

Concepts of Depreciation — Business Enterprises

By JOHN PICK, CPA

Depreciation means much more than physical wear and tear as this scholarly article demonstrates. Practitioners will derive from it a broad view of the many facets of this provision as it relates both to the balance sheet and the income statement.

American accounting theory began to deal with depreciation in the nineteenth century and, at the century's end, treated it mainly as an acknowledgment of the deterioration of business assets due to wear and tear.¹ In that early concept, the recognition of depreciation was at times an alternative to that of repair and maintenance expenses. Today, the depreciation charge has the independent status of an accounting principle.

Unfortunately, the financial community sometimes seems inclined to treat depreciation as something "unreal"² and to give primary consideration to income without depreciation, the so-called "cash flow." That is due to several factors, such as the insufficiency of information furnished in public financial reports with respect to depreciation, the ambiguity of the concept itself and the multiplicity of procedures. One source of ambiguity is the indiscriminate, simultaneous listing of financial and managerial accounting aspects of depreciation in the professional literature. This article will deal only

with external reporting aspects, unless a phase of managerial accounting evidently bears upon the problem at hand. Depreciation for internal reporting can vary widely.

TERMINOLOGY

Kohler defines the term "concept" as "any abstract idea serving a systematizing function."³ In Webster, a concept is ". . . a theoretical construct. . ."⁴ Accordingly, the nature of depreciation should be obtained inductively from accounting practices and/or deductively from accounting theory. Either procedure is impeded by the involvement of terms each of which has several meanings. These terms are: value, asset, capital, and income.

Value. "Value" in the popular sense denotes value in use or value in exchange. The former is the value to the owner; the latter is the market value. Value is also used in the sense of serviceability. However, that engineering term indicates only one of the factors influencing the value to the owner and/or the market value. A fourth meaning of value appears in accountancy's book value. Here the word is used in a neutral sense.⁵

Asset. In present accounting practice, the book value of a fixed asset de-

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notes an unexpired prepayment for service benefits. The prepayment and the service potentials embodied in an asset are not necessarily equivalent monetarily and often are differently emphasized conceptually. Two quotations illustrate the conceptual divergence. The American Institute of Certified Public Accountants (AICPA) stresses the prepayment view: "[an asset may be defined as] something represented by a debit balance . . . on the basis that it represents . . . an expenditure made which . . . is properly applicable to the future."⁶ The American Accounting Association (AAA) emphasizes the economic utility aspect: "assets are . . . aggregates of service potentials available for or beneficial to expected operations."⁷

Capital. Both net assets and the equity in them are frequently referred to as capital. Accordingly, capital may mean the monetary amounts appearing as balances in proprietorship accounts, or real capital in the sense of the actual service potentials of the business, its purchase and/or earning power.

Income. Definitions of assets and capital naturally influence those of income. Business income may signify either the residuum remaining after offsetting credits and debits representing revenue and costs or expenses according to accounting rules, or it may identify the amount "which is available for distribution outside the firm without contraction of the level of its operating capacity,"⁸ or it may express the increase of service potentials, i.e. of the capitalized value of future expectations.⁹

THE PRACTICAL CONCEPTS OF DEPRECIATION

The variations in underlying terminology make a detailed evaluation of

existing definitions of depreciation an expansive undertaking. Those definitions are classified by Coughlan and Strand as indicating (1) a decrease in value with the lapse of time, (2) impaired serviceability, (3) the value difference from an appraisal standard and (4) amortized cost.¹⁰

That roughly corresponds with Goldberg's listing of (1) fall in market price, (2) physical deterioration, (3) fall in value, and (4) allocation of cost.¹¹

Singer finds that depreciation has been referred to as meaning (1) the systematic amortization of cost without regard to value during life; (2) the exhaustion of service-units embodied in fixed assets; (3) the loss in value due to wear and tear, deterioration and obsolescence; (4) physical deterioration and consequent loss in value; and (5) a means to keep real capital intact.¹²

The Significance of the Definitions. The definitions indicate five thoughts on what the depreciation provision represents. These concepts are influenced by whether they lean in an operational or financial direction.

Apart from the five concepts is a sixth one that adopts for reporting purposes the income-tax-motivated amount, however unrealistic. This aspect is here ignored.

The prevailing concepts are:

Operational-oriented:

Recognition of wear and tear, inadequacy and obsolescence.

