



Groww Digest

6 Day Course

Theme: depreciation

July 8 to July 14, 2024

6 Day Course is a part of our newsletter series, Groww Digest - all things personal finance.

Want to get Groww Digest in your email?

Click here: [Get Groww Digest](#)

Day 1: Monday

Theme: depreciation

With time, some things get cheaper — they lose their value.

You would have heard the words 'depreciating asset'.

Many people give the example of a car: a car is a depreciating asset.

As it gets older, its price goes down.

It is an unavoidable part of our lives.

- In what cases is depreciation okay?
- When is it not okay?
- And what to do about it?

In this week's course, we will understand depreciation in detail.

Day 2: Tuesday

Theme: depreciation

Depreciation works in the opposite manner to investments.

Investing:

Say you invested Rs 1 lakh. And say the value grows by 10% per annum.

So after 1 year, the asset will be worth Rs 1 lakh + 10% of Rs 1 lakh = Rs 1.10 lakh.

In depreciating assets:

Say something is worth Rs 1 lakh. And say the value depreciates by 10% per annum.

So after 1 year, the asset will be worth Rs 1 lakh - 10% of Rs 1 lakh = Rs 0.9 lakh or Rs 90,000.

When the price or value of something falls, it is called depreciation.

When the price or value of something rises, it is called appreciation.

Day 3: Wednesday

Theme: depreciation

The words 'depreciating asset' are commonly associated with cars.

Most cars' value falls by over 10% within 1 year. And through its life, the value keeps falling.

But this depreciation is not that simple.

Why do you own that car?

If it is just sitting in your garage, it is a depreciating asset.

If it helps you reach the office or helps you earn money in some way, it is a useful depreciating asset.

Many companies are able to factor their cars' depreciation to reduce their total income — and therefore reduce their taxes.

Similarly, electronics like phones, laptops, etc, are also depreciating assets.

Day 4: Thursday

Theme: depreciation

Real estate prices also depreciate with time.

We might not notice it because the value of the land itself is going up.

But if you keep other economic factors constant, newer buildings will usually fetch a better price than older ones.

Example: there are two plots that are both 1 acre with office buildings on them.

- One building was built 5 years ago.
- The other one was built 60 years ago.

Let's say both the plots are in the same area of the city.

Usually, the newer building plot will usually get a better price when sold.

This is because, with time, a building gets weaker and worn out.

Day 5: Friday

Theme: depreciation

Some items can feel like they are investments — but that might not be the case.

Many investors tend to view jewellery as an investment.

This is a complicated topic.

For example, gold and silver jewellery — their prices can go up.

But that is purely because of the increase in price of the metals. Money spent on 'making charges' does not hold value.

So, let's say some jewellery has Rs 20,000 worth of gold in it. The making charges are Rs 7,000.

So you spent Rs 27,000 total.

If you try to sell this gold the next day, the 'making charges' part will not be valued much.

You will most likely be offered an amount closer to Rs 20,000.

The making charges are mostly ignored.

The Rs 20,000 part is the real investment.

Of course, there are cases where the jewellery is valued not only for its metal value but also the design/skill.

But that is not as common.

Day 6: Sunday

Theme: depreciation

We've reached the end of this week's course that started on Monday.

Here's a test you should take. Get pen and paper!

Question 1:

When the price or value of something falls, it is called _____ ?

- Deflation
- Money fall
- Depreciation

Question 2:

Companies can report the depreciation of their assets to the authorities to reduce the tax charges on them.

- True
- False

Day 6: Sunday

Theme: depreciation

Question 3:

Real estate prices always appreciate irrespective of the market conditions and their area.

- True
- False

Question 4:

Buying jewellery can also have _____ charges that do not hold any investment value. Only the metal value can appreciate over time.

- Extracting
- Making
- Storing

Question 5:

Some assets hold value not in terms of their prices, but in their usefulness. Like a family car can have great utility over years while it's technically a depreciating asset.

- True
- False

Day 6: Sunday

Theme: depreciation

Answers:

Q1: Depreciation

Q2: True

Q3: False

Q4: Making

Q5: True

That's it for this week!

Want to get Groww Digest in your email?

Click here: [Get Groww Digest](#)

See you next week!

—Groww Digest Team