asset at the time when the asset becomes useless and disposed off in the market.

(55) *Going Concern Value:*

The value of the fixed assets from the viewpoint of the earning power of the assets as a unit in the complex economic organization.

(56) *Realizable Value:*

(i) The value, which will probably be recovered on a force sale or value, which the asset will fetch under the hammer.

(ii) The value that would be realized by the sale in open market on the valuation date of the asset in question.

(57) *Replacement value:*

(i) It is meant for that amount necessary at the moment of the valuation of the asset to by a similar asset and places it in the position of the asset valued.
(ii) The value in terms of the cost of another asset of the same or similar type, which is to be substituted for the existing asset.

(58) *Market Value:*

The value, which the asset will fetch if, sold in the open market.

(59) *Income - Tax Value:*

The value, which the departments of taxation place, upon or recognized for taxation purpose.

(60) *User Cost:*

Cost incurred or loss sustained on a fixed asset as the result of continuing it in service rather than deposing of it through sale or as scrap or giving it restricted use.

(61) *Un-recovered cost:*

The portion of original cost of fixed asset not recovered through the process of depreciation is called undercover cost.

(62) *Depreciation Accounting:*

Depreciation accounting is a system of accounting which aims at distributing cost of other basic value of fixed asset less salvage (if any) over the estimated useful life of fixed asset, (which may be a group of fixed asset) in systematic and rational manner. It is a process of allocation, not of valuation. The purpose of depreciating accounting is to all in a systematic manner the cost productive facilities over their useful life, so as to measure periodic income as precisely as possible.
"Depreciation accounting is the process of allocating the cost on the basis of measurement of the service rendered by items of plant and equipment to the products. In this sense depreciation is nothing more, nor did less, than accounting method, which seeks to allocate the capital outlay to the accounting periods in which it is except to contribute towards the earnings of revenue.

Depreciation accounting of the revised accounting standard (AS) 6,

The following is the text of the revised accounting standard (AS) 6, "Depreciation accounting" issued by the council of the institute of chartered accountants of India.

Introduction:

1. This statement deals with depreciation accounting and applies to all depreciable assets, except the following items to which special considerations apply:
   (i) Forests, plantations and similar regenerative natural resources.
   (ii) Wasting assets including expenditure on the exploration for and extraction of minerals, oils natural gas and similar non-regenerative resources;
   (iii) Expenditure on research and development;
   (iv) Goodwill;
   (v) Live stock.

Above statement also does not apply to land unless it has a limited useful life for the enterprise.
2. Different accounting policies for depreciation are adopted by different enterprise. Disclosure of accounting policies for depreciation followed by an enterprise is necessary to appreciate the view presented in the financial statements of the enterprise.

Definitions:

The following terms are used in this statements with the meanings specified.

1. Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, defluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.

2. Depreciable assets are assets which-
   (i) are expected to be used during more than one accounting period;
   (ii) have a limited useful life; and
   (iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

3. Useful life is either (i) the period over which a depreciable asset expected to be used by enterprise; or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise.
4. Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

**Explanation**

1. Depreciation has a significant effect in determining and presenting the financial position and results of operations of an enterprise. Depreciation is charged in each accounting period by reference to the extent of the depreciable amount, irrespective of an increase in the market value of the assets.

2. Assessment of depreciation and the amount to be charged in respect thereof in an accounting period are usually based on the following three factors:
   
   (i) Historical cost or other amount substituted for the historical cost of the depreciable asset when the asset has been revalued.
   
   (ii) Expected useful life of the depreciable asset; and
   
   (iii) Estimated residual value of the depreciable asset.

3. Historical cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof. The historical cost of a depreciable asset may undergo subsequent changes arising as a result of increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors.

4. The useful life of a depreciable asset is shorter than its physical life and is:
(i) Predetermined by legal or contractual limits, such as the expiry dates of related leases;

(ii) Directly governed by extraction or consumption;

(iii) Dependent on the extent of use and physical deterioration on account of wear and tear which again depends on operational factors, such as, the number of shifts for which the asset is to be used, repair and maintenance policy of the enterprise etc; and

(iv) Reduced by obsolescence arising from such factors as:
   a. Technological changes;
   b. Improvement in production methods;
   c. Changes in market demand for the product or service output of the asset; or
   d. Legal or other restrictions.

5. Determining of the useful life of a depreciable asset is a matter of estimation and is normally based on various factors including experience with similar types of assets. Such estimation is more difficult for an asset using new technology or used in the production of a new product or in the provision of a new service but is nevertheless required on some reasonable basis.

