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Depreciation constituent of the investment system in the Republic of Belarus¹

Abstract. The article is devoted to the processes of the depreciation charges and its usage in enterprises, the present day complexity and the necessity of forming a realistic macro level depreciation concept. Some aspects of forming depreciation policy of an enterprise and its influence on the economic and financial activities of an enterprise as well as the primary features of the naturalistic concept and the international experience of the depreciation charges policy are examined in the article.

Key words: depreciation, depreciation costs, depreciation policy, depreciation concept

Depreciation (as an objective process of transmission of costs of assets to the costs of products) is considered the most important source of investments in fixed assets of an enterprise. However, it is contrary to fact very often.

It is well known that since January 1, 2003 all the agent of management of the Republic of Belarus according to the government regulation "About ratification of regulation about the procedure of depreciation of fixed and fictitious assets charge" from 11.12.2001. № 8/7522 [Об утверждении... 2001; О внесении ... 2004] turned to the new depreciation policy. Five years later we can ascertain, that the general growth of the sums of the added amortization is observed these years, that essentially exceeded their ratio in the general input to production.

The sum of the added depreciation of the basic means has grown in 2003 in comparison with 2002 on 42.6 % at growth of expenses for manufacture on 32.7 %. Relative density of depreciation in expenses of manufacture as a whole on a national economy has made 7.1 % (in the industry it has made 4.8 %, and in an agriculture – 10.5 %).

In the further result of introduction of new depreciation policy was essential growth of the sums of the added depreciation that has led to growth of its relative density in 2006 up to 7.4 % (in the industry – 5.2 %, and in an agriculture – 12.6 %).

Relative density of depreciation of a fixed capital in relation to their initial cost rises also. If in 2002 it made 49.8 %, in 2006 – 57.1 % (in the industry – 58.9 and 64.4 %, and in an agriculture - 56,6 and 60,96 % accordingly) [Воложинец 2004].

The depreciation fund is losing its positions in terms of one of the most important source of financing of updating of actives being used less than on 60%.

¹ Editor's note: this text except for the abstract and the reference list has been left in its original form which, in spite of the reviewer's remarks, still exceeds the editor's comprehension. Some basic truths about the depreciation accounting seem to be presented in a obscure manner.

In modern conditions, the depreciation is interpreted too simplistically, more likely, within the limits of the "naturalistic" concept for which the reproduction of the fixed assets in natural form is characteristic, orientation to corresponding physical and functional factors, to deterioration. However, physical and moral deterioration are taken into account when defining the term of effective usage of an object, but it is impossible to measure the sum of physical and moral deterioration. Moreover, the depreciation period of an object can differ from term of technical maintenance and in many cases is defined subjectively by managerial control. It is possible that this concept has some reason but now enterprises have need for guaranteed sources of investments. Importance of depreciation is overestimated.

The depreciation mechanism does not function properly. The given process can be divided into two basic stages: charge of depreciation and accumulation of these charges in the monetary form on accounts of the depreciation fund as the first stage; and use of the saved up means for purchase of new means of work as the second. The infringement of the depreciation mechanism is shown in default even one of two obligatory stages. As practice shows, the means that have been saved up at the first stage, it is not enough for realization of the second. In other words, the charge of depreciation occurs, but actually, there are no means for renovation.

It is not a secret that the depreciation mechanism is influenced by the inflationary processes, which are inherent in transitive economy. Accumulation of means on accounts of a depreciation fund occurs during a number of years and by the moment of purchase of new means of work, the cost of a depreciation fund considerably decreases due to the inflation. Called to solve the given problem the periodic revaluation of the fixed assets and, hence, depreciation charges do not solve the given problem. First, initially, decisions on carrying out of revaluation are accepted not by agents of managing but go down from government in the form of regulations of the Ministry of statistics and analysis of the Republic of Belarus, and they are not synchronized with dynamics of prices increase. Secondly, the process of carrying out of revaluation demands additional expenses from the enterprises. They often have to involve experts for these purposes.

Liberalized national depreciation policy is not capable to show all potential within the limits of the irrelevant "naturalistic" approach. Transition to the qualitatively new concept of depreciation is necessary.

In modern conditions, the appeal of target use of means of a depreciation fund has a dual value. On the one hand, it is conditional value of depreciation as the main source of investments into the fixed assets and as consequence it is stressed the value of renovation as basic function of depreciation. On the other, obviously excludes great sums of depreciation charges from a turn.

