

Depreciation Rules Under New Companies Act 2013



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INTRODUCTION

The Ministry of Corporate Affairs (MCA) vide its Notification dated 26-03-2014 has appointed 1.04.2014 as the date from which several provisions of The Companies Act, 2013 come into force. One among the notified provisions is Schedule II which pertains to Depreciation.

KEY POINTS

- Definition
- Useful life
- Classes of companies
- Component approach
- Multiple shifts
- Depreciation on Revalued Assets
- Transitional Provisions
- Methods of Depreciation
- Formula of Depreciation
- Others points

DEFINITION AS PER COMPANIES ACT 2013

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. 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.

USEFUL LIFE:-

Unlike the Companies Act, 1956, Useful lives of the assets have been prescribed instead of rates of depreciation in Part C of Schedule II of the Companies Act, 2013, as a base for computing depreciation. All companies shall be classified into three categories to determine the application of useful lives.

Notified class of Companies	Applicability
Prescribed class of Companies who comply with Accounting Standards prescribed for them (this class of companies is yet to be notified)	These companies can opt either to use useful lives and residual values prescribed in Schedule II or different useful lives or residual value for their assets, provided they disclose justification for the same.
Class of Companies or Class of assets whose useful lives or residual values are prescribed by any Statutory authority or legislation (Electricity companies, Insurance companies etc.,)	These companies will use depreciation rates or useful lives and residual values prescribed by relevant authority or legislation for depreciation purposes
Other companies	The useful life of an asset will not be longer than the useful life and residual value will not be higher than that prescribed in the schedule.

COMPONENT APPROACH:

The useful lives prescribed in Part C of Schedule II pertain to whole of the assets. Where cost of a component of the asset is significant to the total cost of the asset and useful life of that component differs from that of the asset, then the useful life of that component shall be determined separately and depreciation is calculated accordingly. This is called Component Approach. This concept of accounting which was hitherto not there has been introduced with the Companies Act, 2013. This approach is in consonance with the depreciation computation prescribed in Indian Accounting standards (Ind As 16).

MULTIPLE SHIFTS:

Unlike Companies Act, 1956, no specific rates for double shift or triple shift are prescribed under the companies Act, 2013. If any asset is used for double shift for any time during the year, the depreciation will be increased by 50% for that period and in case of triple shift it is 100%.

DEPRECIATION ON REVALUED ASSETS:

As per Guidance note given by the Institute of Chartered Accountants of India (ICAI) on “*Treatment of Reserve created on Revaluation of Fixed assets*”, only depreciation pertaining to historical cost needs to be provided out of current profits of the company. The additional depreciation arising on account of upward revaluation of Fixed Assets is to be transferred from Revaluation Reserve to Profit & Loss account.

The above procedure is in vogue till now. But the scenario has changed with the introduction of new Companies Act. As per the Companies Act, 2013, the depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. Therefore, in case of revaluation, depreciation will be based on the Revalued amount. Consequently, the ICAI Guidance Note may not apply and full depreciation on revalued amount is expected to be provided.

TRANSITIONAL PROVISIONS:

The carrying amount of the asset as on 01.04.2014 will be depreciated over the remaining useful life of the asset according to the Companies Act, 2013 and if the remaining useful life is nil, then any carrying cost remained apart from Residual Value will be recognized in the opening retained earnings.

FORMULA OF CALCULATION OF DEPRICATION

Depreciable amount of an asset = Cost of an asset/other amount substituted for cost

(-)

Residual value

(Residual value should not be more than 5 % of the original cost of the asset)

METHOD OF DEPRECIATION :

1. Straight Line Method
2. Written Down Value Methods of Depreciation,
3. Unit of Production Method

are acceptable method of depreciation under the new Act.

OTHER POINTS:

1. "Factory buildings" does not include offices, godowns, staff quarters.
2. Where, during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such assets shall be calculated on a *pro rata* basis from the date of such addition or, as the case may be, up to the date on which such asset has been sold, discarded, demolished or destroyed.
3. The following information shall also be disclosed in the accounts, namely:—
 - (i) depreciation methods used; and
 - (ii) the useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.
4. 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 shall be determined separately.
5. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Ordinarily, the residual value of an asset is often insignificant but it should generally be not more than 5% of the original cost of the asset.
6. The useful lives of assets working on shift basis have been specified in the Schedule based on their single shift working. Except for assets in respect of which no extra shift depreciation is permitted (indicated by NESD in Part C above), if an asset is used for any time during the year for double shift, the depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period.
7. From the date this Schedule comes into effect, the carrying amount of the asset as on that date—
 - (a) shall be depreciated over the remaining useful life of the asset as per this Schedule;
 - (b) after retaining the residual value, shall be recognised in the opening balance

of retained earnings where the remaining useful life of an asset is nil.

