NEERAJ BHAGAT & CO.
Chartered Accountants

Depreciation as per Schedule II of Companies Act, 2013

Contents

FAQs

Q1. **When are the new provisions of depreciation applicable from?**

A. New provisions of 2013 Act are made applicable w.e.f. 1st April, 2014.

Q2. **Should one wait for next financial year or comply now?**

A. Yes, the provisions should be complied right from April, 2014 mandatorily as the carrying cost is to be depreciated in remaining useful life of an asset as per Schedule II, and where remaining useful life is Nil, carrying cost (after retaining residual value) is to be recognized in opening balance of retained earnings.

Q3. **What can be the Estimated Residual Value of an asset?**

A. Residual value should generally be not more than 5% of the original cost of the asset for all companies (other than Regulatory Authority constituted under an Act of Parliament or by Central Government). However, it can be higher in case of all other companies, if justification is disclosed in financial statements.

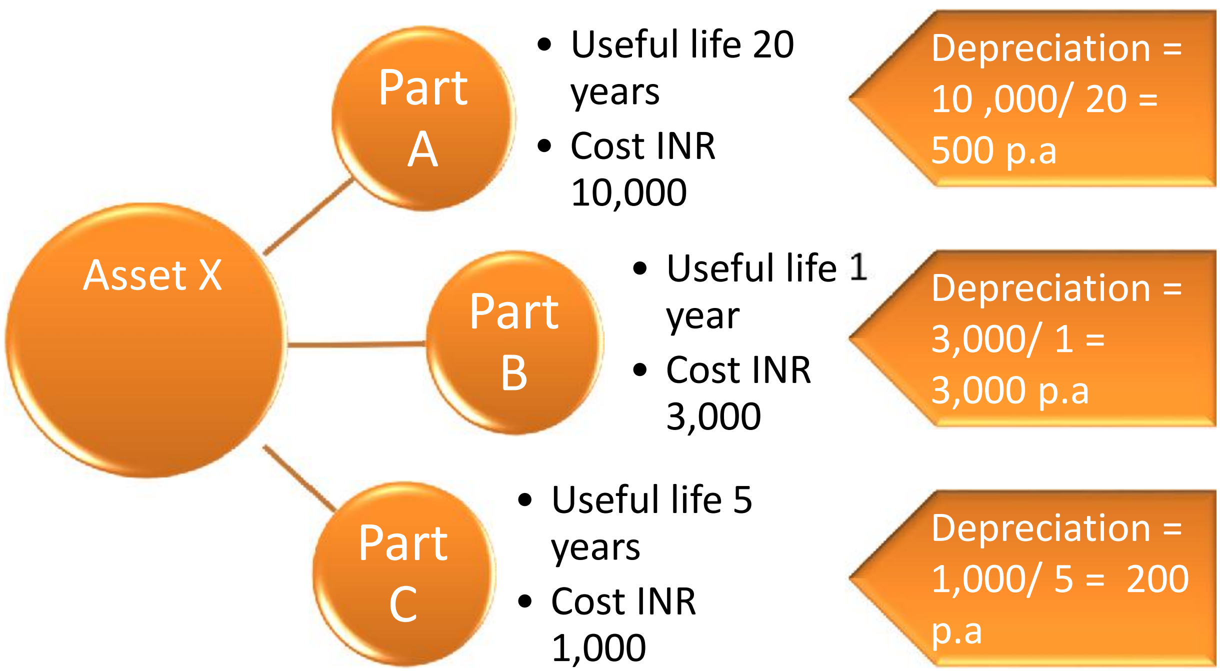
Q4. **What is the useful life of the assets to be taken?**

A. Useful life of assets have been prescribed under Part C of Schedule II (for other than Regulatory Authority). The useful life shall not be more than as prescribed in Part C . In case it is more than that prescribed in Part C of schedule II then justification for the same needs to be given in financial statement.

Q5. **What if useful life of a part of asset is significant and different from useful life of the remaining asset?**

A. In that case, useful life of the significant part shall be determined separately.

For instance, Asset X has 3 components- Part A, B and C which have different costs and useful lives. Depreciation would be considered separately for such parts as per Schedule II.



