

Recognizing Differences

XACC/291 Principles of Accounting II

### Recognizing Differences

Valuation, depreciation, amortization, and depletion are used as support to allocate cost of an asset over its useful life (Weygandt, Kimmel, & Kieso, 2010). This is done to make sure that the earnings of the company is matched accordingly with expenses, which includes wear and tear. My fathers company is able to recognize the differences, but it is hard what it really means. Since these are used to allocate cost it is important to know the difference.

Valuation is the process of estimating the market value (Weygandt, Kimmel, & Kieso, 2010). Items that are usually valued are marked as asset or liability. In addition, valuation refers to assets being recorded and it is disclosed at the current market value (Weygandt, Kimmel, & Kieso, 2010). Regardless of the market value is above or below, the market value stays the same.

Depreciation is use to calculate cost of an asset over what the business determines the useful life using rational and the systematic manner (Weygandt, Kimmel, & Kieso, 2010). In addition, straight-line method unites activity method, and the declining methods are the three different methods to calculate depreciation (Weygandt, Kimmel, & Kieso, 2010).

Amortization is when you are charging or writing off. Basically, it is a systematic write-off of an intangible asset that is classified as an operating expense in the income statement (Weygandt, Kimmel, & Kieso, 2010). Basically the amortization will reflect on the financial statement over time. In addition, amortization of intangible assets is similar to depreciation of plant assets and depletion of natural resources (Weygandt, Kimmel, & Kieso, 2010).

Depletion is the process of allocating the cost of extracting natural resources (Weygandt, Kimmel, & Kieso, 2010). Natural sources can be minerals, oil, and timber from the earth. In addition, depletion is calculated for bookkeeping purposes and tax-deduction. Most important, depletion is the actual depletion of natural resources by companies.

Depreciation can be calculated using varieties of method (Weygandt, Kimmel, & Kieso, 2010). For example the most common method for financial reporting purposes is the united-of-production or the straight-line method. Generally, accelerated depreciation methods are mostly used for tax purpose. In addition, two common uses for accelerated depreciation methods are the sum-of-the-years-digit method and declining balance method (Weygandt, Kimmel, & Kieso, 2010).

In conclusion, it is important to know the difference between depreciation, depletion, amortization, and valuation because each are used to support to allocate cost of an asset over its useful life.