Treatment of the elements of depreciation of fixed assets in the Accounting Policy

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Abstract. This article examines the issues involved in treatment of the elements of depreciation of fixed assets in the Accounting Policy of transport companies. The cost of fixed assets has a significant weight in the balance sheet of transport organizations. The reliability of the assessment of this type of property depends on the correct calculation of depreciation and the choice of its elements. The use in calculations of liquidation and fair value influenced the amount of book value (formerly "written down"), and in general the amount of balance sheet assets. The article analyzes accounting changes with respect to depreciation due to the enactment of the FSBU (Federal Accounting Standard) 6/2020, and substantiates the need to develop new forms of accounting documents to reflect the elements of depreciation on receipt of fixed assets as well as to record information about changes in each element of depreciation (useful life, residual value, the method of depreciation) for each year during the useful life in connection with the requirement FSBU 6/2020. The author identifies the relationship between the method of establishing a useful life and the method of depreciation and examines the reflection of sufficient information in the Accounting Policy on the elements of depreciation.

1 Introduction

One highlight of the transport organization is a large number of items of fixed assets. Accordingly, issues of depreciation accrual, and approaches to determining the initial, balance sheet, revalued and liquidation value of fixed assets are relevant to the accountant of a transport organization. The list of depreciation elements introduced in Russian accounting is relatively recent. It was formed with the entry into force of standard 6/2020 "Fixed Assets". At the same time, there was a need to choose a way to reflect the effects of the changes and to prescribe them in the Accounting Policy.

When compiling the Accounting Policy, the chief accountant of the transport organization must take into account changes in legislation in the field of accounting and tax accounting, and make appropriate amendments to the Accounting Policy. It is necessary to comply with the assumptions and requirements established by PBU (Russian Accounting Standart) 1/2008 including the requirement of completeness and the requirement of rationality.
Elements of depreciation are determined depending on the type of fixed asset. However, information about the elements of depreciation in the Accounting Policy should be on the one hand sufficient to apply in the work of an accountant, and on the other hand, not limiting his professional opinion.

2 Materials and Methods

The question of the impact of depreciation on the results of financial and economic activities of organizations has always been the subject of interest of economists in the field of accounting. Recently, the discussion and analysis of changes in accounting for fixed assets, including depreciation, resulting from the introduction of FSBU (Federal Accounting Standard) 6/2020, has become particularly relevant. These issues are discussed in the works of V. I. Martynov [1], P. A. Arabova, R. B. Shakhbanov [2], F. F. Farrakhova [3], D. N. Nazhueva [4], S. N. Kovalenko, N. A. Kalutskaya, Y. N. Kovalenko [5], Z. M. Batyrmurzaeva, Z. M. Sultanbekova [6], D. Akyev, E. V. Egorova [7], Y. A. Popova [8], A. S. Aliev, R. B. Shakhbanov [9].


The need to represent the elements of depreciation in the accounting policy of the organization are noted by many authors. E. K. Kopylova and T. I. Kopylova in their work point out that “the order of checking the elements of depreciation, documentation of the results of the check are elements of accounting policy” [11]. E. N. Dombrovskaya, I. A. Perfileva conclude that “actualization of accounting policy of economic subjects is a necessary condition, providing compliance with the requirements of the new normative document” [12].

The obligation to amend accounting policies in connection with the entry into force of FSBU 6/2020 is mentioned by V. A. Sitnikova and S. A. Sitnikova [14]. For accounting purposes, Y. G. Murashova and E. A. Kokoulina propose “to consider the amortization policy of an organization as part of the accounting policy of an economic entity, ensuring the formation of elements of amortization” [15].

In Russian accounting, a list of depreciation elements has been introduced since 2021 (p. 37 of FSBU 6/2020). It refers to the elements of depreciation the useful life, residual value and method of depreciation accrual.

The first element of depreciation is the useful life. According to FSBU 6/2020, the useful life of an item of fixed assets is determined based on:

- the expected period of operation, taking into account the capacity or capacity, regulatory, contractual and other restrictions of operation, the intentions of the management of the organization with respect to the use of the item;
- expected physical deterioration, taking into account the mode of operation (number of shifts), system of repairs, natural conditions, influence of aggressive environment and other similar factors;
- expected obsolescence, in particular, as a result of change or improvement of production process or as a result of change of market demand for products or services produced by means of fixed assets;
- plans for replacement of fixed assets, modernization, reconstruction, technical re-equipment".