8. “Continuous process plant” means a plant which is required and designed to operate for twenty-four hours a day.

COMPANIES ACT,1956-SCH.XIV VS 2013-SCH.II

.Companies Act,1956 – Sch.XIV	Companies Act,2013- Sch.II
It deals with only depreciation of tangible assets.	It deals with the amortization of intangible assets also.
It contained rates of depreciation of tangible assets.	It contains only useful lives of tangible assets and does not prescribe depreciation rates.
100% Depreciation shall be charged on assets whose actual cost does not exceed Rs.5,000/-	Omits the provision for 100% Depreciation on immaterial items i.e, assets whose actual cost does not exceed Rs.5,000/-
Unit of production method of depreciation not permissible as per ‘MCA Circular’	Unit of production method of depreciation permitted
Extra Shift Depreciation (ESD) not applicable to • Items marked NESD in the schedule • Specified items of P&M to which general rate of Depreciation was applicable.	Extra Shift Depreciation (ESD) not applicable to • Items marked NESD in the schedule. • ESD will apply to P&M items subject to general rate i.e., useful life of 15 years.
ESD for double shift and triple shift was to be made separately in proportion with act- No.of days for which concern worked second shift or triple shift bears to normal No.of working days in a year. For Seasonal factory: Greater of actuals and 180 days. Other cases: Greater of actual and 240 days.	ESD working simplified by the 2013 act- For Double shift: 50% more depreciation for that period for which asset used. For Triple shift: 100% more depreciation for that period for which asset used.

THE USEFUL LIVES OF ASSETS

As per new company act 2013 there is useful lives of assets is important than rate of depreciation .Here are the following the useful lives of various tangible assets:

Nature of assets Useful Life

I. Buildings [NESD]

- Buildings (other than factory buildings) RCC Frame Structure --60 Years
- Buildings (other than factory buildings) other than RCC Frame Structure 30 Years
- Factory buildings -do-
- Fences, wells, tube wells 5 Years
- Others (including temporary structure, etc.) 3 Years

II. Bridges, culverts, bunders, etc. [NESD] 30 Years

III. Roads [NESD]

- Carpeted roads

- (i) Carpeted Roads-RCC 10 Years
- (ii) Carpeted Roads-other than RCC 5 Years
- (b) Non-carpeted roads 3 Years

IV. Plant and Machinery

(i) General rate applicable to plant and machinery not covered under special plant and machinery

- (a) Plant and Machinery other than continuous process plant not covered under specific industries 15 Years
- (b) continuous process plant for which no special rate has been prescribed under (ii) below [NESD] 8 Years

(ii) Special Plant and Machinery

(a) Plant and Machinery related to production and exhibition of Motion Picture Films

1. Cinematograph films—Machinery used in the production and exhibition of cinematograph films, recording and reproducing equipments, developing machines, printing machines, editing machines, synchronizers and studio lights except bulbs 13 Years

2. Projecting equipment for exhibition of films -do-

(b) Plant and Machinery used in glass manufacturing

1. Plant and Machinery except direct fire glass melting furnaces —
Recuperative and regenerative glass melting furnaces 13 Years

2. Plant and Machinery except direct fire glass melting furnaces —
Moulds [NESD] 8 Years

3. Float Glass Melting Furnaces [NESD] 10 Years

(c) Plant and Machinery used in mines and quarries—Portable underground machinery and earth moving machinery used in open cast mining [NESD] 8 Years

(d) Plant and Machinery used in Telecommunications [NESD]

1. Towers 18 Years

2. Telecom transceivers, switching centres, transmission and other network equipment 13 Years

3. Telecom—Ducts, Cables and optical fibre 18 Years

4. Satellites -do-

(e) Plant and Machinery used in exploration, production and refining oil and gas [NESD]

1. Refineries 25 Years

2. Oil and gas assets (including wells), processing plant and facilities -do-

3. Petrochemical Plant -do-

4. Storage tanks and related equipment -do-

5. Pipelines 30 Years

6. Drilling Rig -do-

7. Field operations (above ground) Portable boilers, drilling tools, well-head tanks, etc. 8 Years

8. Loggers –do SEC.

(f) Plant and Machinery used in generation, transmission and distribution of power [NESD]

