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# Literature Study of Fixed Asset Depreciation Calculation On Profit In Financial Statements

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**Abstract:** Depreciation of fixed assets is an important element of accounting that has a significant impact on financial reporting, especially profit reporting. The purpose of this study is to analyze the calculation of depreciation of fixed assets and its impact on reported profit. Consider different depreciation methods, such as the straight-line method, declining balance method, and production unit method, to understand how each method affects cost allocation and income statement results. In addition, this study also discusses the relevance of Statement of Financial Accounting Standards (PSAK) no. 16 Shows the effect of recognizing depreciation expense and tax obligations due to the recognition of depreciation expense. The results of the analysis show that choosing the right depreciation method not only affects net income, but also plays an important role in asset management and corporate strategic decision-making. Therefore, an in-depth understanding of fixed asset depreciation is essential for managers to develop investment strategies and comply with accounting standards.

**Keywords:** Fixed Asset Depreciation, Depreciation Methods, Profit Statement, Straight Line Method,, Declining Balance Method, Unit of Production Method, Accounting, Tax Liability, Asset Management, Strategic Decision Making, PSAK No.16, Financial Report.

## Introduction

The accounting technique known as depreciation of fixed assets distributes the cost of fixed assets over the course of their useful lives. Buildings, machinery, and equipment are examples of fixed assets that have a useful life..(Hilmi et al., 2018) and their worth decreases with use. Depreciation is therefore crucial in order to account for the expenses related to the usage of these assets in the financial statements. One of the elements influencing the reported net income is depreciation. The income statement, a component of the financial statements, shows the company's financial performance over a specific time period. Because profit figures must be reasonably high to accurately reflect the company's overall performance, profit is the factor that people are most concerned about. (Rahmawaty, Sri, et al., 2021)

The unit of production method, the falling balance method, and the straight-line method are some of the frequently used depreciation techniques in accounting. The straight-line approach, which is the most straightforward and popular, determines depreciation by dividing the asset's useful life by the difference between its acquisition cost and residual value. This approach simplifies financial planning by providing the same annual depreciation expense. However, the falling balance approach determines depreciation using a fixed proportion of the asset's initial book value at the start of the period, which raises the depreciation cost in the first few years. Depreciation is calculated using the units of production technique, which more accurately reflects the asset's real use by counting the number of units created or used.

Depreciation has a major impact on company tax obligations in addition to the income statement. The amount of tax due may change if recognized depreciation expense lowers taxable income. When designing tax and asset management strategies, management should take this into account. Additionally, the company's asset management and investment choices may be impacted by the depreciation method selection. In this situation, businesses must perform a thorough study in order to determine which approach best fits the features of their assets and business plan.

Guidance on property and equipment accounting, including the identification, quantification, and financial statement presentation of depreciation, is provided by the Statement of Financial Accounting Standards (PSAK) No. 16. When the cost of a piece of property or equipment can be accurately calculated and it is likely that future economic advantages will result from the asset, it is documented as an asset. Guidance on accounting for fixed assets, including the recognition, measurement, and presentation of depreciation in financial statements, is provided by the Statement of Financial Accounting Standards (PSAK) No. 16.(Ramadhan et al., 2024) In addition to preserving the accountability and openness of financial accounts, PSAK No. 16 compliance is crucial for giving stakeholders pertinent information. In order to make strategic decisions, management must therefore have a solid grasp of how fixed assets depreciate, the techniques employed, and the effects on the income statement and tax obligations.

An extensive review of the literature on the computation of fixed asset depreciation, the different approaches taken, and how it affects the profit shown in the financial statements will be done as part of this study. It is anticipated that this study will provide further light on the significance of depreciation in relation to accounting and asset management, as well as how it affects business strategic decision-making.

This research focuses on fixed asset depreciation and its impact on profit reported in the financial statements. Depreciation is an important aspect of accounting, but several problems can arise when recording and measuring depreciation. The following analyzes the problems encountered.

1. Choosing the Right Depreciation Method One of the main problems is choosing the right depreciation method. The depreciation methods that can be chosen vary depending on the company, such as the straight-line method, the declining balance method, or the unit of production method. Each method has different advantages and disadvantages. For example, the straight-line method provides stable depreciation, but the declining

balance method results in higher initial costs. Choosing the wrong depreciation method can distort reported earnings, which can impact investment and asset management decisions.

