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THE COMPANIES ACT, 2013

(No. 18 OF 2013)

[29th August, 2013.]

SCHEDULE II

(*See* section 123)

USEFUL LIVES TO COMPUTE DEPRECIATION

Schedule II to Companies Act, 2013

A PRACTICAL APPROACH

MADHUSUDAN MISHRA | WORKING PAPER

Welcome!

As we all know, it is mandatory to comply with Companies Act, 2013 from financial year 2015-16. To comply with an Act, is not only to comply with its sections and their provisions but also with the schedules included therein.

In the same manner, the new Companies Act has 7 schedules. Schedule II to Companies Act, 2013 deals with “Calculation of Depreciation based on Useful life of Assets”.

In this paper, we will deal with the “Practical Approach” of how to:

1. Changeover from old schedule XIV to new schedule II. (Transitional Provisions)
2. Deal with AS6 and Schedule II of Companies Act, 2013.

This paper includes the following objectives:

- ✓ Understanding of provisions of AS6 and Schedule II.
- ✓ Practical understanding of Transitional provisions.

Introduction.

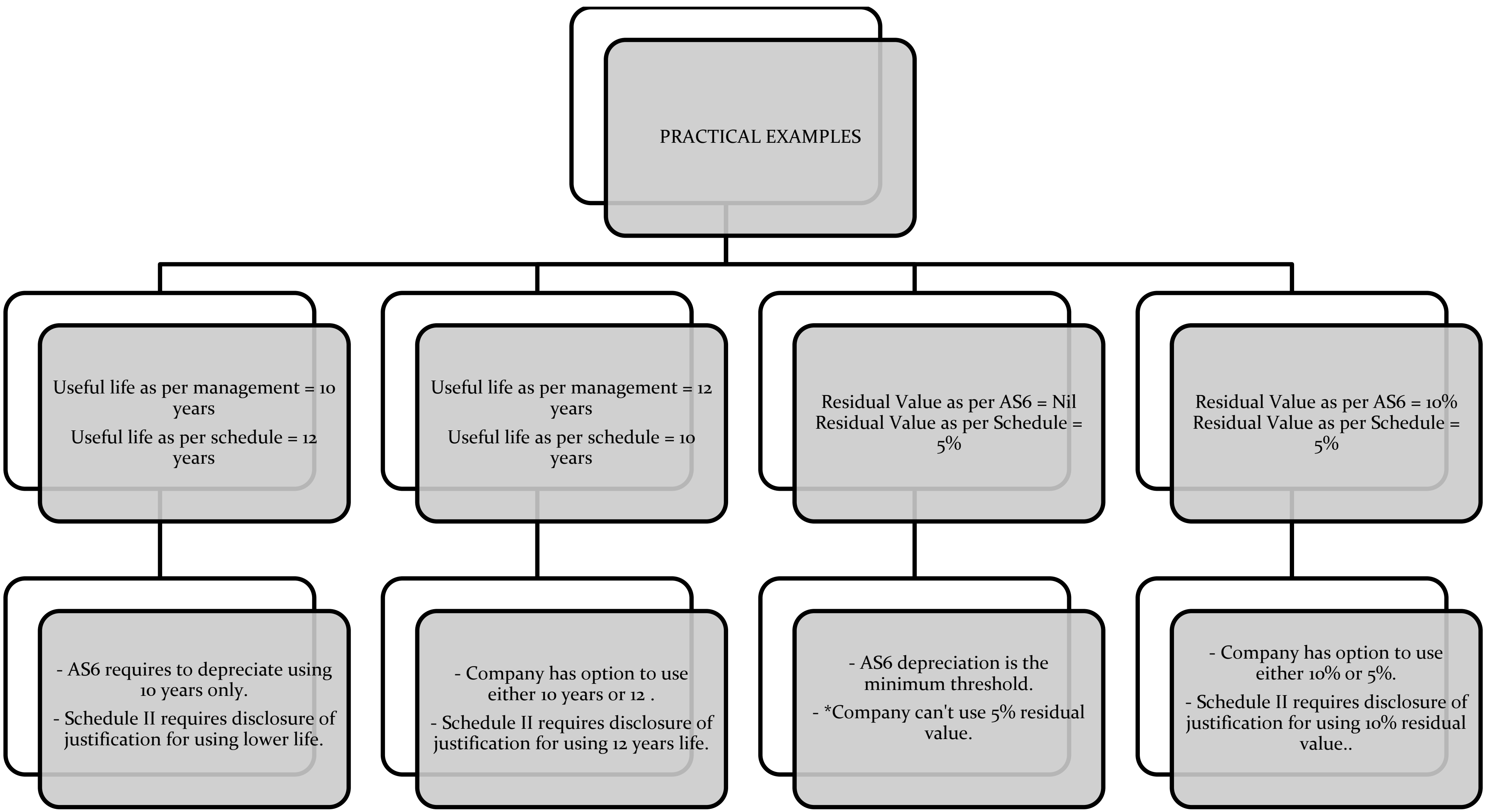
As per Schedule II, the depreciation to be charged on the basis of the useful life of Asset, unlike the earlier Companies Act, where the rate of depreciation was prescribed instead of the useful life.