1. Thermal/ Gas/ Combined Cycle Power Generation Plant 40 Years

2. Hydro Power Generation Plant -do-

3. Nuclear Power Generation Plant -do-

4. Transmission lines, cables and other network assets -do-

5. Wind Power Generation Plant 22 Years

6. Electric Distribution Plant 35 Years

7. Gas Storage and Distribution Plant 30 Years

8. Water Distribution Plant including pipelines -do-

(g) Plant and Machinery used in manufacture of steel

1. Sinter Plant 20 Years

2. Blast Furnace -do-

3. Coke ovens -do-

4. Rolling mill in steel plant -do-

5. Basic oxygen Furnace Converter 25 Years

(h) Plant and Machinery used in manufacture of non-ferrous metals

1. Metal pot line [NESD] 40 Years
2. Bauxite crushing and grinding section [NESD] -do-
3. Digester Section [NESD] -do-
4. Turbine [NESD] -do-
5. Equipments for Calcination [NESD] -do-
6. Copper Smelter [NESD] -do-
7. Roll Grinder 40 Years
8. Soaking Pit 30 Years
9. Annealing Furnace -do-
10. Rolling Mills -do-
11. Equipments for Scalping, Slitting , etc. [NESD] -do-
12. Surface Miner, Ripper Dozer, etc., used in mines 25 Years
13. Copper refining plant [NESD] -do-

(i) Plant and Machinery used in medical and surgical operations [NESD]

1. Electrical Machinery, X-ray and electrotherapeutic apparatus and accessories thereto, medical, diagnostic equipments, namely, Cat-scan, Ultrasound Machines, ECG Monitors, etc. 13 Years
2. Other Equipments. 15 Years

(j) Plant and Machinery used in manufacture of pharmaceuticals and chemicals [NESD]

1. Reactors 20 Years
2. Distillation Columns -do-
3. Drying equipments/Centrifuges and Decanters -do-
4. Vessel/storage tanks -do-

(k) Plant and Machinery used in civil construction

1. Concreting, Crushing, Piling Equipments and Road Making Equipments 12 Years
2. Heavy Lift Equipments—
Cranes with capacity of more than 100 tons 20 Years
Cranes with capacity of less than 100 tons 15 Years
3. Transmission line, Tunneling Equipments [NESD] 10 Years
4. Earth-moving equipments 9 Years
5. Others including Material Handling /Pipeline/Welding Equipments [NESD] 12 Years

(l) Plant and Machinery used in salt works [NESD] 15 Years

V. Furniture and fittings [NESD]

(i) General furniture and fittings 10 Years

(ii) Furniture and fittings used in hotels, restaurants and boarding houses, schools, colleges and other educational institutions, libraries; welfare centres; meeting halls, cinema houses; theatres and circuses; and furniture and fittings let out on hire for use on the occasion of marriages and similar functions. 8 Years

VI. Motor Vehicles [NESD]

1. Motor cycles, scooters and other mopeds 10 Years
2. Motor buses, motor lorries, motor cars and motor taxis used in a business of running them on hire 6 Years
3. Motor buses, motor lorries and motor cars other than those used in a business of running them on hire 8 Years
4. Motor tractors, harvesting combines and heavy vehicles -do-
5. Electrically operated vehicles including battery powered or fuel cell powered vehicles 8 Years

VII. Ships [NESD]

1. Ocean-going ships

(i) Bulk Carriers and liner vessels 25 Years

(ii) Crude tankers, product carriers and easy chemical carriers with or without conventional tank coatings. 20 Years

(iii) Chemicals and Acid Carriers:

- (a) With Stainless steel tanks 25 Years
 - (b) With other tanks 20 Years
 - (iv) Liquefied gas carriers 30 Years
 - (v) Conventional large passenger vessels which are used for cruise purpose also -do-
 - (vi) Coastal service ships of all categories -do-
 - (vii) Offshore supply and support vessels 20 Years
 - (viii) Catamarans and other high speed passenger for ships or boats -do
 - (ix) Drill ships 25 Years
 - (x) Hovercrafts 15 Years
 - (xi) Fishing vessels with wooden hull 10 Years
 - (xii) Dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes 14 Years
2. Vessels ordinarily operating on inland waters—
- (i) Speed boats 13 Years
 - (ii) Other vessels 28 Years
- VIII. Aircrafts or Helicopters [NESD] 20 Years**
- IX. Railways sidings, locomotives, rolling stocks, tramways and railways used by concerns, excluding railway concerns [NESD] 15 Years**
- X. Ropeway structures [NESD] 15 Years**
- XI. Office equipment [NESD] 5 Years**
- XII. Computers and data processing units [NESD]**
- (i) Servers and networks 6 Years
 - (ii) End user devices, such as, desktops, laptops, etc. 3 Years
- XIII. Laboratory equipment [NESD]**
- (i) General laboratory equipment 10 Years
 - (ii) Laboratory equipments used in educational institutions 5 Years
- XIV. Electrical Installations and Equipment [NESD] 10 years**
- XV. Hydraulic works, pipelines and sluices [NESD] 15 Years**

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