

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

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Coimbatore- 49**

**DEPARTMENT OF COMMERCE WITH INFORMATION
TECHNOLOGY**

**21UCR402 – FUNCTIONAL ACCOUNTING
Unit-1: Depreciation- Written Down Value Method**

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- ✓ Depreciation **reduces every year**
- ✓ Asset value decreases faster in the early years
- ✓ Depreciation is calculated on the **opening value** of each year, not on the original cost

Formula

Depreciation = *Book Value at Beginning of Year* × *Rate of Depreciation*

When WDV is used?

- ✓ When assets lose value **faster at the beginning** (machinery, vehicles, computers)
- ✓ When repair cost increases over time
- ✓ When company wants tax benefits (because initial depreciation is high)

Cost of machine: ₹1,00,000

Depreciation rate: 20% per year

Year 1

$$\text{Depreciation} = 1,00,000 \times 20\% = ₹20,000$$

$$\text{Closing value} = 1,00,000 - 20,000 = ₹80,000$$

Year 2

$$\text{Depreciation} = 80,000 \times 20\% = ₹16,000$$

$$\text{Closing value} = 80,000 - 16,000 = ₹64,000$$

Year 3

$$\text{Depreciation} = 64,000 \times 20\% = ₹12,800$$

$$\text{Closing value} = 64,000 - 12,800 = ₹51,200$$

You can see depreciation amount **keeps decreasing each year.**

Alpha Printers purchased a printing machine on 1st January 2023 for ₹2,00,000.

The company decides to depreciate the machine at 15% per annum using the Written Down Value Method.

The company wants to know how the value of the asset will reduce over the first two years.

Answer the following:

Calculate the depreciation for Year 1.

Calculate the depreciation for Year 2.

Find the book value of the machine at the end of Year 2.

State one advantage of the WDV method.

1. Depreciation for Year 1:

$$\text{Depreciation} = 2,00,000 \times 15\% = ₹30,000$$

$$\text{Book value at end of Year 1} = 2,00,000 - 30,000 = ₹1,70,000$$

2. Depreciation for Year 2:

$$\text{Depreciation} = 1,70,000 \times 15\% = ₹25,500$$

$$\text{Book value at end of Year 2} = 1,70,000 - 25,500 = ₹1,44,500$$

3. Book Value at End of Year 2:

₹1,44,500

4. One Advantage of WDV Method:

Depreciation **reduces taxable profit more in initial years.**

Matches depreciation with actual **usage/wear and tear** of asset.

- ✓ Under which method does depreciation decrease every year?

Written Down Value Method

- ✓ Depreciation under WDV is calculated on _____ value.

Book value (or Written Down Value)

- ✓ WDV method uses a _____ rate of depreciation.

Fixed



THANK YOU