

APPLICATION OF DEPRECIATION METHODS IN COST OF FIXED ASSETS IN SELECTED COMMERCIAL BANKS IN DAMATURU, YOBE STATE, NIGERIA

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ABSTRACT

This study aims at analysing the various ways of charging depreciation, its applicability and its significance to some selected banks in Damaturu, Yobe State capital. And at the same time, the effect of non-charging depreciation on banks profitability and the effects of adhering traditionally to some particular methods, the pros and cons of the methods in use. Above all, the paper tends to stimulate the readers at a glance, the adopted suitable methods of depreciation for the purpose of maintenance, renewal and replacement of fixed assets. The methodology used in this research for the data collected is the survey method, where a stratified random sampling was applied on some staff of Bank PHB, UBA Group and Oceanic Bank International Plc as the recognition of the fact that the three has the common trait of dealing with the treatment of the fixed assets. The study revealed that companies would be declaring more profits if suitable methods of depreciation are properly applied. Based on the findings of this study, it was recommended among others that companies should be objective in their choice of the methods and rate of depreciation to be applied to avoid using the wrong method or understating the rate as the case may be.

Keywords: *Depression, fixed assets, commercial banks, methods*

INTRODUCTION

Depreciation is one of the important areas that need special attention in accounting, because it affects the determination of the net profit of any organisation. Accounting is a measurement process, which is usually in monetary terms. The measurement process involves collecting, recording, presenting, analysing and interpreting financial information for the users of financial statement. Depreciation is the term used to describe the portion of cost of fixed assets which is deducted from revenue for the relative portion of assets services in the operation. It refers to the expired (used up) cost of fixed assets. It has been observed that most Nigerian companies including banks do not care so much about the treatment of depreciation, and if they do, they adhere mostly to the traditional methods of charging depreciation Straight or Fixed Instalment and Reducing or Diminishing Balance Method at the expense of other methods irrespective of whether it is appropriate method or not. It is therefore high time that companies like banks recognised the significance of charging depreciation by endeavouring to use the appropriate methods that would give the actual usage of the assets.

Generally, depreciation serves as an indicator of determination of assets due to its engagement in the productive process. Therefore, depreciation would be described accurately as that part of investment undertaken for replacement, maintenance and renewal purpose. The primary objective of providing for depreciation is not to measure the decline in value of the asset, rather to spread the cost of the asset over its useful life period. In other words, the traditional objective of determining depreciation is not to measure the physical deterioration, or the fall in value of tangible assets, but essentially to allocate the costs of the asset over its economic useful life. Depreciation is therefore an expense and will need charging to Profit and Loss Account before ascertaining net profit or loss. Provision for depreciation will therefore have to be made in the books in order that the net profits may be profit remaining after charging depreciation during an accounting period. Depreciation charges enable a firm to recognise the contribution of the various classes of fixed assets towards the generation of revenue.

However, despite the significance of depreciation of fixed asset to the firm profitability ascertainment which facilitates growth and development, many firms including banks often neglect its treatment in the relevant books of accounts. In view of that, there is need to study the various methods of charging depreciation and the implications of using any particular method or the lack of application of any.

The objective of this paper is to examine the various ways of charging depreciation, its applicability and its significance to some selected banks (specifically, Bank PHB, UBA Group, Oceanic Bank and Intercontinental Bank Plc.) in Damaturu, Yobe State capital. And at the same time, the paper tries to examine the effects of not charging depreciation on banks profitability. Moreso, the paper seeks to investigate the effects of adhering traditionally to a particular method of charging depreciation would be explore.