6. Any addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is depreciable over the remaining useful life of that asset. As a practical measure, however, depreciation is sometimes provided such addition or extension at the rate, which is applied, to an existing asset. Any addition or extension which retains a separate identify and is capable of being used after the existing asset is
disposed of, is depreciated independently on the basis of an estimate of its own useful life.

7. Determination of residual value of an asset is normally a difficult as nil. On the contrary, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of the asset. One of the bases for determining the residual value would be the realizable value of similar assets. Which have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used.

8. The quantum of depreciable to be provided in an accounting period involves the exercise of judgment by management in the light of technical, commercial, accounting and legal requirements and accordingly may need periodical review. If it considered that the original estimate of useful life of an asset requires any revision, the un-amortized depreciable amount of the asset is charged revenue over the revised remaining useful life.

9. There are several methods of allocating depreciation over the useful life of the assets. Those most commonly employed in industrial and commercial enterprises are the straight-line method. The management of a business selects the most appropriate method(s) based on various important factor e.g., (i) type of asset, (ii) the nature of the use of such asset and (iii) circumstances prevailing in the business. A combination of more than one method is sometimes used. In respect of depreciable assets, which do not have material value, depreciation is often allocated fully in the accounting period, which are acquired.
10. The statute governing an enterprise may provide the basis for computation of the depreciation. For example, the Companies’ Act, 1956 lays down the rates of depreciation in respect of various assets. Where the management’s estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute. The depreciation provision is appropriately computed by applying a higher rate. If the management’s estimate of the useful life of the asset is longer than that envisaged under the statute, depreciation rate lower than that envisaged by the statute can be applied only in accordance with requirements of the statute.

11. Where depreciable assets are disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if disclosed separately.

12. The method of depreciation is applied consistently to provide comparability of the results of the operations of the enterprise from period to period. A change from one method of providing depreciation to another is made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When such a change in the method of depreciation is made, depreciation is recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method is adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency is charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus is credited to the statement of profit and loss. Such a change is
treated as a change in accounting policy and its effect is quantified and disclosed.

13. Where the historical cost of an has undergone a change due to circumstances specified in Para 6 above, the depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the asset.

**Disclosure**

1. The depreciation methods used, the total depreciation for the period for each class of assets, the gross amount of each class of depreciable assets and the related accumulated depreciation are disclosed in the financial statements along with the disclosure of other accounting policies. The depreciation rates or the useful lives of the assets are disclosed only if they are different from the principal rates specified in the statute governing the enterprise.

2. In case the depreciable assets are revalued, the provision for depreciation is based on the revalued amount on the estimate of the remaining useful life of such assets. In case the revaluation has a material effect on the amount of depreciation, the same is disclosed separately in the year in which revaluation is carried out.

3. A change in the method of depreciation is treated as a change in an accounting policy and is disclosed accordingly.
Accounting Standard

1. The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.

2. The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use.

The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

3. The useful life of a depreciable asset should be estimated after considering the following factors:

   (i) Expected physical wear and tear;
(ii) Obsolescence;

(iii) Legal or other limits on the use of the asset.

4. The useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. Where there is revision of the estimated useful life of an asset, the unamortised useful life of an asset, the unmerited depreciable amount should be charged over the revised remaining useful life.

5. Any addition or extension, which becomes an integral part of the existing asset, should be depreciated over the remaining useful of that asset. The depreciation on such addition or extension retains a separate identify and is capable of being used after the existing asset is disposed of, depreciation should be provided independently on the basis of an estimate of its own useful life.

6. Where the historical cost of a depreciable asset has undergone a change due to increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors, the depreciation on the revised unmerited depreciable amount should be provided prospectively over the residential useful life of the asset.

7. Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful lives of such assets. In case the revaluation has a material effect on the amount of depreciation, they should be disclosed separately in the year in which revaluation is carried out.
8. If any depreciable asset is disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material should be disclosed separately.

9. The following information should be amount substituted for historical statements:

(v) The historical cost or other amount substituted for historical cost of each class of depreciable assets.

(vi) Total depreciation for the period for each class of assets; and

(vii) The related accumulated depreciation.

10. The following information should also be disclosed in the financial statements along with the disclosure of other accounting policies:

(i) Depreciation methods used; and

(ii) Depreciation rates or the useful lives of the assets if they are different from the principal rates specified in the statute governing the enterprise.

