Key Highlights of Schedule II of the Companies Act, 2013:

Definition of Depreciation:

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.
For the purpose of this Schedule, the term depreciation includes amortization.

Useful Life:

In case of such class of companies, as may be prescribed and whose financial statements comply with the accounting standards prescribed for such class of companies under section 133 the useful life of an asset shall not normally be different from the useful life and the residual value shall not be different from that as indicated in Part C, provided that if such a company uses a useful life or residual value which is different from the useful life or residual value indicated therein, it shall disclose the justification for the same.
(ii) In respect of other companies the useful life of an asset shall not be longer than the useful life and the residual value shall not be higher than that prescribed in Part C.
(iii) For intangible assets, the provisions of the Accounting Standards mentioned under sub-para (i) or (ii), as applicable, shall apply.

The useful lives of assets working on shift basis:

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.

Component Accounting:

The Companies Act, 2013 has introduced the concept of Component accounting which was not the case of Companies Act 1956. To understand Component Accounting, we can take guidance from IND AS-16 which Provides as under:
Each Part of an item of an asset with a cost significant in relation to the total cost of the item shall be depreciated separately.
Where cost of the part 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.

For Example:

X Ltd Purchased a Ship of Rs.30 Crore which Comprises Engine of Rs. 27Crore and Structure and others for Rs.3Crore.The residual value and useful life would be Rs. 7crore and Rs. 1crore respectively. The Useful Life of an asset is 30years.

Ship	Allocated Cost (Rs.)	Residual Value	Useful Life
Engine	27 Crore	7 Crore	10 Year
Others	3 Crore	1 Crore	20 Year

As per Companies Act 1956

Annual Depreciation of the Ship=(22Crore/30)= 0.73Crore

As per Companies Act 2013

Ship	Depreciable Amount (Rs.)	Useful Life	Depreciation
Engine	27 Crore – 7 Crore= 20 Crore	10 year	2 Crore
Others	3 Crore- 1 Crore=2 Crore	20 Years	10 Lakh
	Total		2.10 Crore

When at the end of respective useful lives of the component, the components will be replaced, the replacement cost should be capitalized and the existing carrying value, if any, should be decapitalised.

Thus, although the overall amount that will be charged to the statement of profit and loss will be same during the entire life of the ship, the annual charge to the statement of profit and loss will differ significantly.

Impact of Component Accounting on replacement of Component

Let us explain this with an example:

A Company has recently acquired a new factory for a cost of Rs.23Lakh with a residual value of Rs.3 Lakh. This factory has a flat roof, which need to be replacing every ten year at a cost of Rs.5 Lakh. The useful life of new factory would be 20 year.

Now Think, if we applies Companies Act 1956, the new factory will be considered as an one asset and depreciate the whole factory over its useful life of 20 year, charging Rs. 1 Lakh Per Annum

The Cost and accumulated depreciation of the old roof will be Rs.5 Lakh and Rs.2.5 Lakh respectively. There will be a loss of Rs.2.5 Lakh which is to be recognized in the Income Statement.

However if we applies Companies Act 2013, The Factory roof will be treated it as a separate asset and the factory would be treated as another asset.

N**ow How Depreciation would be calculated?**

Now you have to derecognize the cost of roof, so that it could be treated as an another asset i.e. Rs.23 Lakh (original value of an asset)-Rs.5Lakh (replacement cost of factory roof)= Rs.18 Lakh – Rs.3 Lakh(Residual Value)=Rs.15Lakh, The depreciation would be Rs.15 Lakh/20=Rs.75,000 Per annum. Plus depreciation of Factory roof is Rs.5Lkh/10= Rs.50000/- Per Annum. Hence total Depreciation Would be 1.25lakh Per annum.

The carrying amount of the old roof in year 10 will be Nil under the second approach. The cost and accumulated depreciation of Rs. 5lakh are written off, with no profit or loss on disposal arising.

The Second approach more accurately reflects the consumption of economic benefits of the factory with an even charge to the income statement over the 20years of the useful economic life of the factory.

Residual Value:

If residual value is considered as an insignificant, it is normally regarded as NIL. On the Contrary, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of an asset. One of the basis for determining the residual value would be realizable value of similar assets which have reached to end of their useful lives and have operated under conditions similar to those in which the asset will be used.

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.