The Principles of Financial Statements and Depreciation

The financial statement of each organisation as demanded by the Companies and Allied Matters Act (CAMA) 1990 should include the profit and loss account, the balance sheet, the cash flow statement, the note to the account and some other related books. Balance Sheet is the statement that shows the assets and liabilities of a firm at a particular period of time or statement that shows whether the business is insolvent or solvent as the case may be. And the assets therefore categorised into tangible or intangible. Being tangible means those assets that can be vividly seen or touched while intangible ones are those assets that cannot be seen or touched for example, goodwill, patent right trademarks etc. Tangible assets are further categorised into fixed assets and current assets. Fixed assets are those assets whose useful life exceed one year (that is to say, the assets that can last for a long period of time) these assets are acquired using capital budgeting decision by the top level management of the organisation, either at the beginning of the business or as the business continues. Therefore, the assets of the business have to be adequately managed through proper

planning of their acquisition, maintenance, replacement and renewal. The historical cost convention of financial statements preparation requires that cost is the appropriate basis for initial accounting recognition of all assets acquisition in the balance sheet so as not to over state their values. This therefore is in line with prudence concept. Fixed assets are held by a business for a number of years for the purpose of effective running of the business in line with this, the lost value of asset put to use for many years is what is seen as depreciation.

Frank Wood (2002) defined depreciation as that part of original cost of fixed asset that is consumed during its period of use by the business. Depreciation can also be defined, in line with S. A. S. No. 9 as "the systematic and periodic allocation of the historical cost or revalued amount less estimated residual value of a depreciable asset over its estimated useful life. Dandago (1996) defines depreciation as the decrease or reduction in the value of an asset (mostly fixed) as a result of wear and tear, passage of time or obsolescence. It can be viewed as the value diminishing due to natural forces like rain, cold, sun etc. It is therefore, important to note that the loss in value of fixed assets is not attributed only to the constant usage of the asset but could be as a result of passage of time or fashion. Owing to this fact, the organisation should not take chances of keeping the assets unused thinking that they would not lose their values; because unused capacity of plants are just accumulating costs to the organisation.

The definitions above show that assets are not made to live in perpetuity and as such, subject to a gradual loss in value. This loss in value can be attributed to the impact the assets made towards the operation of the business, most especially in manufacturing companies, however, whether the assets are subjected to use or not, they are sure of loosing their value because of natural factors. It can, therefore, depreciation is not limited to frequent usage especially in developed countries where fashion is considered very seriously in the determination of the value of assets, but due to a lot of factors such as changes in fashion, technological improvement, physical deterioration caused mainly by wear and tear, economic factors and natural factors like wind, rain, sun and other element of nature. The significance of charging depreciation on fixed assets can not be overemphasised. Therefore, the consequences of not charging depreciation are that:

- (i) The value of the assets that depreciate will be overstated on the Balance Sheet.
- (ii) The capital of the business will be overstated on the Balance Sheet.
- (iii) The total operating expenses of the business will be understated since depreciation is regarded as expenses used up of the assets concerned.
- (iv) The net income on the income statement will be overstated.
- (v) As a result of such overstatement of income additional expenses will be created by overpayment of income taxes.
- (vi) The cost of assets that depreciate will not be distributed evenly over the years of their expected life.

By charging depreciation on fixed assets, that part of the profit that might have been withdrawn is thus retained in business and this helps to strengthen the financial position of the business so that in future when replacement eventually takes place the financial position will not be unduly undermined. We can therefore see from the foregoing reasons that recognising and recording depreciation is a very vital part of the accounting transactions.

Requirement of Accounting Standards

It is in recognition of the significance of depreciation in the determination of the profit of enterprises that Statement of Accounting Standard - S. A. S. 3 (Accounting for Property, Plants and Equipments); S. A. S. 9 (Accounting for Depreciation of Assets) and S. A. S. 11 (Accounting for Leases) discuss the treatment of depreciation in the financial statements of firms or enterprises. The treatment of depreciation is covered by both the Statement of Accounting Standards (S.A.S.) issued by the Nigerian Accounting Standards Board (N.A.S.B.) and the International Accounting Standards (I. A. S.) issued by the International Accounting Standards Committee (I. A. S. C.). In the case of N.A.S.B., its S.A.S. 9 is on Accounting for Depreciation. The provisions of the standard are as follows:

- (a) The depreciable value of an item of property, plant or equipment should be either the historical cost or the revalued amount computed in accordance with S.A.S. 3 and this standard.
- (b) The useful life over which the allocation of the depreciable value takes place should be determined after due consideration of:
 - (i) Expected physical wear and tear due to usage.
 - (ii) Obsolescence due to changes in technology, production requirements or consumer taste; and
 - (iii) Legal or other restrictions placed on the asset, for example by a lessor or government.
- (c) Several methods for calculating depreciation are available; the method chosen by an enterprise should reflect the characteristics of the asset and its intended use in the firms which banks operate. The only methods that currently meet these requirements are the Straight Line Method and the Reducing Balance Method.
- (d) Where a group of assets is depreciated as though it were a single asset, effort should be made to ensure that the applicable rate is representative, consistently applied, and constantly reviewed to reflect internal changes in the group.
- (e) When an item of property, plant or equipment is revalued, the previously determined depreciation rule or an appropriately adjusted rate should be applied to the new value to determine the current depreciation charge.
- (f) The depreciation charge so determined in paragraph 'e' should be charged entirely to income, and should not be charged partly to income and partly against revaluation surplus.

- (g) A piece of property qualifies to be treated as an investment property, if it is not occupied substantially for use in the operation of an enterprise. For the purpose of this statement (S.A.S. 9), an occupation of more than 15% of the property should be considered substantial.
- (h) When on a revaluation there is an increase over original cost in the carrying amount of a depreciable asset or an investment property, an enterprise should take the increase to capital reserve as a revaluation surplus. Provided that the surplus had not been earlier reversed or utilised, any subsequent decrease on a revaluation of the same asset should be charged against the revaluation surplus. In cases where the decrease is more than the previous increases, the difference should be charged to income. An increase on revaluation which is directly related to a previous decrease in carrying amount of the same asset that was charged to income, either through the charging of depreciation or arising from a revaluation should be credited to income to the extent that it offsets the previously recorded decrease.
- (i) When a piece of property is reclassified as an investment property and it was decided to be accounted for as such, the property should be removed from its group of depreciable assets. The accumulated depreciation on it to the extent that is no longer required should be taken to the Profit and Loss Account. Any related revaluation surplus should not be transferred to income or retained earnings but should be transferred to capital reserve.
- (j) A change from one method of depreciation to another should be considered a change in accordance with S.A.S. 1 (Disclosure of Accounting Policies) and S.A.S. 6 (Extraordinary Items and Prior Year Adjustments).

Disclosure Requirements

A reporting enterprise should state its accounting policies with respect to depreciation. In addition to the disclosure requirements of S.A.S. 2, information to be disclosed in financial statements, and S.A.S. 3 (Accounting for Property, Plant and Equipment), the following disclosures are to be made in the notes to the Accounts:

- (i) The amount charged as depreciation during the period;
- (ii) The effects of any change in depreciation rate on the operating results of the period;
- (iii) The method or methods used in computing depreciation in the period.
- (iv) The accumulated depreciation for each category or group of assets held by an enterprise; and
- (v) The book value and the amount that would otherwise have been charged by way of depreciation of any item of property, plant or equipment reclassified during the accounting period as an investment property.

Depreciation Accounting

The International Accounting Standard (I.A.S.4) as contained in the following provisions equally recognises the concept of depreciation:

- (1) The depreciable amount of an asset should be allocated on a systematic basis to each accounting period during the useful life of the assets.
- (2) The depreciation method selected should be applied consistently from period, unless where circumstances such as heavy and consistent decline in profit or sudden change in company's policy justify a change. In an accounting period in which the method is changed, the effect in which the method is changed, the effect should be quantified and disclosed and the reason for the change should be stated.
- (3) The useful life of a depreciable asset should be estimated after considering the following factors:
 - (a) Expected physical wear and tear;
 - (b) Obsolescence;
 - (c) Legal or other limits on the use of the asset.
- (4) The useful lives of major depreciable assets or classes of depreciable assets should be reviewed periodically and depreciation rates adjusted for the current and future periods, if expectations are significantly different from the period in which the change takes place.

