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One of the basic objectives of financial accounting is to calculate the true profit of loss from the operation of the enterprise for a particular period (Moody, 1974). As per matching principle of accountancy the costs of the products must be matched with the revenues in each period. This principle indicates that if any revenue is earned and recorded then all costs whether paid or outstanding must also be recorded in books of account so that the profit and loss account could give a true and fair view of the profits earned or loss suffered during the period and balance sheet presents true and fair view of a financial position of the business (Edwards, 1961). The accounting concept of depreciation refers to the process of allocating the initial or re-stated input valuation (cost or other basis) of plant and equipments to their useful life and charge the amount to revenue account as expenditure (Woods, 2007).

According to Akanni (1988) depreciation is charged on the fixed assets or those assets which are of material value having long life and are held to be used in business and are not primarily for resale or for conversion into cash. Usually, with the exception of land, fixed assets have a limited number of the years of useful life. Motor vans, machines, buildings and fixtures, for instance do not last for ever. Even land itself may have all or part of its usefulness exhausted after few years. Some types of lands used for quarries, mines or land of another sort of washing nature would be examples. When a fixed asset bought is put out of use by the firm, that part of the cost that is not recovered on disposal is called depreciation.

The American institute of certified public accountants has defined the depreciation as Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not valuation (Matheson, 1984). Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to the effect of all such occurrences (Anao, 1996).

Some definitions given by prominent authors and institutes of accountancy are given as depreciation may be defined as the permanent and continuous diminution in the quality, quantity or value of an asset. Also, depreciation is diminution in the intrinsic value of asset due to use and/or the lapse of the time. This is according to ICMA Terminology. In simple words, depreciation can be defined as a permanent, continuing and gradual shrinkage in the book value of a fixed asset. From the above definitions it is clear that depreciation is the gradual, continuing and permanent fall in the value of fixed assets. The main causes for this fall in value are wear and tear of assets accidents, passage of time, obsolescence, inadequacies, and depletion etc. even in the recent edition of English language dictionaries the word “depreciation” has been described as “decline in the value of an asset due to such causes as wear and tear, action of elements, obsolescence and inadequacy.” Although these traditional views are under pressure because of the recognition of the changes in the value of naira and replacement costs, (Development of inflation accounting and replacement value technique) even then they have their historical significances.

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