Financial-oriented:

Provision for replacement

A means of income determination

A measure of asset valuation

A measure of the maintenance of capital.

The following discussion, accordingly, deals with the concept of depreciation by reference to the operational causes of the depreciation charge and

its four financial purposes and functions.

Causal Concept—Impact of Repairs and Maintenance. The reference of depreciation to its causes is a favorite of textbooks. These list physical causes consisting of wear, tear and the action of elements, and functional causes consisting of gradual obsolescence, inadequacy and all other causes. Obsolescence, as considered here, is that which is the gradual type and which is expected where improvement is constant. Sudden obsolescence requires accounting treatment only when it occurs.

The aspect of deterioration has been historically important in gaining depreciation the recognition as a legitimate business expense¹³ and is still part of its definition in the 1936 uniform system of accounts for electric and gas utilities. However, physical and economic serviceableness may influence the choice of a fixed asset's rate of depreciation, but they do not identify the concept. An asset is depreciated on books even if, for a certain length of time, it becomes more effective with use. Besides, the causes of deterioration usually are difficult to separate and to measure, as they may comprise use, and abuse.

As a result, repairs and maintenance do not enter the depreciation concept. A firm's standard of maintenance affects an asset's efficiency and life; but depreciation in accounting may differ from engineering figures; using an asset does not necessarily mean using it up. Although many companies coordinate depreciation and maintenance accounting by aligning depreciation methods with estimated future maintenance and repairs, it seems better—where possible—to budget repairs and maintenance, accrue them annually, and to let depreciation follow its own rules.¹⁴

Replacement Concept. External re-

porting of depreciation has been ascribed mainly two purposes: the economic purpose of providing for the replacement of capital goods consumed in operations, and the accounting purpose of income determination.

"Replacement" may mean physical replacement, replacement of output capacity, and replacement of value, although the concern sometimes is to restore to current assets, through the depreciation provision, the amounts diverted earlier to noncurrent assets. The first two meanings usually are implied in depreciation's replacement concept. That term must not be confused with depreciation using current replacement costs as periodic charges. Such charges may be chosen for reasons unconnected with asset replacement, such as the desire to match current dollar revenue with current dollar costs. Thus restricted, replacement depreciation may mean either (1) that depreciation is taken in order to reserve funds for asset replacement, or (2) that depreciation itself reserves funds by designating them for replacement purchases, or (3) that depreciation provides funds.

A study published by the National Association of Accountants in 1958 reveals that generally management is concerned with the effect of depreciation policy on the flow of cash to fixed assets and back, but that for various reasons it has not adopted a policy of using special depreciation procedures in order to reserve replacement funds.¹⁵ Exceptions to the general rule are found with utilities. In some states utilities must set up sinking funds for asset replacement and use the sinking fund method of depreciation.

By itself, depreciation does not earmark funds for replacement purposes, though it is an amortization of the investment in fixed assets. Depreciation is taken on irreplaceable assets too.

The funds equalling a period's depreciation are not segregated but put to many uses. Once replacement is made, it is impossible to trace the funds used for it to recovered capital, profits, or investors' contributions.

Finally, the idea that depreciation actually provides funds was found to be a fallacy long ago.¹⁶ It is revenue that provides funds. Tax savings by depreciation do not provide funds in the industry where depreciation counts really, namely the utilities. Those tax savings generally have to be passed on to customers.¹⁷ Where tax savings stay with the firm, depreciation does not generate funds but—like any other cost—saves them from pay-out to the government. Anyhow, funds saved by depreciation are not, in many instances, too important for asset replacement. Even total accelerated depreciation often has not come near to the amounts needed to keep modern plants well equipped.¹⁸

Input Concept. The objective of depreciation, to determine net income by the assignment of plant cost as input to operations, is generally accepted today. The classical definition of this concept is that of the AICPA: "Depreciation accounting is a system of accounting which aims to distribute the cost . . . over the estimated life of the unit . . . in a systematic and rational manner. It is a process of allocation, not of valuation. . . ."¹⁹ This definition conceives depreciation as the expiration of prepayments in the course of business operations and as the corresponding write-off on books. Changes of the price of service potentials (assets) already paid-for are considered irrelevant. The asset cost is a historical fact; the capital, of which it forms a part, is an aggregate of various historical dollars. The cost write-offs are not meant as economic measurements of

wear and tear; the remaining asset values are mere residuals on a balance sheet which is just a tabular statement of balances, functioning as a footnote to the income statement.²⁰ The method of calculating the write-offs is "of minor importance"²¹ (sic) so long as it is rational and systematic.

