

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
(Autonomous)**

**Accredited by NAAC - UGC with 'A+ Grade (Cycle IV)
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Coimbatore- 49**

**DEPARTMENT OF COMMERCE WITH INFORMATION
TECHNOLOGY**

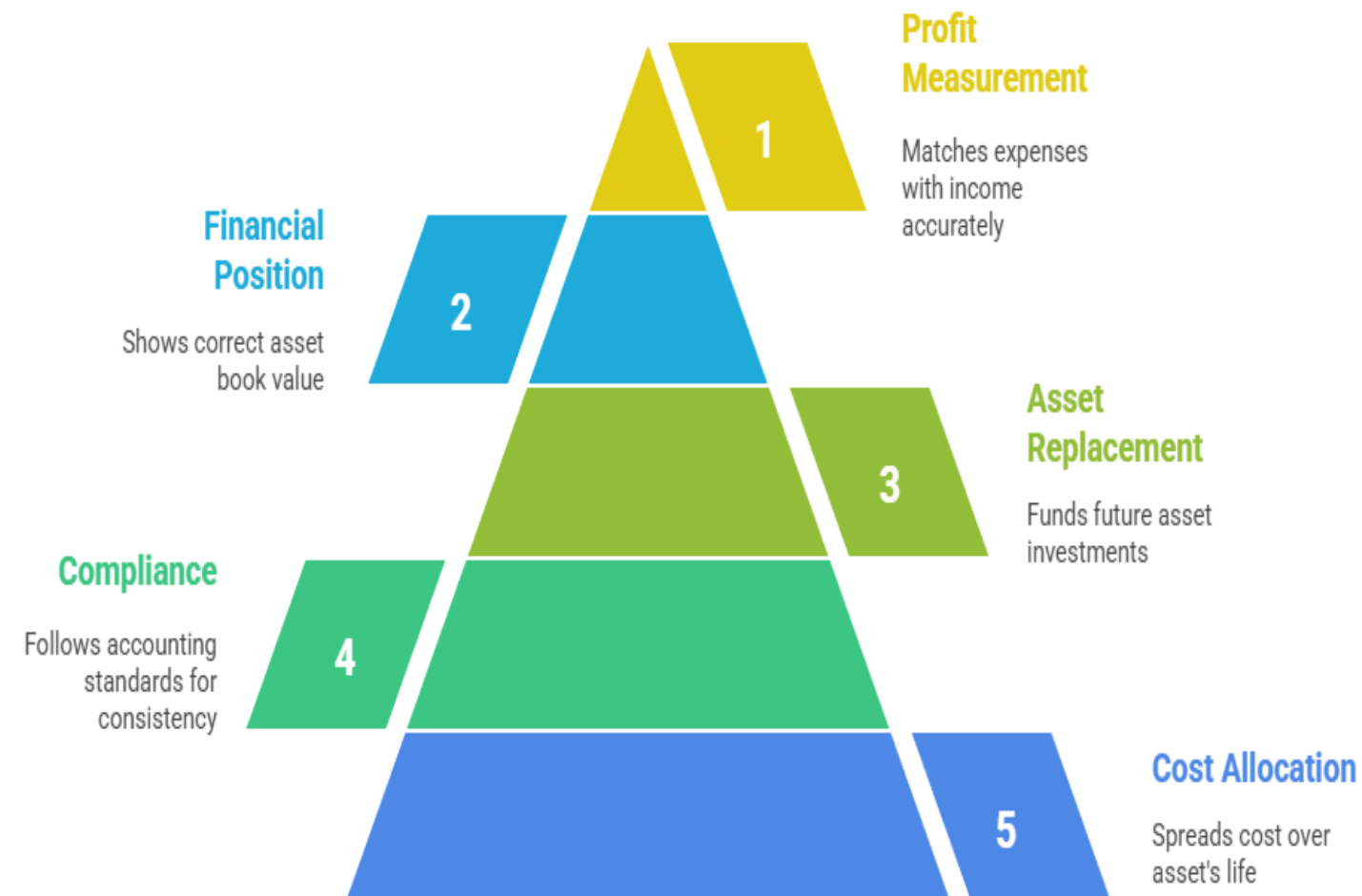
**21UCR402 – FUNCTIONAL ACCOUNTING
Unit-1: Objectives and Factors affecting Depreciation**

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- Systematic reduction in the value of fixed assets over time
- Recognized as an expense to reflect asset value decline
- Ensures allocation of asset cost over its useful life