This Schedule II prescribe the useful life of the Asset and further states that the useful life of an asset shall not ordinarily be different from the useful life specified in the schedule and the residual value of an asset shall not be more than 5% of the original cost (Gross Block) of the asset.

Provided that where a company adopts a useful life different from what is specified in the schedule or uses a residual value different from the limit specified above, the financial statements shall disclose such difference and provide justification in this behalf duly supported by technical evidence. ***In addition, Schedule II requires disclosure of justification only in case residual value exceeds 5% of the cost (Gross Block).**

AS-6 AND SCHEDULE II OF COMPANIES ACT, 2013

(The requirements of the Schedule II and AS-6 is explained with the simple Chart)



As AS-6 states where the management's estimates of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statue, the depreciation provision is appropriately computed by applying a higher rate, if the management estimate of the useful life of the Asset is longer than that envisaged by the statue can be applied only in accordance with the requirements of the statue.

Transitional Provisions under Schedule II

First of all, let us, understand the transitional provisions with the help of an example and then we will understand the theory: - (WDV method is used)

<u>Fixed Asset Chart as per Old Companies Act for the year ended 31st March, 2015.</u>

3.0 FIXED ASSETS-TANGIBLE											
	GROSS BLOCK-COST/BOOK VALUE					DEPRECIATION/AMORTISATION				NET BLOCK	
Description	**Total as at 31 March 2014**	**Additions during the year**	**Deductions during the year**	**Impairment during the year**	**Total as at 31 March 2015**	**Total as at 31 March 2014**	**Provided During the year**	**Deductions during the year**	**Total as at 31 March 2015**	**As at 31 March 2015**	**As at 31 March 2014**
Land	642272	---	---	---		---	---	---		642272.00	642272.00
Building	8086033	---	---	---	8086033	5617143.50	246890.00	---	5864033.50	2221999.50	2468889.50
Plant & Machinery	16284070.00	54480.00	---	---	16338550.00	11566493.98	474481.00	---	12040974.98	4297575.02	4717576
Furniture & Fixture	314162.58	19967.00	---	---	334129.58	159269.00	17276.00	---	176545.00	157584.58	154893.58
Computer	94550.00	---	---	---	94550.00	87559.00	1748.00	---	89307.00	5243.00	6991.00
Vehicles	465003.00	---	---	---	465003.00	371963.00	13956.00	---	385919.00	79084.00	93040.00
Inverter	19071.00	---	---	---	19071.00	14416.00	698.00	--	15114.00	3957.00	4655.00
Total	**25905161.58**	**74447.00**	---	---	**25337336.58**	**17816844.48**	**755049.00**	---	**18571893.48**	**7407715.10**	**8088317.08**

Now, follow the following steps:-

1. Bifurcate the block into individual assets it contains.
   <u>In our e.g.</u> Building consists Factory buildings (General Building, Factory Godown, Card Shade, Tin Shade), RCC Buildings (Labor Quarter 1, Labor Quarter 2). Vehicles consist Motor Cycle, Cars (other than those used in a business of running them on hire), and *Moped having residual value less than 5% i.e. 0%.

2. Now, go as back as you can in your records and find out the purchase date and amount of these individual assets. Take 5% of that Gross amount (with additions) at 1st April, 2016 as Residual Value.
   In our e.g.

