

DEPRECIATION UNDER COMPANIES ACT 2013



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DEPRECIABLE ASSETS

- ❖ Expected to be used for more than one accounting year.
- ❖ Have a limited useful life.
- ❖ Held by an enterprise for use in production or supply of goods or services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.



USEFUL LIFE

- The period over which the depreciable asset is expected be used by the enterprise; or
- Number of Production or similar units expected be obtained from the use of the asset by the enterprise.



DEPRECIABLE AMOUNT

- ❖ Depreciable amount of depreciable asset is its historical cost, or other amounts substituted for historical cost in financial statements, less the estimated residual value.



DEPRECIATION – PARADIGM SHIFT?

- No specific rates.
- Depreciated based on useful life.
- UOP permitted.
- Depreciation includes amortization.
- Useful life as per the terms gives in part c of Schedule II.
- Residual value not exceed 5%.
- Justification to be given for variation in useful life and residual value.



DEPRECIATION – HOW TO BE COMPUTED?

- ❖ Tangible asset:
- Depreciable value to be depreciated over the useful life or based on UOP.
- Adjustments as on 1st April 2014 should be adjusted in the retained earnings.
- In case of components, useful life of significant part will be considered.
- 50% more for double shift and 100% more for triple shift workings.



DEPRECIATION – HOW TO BE COMPUTED?

- Intangible Assets:

- Will be done as per AS in force.

- ❖ Cost of Intangible Assets * Actual Revenue/Projected Estimated Revenue till the End of the Concession Period.





PART C OF SCHEDULE II

❖ Buildings

- Buildings (other than factory buildings) RCC frame structure = 60 years.
- Buildings (other than factory buildings) other than RCC frame structure = 30 years.
- Factory buildings = 30 years.
- Fences, wells tube wells = 5 years.
- Others (including temporary structure, etc) = 3 years.



PART C OF SCHEDULE II

- Plant and Machinery:
- ❖ General Rate applicable for plant and Machinery not covered under special Plant and Machinery,
 - Plant and Machinery other than continuous process plant and not covered under specific Industries = 15 years.
 - Continuous process plant for which no special rate has been prescribed by NESD = 25 Years.



PART C OF SCHEDULE II

- ✓ Furniture and Fixtures:
- General Furniture and Fittings = 10 years
- Furniture and Fittings used in hotels, restaurants and boarding houses, schools, colleges, and other educational institutions, libraries, welfare centers, meeting halls, cinema houses, theatres and circuses and Furniture and Fittings let out on hire for use on occasions of marriages and similar functions = 8 Years.



PART C OF SCHEDULE II



➤ Vehicles:

- Motor cycle, scooters and other mopeds = 10 years.
- Motors buses, lorries, cars, taxies, used in a business of running them on hire = 6 years.
- Motors buses, lorries, cars, taxies, other than used in a business of running them on hire = 8 years.
- Motor Tractors, Harvesting combines, Heavy Vehicles = 8 years.
- Electrically operated vehicles including battery powered or fuel cell powered vehicles = 8 years.



PART C OF SCHEDULE II

- Office Equipments (NESD) = 5 years.
- Computer data processing units (NESD):
 - Server and networks = 6 years.
 - End user devices, such as, desktops, laptops, etc. = 3 years.



SALVAGE VALUE ISSUES

- Whether Salvage value is 5% on Original cost of the asset or the carrying cost as on 1st April 2014.



POSSIBLE IMPACTS

- ❖ Might Impact the financials in the year of Transition.
- ❖ Depreciation charge will be higher in the case of revalued asset impacting the bottom line.
- ❖ MCA has recently permitted either to charge depreciation directly to profit and loss a/c or to the accumulated profit and loss a/c.
- ❖ MAT Liability may be higher in some situations.



DISCLOSURES

- ❑ Depreciation methods used; and
- ❑ Useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule along with the technical report to that effect.



BASIC INPUT REQUIREMENTS

- Original Cost
- Date of Purchase
- Nature of Asset
- Carrying Cost as ON 1st April 2014
- Residual value
- Life already Expired
- UOP
- Whether double or triple shift.



WHY DEPRECIATION?

- ✓ No dividend shall be declared or paid by a company for any financial year except,
 - Out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions for sub-section (2); or out of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of that sub-section and remaining undisturbed, or out of both: or
 - Sub-section (2) of section 123 states that depreciation shall be provided in accordance with Schedule II of the Act.



WHY DEPRECIATION?

Managerial Remuneration

- As per Section 198 of the Companies Act depreciation computed as per Section 123 should be deducted for reckoning the limits of managerial remuneration.
- Sub- section (2) of Section 123 states that depreciation shall be provided in accordance with Schedule II of the Act.



THANK YOU