Can it be possible to take different residual value and useful life as prescribed in companies act 2013

Basis	Regulated Entities	Such class of CompaniesAs may be prescribed and Whose financial statements comply with the accounting standards	For other companies
For	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 central government should be applied in calculating depreciation irrespective of the requirements of the schedule.	Useful life or residual value shall not be different as indicated in Part-C of schedule-II of Companies Act, 2013, otherwise disclose the justification for the same	Useful life shall not be longer and residual value shall not be higher than the prescribed in Part-C of schedule-II of Companies Act, 2013,
Explanation	Mandatory	Management can take differ useful life or residual value, the only thing is that give justification for the same.	Management can take only shorter useful life and lower residual value.

Transitional Provisions

From the date schedule-II comes into effect, the carrying amount of the asset as on that date:

- Shall be depreciated over the remaining useful life of the asset as per schedule-II
- After retaining the residual value, shall be recognized in the opening balance of retained earning where the remaining useful life of an asset is Nil.

For Example

A Company acquired a building at accost of Rs. 10 Crore. The Company was depreciating the building according to schedule XIV SLM rate i.e. 1.63%. Now In August 2013 Schedule-II was introduced via the companies Act 2013 in which the useful life specified is 30 year.

If the building is acquired on 01/04/2000

Depreciation charges till FY 2012-13, depreciation on SLM Basis for 13 year

Rs 10Crore X1.63%X13 Year=Rs.21190000/-

Carrying Value=10 crore-2.11 Crore=7.88Crore approx.

Now the carrying value as on 01 April 2013 will be depreciated over the remaining useful life of the asset as per schedule II of the companies Act 2013. The remaining useful life is 17 year (30-13)

So annual depreciation to be charged to the profit and loss account from FY 2013-14 would be Rs7.88 crore/17= Rs.46.35 Lakh approx.

If the building is acquired on 01/04/1980

The useful life of an asset as per new schedule has already expired if the building was acquired *on 01 April 1980*. In such case, the carrying value as on *01 April 2013* would be recognized in the opening balance of retained earnings.

Depreciation charged till FY 2012-13, depreciation on SLM basis for 33 year

Rs 10CroreX1.63%X33 Year=5.37Crore

Carrying Value as on *01 April 2013* was Rs 10 Crore-Rs 5.37Crore= Rs.4.62 Crore Would be recognized in the opening balance of retained earnings. Suppose there is an residual value of Rs. 10lkh, then only 4.52 crore will be adjusted through retained earnings and Rs. 10 Lakh will remain in the carrying amount of the asset.

Schedule-II of Companies Act 2013 Vs AS-6 'Depreciation Accounting'

The Depreciation on fixed asset as per Schedule-II of Companies Act, 2013 became operational from 01/04/2014 vide MCA notification no S.O.902(E) dated 26/03/2014. In new era of depreciation, useful life of the asset plays a crucial role for calculation of depreciation. The change in the method of providing depreciation from fixed percentage (Schedule-XIV of Companies Act 1956) to useful life (Schedule-II of Companies Act,2013) requires change in accounting policy of the company. For change in accounting policy, provision contained in Accounting Standards-5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" as well as AS-6 "Depreciation Accounting" both are required to be taken into consideration.

It is pertinent to note that, provision contained in Schedule-II of Companies Act, 2013 and provision contained in AS-6 are violating each other. Let's have an analysis.

Para- 21 of AS-6, Depreciation Accounting:

"The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

Notes-7, to the Schedule-II of Companies Act 2013

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.

Example :

Depreciation Treatment as per Companies Act, 2013

Name of the asset: Furniture & Fixtures

Year of Acquisition of asset	*Original Cost*	*No of year used as on 31/03/2014*	*Depreciation Charged as on 31/03/2014 @ 6.33% (Sch-XIV CA-1956)*	*Net Carrying Amount as on 31/03/2014*	*Residual Value 5% of cost*	*Useful life as per Companies Act 2013*	*Remaining Useful life as on 31/03/2014*	*Amount to be charged from Opening retain earnings on 01/04/2014*	*Depreciation to be provided for 2014-15*
1	***2***	***3***	***4***	***5= 2-4***	***6=2 x 5%***	***7***	***8***	***9= 5-6***	***10=(5-6)/8***
2002-03	10,000	11	6,963.00	3,037.00	500	10	0	2,537.00	
2003-04	10,000	10	6,330.00	3,670.00	500	10	0	3,170.00	
2004-05	10,000	9	5,697.00	4,303.00	500	10	1		3803.00
2005-06	10,000	8	5,064.00	4,936.00	500	10	2		2218.00

AS-6 Vs Schedule-II – 1

It is clear from the above table that, by virtue of useful life of depreciation as envisaged in Schedule-II of Companies Act, 2013 the carrying amount of Asset is charged to opening retain earnings if remaining useful life is NIL (Note-7(i) of Schedule-II). The above adjustment which is in due course of change in method of depreciation is not as per the requirement of AS-6.