That leaves the choice of amortization methods wide open. Obviously, not every rational method is acceptable; it has to be reasonable in the light of surrounding circumstances. As reasonableness is judgmental, guidelines become necessary.

Hendriksen discusses four: (1) the decline in the service value of the asset, (2) the cost of services used, (3) the net service contribution, and (4) the output value of the services.²² Item one, the decline in service value, leads right back to the valuation question, which the AICPA definition abhors.

Problems of Input Concept. The input concept does not only fail to provide guidance for the selection of amortization methods but also may lead to the matching of revenue measured in current dollars with expense expressed in historical dollars. Two remedies have been proposed, namely the application of price-level indexes and the use of current costs i.e. mainly replacement costs.

A recent statement of the AICPA recommends price-level translations only for supplementary statements and declares as undesirable the restriction of translations to single items like depreciation.²³ The AAA Committee on Concepts and Standards—Long-Lived Assets recommends the recognition of holding gains and losses due to price changes.²⁴ Defining assets and income differently from the AICPA, the committee believes that where the economic value of service potentials—i.e. the discounted value of the corresponding fu-

ture cash flows—cannot be measured in ways “that meet the test of verifiable evidence,” reference should be made to the current cost of securing the same or equivalent value. The committee still is primarily concerned with income determination.

However, the committee recognizes asset valuation and depreciation expense determination as interdependent; the determination of one reflects that of the other. Moonitz and Sprouse take a similar position as the AAA committee but in addition recommend periodic fixed asset revaluations.²⁵ To go still one step further, Edwards and Bell stress current costs as such and not only as clues, and develop a system that integrates both historical and current costs. These writers see the difference between historical and current cost as a *holding gain* of which a part is realized by depreciation.²⁶

Somewhat differently, the AAA Committee to Prepare a Statement of Basic Accounting Theory recommends the showing of historical and current costs parallel in multicolumn statements, and the reporting of both realized and unrealized holding gains.²⁷

The diversity of proposals indicates the need for a concept that narrows down the choice of procedures. Even if depreciation serves primarily as an income determinant, its actual effects on asset valuation and capital maintenance determination have to be considered; those functions might furnish the needed fruitful concept.

Valuation Concept. Viewed as asset valuation, depreciation conceivably may work with: (1) present values of future cash flows attributable to the asset, or (2) with market prices, appraisals, price-level index applications, or replacement costs as indicators of those present values, or (3) with the last four as such in their own right.

Appraisal depreciation as an independent system is not used for going concerns any more and would not present systematic, but erratic, patterns. Price-level index applications do not produce independent values but only translate given ones. The use of market prices in their own right is most prominently presented by Professor Chambers as part of an accounting system that is based on the theory of cash equivalents and which has to be accepted or refuted in total.²⁸ Replacement costs or current costs have been mentioned above as input measurements, not primarily concerned with asset valuation. That leaves present values for discussion.

Sinking Fund Method. Mathematically, present values are applications of compound interest. One extension of compound interest, the sinking fund method, was mentioned previously. This method, the application of which does not have to coincide with the establishment of an actual fund, results in increasing periodic charges due to the interest on the increasing hypothetical fund balance. Only few assets justify such charges; however, the method still is sometimes recommended for more general use.²⁹

Present Value Methods. A related procedure is the annuity method, which arrives at equal annual charges by adding to the sinking fund depreciation the periodic interest on the unamortized asset balance. The annuity method requires the recording of imputed interest, and its total depreciation charges exceed the asset cost. It also presumes constancy of future revenue and charges other than depreciation, and assumes constant reinvestment of the cash inflow equalling the amortizations. The method is rarely used. Recording imputed interest does not appeal to most financial accountants, nor is the equal-

ity of periodic charges always realistic. Many fixed assets decline in service value much faster in the first years of use than in the later years.

It is possible, however, to modify the annuity method so as to avoid the recording of imputed interest and to obtain accelerated depreciation. This is achieved by discounting each of the annuities as of the date of asset acquisition and by using the discounted amounts as depreciation charges. The farther a charge is removed, the less will be its present value (present-value-of-annual-cash-flows method).