From the foregoing provisions of accounting standards, one can see that the treatment of depreciation is adequately covered. It is evident that about four of the Nigerian standards have covered, either partially or wholly, the treatment of depreciation (S.A.S. 2, 3, 6 and 9). However, the major standard that discusses the treatment of depreciation is S.A.S. 9 (i.e. Accounting for Depreciation). It discusses the way the depreciable value of tangible fixed assets could be arrived at and how they should be treated in the financial statements of companies. The standard states that there are many methods of charging depreciation and the method to be chosen by a firm should reflect the true characteristics of the asset, its intended use and the practice in the industry in which the firm operates. The standard further indicates that only the Straight Line Method and the Reducing Balance Method meet the above stated requirements.

This research work also gives much emphasis on the two methods stated above. This is not unconnected with the fact that most Nigerian firms (both private and public) use these methods of charging depreciation. The S.A.S. 9 requires that disclosures should be made in the financial statements of organisations regarding the amount charged as depreciation, the effect of any change in depreciation rate on the operating results of the firm, the method used in computing depreciation, the accumulated depreciation for each category of assets held by the firm, and the book-value and the amount that would otherwise have been charged by way of depreciation on any item of property, plant and equipment reclassified during the accounting period as an investment property.

Methods of Charging Depreciation

There are numerous ways of charging depreciation of fixed assets as it is used in different ways by different organisations which still depend on the nature of the assets as well as the economic and/or the company's policy. The most commonly used methods are as follows:

- (i) Straight Line Method or Fixed Instalmental Method
- (ii) Reducing Balance Method or Diminishing Balance Method
- (iii) Sum of the Year Digits Method
- (iv) Annuity Method
- (v) Revaluation Method
- (vi) Sinking Fund Method
- (vii) Productive Output Method
- (viii) Depletion Method
- (ix) Repairs and Maintenance and Depreciation Fund Method

But for the purpose of this research work, only the first two methods mentioned above would be discussed in full, with only a summary of other methods.

Straight Line or Fixed Instalmental Method: Spicer and Pegler (1971) describe this method as one in which a fixed percentage of the original cost of the asset is written off each year, so as to reduce the asset to nil or break-up value at the end of its life, repairs and small renewals are charged to revenue. This method is recommended by the Institute of Chartered Accountants as the most suitable in the majority of cases. It is a method commonly used for leases having a comparatively short life, though it might not be as accurate as annuity method.

Omuya (1990) defined this method as an instance where an equal amount to be charged as depreciation for each year of expected use of the asset. The reason for this method being called the Straight Line Method is that if the charge for depreciation was plotted annually in a graph and the points joined together, then the graph would reveal a straight line (Omuya, 1990). Etuk-Udo (1985) states that by this method, the working life of an asset is always estimated and a fixed amount written off every year throughout the life of the asset. For instance, if a machine costing N10,000.00 is estimated to last for five years then N2000.00 will be written off every year.

Dandago (2001) considers this method as one in which the cost price is divided by its life span to arrive at the value annually depreciated. Scrap value, if at all there is, should be deducted from the cost price before dividing by the life span. This is because the system assumes that the value of the asset tends to diminish evenly throughout its life span. It fails to realise that assets do give more services to the user in the early stage of its life span than in the later years. Therefore, there is no justification charging the rate uniformly.

Reducing Balance or Diminishing Balance Method: Frank Wood (2002) says, in this method, a fixed percentage for depreciation is deducted from the cost in the first year. In the second year or later years the same percentage is taken off the reduced

balance (cost less depreciation already charged). This method is also known as the diminishing debit balance method. Boatten (1999) described the Reducing Balance Method as a method that requires the determination of a fixed percentage rate which is applied on the balance of the asset for the preceding period after charging the necessary depreciation. The percentage rate used will be such that when applied for the depreciable amount of the asset results in writing down the asset to its residual value at the end of its economic life.

Spicer and Pegler (1971) observe that this method is a method where a fixed rate percent on the diminishing value of the asset is written off each year, so as to reduce the asset to break-up value at the end of its life, repairs and small renewals been charged to revenue. This method is commonly used for plant, fixture and furniture, etc. Dandago (2001) describes the Reducing Balance Method of depreciation as the one where a percentage charge is provided on the Written Down Value (WDV) of the asset annually until it is disposed off. The charge on the historical cost is only made in the first year of acquisition.