AS-6 : Depreciation Accounting	***Schedule-II of Companies Act,2013***
AS-6 Depreciation Accounting envisaged that In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the ***statement of profit and loss.***	*Note-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.***

AS-6 Vs Schedule-II –2

From the example cited above it is clearly understood that the depreciation on fixed asset which are having useful life charged to statement of profit and Loss on prospective basis not as per retrospective basis.

AS-6 : Depreciation Accounting	***Schedule-II of Companies Act,2013***
AS-6 Depreciation Accounting envisaged that *The deficiency or surplus arising from* ***retrospective*** recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed	*Note-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.

From the above analysis, It depicts that at the time of transition to new method of depreciation as per Schedule-II of Companies Act,2013, the requirement of Accounting Standard -6 "Depreciation Accounting" has been violated.

Earlier as per Companies Act, 1956, depreciation on fixed asset has been calculated as per the percentage provided in schedule-XIV of Companies Act,1956 and As far as Accounting of depreciation is concerned provision contained in Accounting Standards-6: "Depreciation Accounting" is required to be followed.

But Companies Act,2013 vide its Schedule –II prescribe for both calculation of depreciation based on Useful life of individual Asset as well as accounting of depreciation.

Hence, In author's view the requirement of Schedule-II of companies Act,2013 is always prevail over the treatment prescribed in Accounting Standard-6

Depreciation Rate Chart

as per Part "C" of Schedule II of The Companies Act 2013

Nature of Assets	Useful Life	Rate [SLM]	Rate [WDV]
I Buildings [NESD]			
(a) Building (other than factory buildings) RCC Frame Structure	60 Years	1.58%	4.87%
(b) Building (other than factory buildings) other than RCC Frame Structure	30 Years	3.17%	9.50%
(c) Factory buildings	30 Years	3.17%	9.50%
(d) Fences, wells, tube wells	5 Years	19.00%	45.07%
(e) Other (including temporary structure, etc.)	3 Years	31.67%	63.16%
II Bridges, culverts, bunkers, etc. [NESD]	30 Years	3.17%	9.50%
III Roads [NESD]			
(a) Carpeted Roads			
(i) Carpeted Roads – RCC	10 Years	9.50%	25.89%
(ii) Carpeted Roads - other than RCC	5 Years	19.00%	45.07%
(b) Non-carpeted roads	3 Years	31.67%	63.16%
IV Plant and Machinery			
(a) General rate applicable to Plant and Machinery not covered under Special Plant and Machinery			
(i) Plant and Machinery other than continuous process plant not covered under specific	15 Years	6.33%	18.10%
(ii) Continuous process plant for which no special rate has been prescribed under (ii) below	8 Years	11.88%	31.23%
(b) Special Plant and Machinery			
(i) Plant and Machinery related to production and exhibition of Motion Picture Films			
1 Cinematograph films - Machinery used in theproductionandexhibitionof cinematograph films, recording and Reproducing equipments, developing machines, printing machines, editing machines, synchronizers and studio lights	13 Years	7.31%	20.58%
2 Projecting equipment for exhibition of films	13 Years	7.31%	20.58%
(ii) Plant and Machinery used in glass			
1 Plant and Machinery except direct fire glass melting furnaces - Recuperative and regenerative glass melting furnaces	13 Years	7.31%	20.58%
2 Plant and Machinery except direct fire glass melting furnaces - Moulds [NESD]	8 Years	11.88%	31.23%
3 Float Glass Melting Furnaces [NESD]	10 Years	9.50%	25.89%
(iii) Plant and Machinery used in mines and quarries Portable underground machinery and earth moving machinery used in open cast mining	8 Years	11.88%	31.23%

