

Depreciation and amortization



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Usually accountants use amortization and depreciation when they need to spread out the assets during the period when a company uses the costs of assets. In other words, it is a non-cash charge, which decreases the amount of assets because of their condition, age or obsolescence. It also can relate to amortization of non-material assets of company, leased property (offices, buildings, automobiles, etc), goodwill, etc. (Amortization and Depreciation, p. 1)

It is objective economical process of gradual transfer of means of labor in proportion to their deterioration for commodity or services, manufactured with their help; usage of this cost of assets as amortization deductions for simple reproduction of capital or reproduction on an enlarged scale.

Depreciation means partial loss of value. For example, when a company buys a new automobile, the accountant has to account for the car as an asset which should be depreciated.

Some companies try to depreciate the property they buy as soon as possible, although reported net income is reduced by that depreciation charges. From the other side, the concept of depreciation doesn't correspond to real position of things for 100%. There are cases, when the things, which are depreciated, are increasing their value, and, on the contrary, plenty of things in perfect condition can be depreciated very quickly. However, amortization and depreciation have "advantages of reducing net income for tax purposes" (Amortization and Depreciation, p. 1).

Although the concepts are quite close and similar, there are several ways how to find differences between amortization and depreciation. For example,

the assets, which can be called non-material (intangible) have to be amortized on corporal financial statements, but some of them, which have indefinite life, cannot be amortized for those tax purposes, because their life isn't finished – it is still going on in spite of quantity of years (for example, trade names) (Jacqueline Emigh p. 1)