Particulars	**Date of purchase of asset**	**Original cost of asset**	**Residual value**	**WDV as on 31.3.2015**
Building	01/04/1997	57,75,114.25	2,88,755.71	10,15,834.00
Factory Godown and Water Tank	20/03/2004	5,01,772.65	25,088.63	1,49,587.00
New Card Sade	31/03/2011	13,36,777.00	66,838.85	8,36,158.00
Open Tin Shade	05/04/2004	2,23,230.60	11,161.53	70,111.00
Labour Quater 1	11/07/2002	50,807.00	2,540.35	12,955.00
Labour Quater 2	31/03/2012	1,98,331.50	9,916.58	1,37,354.50
Electronic Weighing Scale	30/12/2002	30,966.00	1,548.30	13,934.00
Machinery	01/04/1997	1,63,07,584.00	8,15,379.20	42,83,641.02
Furniture and Fixture	03/10/2000	2,71,090.00	13,554.50	1,10,193.00
Camera CCTV	01/09/2012	56,491.58	2,824.58	41,503.58
Cooler	21/06/2013	2,381.00	119.05	1,929.00
Geyser 6 Let Kraft	17/11/2014	4,167.00	208.35	3,959.00
Computer	11/04/1998	94,550.00	4,727.50	5,243.00
Activa - RJXXXX-8456	10/09/2013	54,732.00	2,736.60	39,544.00
Scooter Activa	19/04/2010	50,375.00	2,518.75	22,352.00
Invertor and UPS	29/04/2002	19,071.00	953.55	3,957.00
Car	01/04/1999	3,22,746.00	16,137.30	16,657.00
*Moped	01/04/1997	15,600.00		531.00

3. Figure out the useful life of individual assets from Part C of Schedule II to Companies Act, 2013 and then compare that life's with actual lives spent by the asset.
   In our e.g.

Particulars	**Date of purchase of asset**	**Standard life as per Co.'s Act 2013 (In Years)**	**Life elapsed (In Years) (difference between date of purchase to 31.3.2015)**	**Remaining useful life as on 31.3.2015 (In Years)**
Building	01/04/1997	30.00	18.00	12.00
Factory Godown and Water Tank	20/03/2004	30.00	11.03	18.97
New Card Sade	31/03/2011	30.00	4.00	26.00
Open Tin Shade	05/04/2004	30.00	10.99	19.01
Labour Quater 1	11/07/2002	60.00	12.72	47.28

Labour Quater 2	31/03/2012	60.00	3.00	57.00
Electronic Weighing Scale	30/12/2002	15.00	12.25	2.75
Machinery	01/04/1997	15.00	18.00	-3.00
Furniture and Fixture	03/10/2000	10.00	14.49	-4.49
Camera CCTV	01/09/2012	10.00	2.58	7.42
Cooler	21/06/2013	10.00	1.78	8.22
Geyser 6 Let Kraft	17/11/2014	10.00	0.37	9.63
Computer	11/04/1998	3.00	16.97	-13.97
Activa - RJXXXX-8456	10/09/2013	10.00	1.56	8.44
Scooter Activa	19/04/2010	10.00	4.95	5.05
Invertor and UPS	29/04/2002	10.00	12.92	-2.92
Car	01/04/1999	8.00	16.00	-8.00
Moped	01/04/1997	10.00	18.00	-8.00

4. Calculate a new rate of depreciation based on the remaining life of the asset with the help of this formula –

Depreciation Rate = $[1-(\sqrt[n]{R.V. \div W.D.V})] \times 100$

Where, n = Remaining useful life of the asset.
R.V. = Residual Value as at the end of useful life of the asset.
W.D.V = Written Down Value of the asset.

Calculator Trick to workout depreciation rate: - (Take Activa - RJXXXX-8456 as example)

a) First divide R.V. (2,736.60) with the W.D.V (39,544.00) and press =; you will get (0.06920).
b) Press √ (under root) sign 12 times; you will get (0.99934).
c) Press – and then 1 (Subtract 1) then ÷ and 8.44 (Remaining life) then + and 1 (Add 1).
d) Continuously, press × and = 12 times; you will get (.72880).
e) As per formula, subtract 1 from .72880; you will get (-.27119), multiply it with 100.
f) Here is your depreciation rate = 27.12%.