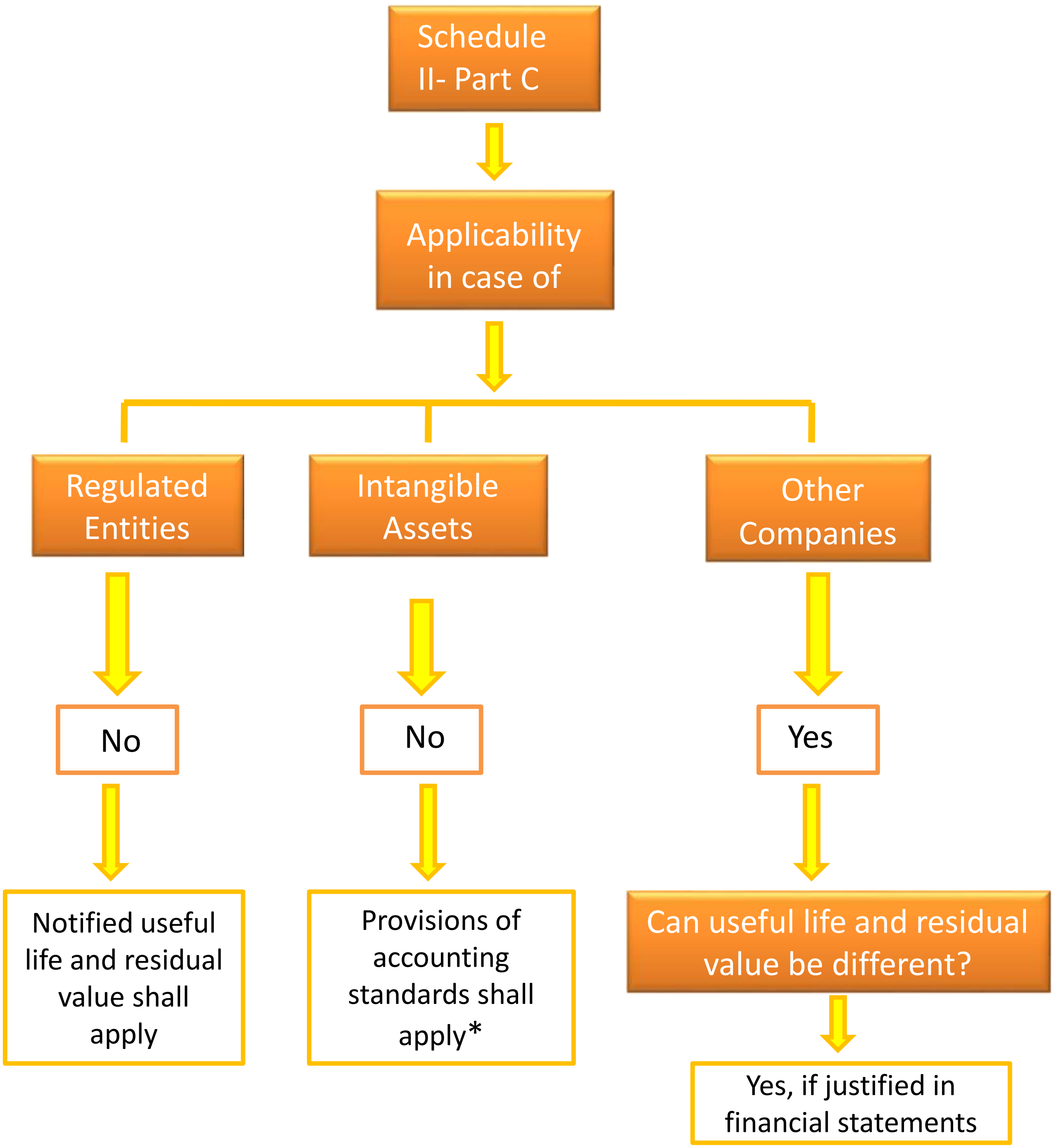
- **What is Schedule II ?**

Schedule II of Companies Act 2013 provides the useful lifes of tangible assets as against the minimum rates of depreciation which were specified in Schedule XIV of the Companies Act, 1956.

Here are some of the assets as mentioned in Part C of Schedule II:

Nature of Assets	Useful Life (years)
Plant and Machinery	15
Furniture and Fittings	10
Motor Vehicle	10
Computers & Laptops	3
Office Equipment	5
Buildings	60

- **Applicability of Schedule II**



*Except for "Toll Roads" created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects, amortization basis will be same as what was applicable under the Companies Act, 1956.

Schedule II is applicable to all companies, except in case of:

1. **Regulatory Authority** constituted under an Act of Parliament or by Central Government – for which notified rates are applicable .

