DEPRECIATION

& ITS PRACTICAL IMPLICATION

AGENDA

- Depreciation meaning and implication (Non operating exp) – REVENUE vs CAPITAL EXPENDITURE

- It is reserve accumulated to purchase the Asset again

- As exp in P&L and as deduction under Asset in BS

- How to calculate depreciation - Dep on effective cost (purchase cost – scrap value) – excel example

- Dep co act vs income tax act resulting in DTA/DTL – next lecture

Balance Sheet

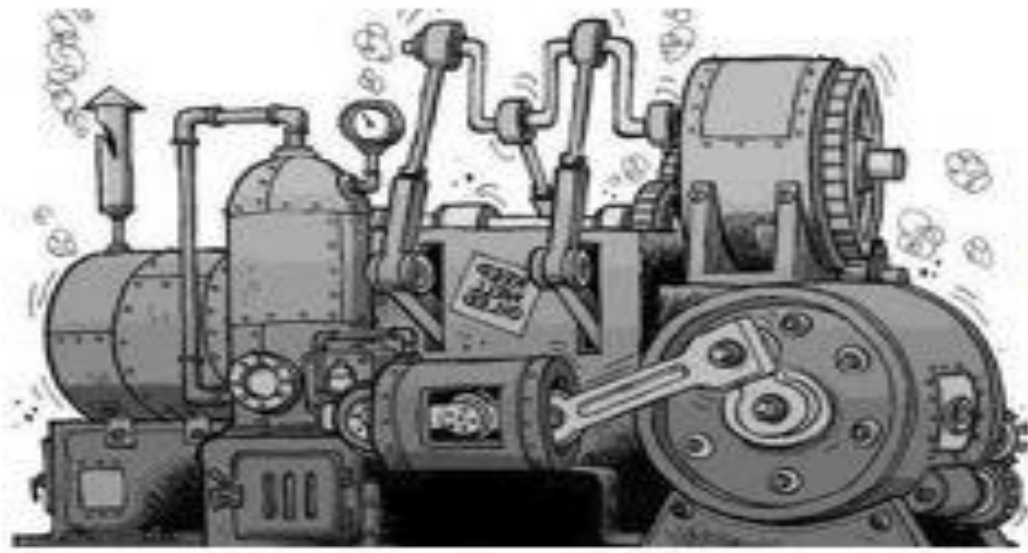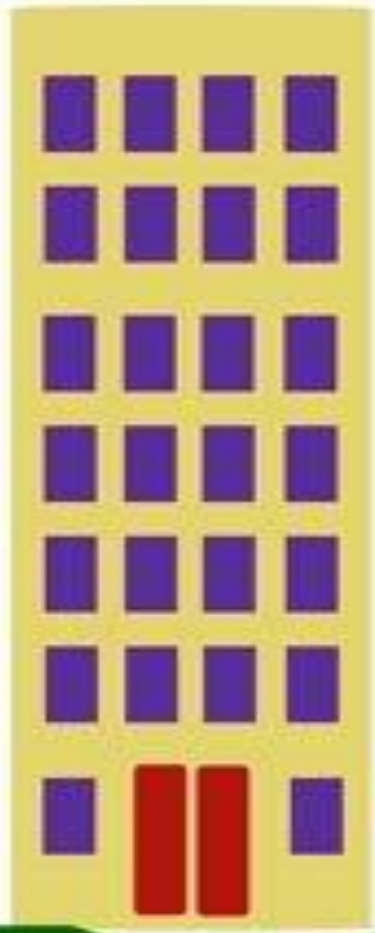| Capital & liabilities	Amount	Assets	Amount
Owners Fund		**Non-current Assets**	
Capital		Building	X
(+) Net Profit	X	Machinery	X
		Furniture	X
Non-Current Liabilities		**Current Assets**	
Long-Term loan	X	Debtors	X
		Bank	X
Current Liabilities		Cash	X
Creditors	X		
Bill Payable	X		
	X		X

SHOULD I DEBIT IT WHOLE EXP IN P&L IN ONE GO?

Fixed Assets

Popular Depreciation Methods

- Straight Line Method (SLM)
- Written down method (WDV)/ Diminishing value method

DEPRECIATION CALCULATION
1. SLM

EXAMPLE:

COST: 1000000

SALVAGE VALUE: 250000

PERIOD: 10 YEARS

$$DEP = \frac{COST - SALVAGE\ VALUE}{NO.\ OF\ YEARS} = \frac{1000000-250000}{10} = 75000$$

DEPRECIATION CALCULATION
2. WDV

EXAMPLE:

COST: 1000000   SALVAGE VALUE: 250000   PERIOD: 10 YEARS

SOLUTION: First we need to calcite dep rate by using the formula:

WDV Rate = $1 - [\text{Salvage value/Useful Life}]^{1/\text{useful life}}$

$= 1 - [2.5/10]^{1/10}$

$= 1 - [.25]^{0.1}$

$=$

Dep as per Companies Act 2013 vs Income Tax Act 1961 – Another lecture

- Depreciation is claimed by the company for two purposes: Accounting Purpose and Taxation Purpose.

- Useful life in Companies Act and Rate in % in Income Tax

- Minimum dep in Companies Act and Max in Income Tax

- Difference between DTA and DTL and their accounting

Use of Depreciation in Finance (another lecture):

- Since it's a non cash operating expense, to calculate cash inflows it need to be added back to profit

- Diff b/w EBIT, EBITDA,NOPAT and Net Profit