



CHANGE OF DEPRECIATION METHOD: A STUDY OF CORPORATE PRACTICE IN INDIA

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Abstract

As per the accounting principle of consistency a company is supposed to follow a policy consistently until and unless it is justified to change it. It was the curiosity of the researcher to find the number of companies which are changing methods of charging depreciation. The present study examines the change in method of depreciation, revision of useful life of assets, revision of depreciation rates etc.

KEY WORDS: Depreciation methods, depreciation rates, change in depreciation methods, revision of estimated useful life.

INTRODUCTION

In accounting theory there are number of depreciation methods available for providing depreciation in books of accounts. In India as per Companies Act companies can choose only either Written down value method or Straight line method. As far as the useful life is concerned **AS 10 "Property, Plant and Equipment"** defines the useful life of an asset in terms of its expected utility to the enterprise. The asset management policy of the enterprise may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the enterprise with similar assets.

OBJECTIVES OF STUDY

Following are the main objectives of study:

- To study how many companies have changed their method of providing depreciation
- To examine how many companies have changed depreciation rates and revised the useful life of assets.

SAMPLE SIZE AND DATA

A sample of 350 companies from various industries and sectors has been taken to conduct the study. Annual reports of the sample companies are studied and evaluated for the purpose. Other than the annual reports, books, journals etc. have been consulted and different websites have been visited.

ABBREVIATION USED

SLM: Straight line method

WDV: Written down value method

RL: Revision of life

RR: Revision of rates and

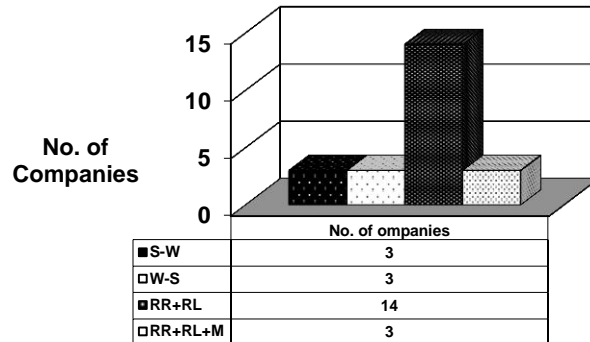
M: change of Method

STUDY

For the purpose of examining the changes made in depreciation policies, by sample companies during the study period, the data gathered have been organized into following:

1. Change in Depreciation Method.
2. Revision of Estimated Useful Life and Revision of Depreciation Rates.
3. Change in Depreciation Method and Revision of Estimated Useful Life and Revision of Depreciation Rates.

Graphical Presentation Regarding Change of Depreciation Method, Revision of Life and Rates



CHANGE

Fig.: 1

Note: S-W: SLM to WDV; W-S: WDV to SLM; RL: Revision of life; RR: Revision of rates and M: change of Method

From the compiled data table 1 and figure1 and figure 2 are prepared which reveals that only 23(6.57 percent) out of 350 sample companies have opted for change in depreciation practices. Following is the detail of the analysis relating to change of depreciation policies during the study period:

• **CHANGE OF DEPRECIATION METHOD**

Change in method has been found only from straight-line method to written down value method and vice versa during the study period. None of the sample company has shifted to any other depreciation method. As per the above table out of 6 companies, which have changed their method of depreciation, 3 switched over to WDV method from SLM and the same number i.e. 3 companies have shifted to SLM from WDV method. The figures in table further show that all of the 3 companies, which have switched over to WDV from SLM, applied this change to some assets rather than all assets. Whereas in case of companies changing depreciation method from WDV to SLM, 1 company out of 3 has applied the change to all assets and remaining 2 have restricted this change of method to some assets only.

• **REVISION OF ESTIMATED USEFUL LIFE OF ASSET AND REVISION OF DEPRECIATION RATES**

14 (60.88 percent) out of 23 companies have revised the useful lives and rates of depreciation during the study period. The table further reveals that only 2 companies have applied the above

said changes to all of their assets whereas the remaining 12 companies have made the above mentioned changes in rates and life for some of their assets only.

• **CHANGE IN DEPRECIATION METHOD AND REVISION OF ESTIMATED USEFUL LIFE AND REVISION OF DEPRECIATION RATES**

The data reveal that only 3 companies out of 23, which have gone for, change in depreciation policy have made simultaneous changes in depreciation method, revision of life and revision of depreciation rates. Further all of the above mentioned 3 companies have applied these changes to some of their assets only rather than on all assets.

Graphical Presentation of Change Regarding Depreciation w.r.t Quantum of Assets

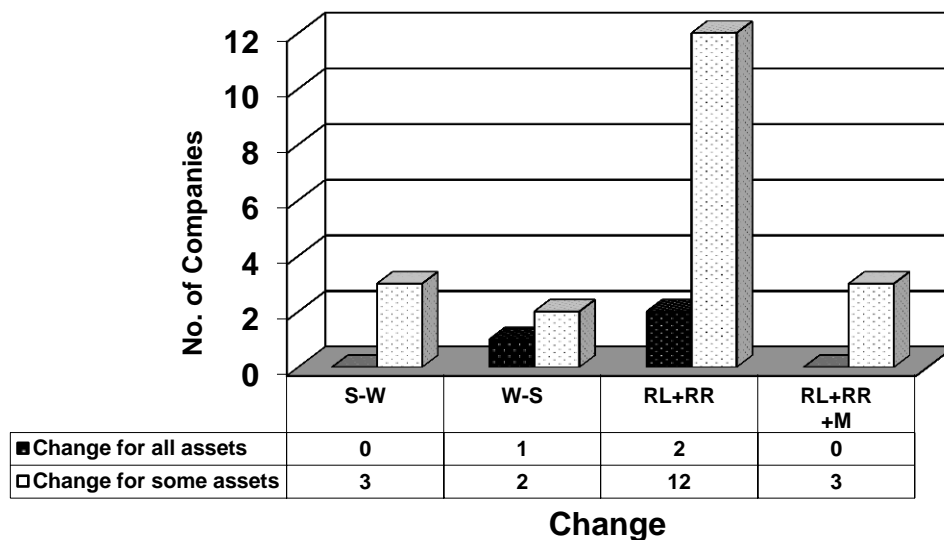


Fig.: 2

FINDINGS

- As per the above information this may be concluded that a very low percentage i.e. about 7 percent of sample companies have opted for the changes in depreciation policies and
- Majority of these companies have applied these changes to only some of their depreciable assets rather than all assets.
- Further this is important to note that in spite of the best efforts of the researcher, more details e.g. reasons for change etc., could not be retrieved.
- However the companies opting for any change in depreciation policy have been found disclosing the type of change and quantification of the same in their respective annual reports.

TABLE 1: Change of Depreciation Method, Revision of Useful Life and Revision of Rates during Study Period

Change		No. of companies	Change for all assets	Change for some assets	Percentage
Change in Method	SLM to WDV	3	0	3	13.04
	WDV to SLM	3	1	2	13.04
Revision of life and Revision of rates		14	2	12	60.88
Revision of life and Revision of rates +change of method from WDV to SLM		3	0	3	13.04
Total		23	3	20	100

Source: Annual reports of companies

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