Objectives of Depreciation

Depreciation Objectives Hierarchy



1. Accurate Profit Measurement

- Matches expenses with income
- Avoids overstated profit

2. True Financial Position

- Shows correct book value
- Presents realistic balance sheet

3. Asset Replacement Planning

- Helps create replacement fund
- Supports future investment

4. Compliance with Standards

- Follows matching principle
- Ensures consistency & transparency

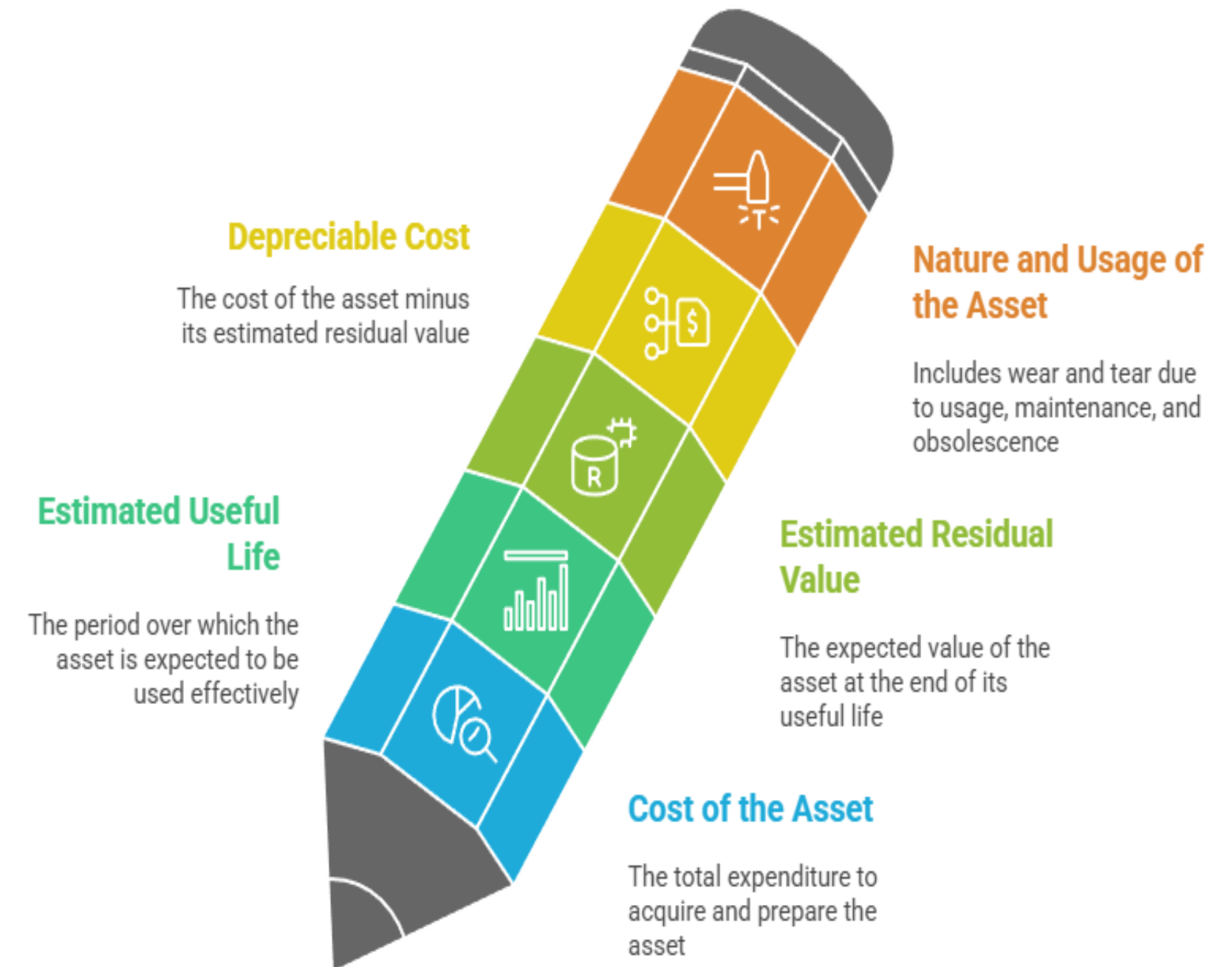
5. Cost Allocation

- Spreads cost over useful life
- Reduces one-year financial burden

- Purchase price of the asset
- Import duties and non-refundable purchase taxes
- Transportation and freight charges
- Installation and assembly costs
- Costs of site preparation
- Legal fees related to acquisition
- Testing costs to ensure proper functioning

- **Cost of the Asset:** The total expenditure incurred to acquire and prepare the asset for use.
- **Estimated Useful Life:** The period over which the asset is expected to be used effectively in business.
- **Estimated Residual (Scrap) Value:** The expected value of the asset at the end of its useful life.
- **Depreciable Cost:** The cost of the asset minus its estimated residual value.
- **Nature and Usage of the Asset:** Includes wear and tear due to usage, maintenance, and obsolescence.

