UNIVERSITI TEKNOLOGI MARA

ACCOUNTING FOR DEPRECIATION

THE VALUATION AND MATCHING APPROACHES: CONCEPTS AND APPLICATION

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CHAPTER 1

INTRODUCTION

1.1 OBJECTIVE OF STUDY

(i) To explain the various approaches of depreciation, namely:-

   (a) valuation approach, and

   (b) matching approach;

(ii) To consider the advantages and weaknesses of the approaches, where possible; and

(iii) To determine the problems of the approaches in relation to the current practice in the depreciation accounting methods.

(iv) To determine the approaches commonly practised by companies.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

Depreciation of fixed assets is an integrated part of the accounting system. In fact, it is required by the Standards, in particular the International Accounting Standards No. 4 (IAS 4) and also the Statement of Standard Accounting Practice No. 12 (SSAP 12), that fixed assets should be depreciated over the period of their useful life on a systematic basis. Depreciation can have a significant effect in determining and presenting the financial position and results of operations of enterprises.

The financial statements such as the profit and loss account of an enterprise is derived at by matching process. The revenue for the period is calculated and is matched against the cost incurred in earning that revenue, the resultant difference being profit or loss.
Depreciation charge is necessary because:-

(a) It is an expired cost which must be matched against revenue as are other costs incurred in earning that revenue;

CHAPTER 3

FINDINGS AND ANALYSIS

3.1 CURRENT PRACTICE

The matching approach is in line with current practice of preparing the financial statements and it conform to the requirements of IAS 4 and the matching approach is also in line with the ARB 43 which states that `depreciation is an allocation process, not a valuation process.'

The straight-line method is the most common method currently used, followed by the reducing balance method while the other methods are only applicable to certain types of assets.

The intention of depreciation are:

(i) to allocate depreciable amount to accounting year;

(ii) to retain profit for the replacement of the asset after its useful life; and

(iii) to be prudent in managing the firm's expenses.