Welcome students in this session we are going to do Unit 2

depreciation accounting. Modelname revision of WDV method that

is a written down value method.

Model number 16

Outline of the model.

Meaning of WDV method of depreciation.

Illustration on WDV method of depreciation.

The advantages of method of depreciation

and disadvantages of method of depreciation.

Learning outcomes. On completion of the module, the students will

be able to explain the meaning of WD method of depreciation.

Illustrate the WD method of depreciation and explain the

advantages and disadvantages of a written down value

method of depreciation.

In accounting, depreciation refers to reduction in the value

of an asset.

To calculate depreciation, there are various methods.

And one of the very important method is written down value

method which is also known as return down WDB method.

Under return down value method depreciation is charged on the

book value of the asset.

Since the book value keeps on reducing year after year.

It is also known as reducing balance method or

diminishing balance method.

It involves the application of predetermined percentage on the

book value of the asset at the beginning of every accounting

period in order to arrive at a depreciation amount.

The amount of depreciation reduces year after year.

Let us take one example. Say Suppose the original cost of the

The asset is rupees two legs.

And depreciation is charged at10% per annum at written down

value. Then the amount of depreciation will be

computed as follows.

So when we are calculating the depreciation for the first year,

the depreciation will be calculated on the cost of the

asset. That is 2 legs and the rate of depreciation is 10%. So

two legs multiplied by 10%. We Will get 20,000 as a amount of

depreciation for the first year.

OK, now. The amount of depreciation for the first year

is 20,000, so if we deduct 20,000 depreciation amount from

the original cost of the asset at the end of 1st year or in the

beginning of 2nd year written down value of the asset will be

one leg 80,000. That is rupees two legs minus rupees 20,000.

Two legs or the cost of a setand 20,000 depreciation charge

for the year. So the written down value at the end of 1st

year or in the beginning of 2nd

year? Is rupees one Lac 80,000?

OK, now when we are calculating depreciation for the second year.

Now here we are calculating the depreciation on one leg 80,000

that is on the return down value of the asset. So on the written

down value method the depreciation will be calculated

on the return down value of the asset. And in our illustration

the written down value of the asset in the beginning of

secondary one leg 80,000 so 10%depreciation will be calculated

on one leg 80,000. So the amount of depreciation for the second

year will be.

18,000.

That is 1 like 80,000 * 10%.

OK, now written down value in the beginning of 2nd year was

rupees one leg 80,000 depreciation charge during the

second year is 18,000, so.

To arrive at a return on value at the end of 2nd year, we have

to deduct 18,000 from one leg 80,000 and that will be one less

62,000. OK, so the written down value of the asset at

the end of 2nd year or in the beginning of 3rd year

will be one leg 60,000, one leg 62,000. It is written

down value at the beginning of the year minus

depreciation charges one like 80,000 -- 18,000.

Now when you are calculating depreciation for the third year,

we have to calculate it on it onreturn down value of the asset

in the beginning of 3rd year andthe written down value in the

beginning of 3rd year is one leg 62,000 OK the return value is

one leg 62,000. So in 3rd year we are going to calculate

depreciation. That is 10%depreciation on one leg 62,000

and which will come to 16,200.

So if we did a depreciation charge of rupees 16,200 from the

written down value in the beginning in the beginning of

the third year, we will get written down value at the end of

3rd year, which will be one less 62,000 -- 16,200. That will come

to one leg forty 5800. So under return value value method the

depreciation is calculated on return down value of the method

and not on.

Original cost. OK, now if you see in this illustration, OK.

For the first year, the depreciation amount was 20,000.

For the second year, the deposition amount was 18,000.

For the third year, depreciation amount reduced two 16,200. So

under this method, the amount of depreciation will keep on

reducing year after year.

Now let us see the advantages of the written down value method.

And it. The first advantage ofWD method is its realistic approach.

OK. This method is based on more

realistic assumption. That The benefits from a set keep

on diminishing with the passage of time.

The second advantage is this method is recognized by

income tax law while filing the returns.

Thirdly the written down value method is suitable for assets

which are affected by technological changes and

require more repair expenses with passage of time.

And the fourth advantage is it avoids the obsolescence problem.

Written down value method takes care of obsolescence problem

related to the asset because major part of depreciation is

charged in the initial years of the life of an asset.

Now let us go to disadvantages of written down value method or

WTV method. The first disadvantage is book value of an

asset cannot be reduced to 0.

So again.

Under written down value method,rate of depreciation has to be

very high. If the written down value is to be brought down to

its estimated scrap value.

OK, and the third day advantages the WDB method is

not suitable for an asset having a very short life.

So to conclude, WDD method is suitable for assets that are

costly, such as plant machinery and heavy motor vehicles like

Lori, etc. It is also suitable for assets wherein the repairs

are very important. OK, repair costs are very important.

And the last is suitable for those assets which have residue.

It is suitable for those assets which have residual value at the

end of estimated useful life.

Yes, yeah, my references.

Thank you.