2. **Intangible Assets**, for which notified Accounting Standards apply.

• **Other companies** *(viz. other than those mentioned above)*, useful life and residual value shall not be more than that specified in Part C.

However, the Ministry of Corporate Affairs had later issued amendment vide notification F No. 17/60/2012-CL-V where it has been provided that "the useful life of an asset shall not be longer than the useful life specified in Part 'C' and the residual value of an asset shall not be more than five per cent of the original cost of the asset.

*Provided that in case useful life or residual value of the asset is different from the above limits, justification for the difference shall be disclosed in its financial statement."

Thus, now all companies (other than the entities in respect of which a Regulatory Authority has specified the useful life or residual value)will have to take the useful life and residual value as per Part C of schedule II . In case it differs from what is stated in Schedule II, they will have to give reasons justifying the same. By virtue of this, a level playing field has been provided to the Indian Companies vis- a -vis the international practices in this regard.

- **Carrying Cost of Asset as on 1st April 2014**

From the date Schedule II comes into effect, the carrying amount of the asset as on that date (i.e., 1st April, 2014):

•should be depreciated over the remaining useful life of the asset as per Schedule II;

•after retaining the residual value, should be recognized in the opening balance of retained earnings where the remaining useful life of an asset is nil.

Illustration:

A company acquired a building (other than factory building and RCC Frame Structure) at a cost of INR 100 million. The company was depreciating the building according to Schedule XIV at SLM rate, i.e., 1.63% (rate computed assuming useful life to be approximately 60 years). Now, in April, 2014, Schedule II of the Companies Act, 2013 became effective, useful life specified in which is 30 years.

Analysis

A. Transition effect in case the building is acquired on 1st April, 2000

Depreciation charged till FY 2013-14, i.e., depreciation on SLM for 14 years
= INR 100 mn*1.63%*14 yrs = INR 2,28,20,000

Carrying Value as on 1st April, 2014

Cost less accumulated depreciation till FY 2013-14
=INR 10,00,00,000 – INR 2,28,20,000
=INR 7,71,80,000

The carrying value as on 1st April, 2014 will be depreciated over the remaining useful life of the asset as per Schedule II of the Companies Act, 2013. The remaining useful life as per new Schedule is (30-14) 16 years. Accordingly, depreciable amount of INR 7,71,80,000 will be depreciated over 16 years.

So, annual depreciation to be charged to Profit and loss account from FY 2014-15 onwards would be INR 7,71,80,000/16 yrs , i.e., INR 48,23,750.

Impact

•After 16 years from FY 2014-15, i.e., from FY 2030-31 onwards no depreciation would be charged.

•For 16 years, i.e., from FY 2014-15 to FY 2029-30, higher depreciation would be charged. If Schedule II would not have been introduced, depreciation charged annually would have been INR 100 mn * 1.63% = INR 16,30,000. After the introduction of Schedule II of the Companies Act, 2013, depreciation charged for these 16 years would be INR 48,23,750 which is higher by INR 31,93,750 per year.

B. Transition effect in case the building is acquired on 1st April, 1980

If the building would have been purchased on 1st April, 1980, then as on 1st April, 2014, useful life of 30 years as per new Schedule has already expired. In such case, the carrying value as on 1st April, 2014 would be recognized in the opening balance of retained earnings.
Depreciation charged till FY 2013-14, i.e., depreciation on SLM for 34 years
= INR 100 mn*1.63%*34 yrs = INR 5,54,20,000

Carrying Value as on 1st April, 2014

Cost less accumulated depreciation till FY 2013-14
= INR 10,00,00,000 – INR 5,54,20,000 = INR 4,45,80,000

Carrying value as on 1st April, 2014 of INR 4,45,80,000 would be recognized in the opening balance of retained earnings. (assuming residual value to be nil)

Impact

•Opening balance of retained earnings would reduce by the carrying amount.

•No depreciation from FY 2014-15 onwards shall be charged to the profit and loss account, which otherwise would have been charged if Schedule II would not have come into force.

Note: In case, there is a residual value, say, INR 10,00,000 then INR 4,35,80,000 would be recognized in the opening balance of retained earnings and INR 10,00,000 will remain in the carrying amount of asset.

