CONCEPTUAL AND PRACTICAL STUDY ON THE DEPRECIATION OF ASSETS

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Abstract: *The current work tries to bring into front the great importance of the assets' depreciation on their own financing sources. Being only a calculated expense, the depreciation represents a real way for improving the self-financing capacity. Thus, the companies are interested to maximize this expense. But, on the other hand, the taxation has an opposite target and, namely reducing this expense in order to grow up the profit tax amount. Therefore, it appears a real conflict on this issue between the private and the public area.*

Key words*: depreciation, accounting, taxation, method, IAS.*

INTRODUCTION

Depreciation is one of the interest points for the international institutions in order to regulate and harmonize the national accounting systems. In this context, the international referential makes defining refers, in terms of methodology, regarding the content of the following standards: IAS 16 "Tangible assets", IAS 36 "Depreciation of Assets" and IAS 38 "Intangible assets".

The legislative framework in our country has undergone many changes as a result of the harmonization to the international accounting referential. Accounting Law 82/1991 or 15/1994 founded the legal accounting framework after the fall of communism. The first forms of harmonization to the accounting referential can be found in OMF 94/2001. However, all these and those that have followed have led to the consolidation of the fund and shape of the Romanian accounting model.

In accordance with IAS 16, depreciation is "systematic allocation of the depreciable amount of an asset over its useful life." This definition raises a range of ambiguities, providing the administrators with various business opportunities regarding the policy of depreciation of fixed assets.

Conceptually, depreciation can be seen from many points of view. As such, as defined above, we can distinguish three aspects: the accounting, the economic and the financial aspect.

In terms of economics, depreciation is regarded as a fund for the replacement of the depreciated asset with a new asset. Therefore, the entity sets up, through the annual depreciation, a fund needed in order to renovate the depreciable assets, at the end of their lives by affecting the future income, without referring to equity or debt contracting.

From a financial point of view, depreciation is a source of self-financing for the fixed capital, a source which constitutes itself no matter what nature has the result, by taking on it. Therefore, the depreciation is considered a component of the self-financing.

MATERIALS AND METHODS

In order to piece together this study, multiple methods have been used concurrently as follows: mathematical modeling, comparative analysis, in theory as well in practice, synthesis, induction and deduction.

RESEARCH RESULTS

It is very important to distinguish between the concept of adjustment and the depreciation one. While adjustments are intended to cover reversible, likely devaluations, the depreciation reflect the value of the irreversible devaluations.

For a conclusive picture, we consider that it is appropriate to present the components of the depreciation process, by the international accounting referential spirit, namely (IAS 16, art. 6):

- ✓ the cost of the asset, which "is the amount paid by cash or by cash equivalents, or the fair value of other consideration given to the input of an asset, at the time of its acquisition or construction";
- ✓ the useful life, defined as "the period during which it is expected that the entity will use the asset being depreciated, or the number of the produced units or of other similar units that are expected to be obtained by using that asset";
- ✓ the depreciable amount, defined as "a cost of the asset, or other amount substituted for cost within the financial statements, from which was deducted the residual value";
- ✓ the accounting value, representing "the amount at which an asset is recognized within the balance sheet after deducting the accumulated depreciation until that date and the accumulated losses from the depreciation";
- ✓ the residual value, which is "the net value that an entity estimates to get for an asset at the end of its useful life, after prior deducting the estimated costs of disposal".

Usually, within the explanatory notes, the legislation demands for information regarding the nature and the effect of a change in an accounting estimation, regarding the residual values, regarding the estimated costs of dismantling, removal or restoration the elements that are capitalized or not, regarding the useful lives and the methods of depreciation. The controversies revolving around estimations regarding, either the initial cost of depreciated assets, the economic lives or the depreciation methods, lead, in one way or another, to various forms of tax savings.

The annuity for the year t is given by the equation $VNC \cdot C_A$, the cumulative amount of depreciation is $\sum_{t=1}^{n} A_t$, and the net book value is obtained by deducting the cumulative amount of depreciation from the depreciation base $VNC - \sum_{t=1}^{n} A_t$.

In the case of the proportional depreciation, the depreciation period is obtained by dividing the production plan predicted during the useful life of the asset to the technical standard of production calculated according to the information from the technical manual of use. Also, the prorate is calculated as the percentage of planned production for the year t, from the total production calculated according to the technical rules, obtained during the entire life of the depreciated asset.