There are two ways of determining the useful life of a fixed asset:
- the period during which the use of a fixed asset will bring economic benefits to the organization;
- the period that is determined based on the amount of production (volume of work in kind) that the organization expects to receive from the use of the item of fixed assets.

The period during which the use of a fixed asset will bring economic benefits to the organization is determined primarily on the basis of the technical documentation and the passport of the fixed asset. In this case, the useful life may correspond to the period of depreciation of the fixed asset.

Another common way to determine the useful life – with the help of the All-Russian Classifier of Fixed Assets (OKOF) OK 013-2014 (SNS 2008), which was put into effect by the Order of Rosstandart from 12.12.2014 № 2018-st. and the Order of the Government of the Russian Federation on January 1, 2002 № 1 “On the Classification of fixed assets included in the depreciation groups”. In determining the number of months over which to accrue depreciation within a depreciation group, it is necessary to consider the above requirements of FSBU 6/2020 in each case. Based on the requirements of FSBU 6/2020, an accountant must consider the various factors affecting the useful life of a fixed asset, some of which require the opinion of a qualified specialist or an independent appraiser.

The period, which is determined on the basis of the amount of production (volume of work in kind), which the organization expects to receive from the use of the object of fixed assets, can be established by information from the technical documentation and the passport of the fixed asset. In such a case, one must also consider the operating conditions, expected physical deterioration, obsolescence and plans for repairs.

Due to the individual approach to the calculation of useful life for each group of fixed assets, it is necessary to develop and enshrine in the Accounting Policy the criteria for determining the useful life.

The second element of depreciation is salvage value. The term “salvage value” was introduced in the normative acts of Russian accounting for the first time.

The residual value of an item of fixed assets is defined as “the amount that an organization would receive in the event of disposal of the item (including the cost of tangible assets remaining from disposal) after deducting the estimated costs of disposal, with the item of fixed assets treated as if it had already reached the end of its useful life and was in the condition characteristic of the end of its useful life” (p.30 FSBU 6/2020). Along with recognition of a fixed asset in accounting, it is necessary to determine its salvage value.

The amount of depreciation of an item of fixed assets for the reporting period is determined so that by the end of the depreciation period the book value of this object became equal to its salvage value. From the formula (1)

$$Ac = Ch - D - Cd$$

with:
$$Ac$$ – carrying amount of the fixed asset,
$$Ch$$ – historical cost of the fixed asset,
$$Cd$$ – depreciation cost of a fixed asset,
$$D$$ – depreciation expense,

it follows that, by the end of the useful life,

$$Ac = Vr$$

with $$Vr$$ – residual value of a fixed asset,

and, accordingly, depreciation is equal to
The residual value of an item of fixed assets is considered to be zero, if:

“a) no proceeds from the disposal of an item of fixed assets (including the sale of inventories remaining from its disposal) are expected at the end of its useful life;

б) the amount expected to be received from the disposal of the item of fixed assets is not significant;

в) the amount expected to be received from the disposal of an item of fixed assets cannot be determined” (p.31 FSBU 6/2020).

For each item of fixed assets, its salvage value must be indicated in the fixed assets card. An inventory card in the unified form OS-6 was developed for accounting for fixed assets. In connection with the introduction of new concepts in accounting, including "salvage value ", organizations must independently develop a form of card and fix it in the Accounting Policy. In addition, in order to calculate the residual value, the Accounting Policy should specify the level of materiality for the expected proceeds from the disposal of an item of fixed assets.

The third element of depreciation is the treatment of depreciation. FSBU 6/2020 offers three methods:

– straight-line method;
– the diminishing balance method;
– the method in proportion to the number of products (volume of work in kind).

The chosen method of depreciation accrual for each group of fixed assets is prescribed in the Accounting Policy. A group of fixed assets is a set of items of the same type of fixed assets united on the basis of similar nature of their use.

In accordance with paragraph 34 of FSBU 6/2020, the chosen method of depreciation must:

“a) most accurately reflect the over time distribution of the expected future economic benefits from the use of a group of fixed assets.

b) be applied consistently from one reporting period to another except when changing the over time distribution of the expected future economic benefits from the use of a group of fixed assets”.

There is a strong correlation between the method of setting the useful life and the method of depreciation (Table 1).