Depreciation should be treated not only as a liability source (depreciation fund), but also as a cash flow of which it is possible to serve a turn of the capital. Cash assets should multiply cash assets, return.

In the legislation of many foreign countries there are documents claiming, that depreciation charges should be spent for the primary purposes only during an initial stage (one - three years). Then they can be used for any industrial needs. The purpose defines by administration. This fact stimulates the use of nonlinear methods of charge of the depreciation that allow compensating a significant part of means of work value in an initial stage of their use.

Moreover, having legalized independent movement of depreciation means, it is possible to allow low profitable enterprises with the help of these means to overcome temporal difficulties. In France, for example, in such cases depreciation vacations are used. There is a depreciation delay, which is used by the enterprise that has some complexities. It can subtract from the taxable income the sum of depreciation using them of the current financing and include them in depreciation later.

It is necessary to note, that those enterprises which do not form sufficient assignment on depreciation, artificially increase their profits and create illusion of financial and economic prosperity that threatens with serious losses in the future. And on the contrary, overestimating of amortization increases expenses and reduces the taxable basis.

This implies forming of depreciation policy at every enterprise according to the effective depreciation concept is required. The choice of depreciation policy of an enterprise occurs in a wide range of opportunities for maneuver. Enterprises have different opportunities such as to go through "hard times" for low profitable enterprises, and – "to avoid" the excessive taxation - for highly remunerative.

As depreciation charges join in the cost price of production that directly influence size of profit and, hence, taxable base at calculation of the profit tax. The depreciation policy of the enterprise as a whole and its such tool as carrying out of reassessment of the basic means directly influence size of regenerative cost of the basic means which in turn acts as taxable base at calculation of the tax to the real estate.

However during the grounding the depreciation policy of an enterprise, which is based on the increase of cash inflow due to depreciation charges, there is a possibility of observing deterioration of primary financial and economic activities (when profit and the cost price of production are used to calculate these parameters). Dual influence of amortization is shown. In Russia the same influence, they have resolved using dual system of the accounting. One is given to tax inspectorate, and the other – to the persons interested in the valid financial condition of the enterprise: to shareholders, creditors, investors, etc., i.e. then the accounting carries out the informational function. In the latter case item of depreciation charges is excluded from the structure of the cost price and is treated as cash inflow of means.

Moreover, the majority of the enterprises of the Republic of Belarus do not use nonlinear methods of charge of depreciation. Dominating is a linear modus here. As a result the connection of charged amortization volumes with yield is broken during the life cycle of fixed assets. There are high expenses and complexities with market entry of the new production during the initial stage. Repair bills and operating costs are growing constantly and sales volumes are falling during the final phase of the cycle. But norms of depreciation are equal for each phase.

Brown [1952], Wakeman [1980] have shown that if the tax rate is flat and if taxable income is non-negative in all periods for all available depreciation methods, the accelerated depreciation method is most preferable for tax purposes. This is a consequence of the fact that a more accelerated method typically shifts taxable income to later periods, and when future money is discounted, paying taxes later is preferable to paying them now.

Thus, depreciation should be treated broader than the invention is provided with the Byelorussian traditional concept. Necessity of formation and introduction of depreciation policy of an enterprise is obvious. Depreciation can be very flexible and in many respects depends on what purpose the enterprise is persecuting. Especially, if to treat depreciation as an opportunity to write off business charges on costs, which are connected with purchasing

of a certain capital asset. In other words, it is necessary to work out modern and actual concept of depreciation, allowing perceiving depreciation charges as cash inflow. Means of a depreciation fund should be used effectively; they should reduce negative influence of inflationary processes on it.

However, when forming depreciation policy of an enterprise within the limits of the new "realistic" concept they should not forget that depreciation carries out a number of concrete functions and the main of these functions is renovation. It is impossible to ignore it in order to prevent infringement of the system organization of the processes proceeding at the enterprises of the Republic of Belarus. It is necessary to go further, to use the sums of depreciation charges as a cash flow which should bring additional benefits to an enterprise. If to take into account modern rates of scientific and technical progress, it is necessary to turn from simple reproduction of an asset to qualitative and extended. It is also necessary to study the international experience of depreciation and effective usage of depreciation charges.

Unfortunately we have not found data about the Polish enterprises. Therefore we could not compare a situation in Belarus and Poland. Such comparison would be very interesting.

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