Accounting for fixed asset

The following is the text of the Accounting Standard 10 (AS 10) issued by the Institute of Chartered Accountants of India on accounting for fixed assets:

In the initial years, this accounting standard will be recommendatory in character. During this, companies listed on a recognized stock exchange and other large commercial, industrial and business enterprises in the public and private sectors
Historical Back Ground of Depreciation: -

Indians had developed concept of depreciation accounting even several centuries before Christ. In our religious book like “Shrimada Bhagwat Geeta” the Principle of depreciation is well established. Lord krishna said that even their go to ends¹. In Manu-Smiriti, same thing was written-division English accountant in the year in the early history of accounting; Businessmen thought that depreciation was hypothetical cost and not an out of pocket cost. They tended to view depreciation expense as a matter of setting aside something during prosperous period to replace depreciable assets. When earning of the company was high a large sum was set-aside by way of depreciation expenses. When earning of the company were low or non-existent, nothing was charged by way of depreciation expenses. The importance of providing depreciation was thus not overlooked by accountant in the Past.

In India, depreciation was allowed as deduction in computing profits or gains from business or profession for the first time under Income Tax Act, 1886. In U.K it was allow under the Income Tax Low in 1878, U.S.A was a bit late to allow it as expense in 1913.

However, when depreciation was allowed as an admissible expense under the income tax law, businessmen, with a view to reducing the burden of tax on their net income, started charging as much depreciation as an expense as they could possible do. Now there seems to be a complete

unanimity all over the world that like wages paid to labour or cost of raw materials, depreciation is an element of cost.

As such whether revenue is sufficient or not depreciation as an item of expenses included. In the Cost of structure of a product and thus charged to profit and loss account. It has been increasingly recognized after the Second World War that a provision for depreciation must be treated as a charge on profit and loss account for the replacement of a depreciable asset within its lifetime. Before Second World War, accountant’s considered depreciation as a progress of allocation and not as process at valuation but due to rising prices, accountants think better to charge depreciation on its replacement cost. Since costs of almost all the depreciable assets have increased sharply during the last 3 decades, businessmen have been favorably inclined in the recent years to charge depreciation on the replacement cost of there fixed assets.

However, from the accounting standards point of view depreciation is process of allocation and not of valuation. Therefore, it depreciation is charged in financial accounts on replacement cost of an assets; the amount at depreciation charged would vary from company to company and from year to year. Consequently, inter firm comparison would not be possible and also comparison of net profit for one period with that of another would show verifying results. In view of these fact government regulations on the subject directs that depreciation should be charged as an expense on the historical cost of depreciable assets.
Objectives of Providing Depreciation In Financial Accounts:

The subject at depreciation has hitherto to received so little systematic attention by accountants, for it represents a large and regular recurring part of economic cost, and it is impossible to determine the profit and loss resulting in a given period by any business organization without first ascertaining the economic cost incurred during the accounting period in the form of depreciation.

1. Provision for depreciation is necessary to as certain true profit or loss for specific accounting year. Because a fixed assets is purchase for being used in the business to earn profit, and it is consumed by the fixed asset losses, its value when it is used and such a decrease in value must be debited to profit and loss account of the business organization before divisible profits are arrived at. The consumption of the fixed asset must be provided for out of the profits of every year during the life of fixed assets.

2. Provision for depreciation should reflect the cost of benefit, which the current accounting period receives from the use of fixed assets in the business.

3. Provision for the depreciation should result in carrying forward as an asset at the end at the current period only that part of the original cost which correspondence to service benefits expected from the assets in the future accounting periods.
4. The necessity of providing depreciation is to keep the fixed assets intact by distributing the loss in the value of fixed assets over number of accounting years, when it is in use. The cost of the goods, raw materials, wages overheads and the cost of machine, which has been used during the course of manufacture, will have to be taken into consideration. If we do not add cost of machinery i.e. depreciation which has been used to manufacture goods, it will not be possible for us to purchase new machinery when present machinery lasts. It is the way to keep capital of business intact.

5. Provision for depreciation is necessary to ensure that there is a charge to revenue of an amount estimated to represent as closely as possible the service rendered by the fixed assets in the production at income having regard to what the fixed asset originally cost in monetary terms.

6. Provision for depreciation is necessary to spread the expenditure incurred in acquiring fixed assets over their effective life and thus to ensure that in each accounting period, the revenue at which benefits their use bears an equitable proportion at their cost.

7. The criterion of success at a business organization is its profits. As such charging depreciation against its revenue is at primary significance. The need for arriving at actual cast of products makes it imperative that depreciation must be including in those costs. Therefore in final analysis Periodic cost or per unit cost at a product is the most important aspect at the record keeping of fixed assets.
8. If depreciation is not provided for the fixed asset will be over-valued in the balance sheet of business organization the profit will be over-stated in the profit and loss account which will turn not represent a true and fair view of the state at affairs of the organization as required by companies act.