Depreciation Rate Chart
as per Part "C" of Schedule II of The Companies Act 2013

Nature of Assets			Useful Life	Rate [SLM]	Rate [WDV]
(iv)	Plant and Machinery used in Telecommunications [NESD]				
	1	Towers	18 Years	5.28%	15.33%
	2	Telecom transceivers, switching centres, transmission and other network equipment	13 Years	7.31%	20.58%
	3	Telecom - Ducts, Cables and optical fibre	18 Years	5.28%	15.33%
	4	Satellites	18 Years	5.28%	15.33%
(v)	Plant and Machinery used in exploration, production and refining oil and gas [NESD]				
	1	Refineries	25 Years	3.80%	11.29%
	2	Oil and gas assets (including wells), processing plant and facilities	25 Years	3.80%	11.29%
	3	Petrochemical Plant	25 Years	3.80%	11.29%
	4	Storage tanks and related equipment	25 Years	3.80%	11.29%
	5	Pipelines	30 Years	3.17%	9.50%
	6	Drilling Rig	30 Years	3.17%	9.50%
	7	Field operations (above ground) Portable 8 Years 11.88% 31.23% boilers, drilling tools, well-head tanks, etc.			
	8	Loggers	8 Years	11.88%	31.23%
(vi)	Plant and Machinery used in generation, transmission and distribution of power [NESD]				
	1	Thermal / Gas / Combined Cycle Power Generation Plant	40 Years	2.38%	7.22%
	2	Hydro Power Generation Plant	40 Years	2.38%	7.22%
	3	Nuclear Power Generation Plant	40 Years	2.38%	7.22%
	4	Transmission lines, cables and other network assets	40 Years	2.38%	7.22%
	5	Wind Power Generation Plant	22 Years	4.32%	12.73%
	6	Electric Distribution Plant	35 Years	2.71%	8.20%
	7	Gas Storage and Distribution Plant	30 Years	3.17%	9.50%
	8	Water Distribution Plant including pipelines	30 Years	3.17%	9.50%
(vii)	Plant and Machinery used in manufacture of				
	1	Sinter Plant	20 Years	4.75%	13.91%
	2	Blast Furnace	20 Years	4.75%	13.91%
	3	Coke Ovens	20 Years	4.75%	13.91%
	4	Rolling mill in steel plant	20 Years	4.75%	13.91%
	5	Basic Oxygen Furnace Converter	25 Years	3.80%	11.29%

Depreciation Rate Chart
as per Part "C" of Schedule II of The Companies Act 2013

Nature of Assets			Useful Life	Rate [SLM]	Rate [WDV]
(viii)	Plant and Machinery used in manufacture of non ferrous metals				
	1	Metal pot line [NESD]	40 Years	2.38%	7.22%
	2	Bauxite crushing and grinding section	40 Years	2.38%	7.22%
	3	Digester Section [NESD]	40 Years	2.38%	7.22%
	4	Turbine [NESD]	40 Years	2.38%	7.22%
	5	Equipments for Calcinations [NESD]	40 Years	2.38%	7.22%
	6	Copper Smelter [NESD]	40 Years	2.38%	7.22%
	7	Roll Grinder	40 Years	2.38%	7.22%
	8	Soaking Pit	30 Years	3.17%	9.50%
	9	Annealing Furnace	30 Years	3.17%	9.50%
	10	Rolling Mills	30 Years	3.17%	9.50%
	11	Equipments for Scalping, Slitting, etc. [NSED]	30 Years	3.17%	9.50%
	12	Surface Miner, Ripper Dozer, etc. used in Mines	25 Years	3.80%	11.29%
	13	Copper refining plant [NSED]	25 Years	3.80%	11.29%
(ix)	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	7.31%	20.58%
	2	Other Equipments	15 Years	6.33%	18.10%
(x)	Plant and Machinery used in manufacture of pharmaceuticals and chemicals [NESD]				
	1	Reactors	20 Years	4.75%	13.91%
	2	Distillation Columns	20 Years	4.75%	13.91%
	3	Drying equipments / Centrifuges and Decanters	20 Years	4.75%	13.91%
	4	Vessel / Storage tanks	20 Years	4.75%	13.91%
(xi)	Plant and Machinery used in civil construction				
	1	Concreting, Crushing, Piling Equipments and Road Making Equipments	12 Years	7.92%	22.09%
	2	Heavy Lift Equipments -			
		- Cranes with capacity more than 100 tons	20 Years	4.75%	13.91%
		- Cranes with capacity less than 100 tons	15 Years	6.33%	18.10%
	3	Transmission line, TunnellingEquipments [NESD]	10 Years	9.50%	25.89%
	4	Earth-moving equipments	9 Years	10.56%	28.31%
	5	Others including Material Handling / Pipeline / Welding Equipments [NESD]	12 Years	7.92%	22.09%
(xii)	Plant and Machinery used in salt works [NESD]		15 Years	6.33%	18.10%

