PANKAJ AGARWALA & ASSOCIATES
Chartered Accountants
Mobile: + 91 89677 02660
Email: agarwalapankaj15@yahoo.com

Depreciation as per Companies Act, 2013

Depreciation (Schedule II of the Act) :

- Depreciation on tangible assets based on estimated useful life.
  - Focus has been shifted from 'rates' to 'useful life'.
  - Useful life of an asset is the period over which the asset is expected to be available for use by the entity or number of production or similar units expected to be obtained from the assets.

- All companies shall be classified into 3 categories to determine the application of useful lives.

- Class of companies as may be prescribed and whose financial statements comply with Accounting Standards prescribed for them: such 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.

- Componentisation of assets has been mandated.
  - Separate capitalisation and depreciation of a part of an asset if its cost is significant to the total cost of the asset and its estimated life is different from the remaining asset

- Significant revision in the rate of depreciation of commonly used assets as compared to Schedule XIV rates of the Companies Act, 1956

Comparison of Key Depreciation rates and the impact thereon.

Nature of Asset	Companies Act, 2013		Companies, Act 1956	Increase	% Change
	Useful life	Deemed rate			
General Plant and Machinery Other than continuous process plant	15	6.33%	4.75%	1.58%	33.33%
General furniture and Fittings	10	9.50%	6.33%	3.17%	50.08%
Office Equipment	5	19.00%	4.75%	14.25%	300.00%
Desktops, laptops etc	3	31.67%	16.21%	15.46%	95.35%
Electrical installations	10	9.50%	4.75%	4.75%	100.00%

- Depreciation amount to be determined after reducing expected residual value (generally not more than 5% of the original cost of the asset).

- No specific provision for 100 % rate on assets below Rs. 5,000

- Apart from Straight Line and Written Down Value Methods of Depreciation, Unit of Production Method is also an acceptable method of depreciation under the new Act.

  Unit of Production method - According to Part A of schedule II : "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". So, companies can also follow the Unit of Production method for the depreciation of the assets.

- Depreciation / amortization of intangible assets shall be as per the Accounting Standards.

- In Schedule XIV of Companies Act, 1956 for the assets used in double shift or triple shift, **shift wise different rates are prescribed,** whereas in Schedule II of Companies Act, 2013 it specifies that 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. **No additional deprecation** for the assets in respect of which no extra shift depreciation is permitted and the same is indicated by NESD in Part C.

Let us understand it with the following comparable table which is derived Useful life of assets if it is used for Double and triple shift and comparison with Companies Act, 1956

Asset	Shift	Companies Act, 1956			Companies Act, 2013	
		WDV	**SLM**	**Useful Life derived based on Rate of Depreciation**	**Increase in depreciation**	**Useful Life**
Plant and machinery	Single	13.91 %	4.75 %	20 Years	-	15 Years
Plant and machinery	Double	20.87 %	7.42 %	12 Years	50 %	10 Years
Plant and machinery	Triple	27.82 %	10.34 %	9 Years	100 %	7.5 Years

- Transitional Provisions
  - Carrying value (net of residual value) is to be depreciated, over the remaining revised useful life of the asset.
  - If the remaining useful life is nil, the carrying value, is to be charged to the opening balance of retained earnings.

- Incremental depreciation relating to surplus on revaluation of assets is to be charged to Profit & Loss Account.

- In case, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed during any financial year, 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.

COMPARATIVES

	Act 2013	Act 1956
Useful Life	- Tangible Assets: Useful Life of assets based on class of components - Intangible Assets : As per AS - Transactional Provisions	- 95% of cost to be depreciated at the rates specified in Schedule XIV (SLM or WDV) - AS 6
UoP Method	Allowed	Not allowed (MCA Circular)
Depreciable Amount	Cost or amount substituted for cost	Cost
Component Accounting	Mandatory	Optional
Extra Shift	Separate rates not prescribed Double Shift : Increase by 50% Triple Shift : Increase by 100%	Separate rates specified
Assets less than Rs. 5,000	No specific requirement	100%

ILLUSTRATIONS:

Situation 1: Remaining useful life is 1 year and Remaining Carrying Amount is 60% of Gross Block.

Solution: Whole 60% will be booked in Profit & Loss Account. This will affect Profit & Loss Account.

Situation 2: Remaining useful life is NIL and Remaining Carrying Amount is 60% of Gross Block.

Solution: Whole 60% will be charged to Retained Earnings (Profits). This will affect Balance Sheet.

Situation 3: As on 1st April 2008 consider the capitalization of Plant & Machinery (for continuous plant) of Rs 1,00,000. Also consider Schedule II of Companies Act 2013, to be applicable from 1st April 2014.

