From the Auditor’s point of view:

Brief note on calculation of Depreciation as per New Company’s act 2013

- Following are the steps for the calculation of Depreciation on ***exiting Asset:***
    1. Find out useful life as per new schedule
    2. Calculate already expired useful life
    3. Difference of above two
    4. Take Residual life at 5% of historical cost or as per management estimate (***For value exceeding 5 % technical justification is required.)***
    5. Depreciable Amount = Historical cost/ revalued value – Residual value as calculate in the above step 4.
    6. If SLM is followed, Amount of depreciation P. a. =Depreciable amount / Remaining useful life
    7. If WDV method is used, need to find out rate of depreciation by using following formula and charge depreciation accordingly.

       (1-(s/c)^(1/n))*100 where S = Salvage Value, C= Carrying Amount as on 01-04-14, N= Difference of useful life as per new and old schedule

- Pro rata Depreciation (***New Asset acquired during the year)***

  In the 1st year

1. Calculate the period from the date of purchase to the closing of accounting year.
2. Find out rate of depreciation per annum by using useful life as per Schedule II (comparative rates are given in the reference book based on ***certain percentage of residual value***)

3. Calculate the depreciation for the ***fraction of period*** calculated in step 1.

   In subsequent Year

1. Carrying amount as on the beginning of year.
2. If WDV method is used then find out rate of depreciation as per following formula

   (1-(s/c)^(1/n))*100 where S = Salvage Value, C= Carrying Amount as on 01-04-14, N= Difference of useful life as per new and old schedule
3. If SLM is used then carrying amount is amortized over the remaining useful life.

- Treatment of Revaluation Reserve:

1. Additional Depreciation cannot be charged to Revaluation reserve as per new companies Act, 2013.
2. Whenever the asset is retired / disposed then already created revaluation reserve need to transfer to general reserve.

- Transition Provision:

1. Remaining useful life is Nil then carrying amount as on 01-04-2014 after retaining residual value need to be adjust in the opening retain earning after giving effect of deferred tax impact.
2. Alternatively, Transitional loss can be charged to profit and loss. **This becomes an *exceptional item as per schedule II.***

- Change in method of calculation (From WDV to SLM or vice versa)

1. It is considered as change in the accounting policy. ***Effect of change should be quantified and disclosed as per AS 6***

- Calculation of effect of change as per As 6 are as follow:
  1. Recalculation of WDV as per new method.
  2. Find out difference as per old and new method.
  3. Surplus/ Deficit is charged to P & Loss account.

- General points:

1. Whenever there is a deviation between estimation made by the management (As per AS 6) and Schedule II, ***technical justification*** with reason should be disclosed in the financial statement.
2. Double shift and Triple shift depreciation except for the asset defined as NESD(NO Extra Shift Depreciation), will increase by 50% and 100% of depreciation calculated respectively.
3. If Remaining useful life is 1 year then 100% depreciation can be claimed.
4. Addition of value ***less than Rs. 5000/-*** will be treated as ***revenue nature.*** (No need to charge the depreciation as per schedule II)
5. ***Component Accounting***:

- If any component of property, plant machinery is significant then that component can be depreciated separately.
- Useful life can be estimated separately if it is different from the main Asset.

SUGGESTION:
BECAUSE OF CHANGE IN CALCULATION OF DEPRECIATION IT IS PREFERABLE TO USE SLM METHOD.

Complied by
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