

Power of Depreciation

Consider my one month's simplified income statement

During the year my revenue earnings and expenses are Rs.5000 & Rs.3000 respectively

I bought a vehicle for Rs. 36000

My accountant (financial artist) assumes the truck would last for three years and accordingly he books depreciation of Rs. 1000 this months i.e. $(36000/3600)$

However, my accountant assumes that the life of truck is 12 months only and in case 2, I charge a monthly depreciation of Rs.3000 (i.e. $36000/12$)

In case three the accountant assumes the life of truck as 6 years (72 months) and I charge a depreciation of Rs. 500($36000/72$)

See what happens to my accounts

| | 3 years | 1 year | 6 Years |
|--------------|---------|----------|----------|
| Revenue | 5000 | 5000 | 5000 |
| Expense | 3000 | 3000 | 3000 |
| Depreciation | 1000 | 3000 | 500 |
| Surplus (+) | (+)1000 | (-) 1000 | (+) 1500 |
| Deficit (-) | | | |