

18 Lecture - MGT101

Important Subjective

- 1. What is depreciation, and why is it charged on fixed assets?**

Depreciation is the process of allocating the cost of a fixed asset over its useful life. It is charged to reflect the gradual decrease in the asset's value over time as it is used to generate revenue.
- 2. What is the straight-line method of depreciation, and when is it commonly used?**

The straight-line method of depreciation is the simplest and most commonly used method. It involves dividing the cost of the asset, less its estimated salvage value, by its useful life. This results in a constant amount of depreciation expense each year.
- 3. What is the declining balance method of depreciation, and what are its advantages and disadvantages?**

The declining balance method involves applying a higher rate of depreciation in the earlier years of an asset's life, and a lower rate in later years. The advantages include higher depreciation expenses in the early years, while the disadvantage is that it can result in a negative book value.
- 4. How is the rate of depreciation determined in the declining balance method?**

The rate of depreciation in the declining balance method is determined by a fixed percentage of the remaining balance of the asset.
- 5. What is the units of production method of depreciation, and when is it commonly used?**

The units of production method bases depreciation on the amount of output produced by the asset. It is commonly used for assets that produce varying amounts of output from year to year.
- 6. How is the depreciation expense calculated under the units of production method?**

The depreciation expense is calculated by dividing the cost of the asset by the total estimated units of output it will produce over its useful life, and then multiplying that rate by the actual units produced in each year.
- 7. What are the advantages and disadvantages of the units of production method of depreciation?**

The advantages of the units of production method include that it accurately reflects usage, while the disadvantage is that it can be difficult to predict output levels.
- 8. How does the choice of depreciation method impact a business's financial statements?**

The choice of depreciation method impacts a business's financial statements by affecting the amount of depreciation expense charged each year, which in turn affects net income and the balance sheet.
- 9. What factors should a business consider when choosing a depreciation method?**

A business should consider the asset's useful life, estimated salvage value, output levels, and other specific needs and circumstances when choosing a depreciation method.
- 10. How can a business ensure that its chosen method of depreciation is accurate and appropriate?**

A business can ensure that its chosen method of depreciation is accurate and appropriate by regularly reviewing and adjusting its estimates of the asset's useful life, salvage value, and output levels, and by seeking professional advice when necessary.