9. There is some legal support for the contention that divisible profits of a company cannot be ascertained unless an allowance is made for depreciation. Section 205 of the Companies Act, 1956 has made it compulsory for companies before declaring dividends to provide for not only the current year depreciation but also for all past arrears of depreciation in respect at any financial year falling after 27th December, 1960.

10. The Indian Companies Act provides that dividend must be paid only out of profits earned by the company and never out at capital subscribed. This is a sensible rule because its main objective is to prevent manipulation of share values of the company by the declaration of dividend in excess of capital actual earnings.

11. Depreciation is also necessary to enhance a business organization money value of revenue earnings capacity over a period of year to “Plough back” Profits saves and invest.

**Significance Of Depreciation Accounting In Indian Condition:**

In every developing country including India significance of evolving a uniform system of Depreciation accounting due to rapid Industrialization is being increasingly felt, because techniques of production
due to technological innovations and changing choices and Preferences of consumers have in turn affected the method and amount at depreciation. Now management of business organization feel that depreciation accounting is not a matter of convenience but it is a significance charge against profit and loss account of a specific year. It is suggested in the interest of business organization to develop its own system at depreciation accounting.

Before Independence depreciation was taken to be hypothetical cost and not an out of pocket cost by our business organization. These business organizations were of the opinion that depreciation was a process of allocation and not a process of valuation, but due to rising prices, now, there are of the opinion that depreciation will be charge on replacement cost of fixed assets. Now, every business organization feels and realizes that if such inflationary conditions. Persist, it would be difficult for them to replace there fixed assets without additional funds, which can only be accumulated by charging depreciation on replacement cost. Also, the burden of income tax and other direct taxes are very heavy in recent years a business house is normally not left with adequate savings for the replacement of its also fixed assets in future. The replacement cost of all the fixed assets have increased sharply during the last two decades, owners of fixed assets have been favorably Inclined in recent years to provide depreciation on replacement cost. In our country depreciation is allowable expenditure, thus if we charge depreciation on replacement cost, the capital consumption will remain intact for capital formation in business organization.

In modern time depreciation accounting has its own significance in price fixation, price regulation, bonus determination
managerial commission, financing policy of banks and other organization Ins
surance payments etc. these matters are co-related with depreciation, because without making a through study depreciation accounting above decisions can not be taken on rational basis. Further more, for the last two decades our own government has been trying to finance business Organizations to replace their old and obsolete fixed assets. Many schemes have been prepared by our government for replacement at fixed and all these schemes are based on the study of depreciation accounting.

Since 1980 both the private and public sector business houses have to face the challenge of increasing price of replacement of fixed assets. Private and public sector business houses can take rational decisions regard in wage policy, price policy, dividend policy, retained earning policy, replacement policy, bonus policy etc. only after it has adopted a proper and sound depreciation accounting in their organizations.

In our country, no serious attempts seem to have been made so for either to formulate a clear concept of depreciation accounting or to collect empirical data on depreciation accounting. Following committees have some suggestions on depreciation accounting:

(1) The Taxation Enquiry Commission, 1953-54.
(2) The Direct Taxes Administration Enquiry Committee, 1958-59.
(3) The Ehothalingam Committee, 1968.
Above committees recommendations are related to method of depreciation and other important aspects- Indian universities cover in their recommendations. Indian universities cover in their syllabus only definition and old methods of depreciation. The result is that the text because of accountancy prescribed for various examinations in this country are also confined to above limitations and no other aspects are dealt properly. Dr. G.D. Roy, Dr. L.S. Parwal, Dr. N.K. Khandwal, Dr. N.K. Sharma and Dr. A.K. Gurg, do some work on personal level but government and society till today do not recognize their work. No serious study seems to have been little to make in our country concerning the problems that arise out of depreciation particularly in the context of raising prices. Thus not only empirical studies in the field of depreciation accounting lacking but it rather appear to be a neglected area of accountancy. Present study is an attempt to show a critical theoretical framework of depreciation accounting and detailed examination of the depreciation accounting actual practice in depreciation accounting in cement industry in Madhya Pradesh.

**Reason for selecting Cement Industry of Madhya Pradesh as a subject matter of this Study:**

We are living in an economy of high technology and latest fashion. Cement is the key raw material in construction industry in the word. There is word wide competition in cement, thus it is must for us to have plant and machinery of latest fashion and technology to complete in national and International market. A proper understanding of the nature, functions, objectives and limitations of depreciation accounting of cement
industry of Madhya Pradesh and a knowledge of actual practices in vague for charging depreciation on fixed assets and making provision for the Government as well as public. It is the general felling among the management of cement Industry that estimates of depreciation on hunches and guesses would be in accurate. Today cement industry is a basic intensive, committed to rapid growth in the years to come. Its capital intensive character is well reflected in the fact that fixed assets constitutes a substantial part of total assets. Depreciation charges are significant factor affecting cost, prices, profitability and retained earning of cement industry of Madhya Pradesh. If we consider the relation of depreciation to sales revenue and reported earnings, the significant role of depreciation accounting in this industry is readily realized.

