



Accounting questions – Depreciation – SAMPLE SOLUTION

Explain why depreciation is still being charged for the machines even though they are now being measured under the revaluation model.

Answer: Depreciation means expiration of the cost of the fixed assets concerned during the period for which accounts are being prepared in other words it means the cost of the fixed assets used up during the period. This must be treated as cost or expense and debited to the profit & loss Account otherwise the profit will not be assessed correctly.

Under revaluation model also depreciation is charged so as to ascertain the true cost of production .It is necessary to charge depreciation as an item of cost for the correct income measurement. Further depreciation is the apportionment of cost over the useful period of asset.

Due to matching concept the amount of depreciation is debited to profit & loss account over the useful life only on the basis of economic benefit derived from such part of asset. Under revaluation model the value of assets are revalued according to fair market value of the assets. The valuers value it on the basis of the realizable value of the particular asset, the minimum value which can be realized from selling the assets. But under this method also depreciation is charged so as to show the true and fair view of both income statement and balance sheet.