- **Comparison with Schedule XIV of Companies Act, 1956**

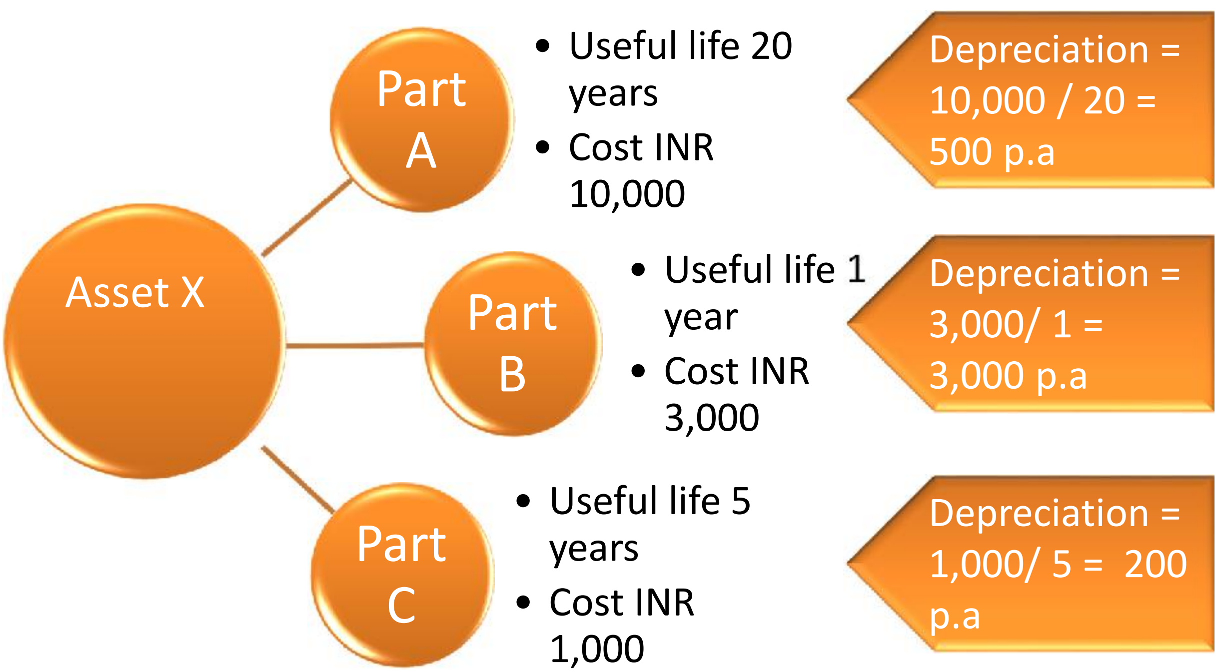
			Companies Act, 2013	Companies Act, 1956
Companies other than regulatory authority	Useful Life	Can be higher	Yes	No
		Can be lower	Yes	Yes
	Residual Value	Can be higher	Yes	*No provision
		Can be lower	Yes	*No provision

*Residual value was inbuilt in depreciation rates prescribed under Schedule XIV.

- **Component Accounting**

Useful life specified in Part C of the Schedule is for whole of the asset.
Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part should be determined separately.

Hence, component accounting is mandatory pursuant to the introduction of Companies Act, 2013.



No concept of minimum cost of asset

There is no specific requirement of 100% depreciation on assets whose actual cost does not exceed Rs. 5,000 in the Companies Act, 2013.

Pro-rata basis of charging depreciation

Where, during any financial year, addition/ deletion has been made to any asset, depreciation shall be calculated on pro rata basis from/ up-to the date of such addition/ deletion respectively.

Extra Shift Depreciation

No separate rates have been prescribed for extra shift depreciation. The period of time an asset is used in extra shift, depreciation will increase by 50% in case of double shift working and by 100% in case of triple shift working.

Residual Value

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Ordinarily, the residual value is often insignificant, but it should generally be not more than 5% of the original cost of the asset.

Intangible Assets

No separate depreciation rate is prescribed for intangible assets in the Schedule II of the Companies Act, 2013. Rather, the same will be governed by the notified AS (i.e., AS 26).
In case of intangible assets (Toll Roads) created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects, amortization basis will be same as what was applicable under the Companies Act, 1956.
In practice, we do not expect a change in amortization amount in respect of Intangible assets pursuant to applicability of Companies Act,2013.

Disclosure in Financial Statements

The following information shall also be disclosed in the accounts, namely:

(i) Depreciation method used, and

(ii) The useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.

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