2. Estimating the useful life of fixed assets is another challenge for businesses. An inaccurate useful life may result in insufficient depreciation. If the estimated useful life is too long, depreciation expense will be lower and reported profit will be higher than expected. However, if the estimated useful life is too short, depreciation expense could be high and profits could be significantly reduced. This estimation process is often subjective and can create uncertainty in the financial statements.
3. The Impact of Depreciation on Taxable Profit Depreciation has a significant effect on taxable profit. High depreciation costs can reduce taxable profit, but can also have a negative impact on the company's cash flow. If a company experiences depreciation, the acquisition cost is capitalized when calculating the acquisition price and recorded as depreciation expense until the fixed asset is put into operation. (Octaviani & Kiswara, 2024) In some cases, a company may choose a higher-cost depreciation method to reduce its tax liability, which may also reduce the profit reported to stakeholders. This presents a dilemma for business owners in balancing tax management with transparent financial reporting.
4. The Impact of Depreciation Costs on Investment Decisions Improper recording of depreciation costs can affect a company's investment decisions. Reported earnings, which are affected by depreciation and amortization, can affect the perception of investors and other stakeholders. If reported earnings are higher than they should be, the company may lose investor confidence when the financial reality becomes clear. Conversely, if earnings are too low due to high depreciation costs, the company will have difficulty attracting new investment. Financial managers can make various decisions to achieve company goals. The accuracy of decision making is highly dependent on the availability of accurate accounting data. Therefore, accountants have a very large role in decision making. Investment decisions affect the company's asset structure by comparing current assets and fixed assets.
5. Compliance with Accounting Standards The company must also ensure that the recognition and measurement of depreciation expenses are consistent with applicable accounting standards, such as PSAK No.16. Compliance theory can be applied to accounting based on a normative perspective. All listed companies are required to prepare periodic financial reports in a timely manner in accordance with applicable legal provisions. Normative obligation because legality refers to compliance with the law. This is because law enforcement agencies are considered legitimate and able to control their actions. (Hidayat et al., n.d.) Failure to comply with these standards can result in

significant legal and reputational problems. In addition, companies that are not transparent in reporting write-offs may face increased audit risk and sanctions from regulators.

**Research Methods**

This study uses a literature research approach to collect and analyze relevant information from various academic sources, magazines, books, journals, theses and articles on fixed asset depreciation and its impact on profit. In accounting textbooks that explain fixed asset depreciation, in academic journals that publish previous research on depreciation and profit, in relevant research papers and reports from trusted sources such as Google Scholar and university libraries and accounting documents or theses published by the campus.

On the relevance of the selected sources should be related to the topic of fixed asset depreciation and profit, sources from peer-reviewed journals and books written by experts in the field of accounting, as well as ensuring that the information received is current, we give priority to literature published in the last 5 years. Secondary data collection involves collecting data from existing sources, such as reading and analyzing articles, books, and magazines.

**Literature Review**

Literature review is an important part of literature research that aims to deeply understand the concept of depreciation, the methods used, and its impact on a company's profit. In this context, various relevant literatures are discussed to examine the relationship between fixed asset depreciation and profit reported by companies. The following is a summary of the relevant literature:

***Concept of Depreciation of Fixed Assets***

Depreciation of fixed assets is an accounting process that reflects the loss of value of an asset over time and use. The purpose of depreciation is to spread the cost of a fixed asset over its useful life and reflect a more realistic value in the financial statements. This concept is very important because it provides a more accurate picture of the financial performance of a company. Calculation of the depreciation expense of fixed assets, can use synchronized depreciation methods using standard financial accounting (SAK) as well as tax regulations. The depreciation method from SAK is used to assess the company's performance & financial condition, while the depreciation method from tax regulations is used for tax purposes (Mardjani et al., 2015).

According to PSAK No.16 (IAI, 2015) "The depreciation method applied to an asset is reviewed at least at the end of each financial year applied to an asset is reviewed at least at the end of each financial year, and if there is a significant change in the expected pattern of use of the future economic benefits of the asset, then the depreciation method applied to the asset is expected future economic benefits of the asset, then the depreciation method is changed to reflect the change in the use of the asset. The depreciation method is changed to reflect the change in pattern. A prescribed method for apportioning the cost of fixed assets to expenses. The most important variables to consider in this allocation are cost of the asset. salvage value and useful life value. (HANDAYANI, 2021)

***Depreciation Method***

Common depreciation methods used in accounting include:

- Straight Line Method: The straight-line method is a very simple method. It relates the use of costs over time and allows for equal periodic forgiveness over the life of the asset. The underlying assumption of this method is that the asset provides the same benefits in all periods throughout the useful life of the asset and the expense is not affected by changes in the productivity or efficiency of the asset (Salamatunnisa & Hanafi, 2021).
- Declining Balance Method: In this method, depreciation expense is allocated based on a percentage of the asset's carrying amount (not its cost) over its useful life, thereby reducing depreciation expense. The basis for calculating depreciation under this method is the percentage of depreciation using the straight-line method. This percentage is determined twice and multiplied by the book value of the fixed asset each year (Tarigan, 2019).
- Unit production method: This method calculates depreciation expense based on the number of units an asset produces, giving a more accurate picture of the asset's actual usage (Akuntansi, 2022).

