<u>Depreciation</u>

Fixed assets are used again and again over a long period of time. During this time the value of many assets falls. This is called depreciation. Each accountants must work how much depreciation to allow each fixed assets. This can then be used in the balance sheet and profit and loss account.

The balance sheet will show the book value the book value of assets. This is their original value minus depreciation. Depreciation is shown in the profit and loss account under expenses. This indicates that part of the original value is 'used up' each year. Eventually the entire value of the assets will appear as expenses, when the assets depreciate fully. This process of reducing the original value by the amount of depreciation is known as writing off.

There are good reasons why a firm should allow for depreciation each year in its accounts-:

- If it dose not, accounts will be inaccurate. If the original value of the assets were placed on the balance sheet this would overstate the value. Each value of the assets falls each year as they depreciate.
- Fixed assets generate profit many years. It seems logical to write off the value of the assets over a whole period of time rather than when it is first bought. This matches the benefits from the assets more closely with cost.