Present Value—Expired Service Potential Method. Another procedure in the same direction compares the present values of the services embodied in the asset as of the beginning and as of the end of a report period and uses the difference, the expired service potential, as depreciation (balance-of-present-value method). That is the method most often discussed nowadays.³⁰ It logically represents the valuation concept of depreciation. Useful results therefore would validate the concept.

The following example illustrates both (A) the present-value-of-annual-cash-flows method and (B) the balance-of-present-value method. Given is a depreciable asset producing a net cash flow with a present value of \$12,000 equally spread over three years.

Year	Equivalent Annual Cash Flow	Present Factor Value at 6%	(A) Annual Cash Flow Discounted at 6%	(B) Diminution of Total Present Value
1	\$4,489	.943396	\$ 4,235	\$ 3,769
2	4,489	.889996	3,996	3,996
3	4,489	.839619	3,769	4,235
			<u>\$12,000</u>	<u>\$12,000</u>

In this case an interest rate of 6% is assumed. The capital recovery factor at 6% for 3 years is 0.31411 and is easily found in tables labeled corresponding-

ly. This factor applied to \$12,000 gives \$4,489. The present value factors are equally easily found in tables labeled "present value of \$1." Their application to \$4,489 gives the amounts in column (A). The expiration of service potentials, shown in column (B), can be computed as follows (cents omitted):

	First Year	Second Year	Third Year
Service potential at beginning	<u>\$12,000</u>	\$8,231	\$4,235
Present value of 2nd year's annuity	\$ 4,235*		
Present value of 3rd year's annuity	3,996†	4,235‡	
Service potential left	<u>\$ 8,231</u>	<u>\$4,235</u>	<u>—0—</u>
Service potential expired	<u>\$ 3,769</u>	<u>\$3,996</u>	<u>\$4,235</u>

* 4489 x .943396
 † 4489 x .889996
 ‡ 4489 x .943396

An alternative computation is somewhat faster (cents omitted):

Year	1/1 Investment	Cash Flow	6% Interest	Depreciation
1	\$12,000	\$4,489	\$720	\$3,769
2	8,231	4,489	493	3,996
3	4,235	4,489	254	4,235

The interest amounts are not recorded on books but appear as profits on the income statement. Each year's opening asset balance equals the total of the remaining service potentials.

In this case, the balance-of-present-value method results in increasing charges, whereas the present-value-of-annual-cash-flows method naturally has the opposite result. However, the former method also can lead to equal and to decreasing depreciation charges,—depending on the size of the individual amounts representing the asset's periodic net service contributions. In such cases, both the interest rate and the annual net cash inflows have to be found. The cost of capital usually serves as interest rate. That cost can be

computed by dividing the market value of a firm's common share into the firm's annual income expected by investors. The estimated service contributions may represent the after-tax cash savings effected by the prospective asset or the production of "real revenue . . . less all operating costs other than depreciation . . ." attributable to it.³¹

The previous example's result of the balance-of-present-value method, a decelerated depreciation, is usually unrealistic. As the example's assumption of equal annual service contributions is not uncommon, the method must be judged as failing to provide the valuation concept of depreciation with the necessary support of overall usefulness. That does not mean, however, that present value procedures cannot be meaningfully related to the fourth depreciation concept, that of capital maintenance. Whereas asset valuation and input measurement are functionally integrated, capital maintenance rules are independent of net asset valuation rules.³²

Maintenance of Capital Concept. Depreciation has been defined "as a means of measuring whether capital is retained intact for further use."³³ This definition calls for three comments. First, depreciation cost is not different from other costs as *cause* of the retention of capital, both with respect to dividend policy and otherwise.³⁴ Retaining capital intact is the role of revenue, i.e., recovering costs and expenses. The *measurement* of the retention is the function of the income statement, including depreciation. Second, capital and costs must be stated in the same dollars as revenue in order to make

the measurement of capital maintenance meaningful, and capital must signify not merely an aggregate of historical money amounts but the purchase and/or earnings power of the business. Third, assuming absence of price-level changes, a period's plant cost consumption is fully recovered by revenue if the period shows a profit, and is partly recouped in case of a loss. In the latter situation, depreciation may measure how far (and not whether) capital has been maintained; special computations will be needed.

