Dissecting the New Law

Treatment of Depreciation

As per the Companies Bill 2013

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Treatment of Depreciation as per the Companies Bill, 2013

As per the Companies Bill, Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life (including amortization) .The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value.

The useful life of an asset is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by the entity.

Following are the corresponding provisions of Companies Bill with respect to Companies Act, 1956.

Sl.	The Companies Act, 1956	The Companies Bill, 2013
1	Section 350 governs the ascertainment of Depreciation with reference to Schedule XIV	Schedule II of the Companies Bill 2013 contains the provisions for "Useful lives to Compute Depreciation"
2	The Companies Act, 1956 requires depreciation to be provided on each depreciable asset so as to write-off 95% of its original cost over a specified period. The remaining 5% is treated as residual value.	The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value (generally not more than 5%)
3	The Schedule XIV to the Companies Act, 1956 prescribes the rates of Straight Line Method and Written down Value at which depreciation on various assets need to be provided.	Only useful life is provided , therefore the entity is required to calculate the appropriate rate of depreciation as per the method used by it (SLM or WDV)
4	Schedule XIV provides separate depreciation rates for double shift and triple shift use of assets.	No separate rates are prescribed for extra shift depreciation. **For the period of time an asset** [other than NESD (No Extra Shift Depreciation)] **is used in double shift, depreciation will increase by 50% and by 100% in case of triple shift working.**

Sl.	The Companies Act, 1956	The Companies Bill, 2013
5	Unit of production (UOP) method for calculation of depreciation is not allowed as per circular issued by MCA.	The useful life of an asset can be the number of production or **similar units** expected to be obtained from the asset. This indicates that a company may be able to use UOP method for depreciation.
6	Assets whose actual cost does not exceed Rs. 5000/- are depreciated @ 100%.	There is **no specific requirement** for providing depreciation on assets whose actual cost does not exceed Rs.5000/-
7	Treatment for Depreciation on intangible Assets was notified by MCA in its circular dated 17th April 2012.	No separate depreciation rate is prescribed for Intangible assets. **The same will be governed by Accounting Standards.**

Other noteworthy Changes in the Bill with respect to depreciation are as follows:

- Useful life of fixed assets under the Companies Bill **are different** than those mentioned under Schedule XIV of the Companies Act, 1956.

- **From the date of the Companies Bill coming into effect, the carrying amount (WDV) of the asset as on that date:**

    a. Will be depreciated over the remaining useful life of the asset **according to the Bill.**

    b. after retaining the residual value, will be recognized in the opening retained earnings where the remaining useful life is nil.

- All companies will be **divided into the following classes** to decide application of depreciation rates:

    a. Class of companies as may be prescribed and whose financial statements comply with the Accounting Standards prescribed for such class of companies will use useful lives and residual values prescribed in the Part "C" of schedule II. However, these companies will be **permitted to adopt**

a different useful life or residual value for their assets, provided they disclose justification for the same.

b. Other companies - For these companies, the useful life of an asset will not be longer than the useful life and the residual value will not be higher than that prescribed in the proposed Schedule.

c. For Government Companies - The useful life or residual value of any specific asset, as notified for accounting purposes by a Regulatory Authority constituted under an Act of Parliament or by the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule

- Where the cost of a part of asset is significant to total cost of asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part will be determined separately.

Disclaimer

This note is based on the research and contains the views of the authors on the above subject. The note is intended to initiate sharing of knowledge on Companies Bill, 2013 and cannot be construed to be any professional or legal advice.

Any error may be communicated to the author at: csarpitshah@gmail.com

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