***Effect of Depreciation Expense***

The Effect of Depreciation Expense on Income Depreciation expense has a direct effect on the net profit reported by a company. Companies that use the declining balance method tend to report lower initial earnings, which may affect investor perceptions. In contrast, companies using the straightline method may report more stable and higher earnings, but this does not necessarily reflect the actual use of assets. It is clear that choosing different depreciation methods will have a significant impact on the cost of doing business, which means it will affect the size of the company's annual profit target. The economic value of a fixed asset must be considered properly. The amount of depreciation expense calculated annually has a significant influence on the size of a company's capital (Agustina, 2023).

***Implications for Accounting Policies***

The choice of depreciation method is influenced not only by company preferences but also by prevailing accounting policies. Research shows that companies operating in highly competitive industries tend to choose methods that generate higher profits to attract investors' attention. This suggests that the selection of depreciation methods can be influenced by external factors such as market conditions and business strategies. Financial Accounting Standards (FAS) play a crucial role in ensuring the transparency, accuracy, & reliability of the financial statements obtained by the company. These standards govern how economic transactions & events must be recognized, measured, presented, & disclosed in the financial statements (Sari, 2018).

### *Financial Reporting Transparency*

Financial reporting transparency is essential for building stakeholder trust. This not only increases investor confidence but also contributes to better decision making. Financial reports are a benchmark for stakeholders to assess the actual conditions of a company because in the financial statements there are still things that can be a means of communicating a financial statement (Ekonomika et al., 2024).

## Result and Discussion

An essential component of accounting that influences a business's financial statement is depreciation expense. Your net income and tax obligation may be significantly impacted by your choice of depreciation method. As a result, businesses should think carefully about the approach they take and comprehend how it affects their financial accounts. More study is required to examine how businesses might maximize depreciation and fixed asset management to improve their financial performance. The company's profitability will be impacted by the way fixed assets are depreciated, and the use of depreciation techniques will also have an impact on the company's profits (Agustina, 2023).

Long-term resources that a business can use to operate and produce future financial gains are known as fixed assets. The acquisition, receipt, and sale of fixed assets mark the start of asset accounting. According to Financial Accounting Standards (PSAK), asset accounting is crucial for financial reporting. PSAK 16 on "Fixed Assets" deals with the depreciation of fixed assets. This PSAK governs how fixed assets are recognized, valued, and presented in financial statements, as well as how a business may apply depreciation. PSAK 16 states that when an asset's cost can be accurately ascertained and it is likely to generate future financial gains, the asset is recognized. The purchase price, shipping charges, and other expenses required to get the asset ready for usage are all included in this cost.

In order for readers of financial statements to comprehend information regarding a company's investment in fixed assets and its fluctuations, PSAK No. 16 seeks to regulate the accounting treatment of fixed assets.(Syahputra et al., 2024)  All expenses expended to acquire a fixed asset until it is ready for use must be included in the purchase price of the fixed asset when evaluating its acquisition, according to PSAK No. 16. The corporation must own or control the fixed asset if it is necessary for it to generate anticipated future financial benefits. According to PSAK 16 paragraph 06, fixed assets are material possessions that:

A. stored for administrative purposes, for use in the manufacturing or provision of goods or services, or for rental purposes, and
B. Anticipated to be utilized for multiple periods. Property and equipment are only recognized as assets if and when it is likely that the entity will reap future financial advantages from them and if the asset's cost can be accurately determined. Property and equipment that meet the criteria to be recognized as assets are measured at cost, which comprises;
   (a) The expense of purchasing it
   (b) expenses directly related to transporting the asset to the location.

(c) Initial cost estimates for the removal and disassembly of site and fixed assets.

Fixed asset depreciation and its effect on the income statement demonstrate the significance of depreciation in accounting, which can influence managerial strategy choices in addition to financial reporting. The following conclusions can be made in light of the examination of multiple information sources: The meaning and definition of depreciation The accounting procedure known as depreciation records the decline in value of operational fixed assets. Producing open and accurate financial statements that accurately depict the company's financial situation is crucial.

The income statement is affected differently by several depreciation techniques, including the yearly sum method, falling balance method, and straight-line method. Selecting the appropriate approach based on the asset's attributes and the operation's goal is crucial. Additionally, the double declining balance method yields different findings. Depending on the asset's carrying value, the depreciation expense is decreased in this instance in a different way.

