

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD**

**MASB Standard 14  
Depreciation Accounting**

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# **Depreciation Accounting**

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**MALAYSIAN ACCOUNTING STANDARDS BOARD**

## **Depreciation Accounting**

*The standards, which have been set in bold type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.*

### **Objective**

Depreciable assets comprise a significant portion of the assets of many enterprises. Depreciation can, therefore, have a significant effect in determining and presenting the financial position and results of operations of those enterprises. The objective of this Standard is to prescribe the accounting treatment for depreciation.

The primary issue in accounting for depreciation is determining the depreciable amount of the depreciable asset and its useful life. This Standard identifies the factors to be considered in determining both the depreciable amount and the useful life of the depreciable asset.

### **Scope**

- 1. This Standard should be applied in accounting for depreciation.**
2. This Standard applies to all depreciable assets except:
  - a) property, plant and equipment (see MASB 15, Property, Plant and Equipment);
  - b) forests and similar regenerative natural resources;
  - c) expenditures on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources;
  - d) expenditure on research and development (see MASB 4, Research and Development Costs); and
  - e) goodwill (to be dealt in accordance with MASB Standard on goodwill).

3. The provisions of this Standard are to be applied with due regard to and in conformity with, the relevant applicable provisions in MASB 15, Property, Plant and Equipment.

## **Definitions**

4. The following terms are used in this Standard with the meanings specified:

**Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.**

**Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to net profit or loss for the period either directly or indirectly.**

**Depreciable assets are assets which:**

- (a) are expected to be used during more than one accounting period;
- (b) have a limited useful life; and
- (c) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes.

**Useful life is either:**

- (a) the period over which a depreciable asset is expected to be used by the enterprise; or
- (b) the number of production or similar units expected to be obtained from the asset by the enterprise.

**Depreciable amount of a depreciable asset is the historical cost or other amount substituted for historical cost in the financial statements, less the estimated residual value.**

**Residual value is the net amount which the enterprise is expected to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.**

## Depreciation

5. **The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.**
6. The view is sometimes expressed that if the value of an asset has increased over the amount at which it is carried in the financial statements, it is unnecessary to provide for depreciation. It is considered, however, that depreciation should be charged in each accounting period on the basis of the depreciable amount irrespective of an increase in the value of the asset.

## Useful Life

7. **The useful life of a depreciable asset should be estimated after considering the following factors:**
  - (a) **expected physical wear and tear;**
  - (b) **obsolescence; and**
  - (c) **legal or other limits on the use of the asset.**
8. **The useful lives of major depreciable assets or classes of depreciable assets should be reviewed periodically and depreciation rates adjusted for the current and future periods if expectations are significantly different from the previous estimates. The effect of the change should be disclosed in the accounting period in which the change takes place.**
9. Estimation of the useful life of a depreciable asset or a group of similar depreciable assets is a matter of judgement ordinarily based on experience with similar types of assets. For an asset using new technology or used in the production of a new product or in the provision of a new service with which there is little experience, estimation of the useful life is more difficult but is nevertheless required.
10. The useful life of a depreciable asset for an enterprise may be shorter than its physical life. In addition to physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme of the enterprise, other factors need to be taken into consideration. These include obsolescence arising from technological changes or improvements in production, obsolescence arising from a change in the market demand for the product or service output of the asset, and legal limits such as the expiry dates of related leases.

## **Residual Value**

11. The residual value of an asset is often insignificant and can be ignored in the calculation of the depreciable amount. If the residual value is likely to be significant, it is estimated at the date of acquisition, or the date of any subsequent revaluation of the asset, on the basis of the realisable value prevailing at the date for similar assets which have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used. The gross residual value in all cases is reduced by the expected costs of disposal at the end of the useful life of the asset.

## **Depreciation Methods**

12. **The depreciation method selected should be applied consistently from period to period unless altered circumstances justify a change. In an accounting period in which the method is changed, the effect should be quantified and disclosed and the reason for the change should be stated.**
13. Depreciable amounts are allocated to each accounting period during the useful life of the asset by a variety of systematic methods. Whichever method of depreciation is selected its consistent use is necessary, irrespective of the level of profitability of the enterprise and of taxation considerations, in order to provide comparability of the results of operations of the enterprise from period to period.

## **Disclosure**

14. **The valuation bases used for determining the amounts at which depreciable assets are stated should be included with the disclosure of other accounting policies – see MASB 1, Presentation of Financial Statements.**
15. **The following should be disclosed for each major class of depreciable assets:**
  - (a) **the depreciation methods used;**
  - (b) **the useful lives or the depreciation rates used;**
  - (c) **total depreciation allocated for the period; and**
  - (d) **the gross amount of depreciable assets and the related accumulated depreciation.**

16. The selection of an allocation method and the estimation of the useful life of a depreciable asset are matters of judgement. The disclosure of the methods adopted and of the estimated useful lives or depreciation rates used provides users of financial statements with information which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reasons, it is necessary to disclose the depreciable amount allocated in a period and the accumulated depreciation at the end of that period.

### **Effective Date**

17. **This MASB Standard becomes operative for financial statements covering periods beginning on or after 1 July 2000.**

## **Appendix 1**

### **Compliance with International Accounting Standards**

As a consequence of the issue of new standards and reformatting of others, the IASC has withdrawn IAS 4, Depreciation Accounting. The requirements of this MASB Standard are consistent, in all material respects, with the treatment of depreciation under standards issued by the IASC.