The price of cement plays a significant role in price structure of Indian economy. This Industry occupies a pride of place in the whole economy of Madhya Pradesh state, since depreciation charges constitutes a sizeable portion of cement prices, a critical evaluation of depreciation accounting followed by the industry assume considerable importance from the view point of the over all economy of Madhya Pradesh.

The funds retained through depreciation expenses play a vital role in providing internal finance to cement industry. Therefore, proper computation of depreciation charges, proper utilization of funds retained through it deserves special attention in cement industry. The technological innovations introduced in this Industry and changing habits, fashions and tastes have increased the incidence of obsolescence. Obviously the in dust will have to undertake replacement and modernization scheme if it has to
stay in the national and international market. As such increasing cost of replacement of fixed assets creates a distinct problem for financial managers. The development of technologies in the field of cement manufacturing process increases the incidence of obsolescence in fixed assets of this Industry. The development of new processes will make the old plant obsolete much earlier than its estimates service life.

Depreciation is a relatively important element of operating cost of cement. It covers 30 percent part of its cost, if calculated on replacement cost basis and if past operating cost are the basis for future business decisions, it becomes necessary that during a given period depreciation on fixed assets being a charge on profit should be debit to profit and lass account to arrive at a true amount of net profit to show a true and correct view of the state and correct view of the state of affairs of cement company on a given date. Further, since fixed assets represent a fairly large share of a cement industry’s capital employed, gradual diminution in the gross value of such assets must be clearly disclosed. If provision for depreciation on fixed assets is made, capital remain intact, as the loss arising from shrinking in the value of fixed assets would be made good from remains.

The increasing replacement and obsolescence cost have produced a substantial demand that some adjustment in depreciation charges should be made to compensate increasing cost of replacement of fixed asset. Rapid scientific and technological development have also increased the possibilities of obsolescence of fixed assets and this fact can increase the importance of depreciation accounting in cement industry of Madhya Pradesh.
The significance of depreciation accounting in cement industry of Madhya Pradesh can hardly be overlooked, when decision relating to the following are required to be taken by management of cement Unit:- (1) Dividend, (2) Purchases of new plant machinery and other fixed assets. (3) Calculation of income tax payable by cement units, (4) For price fixation; (5) Valuation of fixed assets for wealth tax and other property taxes; (6) For taking investment decisions, (7) For replacement of fixed assets, (8) For taking repair and maintenance decisions, (9) Tax policy; and (10) Fiscal policy

In the present social economic setup, cement is as essential as food grain items. Thus a proper understand of the nature, functions, objectives and methods of depreciation accounting is primarily important.

Object of the study: -

The object of the present work is to study an analysis polices and practices in relation to depreciation & fixed assets Management in Company sector of M.P. with specific reference to A.C.C. Ltd. and Prism cement Ltd. More specifically, My study focuses on the following aspects or questions:-

1- Do the A.C.C. Ltd. and Prism cement Ltd in Madhya Pradesh follow liberal policy regarding depreciation?
2- Do the A.C.C. Ltd. and Prism cement Ltd in Madhya Pradesh follow uniform basis for charging depreciation?

3- What is the objective of depreciation policy as perceived by company manager of A.C.C. Ltd and Prism cement Ltd. in Madhya Pradesh?

4- Does the A.C.C. Ltd and Prism cement Ltd. in Madhya Pradesh follow the norms of this closers regarding depreciation accounting as suggested standard. No. 6 Issued by The Institute of Chartered Accounting of India?

5- Do the A.C.C. Ltd and Prism cement Ltd? In Madhya Pradesh state uniform method for charging depreciation both for the purposes of external reporting and taxation?

6- Find out what is this influence of depreciation policy on the profit, price of share in the market, company liquidity, amount of dividend and income tax.

7- What are the problems in the area of depreciation policy determination in A.C.C. Ltd. and Prism cement Ltd M.P.?

8- To estimate and examined to possibilities of future growth of A.C.C. Ltd and Prism cement Ltd. in M.P.?

9- To suggest a few pragmatic and useful steps for the possible improvement in the area of depreciation policy adopted by A.C.C. Ltd. and Prism cement Ltd. in M.P.?