In the case of the regressive depreciation AD_1, the method consists in applying a coefficient to the temporal prorate C_A, established according to the normal use of the depreciable asset, through the weight of the linear depreciation. This applies to the value of the asset remaining undercoated. The regressive depreciation involves using the regressive method of calculation in determining the annuity for year *t*, as long as this annuity is superior to the annual linear depreciation. Once the linear depreciation is superior to the regressive one, it can be considered, from that point *t'*, the depreciation of the remaining value $VNC_{t'} = VNC_1 - \sum_{i=1}^{t} A_i$, in linear method, with annual prorate $\frac{100}{DUR - DUR_{regressive}}$.

In comparison, depreciation methods can be presented as follows:

Depreciation method for the year *t*	**Base of depreciation (VNC)**	**Temporis Prorate (C_A)**	**Annuity (A_t)**	**Depreciation period**
Linear Method	VNC_1	$\frac{100}{DUR}$	$VNC \cdot C_A$	DUR
Accelerated Method	$\frac{1}{2} \cdot VNC_1$	$\frac{100}{DUR-1}$	$VNC \cdot C_A$	DUR
Proportional Method	VNC_1	$\frac{plan_t}{plan_{total}}$	$VNC \cdot C_A$	$\frac{plan_{total}}{plan_{yearly\_norm}}$
Regressive Method AD_1	VNC_{t-1} $VNC_{t'}$	$C_{A_{linear}} = \begin{cases} 1{,}5, if\ 2 \le DUR \le 5 \\ 2, if\ 5 < DUR \le 10 \\ 2{,}5, if DUR > 10 \end{cases}$ $\frac{100}{DUR - DUR_{regressive}}$	$VNC_{t-1} \cdot C_A$ $VNC \cdot C_A$	$DUR_{regressive}$ $DUR - DUR_{regressive}$
Increasing Softy Method	VNC_1	$\frac{t}{\sum_{t=1}^{DUR} t}$	$VNC \cdot C_A$	DUR
Decreasing Softy Method	VNC_1	$\frac{DUR-t}{\sum_{t=1}^{DUR} t}$	$VNC \cdot C_A$	DUR

The effects in financial reporting, lies in the meaning of the concept of maintaining the historical cost, considered as basic treatment, which requires the fact that the depreciable assets to be presented in the balance sheet at the entry value, minus the accumulated depreciation and the amount of all the losses from depreciation.

It is very important to make a clear distinction between what means economic lifetime and, respectively, the normal useful life of depreciable assets. The normal useful life of depreciable assets does the omission from the economic aspect of the depreciation concept. An example for the purposes of delimiting these two concepts is the entity implementing a strong policy of repairing and maintaining the depreciable assets. As such, the asset life increases, despite the limited duration of useful life provided by law. Therefore, it is necessary to make a periodical review of the depreciation period of assets, taking into consideration the economic point of view. Moreover, in the case of certain assets, the useful life is replaced by the workload scheduled to be achieved by using them, admitting the functional depreciation method. Therefore, also the international accounting referential proposes that the useful life should be reviewed regularly, aspect that we also conclude.

Certain difficulties arise in choosing an appropriate method of depreciation. Accounting regulations remember the need for a balanced policy of accounting for depreciation, emphasizing the fact that "the depreciation method used should reflect the way in which future economic benefits of the asset are expected to be consumed by the entity" and must "be applied in a consistent manner for all the assets of the same kind, with identical conditions of use, depending on the accounting method adopted" (OMFP 1802/2014).

In this context, it is very important that the policies adopted by the entity regarding the depreciation of assets to pursue a main goal, namely to ensure a strong correlation between the consumption of economical benefits and the expenses incurred by their use. However, we recommend a regular review of depreciation methods "if there is a significant change in the estimated model of the economical benefits from those assets" (IAS 16, art. 52).

Therefore, the accounting engineering regarding the initial value of the asset, the depreciation period and the depreciation methods used must take into consideration, in particular, the concept of the notion of economic depreciation. Unfortunately, given the Romanian accounting legislation which provides tax deductions for some expenses registered, a number of businesses rather choose to obtain temporary tax savings and, thus, seriously affect the reliability of the accounting information.