Particulars	**Companies Act, 1956**
Capitalization on 1st April 2008	1,00,000/-
Depreciation from 1st April 2008 – 31st March 2014 (Useful Life 18 years – 5.28 % SLM)	31,680/-
Balance as on 31st March 2014	68,320/-

As on date of Applicable of Schedule II:

Useful life of Plant and Machinery as per schedule II of companies Act, 2013	25 Years

PANKAJ AGARWALA & ASSOCIATES
Chartered Accountants
Mobile: + 91 89677 02660
Email: agarwalapankaj15@yahoo.com

Solution:

Carrying Amounts as on 31st March 2014 (As per previous table)	68,320
Residual Value	5 % of 1,00,000 = 5000
Balance years	25 – 6 = 19

So, the balance years' depreciation will be:

$$\textbf{Depreciation} = \frac{\textbf{Carrying Amount as on 31.03.2014 less residual Value}}{\textbf{No. Of Years}}$$

$$= \frac{\text{Rs } 68,320 - 5,000}{19\ (25-6)} = \text{Rs } 3,333/-$$

Depreciation = 3,333 per year from 1st April 2014 (2014-15) till the completion of useful life.

<u>Situation 4</u>: As on 1st April 2008 consider the capitalization of Office Equipment of Rs 1,00,000. Also consider Schedule II of Companies Act 2013, to be applicable from 1st April 2014.

Particulars	**As per Companies Act, 1956**
Capitalization on 1st April 2008	1,00,000/-
Depreciation from 1st April 2008 – 31st March 2014 (Useful Life 20 years – 13.91 % WDV)	59,289/-
Balance as on 31st March 2014	40,711/-

Solution: As per Schedule II of Companies Act, 2013 the useful life of Office Equipment is 5 years and 5 years are completed as on April 1, 2014, the remaining useful life is nil. So the balance amount after retaining the residual value to be recognized in the opening balance of retained earnings.

To be recognized in R/E on 1st April 2014	Carrying value on 31st March 2014 Less Residual Value (40,711 – 5000)
To be recognized in R/E on 1st April 2014	35,711

Following entry to be passed as on date of Applicable of Schedule II, for above adjustments in the Books of Accounts:

Date	**Particulars**	**Debit**	**Credit**
01.04.2014	Retained Earnings To, Accumulated Depreciation	35,711	 35,711

Situation 5 :

Particulars	**Asset A**	**Asset B**
Original cost of the Building (Other than factory building)	58 crore	58 crore
Useful life as per companies Act, 1956	58 years	58 years
Date of Capitalisation	1st April 1985	1st April 1984
Building already used till 31st March 2014	29 years	30 years
Residual Value (5 %)	2.9 crore	2.9 crore
Building (other than factory building) carrying amount as on 31st March 2014	29 crore	28 crore
Consider Companies Act, 2013 to be effective from 1st April 2014		
Useful life as per companies Act, 2013	30 Years	30 years

Solution:

To be charged to P/L (Carrying amount – Residual value)	26.10 crore (29 - 2.9)	Nil
To be charges to R/E (Carrying amount – Residual value)	Nil	25.10 crore (28 - 2.9)

Situation 6: Units of Production Method

A Ltd. Purchased Machinery for Manufacturing of Products Rs.200000 on 01.04.2014 .
Units Produced during the year 2014-15 : 8000 Units
Expected Production from Machinery : 92000 Units
Calculate Amount of Depreciation Assuming Zero Residual Value.

Solution : Amount of Depreciation: (8000 Units /100000 Units* Rs 200000) = Rs. 16000

Situation 7: Asset Not having actual cost more than Rs. 5000

A Company Purchased PC-Tablet for its business use at Rs.4000. Company Expects its useful life 3 Years. Management want to Book Pc-Tablet as asset in Books of Accounts.
Advice Accounting Treatment.

Solution: As per Schedule II a small assets with negligible value will appear in books of accounts.

Hence, Company will Book PC-Tablet in Books of Accounts as Fixed asset after Providing Depreciation of (Rs4000/3*1) i.e. Rs 1333.33

Situation 8: **Maximum amount of Residual Value Of Fixed Asset.**
SME Ltd. Purchased machinery for Rs. 200000 on 1.04.2014 and its expected residual value is Rs. 15000.

Compute amount of Depreciation.

Solution.

Depreciation Calculations are as follows:

Total Depreciable Amount of Asset:

= Original Cost – (5% of Original Cost or Expected Residual Value; Lower)
= 2,00,000 – (5% of Rs. 200000 or 15000,Lower)
= Rs. 190000
Depreciation = 190000*1/15
= Rs. 12667

Situation 9: **Depreciation According to Useful Life of Asset:**

A Ltd. Provides Information As Below:
W.D.V. of Plant and Machinery on 01.04.2014 were as follows:
Machine A (Purchased on 01.04.2008) Rs.180000
Machine B (Purchased on 01.04.2000) Rs.100000
Machine C (Purchased on 01.04.1999) Rs.120000
During the Year:
Machine D Purchased on 01.06.2014 Rs.120000
Machine "A" Sold on 30.09.2014 Rs.160000
Calculate Amount of Depreciation as per Schedule: II and Section:123 (2) of Companies Act,2013 Assuming Residual Value is Zero.

Solution.

Depreciation is calculated as below:

Machinery	Working	Amount
A	[180000*0.50/(15-6)]	10,000
B	[100000*1 Year/(15-14)]	1,00,000
C	Since Useful life as per schedule II has been expired so WDV would be fully written off from Opening Retained Earnings.	120,000
D	[100000*(10/12 Year)/15]	6667

Journal:

Retained Earnings A/c	Dr.	120000	
Statement of Profit & Loss	Dr.	116667	
To Gross Block of Asset or Individually Name wise			236667
(Being Dep. Charged)			