Accordingly, under present accounting conditions, the function of depreciation as a measure of capital maintenance presents a concept rather weak by itself. However, it is exactly this concept that provides accounting guidance. It recommends that the present value of the net cash flow of a future year attributable to a specific asset shall be the asset's depreciation in that year. Barring price changes, such depreciation will indicate, in the case of profits, what part of the revenue must be re-invested to maintain the firm's earning power in the pattern of the original budget. The difference between the present value and the budgeted amount of each annual net cash flow would represent a return on capital, earned during the period from the acquisition of the service potential to the year of its consumption and realized in that year.

An example illustrates some mathematical details. Given is an asset cost of \$10,000, a 6% cost of capital, and a net service (utility) contribution of \$12,000 distributed over three years in the sum-of-the-years'-digits method (cents omitted):

Year	Cash Flow	Present Value at 6%	Equivalent Differential	Present Value at 6%	Total Present Value
1	\$ 6,000	\$ 5,660	\$495	\$467	\$ 5,193
2	4,000	3,560	330	294	3,266
3	2,000	1,679	165	138	1,541
	<u>\$12,000</u>	<u>\$10,899</u>	<u>\$990</u>	<u>\$899</u>	<u>\$10,000</u>

The present value factors are the same as in the first example. The equivalent differential is computed with the equation:

$$899 = \frac{X}{2(1.06)} + \frac{X}{3(1.06)^2} + \frac{X}{6(1.06)^3} =$$

$$X \left[\frac{0.9434}{2} + \frac{0.89}{3} + \frac{0.8396}{6} \right]; X = 990.$$

The excess of the total of present values over the asset cost—\$899 in this case—is either recorded and then amortized³⁵ or it is initially deducted from the present values. The last procedure is followed above.

Arguments Against Capital Maintenance Method. Against such use of present values the following arguments have been advanced:

1. Estimates of the asset's net service contributions are necessary.
2. The cost of capital, too, may involve judgment.
3. Complications may arise due to subsequent changes in expectations.
4. The asset purchase is influenced by demand and supply. The buyer has no guarantee for the fulfillment of his expectations.³⁶
5. The variety of fixed assets makes computations of present values difficult.³⁷
6. The method is not applicable to non-revenue-producing items, such as personnel recreation facilities.³⁸
7. The earnings power of assets is collective. The cash flow is attributable to the aggregate of assets.³⁹
8. Cash savings, net service contributions, and time-adjusted accrued revenues and expenses are often discounted from the end of the year of their occurrence, whereas they occur throughout the year.⁴⁰

The first two objections do not carry weight. Accountants are used to making judgments. Moreover, the judgment

involved here is that of the decision-making and presumably well-informed management. The third objection should not be overrated. Expectations are usually capitalized only once, namely when the decision to acquire an asset is made; that decision entails the proper depreciation charges.⁴¹ The fourth objection scarcely needs a rebuttal. Future does not hold any guarantees whatsoever. Regardless of supply and demand, no businessman buys without expecting a return of and on capital. The fifth and sixth objection have limited merit only. (Depreciation in non-profit organizations is not included in this paper's discussion). As to the seventh objection, that the earnings power of assets is collective, the rebuttal has been offered that businessmen make individual asset projections daily.⁴² The last objection, finally, is taken care of by present value tables constructed on the assumption of the uniformity of cash flows during the year.

Favorable Aspects of Capital Maintenance Method. Favorable to the use of present values is that:

- (1) interest is a factor in the cost of any fixed asset;
- (2) the time value of money is finding increasing accounting recognition, e.g., in AICPA Accounting Principles Board Opinions No. 5 and No. 8;
- (3) people place a higher value on services to be rendered soon than on those of later delivery;
- (4) with present value methods, depreciation can be applied on the basis of activities instead of time intervals;
- (5) present value computations are used by management in asset acquisition decisions. Usually, management will buy a plant asset if the present value of the expected net cash inflows exceeds the cost (net present value method), or if the internal rate (yield)

is satisfactory. The internal rate is the rate that equates the cost of the assets with the present value of the annuity of net cash inflows attributable to the asset. The internal rate method commonly is less favored than the net present-value method.