**Table 1.** Correspondence of the method of determining the useful life of a fixed asset to the method of depreciation.

<table>
<thead>
<tr>
<th>Method of determining the useful life of a fixed asset</th>
<th>Treatment of depreciation</th>
<th>Description of the depreciation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>The period during which the use of a fixed asset will bring economic benefits to the organization is determined</td>
<td>Straight-line method</td>
<td>The amount of depreciation for the reporting period is defined as the ratio of the difference between the book value and the liquidation value of an item of fixed assets to the amount of the remaining useful life of this item</td>
</tr>
<tr>
<td></td>
<td>The diminishing balance method</td>
<td>The amounts of depreciation for the same periods should decrease as the useful life of the object expires. The organization independently determines the formula for calculating the amount of depreciation for the reporting period that ensures a systematic decrease in this amount in the following periods</td>
</tr>
</tbody>
</table>
Defined on the basis of the number of products (amount of work in kind), which the organization expects to obtain from the use of the item of fixed assets.

The method in proportion to the number of products (volume of work in kind).

The amount of depreciation for the reporting period is defined as the multiplication of the difference between the book value and the liquidation value of an item of fixed assets by the ratio of the number of products (amount of work in kind) in the reporting period to the remaining useful life of the fixed asset.

Thus, the choice of method of depreciation determines the method of establishing a useful life of a fixed asset.

Values of depreciation elements are set when a fixed asset is accepted for accounting. At the end of each year the elements are checked for compliance with the conditions of use of the fixed asset and may change.

3 Results

For correct accounting, it is necessary to specify in the Accounting Policy the information related to the elements of depreciation. The choice of elements is rational to do on groups of fixed assets.

Useful life is set individually for each item of fixed assets in the inventory card. The method of selecting a useful life is carried out in accordance with the method of depreciation (Table 1).

Table 2 shows an example of how the choice of depreciation method is reflected in the accounting policy of a transport company.

Table 2. Methods of accrual of depreciation of fixed assets in accounting.

<table>
<thead>
<tr>
<th>Name of the fixed assets group</th>
<th>Group according to OKOF (All-Russian Classifier of Fixed Assets)</th>
<th>Depreciation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings (except residential)</td>
<td>210.00.00.00.00.000</td>
<td>Straight-line method</td>
</tr>
<tr>
<td>Facilities</td>
<td>220.00.00.00.00.000</td>
<td>Straight-line method</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>330.00.00.00.00.000</td>
<td>The method in proportion to the number of products (volume of work in kind)</td>
</tr>
<tr>
<td>Transport</td>
<td>310.00.00.00.00.000</td>
<td>The diminishing balance method</td>
</tr>
<tr>
<td>Production and household equipment</td>
<td>330.00.00.00.00.000</td>
<td>Straight-line method</td>
</tr>
</tbody>
</table>

With respect to the salvage value, it is necessary to specify the materiality level for the expected proceeds from the disposal of an item of fixed assets (MLfa). It is recommended to take into account the materiality level of the financial report data (MLfrd). The following inequality is suggested:

\[ MLfa \leq MLfrd \]  

Information about fixed assets is reported in the inventory card of fixed assets, which in most cases is drawn up in the form of OS-16. Due to the changes introduced by FSBU 6/2020, it is also recommended that a new table be added to the form in use. Developed in this regard inventory card accounting for fixed assets is indicated in the appendix to the accounting policy. This Inventory Card must include the obligatory details established by the Federal Law "On Accounting" № 402-FZ of 06.11.2011 as well as reflected in the form OS-16 data.
and information about changes in each element of depreciation (useful life, salvage value, depreciation method) for each year during the period of useful life (Table 3).

<table>
<thead>
<tr>
<th>Operation period, year</th>
<th>Useful life (UL)</th>
<th>Salvage value (SV)</th>
<th>Depreciation method (DM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UL (month)</td>
<td>SV (RUB)</td>
<td>(DM) Reason for change</td>
</tr>
<tr>
<td>Year 1 (2022)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2 (2023)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Etc.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

4 Conclusion

The introduced in the accounting of fixed assets changes have brought the accounting treatment closer to the real business environment. In today's ever-changing circumstances, accounting documents must help form the most reliable opinion about the financial position of the organization. Correct reflection of the cost of fixed assets calculated in accordance with the accounting policy of the organization provides an opportunity to reduce the distortion of data reporting. In contrast to previous years, from 2022 a rule of annual recalculation of a number of indicators was introduced, which also affected the elements of depreciation (useful life, salvage value, methods of depreciation).

In order to comply with current regulatory documents in the field of accounting, transport organizations need to indicate the specifics of determining the elements of depreciation of fixed assets in their accounting policies. It is proposed to supplement the information in the card of accounting of fixed assets to the effect that the elements of depreciation and their annual changes would be recorded.

References

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