10- Planning for fixed assets, service of life of fixed assets, replacement policy of fixed assets and record of depreciation and fixed assets.
Importance of the Study:

Depreciation policy is an important financial management decision because it influences the amount of net profit, price of shares in the market, company liquidity, amount of dividend to be declared, managerial remuneration, payment of bonus to workers and income tax. Study of depreciation policy & practices is of great importance for both the corporate world and the Government. The information generated through such a study would enable the company management to formulate the depreciation policy, which results in proper determination of the amount of depreciation to be charged to income and also raise adequate amount of fund for replacement of the old assets. Besides, the amount of depreciation charges is yield as a source of fund for the cement company and can be taken into account in determining the amount of company liquidity. The later is directly related to investment programme of the cement companies.

To the Government, such a study is important because it requires the information so generated for formulating its taxation policy in regarded to depreciation. It assumes significance because amount of depreciation allowed as a deductible expenditure under the tax laws has an important bearing on the growth potential of the corporate sector in Madhya Pradesh. Such a policy would also help in planning for the economic development of the state of which corporate sector is very important component. Beside, the fast technological development and scientific advancement make, it imperative for The Government to have pragmatic policy regarding depreciation for determination of tax base for the economy of state. The Government can also use this as a tool to contain inflation; to
revive depressed economy and to direct capital investment in specific industries or specific geographical area to achieve the desired rate of growth in the economy in general and investment in specific industry.

**Depreciation Accounting and Availability of Capital Fund:**

The use of the terms like "provision for depreciation" or "Reserve for depreciation" in accounting statements and reports has made the readers to believe that depreciation accounting provides funds. However, depreciation charged in accounts simply recognizes the fact that existing assets has lost a portion of its service ability through use, disuse, and obsolescence, Inadequacy. It recovers a fairly estimated part of the original cost representing the expired service ability, from current revenues. The creation of a depreciation reserve means, only that a book entry has been made, resulting in an expense deduction in the profit and loss account and a reduction in the asset carrying value from cost to a lower amount. Some people think that depreciation charges automatically provide founds, and all that is necessary to obtain more money to accrue more depreciation is a completely mistaken view.

Accounting is an important instrument of management, but is not sure that a concern will earn enough revenue to cover all its expenses. If the company does cover all its expenses in revenue it will receive back from customers the amount invested in the assets that are used up in the process. Funds are provided by sales of the product of a price not by accounting. So, however, depreciation has not direct relation to what becomes of the money
received from customers. There is no relation in the last that the flow of funds from customers can be increased merely by increasing the depreciation charges. Funds utilization is a fairly complex changed managerial attitude. Receipts from customers are used to pay current account as they fall due to pay wages, taxes etc. to pay inters on loans to reduce long term diet or acquire additional fixed assets. The company usually prefers to use for expansion, if possible, the cost that is not needed immediately in maintaining the current to levee of operations. When the old fixed assets must be retired the cash that represents recovery of investment in then may be tied-up in additional fixed assets, in expended inventory or accounts receivables.

Theoretical depreciation charges have been made from the installation of each item, the accumulation in the depreciation founds will always equal the amount of depreciation. But in actual practice it is not possible from the following reasons:

(1) The other assets accumulated during the life of the company were obtained through sales transactions, in which the company received cash or bill receivables,

(2) The other assets although originally received as or other liquid assets may now be in any from including new fixed assets,

(3) If the company is suffering losses the amount of other assets accumulated would be less than, because a loss would mean that assets received in sales transaction were less than the cost and expenses given up,
(4) If the company is earning profits and has not distributed dividend, the other assets may amount to more than, and

(5) The replacement of the old fixed assets, if they are to be replaced, may take more or less than that amount depending on price at time of replacement.

From the above discussion it is clear depreciation accounting does not in way represent accumulation of funds. In the words of, learned writer young A.A. In his article “Depreciation and rate control” quarterly journal of economics, February 1915.”........ The existence of depreciation reserve does not insure the existence of a body of “Idle case” or easily convertible assets held against possible replacement needs, but it does make it certain that all needed replacement up to the amount of reserve may be made without either cutting into surplus or increasing the deficit for the year. In practice, the reserve for the depreciation of large and varied properties becomes much larger than can be “used” in this way for replacements and to this extent is “unnecessary” for replacement.”

The A.T.A. committee on terminology [(Accounting Terminology) Bull. No. 1] has indicated that ............ a so-called reserve for bad debts or depreciation does not in itself involve retentions on holding of assets, identified on otherwise for and purpose. Its function is rather a part of process of measurement to indicate a diminution on decrease of in an asset due to specified use, nor is the suggested substitution of the term provision acceptable as an improvement because any provision must be
necessary and in the final analysis are made by the allocation or segregation of assets.