The above argument is decisive for upholding the conclusion drawn from the capital maintenance concept. According to the AAA "the use by investors of published financial statements . . . should be considered of primary importance."⁴³ The opportunity to appraise management's ability to realize expectations is crucial for an investor's decision to hold, buy or sell. However, perusal of a corporation's president's report with its forecasts and declarations of intentions—if those are furnished as they should be—is useless for the investor if he is not given financial statements that incorporate the thought processes underlying managerial decisions and thereby offer the opportunity to compare past expectations with present realizations. Generally speaking, financial reports contain the results of managerial decisions, should reflect the format of the decision-making process, and be consistent with its models. Compliance therewith is said to be in the interest of the company itself, because otherwise managers may be tempted to make dysfunctional decisions.⁴⁴

EXCEPTIONS TO CAPITAL MAINTENANCE METHOD

The capital maintenance concept with its present-value-of-annual-cash-flows method has been found here as superior with respect to the other concepts. However, it is not a panacea either but subject to exceptions. These concern mainly three situations: the existence of industry-wide depreciation practices; a firm's lack of a sophisticated

accounting staff; and the multitude and variety of fixed assets in a company.

While the capital maintenance method draws support from offering investors an opportunity to judge corporate managerial efficiency, it contributes little to financial analysis through inter-company comparisons. Although such comparisons usually are difficult where depreciation is a material item, industry-wide depreciation practices may help, if the respective plants' ages and historical costs are similar. In that case sound uniform practices may prevail over the capital maintenance method.

That may be especially true for smaller companies having limited fixed asset investments. Besides, those companies will look to trade practices in depreciation for other reasons. They often will lack an accounting staff sophisticated enough to handle the maintenance of capital method. In the absence of trade practices, they will use then the conventional method best suited for them.

Even in large, well-staffed companies the capital maintenance method—though otherwise applicable—may not always be practical. If the fixed assets are numerous, they often are depreciated jointly by group depreciation for similar items and composite depreciation for dissimilar ones; both commonly use a constant annual rate. Whether such depreciations are theoretically justifiable (e.g. with the previously mentioned reasoning that the earnings power of assets is collective), does not merit a discussion here. More than one firm using group or composite depreciation has experienced an unrealistic balance in its accumulated depreciation account. Any underlying theory, therefore, will not be persuasive, and the case for joint depreciations rests on expediency.

SUMMARY

In this paper five concepts of depreciation were set forth:

(1) Recognition of the physical or functional deterioration of a fixed asset (causal concept).

(2) Provision for replacement of depreciable assets (replacement concept).

(3) A means of income determination, at present usually through measuring operational plant input by amortization of the prepayment representing plant cost (input concept).

(4) A measure of asset valuation, essentially by specifying the expiration of service potentials (valuation concept).

(5) A measure of the maintenance of capital, mainly in case of profitable operations and price-level stability (maintenance of capital concept).

In spite of some interdependence, the concepts do not have equal import. The causal concept does not typify accounting practice. The replacement concept has long been considered irrelevant for external reports. The input concept is presently dominant; however, it gives little guidance to the practice of depreciation accounting. The valuation concept provides more guidance. Nevertheless the concept fails because its logical extension, the balance-of-present-value method, often yields unreasonable results. The capital maintenance concept is not quite realistic, considering the present state of accountancy. However, it provides better guidance than the valuation and input concepts; as a rule, the present value of an asset's service in a future year will be that year's depreciation ex-

pense. Acceptance of price-level adjustments will strengthen this concept.

The five concepts were discussed mainly as to their plausibility and fruitfulness. The different meanings of their components such as asset, income and capital were mentioned but not evaluated themselves. It behooves us therefore to trace the relevant depreciation concepts directly to basic accounting theory as anchorage.

The valuation concept represents the proprietary theory. That theory focuses accounting on the changes in the business wealth of the owners of a firm, is balance sheet oriented, and prevailed during the last century. The input concept represents the entity theory. This theory dominates today, stresses the business entity instead of its owners as accounting matter, and is income statement oriented. The average corporation has investors whose main interest is the earnings-per-share figure, and it is run by managers whose efficiency usually is judged by the periodic income produced. The yearly amortization of a low historical cost of fixed assets serves those managers well. The maintenance of capital concept can be aligned with the relatively recent enterprise theory. This theory sees in the large corporation an institution that is financially self-supporting, has diversified activities, and allows its stockholders in effect only the right to conventional dividends.⁴⁵ Concern about those enterprises exceeds that about their stockholders⁴⁶ and relates strongly to the maintenance of real capital. Such maintenance does not only mean security for investors, employees and customers but also contributes stability to society as a whole.

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