Understanding Asset Depreciation



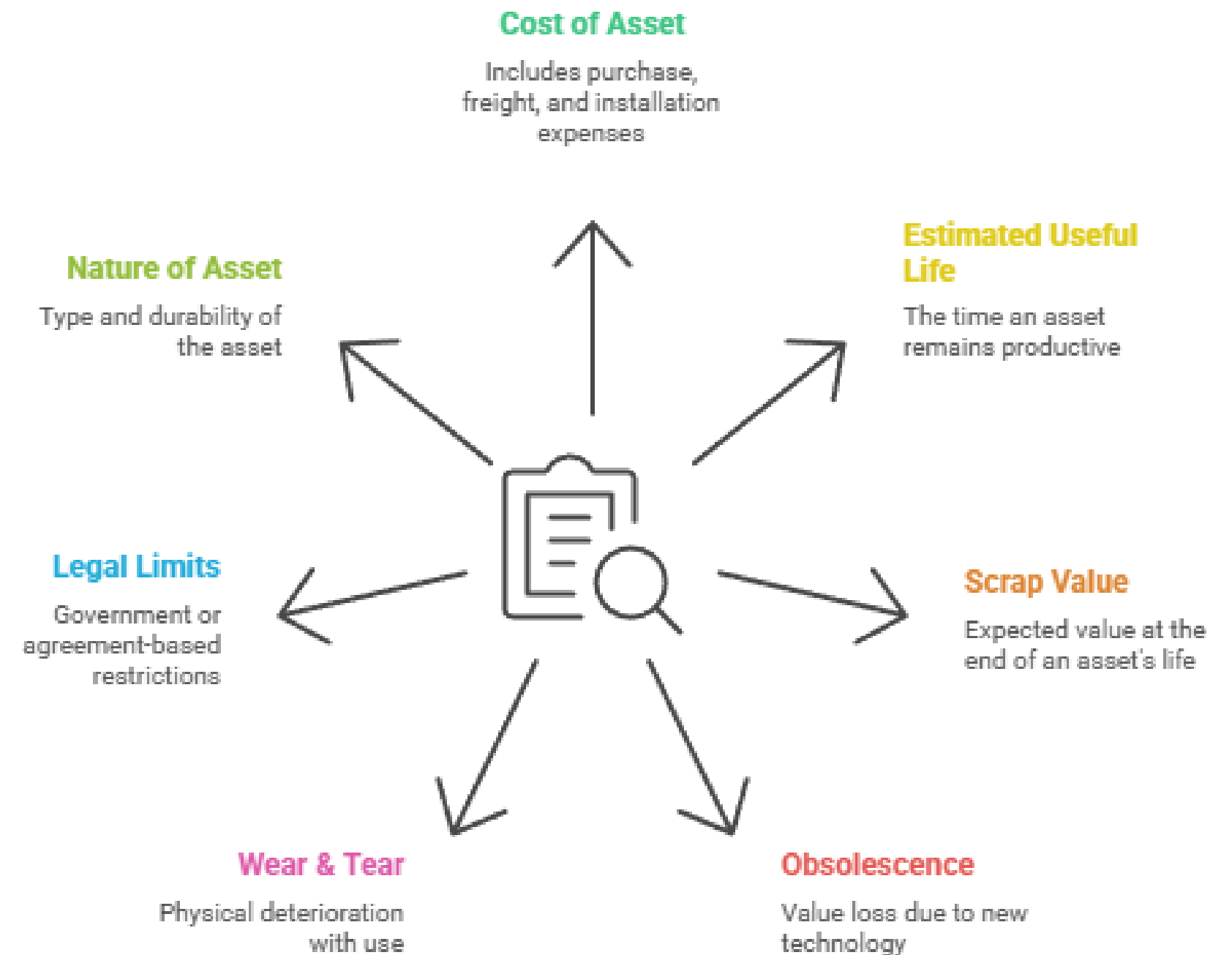
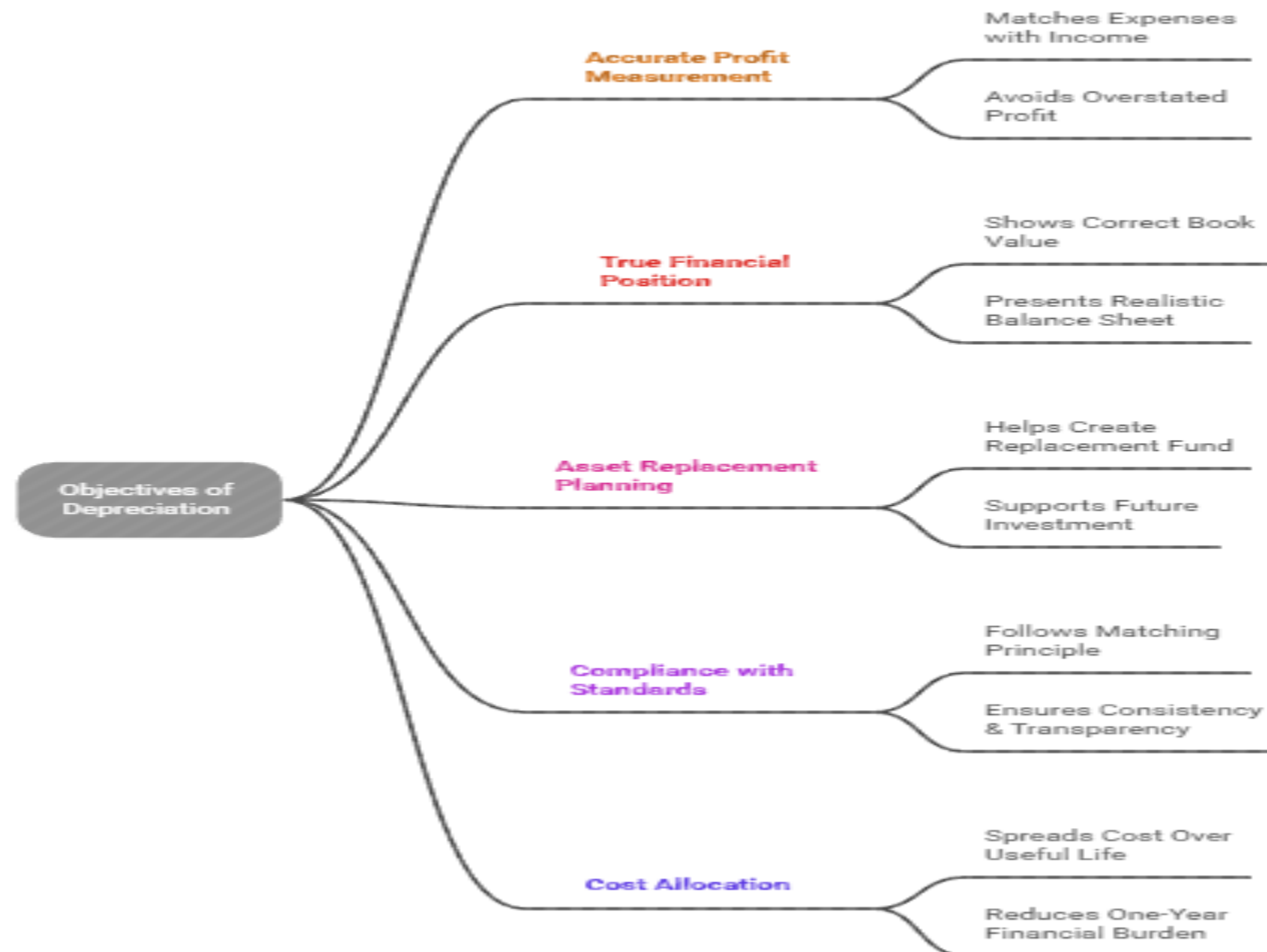
1. What represents the time period for using an asset?
2. What is the expected value of an asset at the end of its life?
3. What refers to the initial value or purchase cost of the asset?
4. What term refers to the declining usefulness of an asset due to new technology?
5. What affects depreciation due to wear and tear?