This indicates that the depreciable amount in this case as against the Straight Line Method is not charged evenly throughout the economic useful life of the asset. Rather, the charge tends to diminish, as the asset is getting older. This may probably be due to the fact that the benefits derived from the asset at the initial period are higher than the subsequent periods. The depreciable amount is arrived at using a formula, $D = n - 1 \sqrt[n]{\frac{C-S}{n}}$ just like in the Straight Line Method; $D = \frac{C-S}{No.of\ years}$. But the Reducing Balance Method formula is a little more difficult because it is more of scientific. This method is more suitable for plant, machinery, furniture and fittings, which have longer life and whose estimated useful life could not be easily ascertained with reasonable accuracy.

A simple explanation of the other method of charging depreciation would be presented for the purpose of making the concept understood despite the minimal usage of the methods, especially in Nigeria.

Sum of the Year Digits Method: This is also called Rule 78 in this method; the number of years of the useful life of the asset is allocated, in reverse order as digits to each other. For example if fixed asset is expected to have a useful life of four years, four digits will be allocated thus: $4 + 3 + 2 + 1 = 10$. The annual depreciation will then be calculated as the proportion of the cost less scrap value of the asset which the digit for the year bears to the total digits. Alternatively, formula can be used also i.e. $N(n + 1)/2$.

Annuity Method: These methods regard each fixed asset as an investment which is expected to generate cash inflows and make a rate of return equal to or greater than internal rate of return of the business. Under this method, depreciation is equal to the excess of cash inflows for the period over the return on book value using internal rate of return.

Revaluation Method: Under this method, the value of the asset at the beginning of the year is added to the cost of the assets purchased during the year. The figure obtained will be deducted from the value of the assets at the year end to arrive at the depreciation for the year. This method is particularly suitable for loose tools.

Sinking Fund Method: Omuya (1983) describes this method by saying that, the asset is kept in the book at its original cost but a fixed amount known as sinking fund is charged instalmentally against the Profit and Loss Account each year for either replacement or to pay debenture. This amount is then invested in securities, which have the benefits of being accumulated at compound interest to the sum required to replace the asset.

Depletion Method: Wasting assets such as mines, quarries, limestone deposits, etc. are depreciated based on the units extracted. This is because the value of the land containing such assets tends to deplete instead of depreciation as a result of ordinary wear and tear.

Productive Output Method: Under this method, the life span of a depreciable asset is estimated in terms of the total number of units it could produce. The depreciable amount of the assets is estimated in terms of the total number of units it could produce. The depreciable amount of the asset is divided by the estimated total number of units to obtain a depreciation rate per unit which when applied to the total year gives the depreciation for the year.

Repairs, Maintenance and Depreciation Fund Method: This method encompasses the practice of setting aside certain amount from the Profit and Loss Account annually for the purpose of repairs and maintenance and depreciation while the depreciation account is credited with the equal amount. A credit balance or Depreciation Fund Account shows that the net amount set aside for repairs is adequate. A debit balance shows that the provision has been inadequate, etc.

METHODOLOGY

The method used in this work is the survey where stratified random sampling technique was employed in gathering the data from the respondents. The population that would be covered by this research work is based on commercial banks in Yobe State capital, Damaturu. Survey method was used in the data collection as well as questionnaires that were administered to the selected banks. A systematic sampling technique was employed to select Bank PHB, UBA Group, and Oceanic Bank International Plc from the population of this study. They are chosen on the fact that they have all the characteristic features that are common to other banks, and, so, the outcome of the study would be used for generalisation.

Efforts are made to lay hands on necessary information as possible to assist in passing good judgement. The respondents selected randomly from the three banks included Manager, Purchasing Officer and five staff each, Accountant being their

senior and junior cadre of the account sections. And this selection was based on the custody of documents related to acquisitions, maintenance and disposal of fixed assets. Primary data were obtained using personal interview and questionnaire administration.

RESULTS AND DISCUSSION

The respondents, who were stratified and randomly selected, were asked a series of questions on various aspects of depreciation, and their responses were recorded in the sequence order of the questions asked. The results were as presented below:

Table 1: Whether Bank PHB, UBA Group, and Oceanic Banks use depreciate methods in their assets? (Application of Depreciation Methods)

Response	Number of Respondents	Percentage
Yes	22	100
No	0	0
Total	22	100

Sources: Field Survey, 2009.