Expenses for depreciation and amortization immediately lower reported net income and may have an impact on market valuation and investment choices. This implies that businesses should think about how stakeholder perceptions are impacted by depreciation costs.

Concerning Tax Implications Depreciation can also have an impact on a company's tax liability because it lowers the amount of profit that must be paid in taxes. Benefits to cash flow from this can be applied to additional investments. required payments to the state by people or organizations without equal direct benefits, which can be enforced in accordance with relevant rules and regulations and are used to fund regional development and local government implementation.(Guna et al., 2018)

Managers may make better judgments about asset management, tax planning, and long-term financial strategy by having a deeper grasp of depreciation and how it affects the income statement. According to the literature, depreciation has wider strategic ramifications for businesses in addition to being a technical component of accounting. In order to maximize earnings and preserve financial stability, businesses need to properly control depreciation.

| Number | Author (Year) | Title | Metode | Results |
|---|---|---|---|---|
| 1 | (ELI, 2018) | ANALYSIS OF THE CALCULATION OF FIXED ASSETS DEPRECIATION METHOD TO PROFIT AFTER TAX AT PT.PELABUHAN | Kuantitatif Deskriptif | PT Pelabuhan Indonesia selection of depreciation methods that are adjusted to the statement of Financial Accounting Standards |

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|---|---|---|---|---|
| | | INDONESIA IV (PERSERO) | | consistently in the application and implementation of Financial Accounting Standards consistently in its application and implementation in the period and period so as to obtain a reasonable allocation of depreciation as well as the fairness of the assessment and presentation of the company's profit. on depreciation as well as the fairness of the assessment and presentation of the company's profit. |
| 2 | (Ramadhan et al., 2024) | Analysis of Depreciation of Fixed Assets by Straight Line Method to Profit At PT Bakti Pertiwi Nusantara | Kuantitatif Deskriptif | The acquisition price of fixed assets owned by PT Bakti Pertiwi Nusantara 2020, that these assets do not follow the grouping in accordance with the Financial Accounting Standards (SAK) and the percentages applied. Financial Accounting Standards (SAK) along with the percentages applied |
| 3 | (Rahmawaty, Pantjolo Giningroem, et al., 2021) | Analysis of Depreciation of Fixed Assets and its Effect Against Company | Kuantitatif Deskriptif | The results of the analysis show that the regression equation is Y = 44.44 + 0.29 X, meaning that |

| | | | | |
|---|---|---|---|---|
| | | Profits at PT Aneka Gas Industri | | if there is no depreciation value of fixed assets, then the company's profit value rises by 44.44. value of depreciation of fixed assets, then the company's profit value increases by 44.44. If and every addition of 1 value of depreciation of fixed assets then the company's profit value increases by 0.29. Furthermore, the results of the t test obtained that the depreciation of fixed assets has a significant effect on the company's profit. company profit. |
| 4 | (Salamatunnisa & Hanafi, 2021) | ANALYSIS OF THE APPLICATION OF FIXED ASSET DEPRECIATION METHOD TO COMPANY PROFIT | Wawancara and dokumentasi | All types of fixed assets, except land if used continuously, the more decreases its ability to provide services and income, hall this is due to the useful life and income, this hall is due to the useful life and use value that is owned decreases over time. The decrease in the value of tangible fixed assets is called depreciation or depreciation. |

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|---|---|---|---|---|
| 5 | (Mardjani et al., 2015) | CALCULATION OF FIXED ASSET DEPRECIATION ACCORDING TO THE FINANCIAL ACCOUNTING STANDARDS AND REGULATION TAXATION AND ITS EFFECT ON FINANCIAL STATEMENTS AT PT. HUTAMA KARYA MANADO | Kualitatif and kuantitatif | The company identifies property, plant and equipment as tangible fixed assets that are acquired in a ready-to-use form that is used in the company's operational activities, not intended for sale and has a useful life of more than one year. PT. Hutama Karya uses the straight-line straight-line depreciation method in the financial statements. |

**Conclusion**

The purpose of this literature study is to determine the relationship between fixed asset depreciation and the company's reported profit. By analyzing various depreciation methods and their impact on financial statements, it is hoped that this study can provide deeper insights into accounting practices and asset management. In addition, this study also discusses the impact of depreciation method selection on accounting policies and business strategies in various industry sectors.

A better understanding of fixed asset depreciation and its impact on profit can help companies develop more effective strategies to improve financial performance and achieve long-term goals. This research is expected to be a reference for managers, accountants, and other stakeholders in overcoming challenges related to fixed asset management and accurate financial reporting.

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