Answers

1. Life
2. Scrap
3. Cost
4. Obsolescence
5. Usage

Factors Affecting Depreciation

Objectives of Depreciation



Made with Napkin

Case Study: Depreciation – The Story of Bright Electronics

Bright Electronics is a small business that manufactures LED bulbs. In April 2022, the company purchased a **machine** for production.

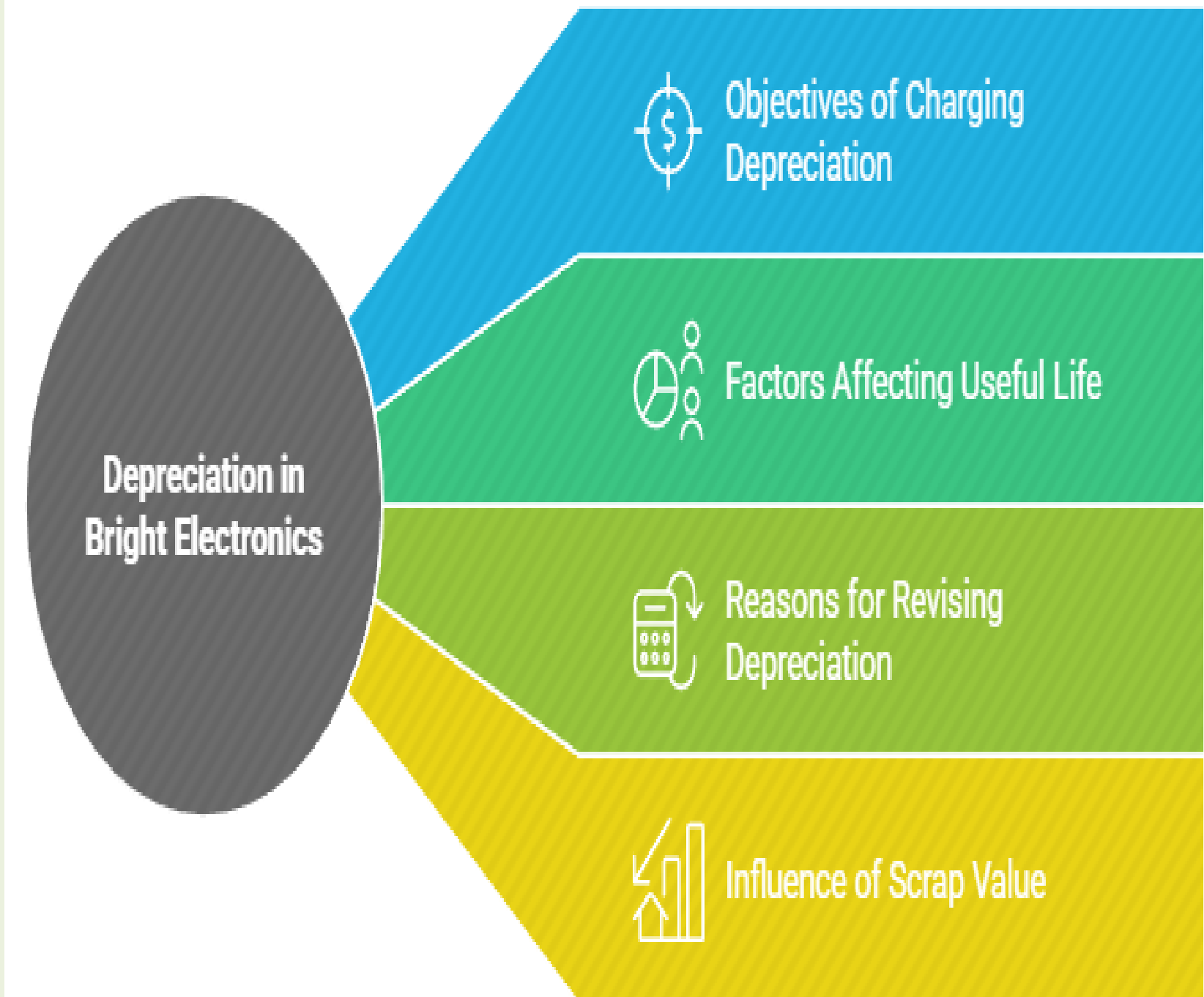
- **Purchase Price:** ₹5,00,000
- **Installation Charges:** ₹20,000
- **Transportation:** ₹10,000
- **Total Cost of the Asset:** ₹5,30,000
- **Estimated Useful Life:** 5 years
- **Expected Scrap Value:** ₹30,000

After two years, Bright Electronics noticed a drop in the machine's efficiency because a new, faster technology was introduced in the market. The manager realized that the machine might not last the originally estimated 5 years.

To keep accounts accurate and plan for machine replacement, the manager reviewed the depreciation method and adjusted the useful life based on current conditions.

Possible Assessment :

1. Identify two objectives of charging depreciation in Bright Electronics.
2. Which factor affected the useful life of the machine?
3. Why should the manager revise the depreciation amount?
4. How does scrap value influence depreciation calculation?



1. Accurate profit measurement, true financial position.
2. Obsolescence.
3. To reflect the updated useful life and ensure accurate asset value.
4. It reduces the depreciable amount by deducting scrap value from the asset's cost.

THANK YOU