It was gathered that the three organisations depreciate their fixed assets right from the time of acquisition. And the position was upheld by all the 22 respondents from the three selected organisations. This is an indicator that they were conversant with the accounting concept of depreciation.

Table 2: Why do the organisations consider depreciation of fixed assets important? (Importance of Depreciation Policy)

Response	Number of Respondents	Percentage
Ease of Profit Determination	16	72
Repairs, Maintenance and Replacement	3	14
I don't know	3	14
Total	22	100

Sources: Field Survey, 2009.

Precisely, 72% of the respondents are of view that the reason for depreciating fixed assets was based on enhancement of determination of profits and to ensure even spread of the cost of the assets. While 13% of the respondents stated that the reasons for depreciating fixed asset was nothing but based on repairs, maintenance and replacement. Similarly, 13% stated also that they have no idea of why they depreciate fixed assets. Depreciation is considered as a charge from the income of an organisation for the purpose of repairs, maintenance and replacement of fixed assets which are either due to usage or kept for further consideration. The effect of the charge on the profit realised is reduction from that the revenue which makes the company more objective in the preparation and presentation of financial statements. And summarily, the responses indicate that the primary purpose of charging depreciation is to ease computation of profit; which is actually not the corporate view of charging depreciation.

Table 3: Classification of Fixed Assets for Depreciation

Response	Number of Respondents	Percentage
Base on Type	15	68
Base on Cost	2	9
Base on Wage	5	23
Total	22	100

Sources: Field Survey, 2009.

The organisations sampled classify assets according to their type and usage. This is supported by 68% and 23% response from the three selected banks. The various assets held by the three banks ranges from leasehold properties, motor vehicles, furniture and fittings, generators, counting machines and buildings. The aim of the question is to determine the type of assets held by each bank and the way they are affected by the type of depreciation method use. And also aim to know whether the three banks use the same method of charging depreciation on all assets. And it was realised that the organisation do not apply a uniform charge on all assets, but rather, use different rates for different classes of assets.

Table 4: Various Methods of Depreciation in Use

Response	Number of Respondents	Percentage
Straight Line	20	91
Reducing Balance	2	9
Others	-	0
Total	22	100

Sources: Field Survey, 2009.

The major method of depreciation used by the organisation is the Straight Line Method with 91% while reducing balance method stood at 9% according to the responses from the three Banks that was sampled. Perhaps, this was due to the simplicity of Straight Line Method computation. By implication, the assets have different life span and usage and therefore, there is no justification for concentrating the charging method on Straight Line method.

Table 5: Reason for Major Adoption of Straight Line Method

Response	Number of Respondents	Percentage
Easy Computation	18	82
Compliance with Prudence Convention	0	0
Experts' Advice	4	18
Total	22	100

Sources: Field Survey, 2009.

The reasons why many of the respondents uses Straight Line method was due to its simplicity in the computation and at the same time on the advice and recommendation by auditors, valuers and financial consultant and this was supported by responses which were 82% and 18% respectively. From the responses, the companies base their choice of method on the advice of the expert.

Table 6: Reason for Sticking to Two Methods.

Response	Number of Respondents	Percentage
Conservatism	12	55
Company's Policy	8	36
I don't Know	2	9
Total	22	100

Sources: Field Survey, 2009.

The majority of the respondents indicated that the organisation are fully aware of other methods of charging depreciation, only that the majority of them want to be conservative to some extent and that policy of the management suite the two methods.

Table 7: Rates Used in Depreciation of Assets by the Banks

Response	Number of Respondents	Percentage
Variable	22	100
Uniformly	0	0
Total	22	100

Sources: Field Survey, 2009.

The respondents indicated that various rates were applied for various classes of assets depending on their life span and usage. For example, motor vehicles were charged at the rate of 25% while generator was 15% and furniture and fittings are 10%. Reasons for charging the various rates were base on mental estimate, rate of usage or nature of the asset. What is appropriate in the choice of the rate of depreciation charge is to assess the useful life and spread the ratable charge according to the usage and nature of the asset.