Depreciation Rate Chart
as per Part "C" of Schedule II of The Companies Act 2013

Nature of Assets			Useful Life	Rate [SLM]	Rate [WDV]
V	Furniture and fittings [NESD]				
	(a)	General furniture and fittings	10 Years	9.50%	25.89%
	(b)	Furniture and fittings used in hotels, restaurants and boarding houses, schools, colleges and other education institutions, libraries, welfare centres, meeting halls, cinema houses, theatres and circuses and furniture and fittings let out on hire for used on occasion of marriages and similar functions	8 Years	11.88%	31.23%
VI	Motor Vehicles [NESD]				
	(a)	Motor cycles, scooters and other mopeds	10 Years	9.50%	25.89%
	(b)	Motor buses, motor lorries, motor cars and motor taxies used in a business of running them on hire	6 Years	15.83%	39.30%
	(c)	Motor buses, motor lorries, motor cars and motor taxies other than those used in a business of running them on	8 Years	11.88%	31.23%
	(d)	Motor tractors, harvesting combines and heavy vehicles	8 Years	11.88%	31.23%
	(e)	Electrically operated vehicles including battery powered or fuel cell powered vehicles	8 Years	11.88%	31.23%
VII	Ships [NESD]				
	(a)	Ocean-going ships			
		(i) Bulk Carriers and liner vessels	25 Years	3.80%	11.29%
		(ii) Crude tankers, product carriers and easy chemical carriers with or without conventional	20 Years	4.75%	13.91%
		(iii) Chemicals and Acid Carriers			
		1 With Stainless steel tanks	25 Years	3.80%	11.29%
		2 With other tanks	20 Years	4.75%	13.91%
		(iv) Liquefied gas carriers	30 Years	3.17%	9.50%
		(v) Conventional large passenger vessels which are used for cruise purpose also	30 Years	3.17%	9.50%
		(vi) Coastal service ships of all categories	30 Years	3.17%	9.50%
		(vii) Offshore supply and support vessels	20 Years	4.75%	13.91%
		(viii) Catamarans and other high speed passenger for ships or boats	20 Years	4.75%	13.91%
		(ix) Drill ships	25 Years	3.80%	11.29%
		(x) Hovercrafts	15 Years	6.33%	18.10%
		(xi) Fishing vessels with wooden hull	10 Years	9.50%	25.89%
		(xii) Dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging	14 Years	6.79%	19.26%
	(b)	Vessels ordinarily operating on inland waters			
		(i) Speed boats	13 Years	7.31%	20.58%
		(ii) Other vessels	28 Years	3.39%	10.15%

Depreciation Rate Chart

as per Part "C" of Schedule II of The Companies Act 2013

Nature of Assets	Useful Life	Rate [SLM]	Rate [WDV]
VIII Aircrafts or Helicopters [NESD]	20 Years	4.75%	13.91%
IX Railway siding, locomotives, rolling stocks, tramways and railway used by concerns, excluding railway	15 Years	6.33%	18.10%
X Ropeway structures [NESD]	15 Years	6.33%	18.10%
XI Office equipments [NESD]	5 Years	19.00%	45.07%
XII Computers and data processing units [NESD]			
(a) Servers and networks	6 Years	15.83%	39.30%
(b) End user devices, such as, desktops, laptops, etc.	3 Years	31.67%	63.16%
XIII Laboratory equipment [NESD]			
(a) General laboratory equipment	10 Years	9.50%	25.89%
(b) Laboratory equipments used in education institutions	5 Years	19.00%	45.07%
XIV Electrical Installations and Equipment [NESD]	10 Years	9.50%	25.89%
XV Hydraulic woks, pipelines and sluices [NESD]	15 Years	6.33%	18.10%

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