

## CHAPTER VI

### THE EFFECT OF NON-AGREEMENT OF ACTUAL WITH PROBABLE LIFE UPON THE DETERMINATION OF THE DEPRECIATION OR REPLACEMENT REQUIREMENT

**Depreciation Estimates are Approximations.** — Consideration is now to be given to depreciation as a factor affecting the required earnings. It is not enough to know what the theoretical depreciation will be if estimated from the probable life of any article. Any article in use may be considered as being gradually consumed in the service. When no longer useful, it must be replaced. The replacement requirement therefore must be estimated. To do this properly something more must be known besides the cost, probable life, and age. It will be necessary to take the condition of the article into account — to give consideration in other words to the question of whether it will outlast its probable term of usefulness or not. To disregard this fact results in crude approximation and loose methods of accounting which are undesirable.

**Probable Life is Based on Experience.** — The sum of all experience, so far as the same has been made a matter of record, fixes the probable life of various classes of articles. Some articles in every class will fail early, others will survive their probable life term. When any system of accounting is adopted under which the capital invested in individualized articles is to be retired during their probable life, some articles will fail before their cost is completely amortized and there will be others continuing to render efficient service after their cost has been completely amortized. The anomaly results of having to carry in the accounts a part of the cost of articles no longer in use but still in the process of amortization and also of having