So, some companies juggle, in what concerns, handling the imposable mass of the profit, with various estimated costs that are considered directly attributable to bring the asset into place and form needed in order to be able to work under normal conditions. Also, we should not forget that IAS 37 requires that the size of the costs of dismantling and removing the asset and site restoration must be capitalized in the carrying amount of the asset entry and not expensed in the period. Furthermore, we should not forget that in the case of the assets acquired on own account, the cost of the asset is the total cost of materials, labor and other directly attributable costs such as the cost of borrowing, which involves a separate discussion.

Derogatory depreciations are used as far as the management of the entity is concerned in reflecting in the financial statements, real information regarding the depreciation of the assets. It is known that depreciation is used as a tool of accounting policy in order to benefit of certain tax facilities, owing to the deductible character of these in calculating their tax base.

Therefore, the entity is interested in recording depreciation expenses, expenses reflecting the real economic depreciation of the asset due to its using. But depreciation expenses include, in addition to this depreciation, an artificial depreciation, determined by the entity's desire to reduce the profit tax. Following this policy, there is a violation of the accounting information fidelity principle and, also, it distorts the size of yield indicators of activity by recording higher costs than the real ones.

The case of equipment purchased under a financial leasing contract with a fair amount of trading of 1,000,000 lei, a useful life of 7 years and a 5 year term of the lease, reflects a number of pertinent observations regarding the destructive effect, in terms of financial information, of the depreciation policy adopted. Firstly, we must specify that the asset accounting value is not 1,000,000 lei.

The lessee will record the asset at the lower value from the fair value of the asset, respectively, the present value of the minimum lease payments.

This value is, having paid an advance of 150.000 lei, worth $150000+\sum_{i=1}^{5}\frac{185000}{(1+0.057)^{i}}+\frac{85000}{(1+0.057)^{5}}=981056$ lei. Therefore, the amount at which the asset will be accounted is 981.056 lei.

Firstly, let's note the differences between the size of the yearly expenses implied by the equipment went into administration, in the case of using the linear method and also drawing the spreads of the values obtained by considering a payback of 5 years, representing the period of the lease and respectively 7 years as estimated period of useful life of the equipment.

In this context, we should mention the significant influence on the cash flow of the entity that is considered by many creditors, including the suppliers, and not least by the investors, a key indicator in substantiating the equity placing in the service of our entity.

Furthermore, while the overall entity has a benefit from not deducting the depreciation of the same amount of tax savings, yearly analyzed, the situation reveals their tendency in opting for a depreciation period as small as possible, in order to reduce the taxable basis of the profit.

Year	**Depreciation**		**The net book value**		**Tax savings**		Δ
	5 years	*7 years*	*5 years*	*7 years*	*5 years*	*7 years*	
1	196.211 lei	140.151 lei	784.845 lei	840.905 lei	31.394 lei	22.424 lei	8.970 lei
2	196.211 lei	140.151 lei	588.634 lei	700.754 lei	31.394 lei	22.424 lei	8.970 lei
3	196.211 lei	140.151 lei	392.422 lei	560.603 lei	31.394 lei	22.424 lei	8.970 lei
4	196.211 lei	140.151 lei	196.211 lei	420.453 lei	31.394 lei	22.424 lei	8.970 lei
5	196.211 lei	140.151 lei	0 lei	280.302 lei	31.394 lei	22.424 lei	8.970 lei
6	-	140.151 lei	-	140.151 lei	-	22.424 lei	22.424 lei
7	-	140.151 lei	-	0 lei	-	22.424 lei	22.424 lei
					156.969 lei	156.969 lei	

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The main aim purpose pursued in establishing the strategy for assets' depreciation is fructifying the possibility of recovering, within the shortest possible time, the value of the initial investment.

Furthermore, we have calculated the depreciation values, under both linear and regressive methods for a period of 7 years with a linear temporis prorate of 14.29% and a regressive depreciation share of 28.57%.

Thus, we were able to illustrate the effect of using different depreciation methods. The table shows the advantage of the regressive depreciation method by which the company succeeds, on the one hand, recovering most of the initial investment from the first 3 years.