Table 8: Contributions of Straight Line Method to Profit

Response	Number of Respondents	Percentage
Yes	18	82
No	3	14
No Idea	1	4
Total	22	100

Sources: Field Survey, 2009.

82% of the respondents testified both orally and in writing that the Straight Line Method contributes positively to the overall profitability of the organisation. Only 14% of the respondents agreed that the method contribute negatively to the overall profit of the organisations, while 4% claim the ignorance on whether it contribute meaningfully to the profit or not.

Table 9: Treatment of Fully Depreciated Fixed Assets

Response	Number of Respondents	Percentage
Abandoned	2	9
Auctioned to the Staff	17	77
Continued Usage	3	14
Total	22	100

Sources: Field Survey, 2009.

From the respondents it clearly shows that assets that are fully depreciated are disposed-off to the staff of the organisations at the residual value. But in some cases, assets of this kind are sold to outsiders at a price higher than the salvage value in which case the excess is considered as profit on disposal and treated as an extraordinary gain.

CONCLUSION AND RECOMMENDATIONS

The significance of depreciation in the determinant of corporate growth cannot be over-emphasised for all organisation irrespective of whether private or public. The concept of depreciation despite its significance, is not fairly applied by many companies in recognition of its significance, SAS strictly discuss how to account for depreciation in many respects. All categories of assets that are depreciable are classified by the standard. The banks under review are fully aware of the concept of depreciation and the various methods used in charging it as an expense. The importance of depreciation to the corporate growth is fully realised as testified by all the respondents, but the normal ways of charging depreciation are yet to be exhausted, since up to the time, virtually all methods are predominantly used by the banks under review. It was discovered that the provision of the standard (SAS 9), are not strictly adhered to, especially regarding the disposal of fixed assets after being fully used or depreciated. The useful life of the asset was only considered when applying the depreciation rate by the organisations under review. More so, Straight Line Method was predominantly in use by banks under review at the expense of other methods, the reasons being that Straight Line Method has proved to be more prudent and contribute more to the profitability of the organisations.

It should be noted also that there is no appropriate basis in charging depreciation rate that was used by the banks under review instead, mere estimate rates are employed in charging depreciation rate and this was confirmed through the responses got from the sample. And the reason for this being that, there is difficulty in using the scientific ways of arriving at the appropriate rules, etc. In conclusion, we can now see that the three banks under review have not been fair to other methods of charging depreciation, if not, they will not be fully using Straight Line method and partially applied reducing balance method are shown from the respondents.

Based on the outcome of the findings of this study, the following recommendations would be useful to the banks under review (Bank PHB, UBA Group, and Oceanic Bank respectively).

- i That all the organization, be it private or public should recognize the importance and relevance of depreciation and apply it appropriately provided that they deal with fixed assets in their business operation.
- ii Companies should be objective in their choice of the methods and rate of depreciation to be applied so as to avoid using wrong method or understate the rate as the case may be.

- iii Instead of holding on to one or two methods many methods can be applied at different time thereby, giving them the opportunities to make selections over time. Because partially using one or two method all the time may be conservative and it may not be beneficial as far as the nature of the asset is concern.
- iv Proceed accruing from maintenance of depreciation account should be strictly used for maintenance, renewal and replacement of the assets which would serve as an assurance to the shareholder that proper accounting system are maintained the purpose for which account is created have been fulfilled.
- v Since there is usually an amount set aside for the replacement of the asset and to prove efficiency, asset should be immediately dispose off as soon as they have been fully depreciated using the appropriate method. By this way, the contributions of the asset to the growth of corporate profit are justified.
- vi That all the provision of the SAS 9 regarding accounting for depreciation be complied with. This will go a long way in ensuring that assets are given the appropriate treatment they deserve.
- vii Shareholders in this regards should be fully informed that charging depreciation does not only meant to reduce the amount of dividend they will receive but rather to prepare for the replacement of fixed assets when their useful life have been fully exhausted.

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