

19 Lecture - MGT101

Important Subjective

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

Answer: Depreciation is the allocation of the cost of a fixed asset over its useful life. It is charged to recognize the reduction in the asset's value over time due to wear and tear, obsolescence, and other factors.

2. **Define the straight-line method of depreciation.**

Answer: The straight-line method of depreciation is a method of allocating the cost of an asset uniformly over its useful life. It involves dividing the cost of the asset by its estimated useful life to arrive at an equal annual amount of depreciation.

3. **Explain the difference between the reducing balance method and the straight-line method of depreciation.**

Answer: The reducing balance method is an accelerated method of depreciation, where the asset's cost is depreciated at a higher rate in the early years of its life and gradually reduced in later years. The straight-line method is a uniform method of depreciation, where the asset's cost is depreciated at the same rate over its useful life.

4. **How does the double declining balance method work?**

Answer: The double declining balance method is an accelerated method of depreciation, where the asset's book value is multiplied by a fixed percentage, usually double the straight-line rate, to calculate the annual depreciation expense.

5. **What is the units-of-production method of depreciation?**

Answer: The units-of-production method of depreciation is based on the actual usage of the asset. It involves calculating the cost per unit of production and multiplying it by the actual number of units produced to arrive at the depreciation expense for the year.

6. **What is the difference between depreciation and amortization?**

Answer: Depreciation is the allocation of the cost of tangible fixed assets, while amortization is the allocation of the cost of intangible assets, such as patents, trademarks, and copyrights.

7. **What are the factors that affect the choice of depreciation method?**

Answer: The factors that affect the choice of depreciation method include the nature and use of the asset, its useful life, and the company's accounting policies.

8. **What is the salvage value of an asset, and how does it affect depreciation?**

Answer: The salvage value of an asset is the estimated value that the asset will have at the end of its useful life. It affects depreciation because it is subtracted from the asset's cost to determine the depreciable base.

9. **How is depreciation expense recorded in the financial statements?**

Answer: Depreciation expense is recorded on the income statement as a separate line item, and the accumulated depreciation is shown on the balance sheet as a deduction from the gross fixed assets.

10. **How does depreciation affect a company's taxable income?**

Answer: Depreciation reduces a company's taxable income, as it is deductible for tax purposes.