Year	Linear depreciation	The net book value	Regressive depreciation	The net book value	Tax savings
1	140.151 lei	840.905 lei	280.302 lei	700.754 lei	22.424 lei
2	140.151 lei	700.754 lei	200.216 lei	500.539 lei	9.610 lei
3	140.151 lei	560.603 lei	143.011 lei	357.528 lei	458 lei
4	140.151 lei	420.453 lei	89.382 lei	268.146 lei	-8.123 lei
5	140.151 lei	280.302 lei	89.382 lei	178.764 lei	-8.123 lei
6	140.151 lei	140.151 lei	89.382 lei	89.382 lei	-8.123 lei
7	140.151 lei	0 lei	89.382 lei	0 lei	-8.123 lei

Moreover, the yearly impact of tax savings in the first 3 years causes a substantial reduction in taxable income and, automatically, a real increase of the entity's cash flow. Balancing the tax savings situation is made over the next 4 years, but in a much slower rhythm and steadily.

But compared with the discussion around the useful life of the purchased asset, the option for a depreciation method, in the Romanian legislation, seeks only a temporary influence of the taxable mass of the profit. The figures confirm our claim, because the choice for the regressive depreciation method determines high positive tax savings in the first two year of depreciation, after that being registered negative tax savings. Such accounting policies simply aim an improvement in the short term of the entity's situation.

The only question mark arises in the case of assets' revaluation. If the fair value obtained from the accounting revaluation is higher that the accounting value, by adjusting the calculation of depreciation, we demonstrated that the entity will benefit of an additional tax deduction. Therefore, the regressive method of depreciation will continue generating additional tax savings, thus a diminished profit tax.

This was also the case of the revaluation after 2 years, when the asset was revalued at a value of 900,000 lei. This operation prompted an equity growth of 185,714 lei and, also, an increase of the depreciation rate, as illustrated by the figures below:

Year	*Regressive depreciation before valuation*	*Linear depreciation before valuation*	*Regressive depreciation after valuation*	*Linear depreciation after valuation*	*The net book value before revaluation*	*The net book value after revaluation*	*Marginal tax savings*
1	294.317 lei	140.151 lei	-	-	686.739 lei	-	-
2	206.022 lei	140.151 lei	-	-	480.717 lei	900.000 lei	-
3	144.215 lei	140.151 lei	270.000 lei	180.000 lei	336.502 lei	630.000 lei	20.126 lei
4	84.126 lei	140.151 lei	189.000 lei	180.000 lei	252.377 lei	441.000 lei	16.780 lei
5	84.126 lei	140.151 lei	147.000 lei	180.000 lei	168.251 lei	294.000 lei	10.060 lei
6	84.126 lei	140.151 lei	147.000 lei	180.000 lei	84.126 lei	147.000 lei	10.060 lei
7	84.126 lei	140.151 lei	147.000 lei	180.000 lei	0 lei	0 lei	10.060 lei

Thus, only through the operation of revaluation, the entity benefits from additional tax savings, which causes an increase in the cash flow and a substantial reduction of the profit tax.

Therefore, we sustain the idea that the mechanical depreciation process of the accounting value of an asset, together with the new approach of assets' valuation, based on future flows, no longer finds relevance. Given that, by definition, the size of the depreciation should reflect the technical "consumption" of the asset and the tight correlation with future benefits obtained from the use of the asset in the economic activity of the entity, a lot more accurate would be a depreciation of the asset through reporting on the progress of the estimated future benefits. A special caution should be paid only to estimation methods used.

A notable influence is observed and recorded concerning the profitability of the asset, calculated as a ratio between the estimated yearly flow and its accounting value. It is noted that the size of depreciation amounts calculated by the regressive method, as well as when using linear method, is not correlated with the evolution of the estimated future flows:

Year	**Estimated future flows**	**%**
1	350.000 lei	34,48%
2	200.000 lei	19,70%
3	150.000 lei	14,78%
4	125.000 lei	12,32%
5	85.000 lei	8,37%
6	60.000 lei	5,91%
7	45.000 lei	4,43%
	1.015.000 lei	100,00%

Rather, a depreciation calculated based on the share of each yearly flow in the total flows estimated is considered relevant in calculating the return of the asset and, also, in the real upholding of the principle of linking expenses to income. Suppose that the asset acquired will evolve, through its using in the next 7 years, probable future benefits of 300,000 lei, 200,000, lei, 150,000 lei, 125,000 lei, 85,000 lei, 60,000 lei, 45,000 lei.