5. Finally, compute the depreciation for the year on the opening W.D.V (carrying amount) of the asset, which has remaining useful life, at the rate of depreciation calculated as above.

6. Where the remaining useful of an asset is NIL (or comes in minus), the carrying amount of such an asset, after retaining the residual value, may be recognized in the opening balance of retained earnings or may be charged off to Statement of Profit and Loss.

Particulars	**Original cost of asset**	**Residual value (5%)**	**WDV as on 31.3.2015**	**Standard life as per Co.'s act 2013 (In Years)**	**Life elapsed (In Years) (difference between date of purchase to 31.3.2015)**	**Remaining useful life as on 31.3.2015 (In Years) (col5 – col6)**	**Assets used during current F.Y. (In Years)**	**Dep Rate***	**Depreciation (col4 * col9 * col8)**	**Written off from retained earning**
1	2	3	4	5	6	7	8	9	10	11
Building	57,75,114.25	2,88,755.71	10,15,834.00	30.00	18.00	12.00	1.00	9.95	1,01,075.48	
Factory Godown and Water Tank	5,01,772.65	25,088.63	1,49,587.00	30.00	11.03	18.97	1.00	8.98	13,432.91	
New Card Sade	13,36,777.00	66,838.85	8,36,158.00	30.00	4.00	26.00	1.00	9.26	77,428.23	
Open Tin Shade	2,23,230.60	11,161.53	70,111.00	30.00	10.99	19.01	1.00	9.21	6,457.22	
Labour Quater 1	50,807.00	2,540.35	12,955.00	60.00	12.72	47.28	1.00	3.39	439.17	
Labour Quater 2	1,98,331.50	9,916.58	1,37,354.50	60.00	3.00	57.00	1.00	4.51	6,194.69	
Electronic Weighing Scale	30,966.00	1,548.30	13,934.00	15.00	12.25	2.75	1.00	55.02	7,666.49	
Machinery	1,63,07,584.00	8,15,379.20	42,83,641.02	15.00	18.00	-3.00	0.00			34,68,261.82
Furniture and Fixture	2,71,090.00	13,554.50	1,10,193.00	10.00	14.49	-4.49	0.00			96,638.50
Camera CCTV	56,491.58	2,824.58	41,503.58	10.00	2.58	7.42	1.00	30.38	12,608.79	
Cooler	2,381.00	119.05	1,929.00	10.00	1.78	8.22	1.00	28.74	554.39	
Geyser 6 Let Kraft	4,167.00	208.35	3,959.00	10.00	0.37	9.63	1.00	26.34	1,042.80	
Computer	94,550.00	4,727.50	5,243.00	3.00	16.97	-13.97	0.00			515.50
Activa - RJ36SG-8456	54,732.00	2,736.60	39,544.00	10.00	1.56	8.44	1.00	27.13	10,728.29	
Scooter Activa	50,375.00	2,518.75	22,352.00	10.00	4.95	5.05	1.00	35.10	7,845.55	
Invertor and UPS	19,071.00	953.55	3,957.00	10.00	12.92	-2.92	0.00			3,003.45
Car	3,22,746.00	16,137.30	16,657.00	8.00	16.00	-8.00	0.00			519.70
*Moped	15,600.00	-	531.00	10.00	18.00	-8.00	0.00			531.00

Note 1:- The above application is fairly simple if the company uses straight line method (SLM) of depreciation and the asset will be depreciated equally over the new remaining useful life of the asset determined as per schedule II.

Note 2:- If the company opts to adjust the carrying amount of the assets to the retained earnings in accordance with the transitional provisions of the Schedule II, the tax effect of the same has to be also adjusted directly against the retained earnings in accordance with the ICAI announcement "Tax effect of expenses/income adjusted directly against the reserves and or Securities Premium Account".

Note 3:- If there is any addition made in the form of new asset in any block of asset, it will be treated as an individual asset and depreciated over its useful life as per Schedule II at rate of depreciation calculated under the method employed. Any deduction or sale of asset will be reduced or removed from the block and depreciation will be calculated over the remaining carrying amount of the asset.

Note 4:- Depreciation is not calculated on land because Land is not a depreciable asset. (A.S. – 6)

THANK YOU

SPECIAL THANKS
Students' Guide To Accounting Standards
By D.S. Rawat