Funds for replacement may be provided only when case equivalent to replacement cost is invested outside the business is readily marketable securities or kept in some other liquid form. In actual practice this is really done, financing replacement of a fixed asset is essentially a problem of financial management. If operation is successful and dividends are not declared in excess of income and retained earning determined after depreciation. Only taken into capital account in maintained intact which means that value in some from is available to offset the estimated depreciation. So I conclude the depreciation tends to provide funds for the replacement of fixed assets is just “by the way” whether this is done or not depends upon the capabilities of the management their re-investment decision technological changes and the prospects of company and of the industry within which it is situated.

Approaches to Depreciation Problem:

There have been several distinct approaches to the solution of the depreciation, the main of them are given below:

(1) Economic Approach:

The followers of this approach say that the value of a fixed asset at any point of time is simply the sum of its discounted future services including salvage if any. A fixed asset is a bundle of future services and its
value is the present value of these services determined by discounted such flow method. Fall in the present value of these services at the end of the particular financial year in comparison to the present value at the commencement of the particular financial year is a measure of depreciation.

(2) Amortization Cost Approach:

Depreciation is a portion of original cost of fixed asset after adjusting estimated scrap value over the estimated useful life of the asset in some systematic manner. It is the cost and not value that distributed.

(3) Engineering Concept:

Depreciation is a fall in the service ability of a fixed asset. A comparison between the serviceability of the particular asset at the end of the period and at the commencement of the period is a measure of depreciation.

(4) Valuation concept:

According to this approach depreciation is considered as the balancing difference between cost and current value. In this method both positive and negative depreciation must be realized.

(5) Appraisal approach:

According to this approach difference in the value between an existing old asset and a hypothetical new asset is treated as depreciation. In this method and attempt is mode to determine appraisal depreciation.
(6) **Accrued Renewals Approach:**

This approach implies that a fixed asset exists which being used up and that eventually the necessity will arise for renewing the fixed asset. Accordingly there must be periodical setting aside of funds in such a way that when the asset has no further use, funds will be available to meet the expenditure.

(7) **Manufacturing Cost Approach:**

According to this approach depreciation is only in relation to manufacturing cost of goods sold. it is concerned with manufacturing cost but the problem of adding the cost of assets to the total cost of the goods processed though the use of the asset. This approach is not concerned with further prices of the product go up or down.

(8) **Replacement Cost Approach:**

According to this method depreciation its the proportion of cost of the fixed asset.

(9) **Service accepted expired approach;**

According to this approach depreciation should bear relationship to service expected and services expired today.

(10) **Legal Approach:**

According to legal approach the loss not restored by current maintenance, which is due to wear and tear, decay, and inadequacy and obsolesce is deemed as depreciation.
Difference between Depreciation and some related Terms:

It is good for us if we see before going through detailed study of the subject difference between depreciation and some related terms, it will help us in understanding the subjects, and these are:

(1) *Depreciation and fluctuation:*

(A) Depreciation represents permanent shrinkage of value due to the causes of wear and tear while fluctuation is temporary rise or fall in the market value of the asset due to the operation of the forces of demand and supply.

(B) Depreciation is concerned with book value which fluctuation refers to market value.

(C) Depreciation is related to fixed asset whereas fluctuation refers to a floating asset.

(D) Depreciation is due to internal causes i.e. by constant use of an asset affecting its earning capacity while the fluctuation is due to external causes, which do not affect the earning capacity of the asset and hence such a change is ignored.

(E) Depreciation is a charge against the profit while fluctuation does not affect the profit and hence it is ignored.

(F) Depreciation always means decrease in the value of a fixed asset fluctuation may mean either increase or decrease in value of an asset.

(G) Depreciations is continuing while fluctuation is not continuing.
(ii) Depreciation and depletion:

(a) Depreciation is a matter of physical deterioration but depletion is a matter of reduction in quantity.

(b) Depreciation applies on those assets which human hands constructed and which loss utility over time but which can be replaced while depletion applies to resources, which are not replicable, by human being.

(c) Provision for depreciation is compulsory before distributing dividend while provision for depletion need not be necessary to determine the amount of dividends, which may legally be paid.

The Assets entitled for Depreciation:

It is a question of common interest whether a particular asset is entitled for depreciation or not. The answer is obvious that all fixed assets that are consumed in the business one by one or whose values lost year after or fixed assets are useful in earning the profit now we can take some typical examples of fixed assets and try to assesses whether the particular asset is entitled for depreciation or not.