							Δ	
Year	*Regressive depreciation*	*Return of the asset*	*The net book value*	*Estimated depreciation*	*The net book value*	*Return of the asset*	*Depreciation*	*Return of the asset*
1	280.302 lei	35,68%	700.754 lei	338.295 lei	642.761 lei	35,68%	57.993 lei	*1,19%*
2	200.216 lei	28,54%	500.539 lei	193.312 lei	449.449 lei	31,12%	-6.904 lei	*11,41%*
3	143.011 lei	29,97%	357.528 lei	144.984 lei	304.466 lei	33,37%	1.973 lei	*18,60%*
4	89.382 lei	34,96%	268.146 lei	120.820 lei	183.646 lei	41,06%	31.438 lei	*28,74%*
5	89.382 lei	31,70%	178.764 lei	82.157 lei	101.489 lei	46,28%	-7.225 lei	*37,91%*
6	89.382 lei	33,56%	89.382 lei	57.993 lei	43.495 lei	59,12%	-31.388 lei	*53,21%*
7	89.382 lei	50,35%	0 lei	43.495 lei	0 lei	103,46%	-45.887 lei	*99,03%*

Also, in this case, we talk, in fact, about estimations, which can change from year to year, while for depreciation, due to the legislative rigidity, there are not allowed such fluctuations as it contributes to the formation of the national income and distorts the macro economical calculations. However, such a variation could be treated similarly to the accounting treatment of the revaluation of the assets, mentioning that the pluses of revaluation "materialize themselves" only at the end of the useful life.

A more simplified form, already used in some cases is the use of the proportional depreciation method, which involves the calculation of depreciation according to the accumulation of total estimated capacity of total technological equipment. However, this method gives also rise to criticism, but the size of the estimations is a lot more realistic.

We consider relevant the emphasis of the impact of accounting depreciation policies related to the financing method of the equipment's acquisition. We could note, in the table below, that the debt is depreciated at a much faster rate than the accounting value of the equipment is depreciated.

The gap on the different ways of calculating the yearly depreciation and, respectively, the yearly reimbursement rate of the debt, comes out another advantage of financing through a financing-location contract, namely, that of a marginal increase of the net accounting asset.

Year	*Payment*	*Interest*	*Reimbursement*	*Debt*	*Explanation*	*Regressive depreciation*	*The net book value*	*Debt / Book value difference*
1	-	-	-	981.056 lei	minimum payments	-	981.056 lei	-
	15.000 lei	-	150.000 lei	831.056 lei	advance	-	981.056 lei	-
	185.000 lei	47.408 lei	137.592 lei	693.464 lei	reimbursement	280.302 lei	700.754 lei	7.290 lei
2	185.000 lei	39.559 lei	145.441 lei	548.023 lei	reimbursement	200.216 lei	500.539 lei	-47.485 lei
3	185.000 lei	31.262 lei	153.738 lei	394.286 lei	reimbursement	143.011 lei	357.528 lei	-36.758 lei
4	185.000 lei	22.492 lei	162.508 lei	231.778 lei	reimbursement	89.382 lei	268.146 lei	36.368 lei
5	245.000 lei	13.222 lei	231.778 lei	0 lei	reimbursement	89.382 lei	178.764 lei	178.764 lei
6	-	-	-	-	depreciation	89.382 lei	89.382 lei	89.382 lei
7	-	-	-	-	depreciation	89.382 lei	0 lei	83.982 lei

The difference is shown by the net book value recorded for the asset acquired at the end of year 5 of use, which gives a better image in order to contract new loans, reducing with an increased pace the debt related to the evolution of the net book value at which the asset is registered in the balance sheet. Reduction of debts degree is given by the ratio $\frac{Difference_{Debt/Netbookvalue}}{Shareholders'\ Equity}$.

A taxation approach of the accounting act proves itself to be really harmful in terms of ensuring an accurate image of the economic reality, fact that entitles us to draw alarm signals about the need for an accounting process of un-taxation.

In order to accomplish this, the British accounting comes again with an original solution, a solution that eliminates the influences of fiscal rules in determining fiscal result in relation to the accounting result:

Accounting result
+ *Accounting Depreciation Amounts*
+ *General Adjustments*
+ *Other non-deductible expenses*

- Tax Depreciation
= Taxable benefit

They, through an extensive accounting case law on disconnecting the tax rules from the accounting regulations, propose the determining of the taxable profit starting from the accounting result, to which are applied a number of adjustments required by tax law.

Accordingly, the State stipulates, by law, the determining in advance of the yearly depreciation shares. The assets accounting is performed globally by building „pool" structures, which group similar assets, whether they can or cannot be considered cash-generating units of their own. The legislation provides: for industrial buildings, or buildings for the accommodation of employees, a 4% share; for transportation and industrial equipment, a 20% share; patents and know-how-s, a share of 25%, etc.

In order to encourage the investments, similarly to tax depreciation, specific to the Romanian accounting system, also the British specialists grant to the entities a number of tax deductions in the year of purchasing in addition to the yearly amortization rate. For example, in the case of industrial means, it is admitted a unique additional 20% share. Such a feature will only fasten the full amortization of the asset within a period shorter than 5 years.

In the case of the purchased equipment through a financial leasing contract, the accounting result will be influenced differently by adopting the British accounting system solution. Considering an asset acquired by lease, this was revaluated after the first 2 years of use at a fair value of 900,000 lei.

Year	*Regressive depreciation*	*The net book value*	*Deductible depreciation*	*The net book value*	*Non-deductible depreciation*	*Tax loss*
3	270.000 lei	630.000 lei	180.000 lei	720.000 lei	90.000 lei	14.400 lei
4	189.000 lei	441.000 lei	180.000 lei	540.000 lei	9.000 lei	1.440 lei
5	147.000 lei	294.000 lei	180.000 lei	360.000 lei	0 lei	0 lei
6	147.000 lei	147.000 lei	180.000 lei	180.000 lei	0 lei	0 lei
7	147.000 lei	0 lei	180.000 lei	0 lei	0 lei	0 lei

The non-deductible depreciation from the table is the difference between the accounting depreciation and the tax depreciation, driven by „capital allowance" shares. This difference should be reintegrated in the amount of the taxable profit, which generates an increase in the profit tax, generating a potential tax loss, in the context of the international accounting.

By this method, the assets' depreciation method can fold on the economic demands of the rational distribution of depreciation costs, directly connected to the economic benefits resulting from the asset's using. Moreover, the differences arising between the accounting rules and the tax rules, generating deferred income taxes, prove themselves as being pointless. Therefore, the accuracy of accounting information induced by such a juridical treatment is doubled also by simplification of the accounting representation, often hampered by the use of a varied terminology.

CONCLUSIONS

The depreciable amount, the duration of depreciation and the methods of depreciation calculation are controllable by internal accounting policies. Whether we talk about the overestimation of the residual value, about subsequent capitalized expenses or trespassing of the useful life, or preference for one or another depreciation method, we can say that the financial valence of the entity's financial administration outlines a process of arbitration with high stakes for both sides. In this regard, we draw some conclusions about the impact of taxation on financial reporting:

- ✓ a modification of the depreciation duration, subsequent to the entry of the asset within the patrimony, leading to a subsequent change in the value of depreciation for the years following the time of this review; we distinguish three periods of discussion, the time interval until the moment of reviewing the depreciation period (A), the time interval until the integral depreciation of the asset (B) and the period that remains until reaching the normal period of using the asset (C) ; for example, a reduction in the duration of depreciation determines in the range B an increase in depreciation expenses and, thus, a more rapid diminishing of the net book value (items from the balance sheet) of the asset and a reduction of the exploitation result (item in the income statement); within the range C depreciation costs are zero, so the exploitation result is greater than in the case of non-reduction of the period of depreciation; the net book value begins to equalize in the two situations
- ✓ the linear method of depreciation is the most balanced;
- ✓ the accelerated depreciation method is preferred by all economic agents, thus the rigorous substantiation of the decision of using such an accounting method;
- ✓ by applying the regressive method, the entity wishes to recover in as short time as possible the investment in the depreciable asset and, also, obtains descending tax savings beginning from the first year of operation; a special case is that of financial leasing, in which the period of discharge of the debt corresponds to the lease contract is different from the integral depreciation period of the depreciable value of the asset, reason that leads to both a direct influence on the size of the cash flow, the net book value of the net asset and an improvement in the entity's indebtedness;
- ✓ in the case of decreasing Softy depreciation method the entity benefits, within the first part of the normal period of using the asset, of decreasing tax savings; in the second part, the state will get a surplus of profit tax, due to the reduction of the asset depreciation, hence the increase of taxable income; in the case of increasing Softy depreciation method, the roles are reversed compared to decreasing Softy depreciation method;
- ✓ the entity has, also, available the instrument of the residual value, through which it can diminish or not the depreciable value of the asset taken into account, with direct implications on the income statement, respectively on the balance sheet, through changes made regarding the rotation of assets, and regarding the equity return.

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