(1) Free-hold land:

Most of the accountants are of the view that land is not entitled for depreciation because its utility is not lost from year after year. But I am of the view that land may be entitled for depreciation because land is helpful in earning the profit without land profit is not earned in the same quantum
(2) Good will:

When company’s profits are increasing value of the goodwill is also increasing but company earns profit with the help of good will so in my view provision for depreciation is made in the profitable years. When company is suffering losses, goodwill is capital loss that is not charged in profit and loss account.

Present Study and Methodology;

Selection of Topic;

Cement industry of Madhya Pradesh, which has been singed out for investigation in of present study is indeed the backbone of foreign exchange in Madhya Pradesh. A thick relationship has been found between the level of economic growth and the quantum of cement consumption in our country. Depreciation policy and accounting is crucial for success of cement industry of Madhya Pradesh. The adequacy of fixed assets together with their efficient handling, virtually determines the survival or extinction of cement industry Fixed assets are said to be the life blood and nerve center of our cement industry. In spite of such a great significance of Fixed Assets, their depreciation policy and accounting it is strange that so for it could not attract as much attention of the researches in India as it deserves. A brief review of the dispersed efforts at research in the field is attempted in the present study.

It is true that the cement industry in Madhya Pradesh has the highest capital employed ratio and this base of exports and foreign exchange
earners. But unfortunately due to certain reason its development has come to a stand still. It is presumed that the leading factor, which has been hampering and hindering the growth of the cement industry of Madhya Pradesh is mainly effective depreciation policy and accounting is planned in a proper way the cement industry of Madhya Pradesh may put back upon sound financial footing.

Scope of study and unit selected for the present study

The scope of present study is defined below in terms of units covered, concepts adopted and period under focus

Firstly, the study “Depreciation Accounting” covers the cement companies in MADHYA PRADESH. Following companies have been selected for the study:

<table>
<thead>
<tr>
<th>S.L. No.</th>
<th>Name</th>
<th>Place</th>
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<tbody>
<tr>
<td>1-</td>
<td>Prism Cement</td>
<td>Mankahri (Satna)</td>
</tr>
<tr>
<td>2-</td>
<td>Birla Cement</td>
<td>Birla Nagar (Satna)</td>
</tr>
<tr>
<td>3-</td>
<td>A.C.C. cement</td>
<td>Kymore (Katni)</td>
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</tbody>
</table>

Secondly, the study, related to the financial year form 2000-01 to 2006-07
Methodology:

For the purpose of this study primary and secondary data have been used. Primary data about practices and procedures of depreciation policy and accounting in the selected companies have been collected through correspondence question are with selected units. The information has been collected also through discussion with the executives, heading various units of A.C.C. Ltd. and Prism cement Ltd of M.P.

Secondary data published annual report of the A.C.C. Ltd. and Prism cement Ltd for the relevant periods have been used. Annual reports contain the result of past performance and are considered the most important reliable sources of financial data of Joint Stock Company. The data from these reports have been analyses.

The annual published report in corporate complete information in quantitative from about the past performance of a company, but the use of these report for analysis and interpretation is not without limitations.

Methodology includes various statistical tools & techniques such as ratio analysis Common-size analysis, Trend analysis Break-even Analysis fund flow analysis cash flow analysis. Chi-square test, Regression, Random-sampling and Correlation in various units of A.C.C. Ltd, Prism cement, and Birla Corporation.

The details treatment & case study forming the subject matter of the subsequent independent in the same way No. one tools in the
financial analysis will has Major the potential health & Risk of any other price, All the above method will have to be jointly associated to study the various fact at a concern in the sources at data published Annual report The A.C.C. Ltd., Prism Cement Ltd, Birla Corporation Ltd., The Reserve Bank of India monthly Bulleting-Kotharies, Economic & Industrial Guide, Bombay stock Exchange, Official Directory, Various News Papers & Journals to be used in my Study.

**Hypothesis of the Study: -**

The study has been persuaded to the following hypothesis with reference to A.C.C. Ltd and Prism cement Ltd of Madhya Pradesh.

1 - That proper and sound depreciation policy and liquidity position of A.C.C. Ltd and Prism cement Ltd. in M.P.

2 - That proper depreciation policy and accounting volume of production and quality production.

3 - That external source of finance mainly loan from financial institutions.

4 - Income Tax Act and Companies Act of our country are the important factors of depreciation policy and accounting of A.C.C. Ltd and Prism cement Ltd. of Madhya Pradesh.

5 - Cement industry in an agent of socio-economic change in Indian society in the field of construction of roads, buildings, and bridges etc.