Application Guide on the Provisions of Schedule II to The Companies Act, 2013

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Keeping in view the changing economic environment as well as the growth of our economy, the Companies Act, 2013 was enacted to improve corporate governance and to further strengthen regulations for the companies. The Act has introduced some new concepts in the Indian context which are not only remarkable but also setting a tone for making our Law at par with the best International Standards and Practices. Further, the Act requires companies to compute the depreciation in accordance with the Schedule II which provides useful lives to compute the depreciation.

The Corporate Laws & Corporate Governance Committee (CL&CGC) of the Institute of Chartered Accountants of India (ICAI) has taken the initiative of bringing out an **Application Guide on the Provisions of Schedule II to the Companies Act, 2013** to provide application guidance to the members of the profession for implementation of the requirements of Schedule II as it would be required for preparation of financial statements.

I appreciate the Corporate Laws & Corporate Governance Committee (CL & CGC) in bringing this publication which is so important for our members. I extend my sincere appreciation to CA S. Santhanakrishnan, Chairman, CL&CGC, to bring out this timely and very useful publication and the Study Group under the convenorship of CA. Dhinal Shah, Member of CL & CGC, for their efforts, deliberations and in-depth study to bring out this Application Guide.

I am confident that this publication would be of great help to the members.

New Delhi
February 5, 2015

CA. K. Raghu
President, ICAI

Preface

The Companies Act, 2013 ushers a change for corporate environment and corporate democracy. The Act seeks to consolidate and amend the law relating to the companies taking into consideration best global practices and emerging Indian perspectives.

The provisions governing charge of depreciation in the erstwhile Schedule XIV to the Companies Act, 1956 have been replaced with Schedule II to the Companies Act 2013. To facilitate members of the profession understand the requirements for implementation of Schedule II, the Corporate Laws & Corporate Governance Committee has brought out Application Guide on Provisions of Schedule II to the Companies Act, 2013.

I am thankful to CA. K. Raghu, President of ICAI and CA. Manoj Fadnis, Vice-President of ICAI for their encouragement in bringing out this publication. I also thank CA. Nilesh Vikamsey, the Vice- Chairman of the Committee for his valuable suggestions. Further, I thank all the colleagues in the Committee for their inputs and comments.

CA. Dhinal Shah, Member of CL & CGC, and the Convenor of the Study Group with six members CA. Suresh Yadav, CA. Pavan Jain, CA. Ranjiv Loddha, CA. Himanshu Kishnadwala, CA. Bharat Zinzuvadia, CA. Santosh Aggarwal deserves special compliments for their extensive work and time to bring out this Application Guide.

The Secretariat to the Committee (comprising CA. Sarika Singhal and Ms. S. Rita) also deserves appreciation for their effort in working on this project.

I sincerely believe that the members of the profession and the corporates will find this publication very useful.

5th February, 2015

CA. S. Santhanakrishnan
Chairman
Corporate Laws & Corporate Governance Committee

Index

S. No.	*Contents*	*Page No.*
1.	Introduction	1
2.	Objective	2
3.	Scope	2
4.	Shift from Rate based Guidance to Useful Life	2
5.	Assessment of Useful Life and Residual Value	5
6.	Useful Life or Residual Value governed by other Regulatory Authority	7
7.	Depreciation for Intangible Assets	7
8.	Component Accounting	8
9.	Continuous process plane	12
10.	Double/triple shift working	12
11.	Transitional Provision under Schedule II	13
12.	Charging of depreciation in case of revaluation of Assets	14
13.	Practical Examples	15
Annexures		
14.	**Annexure A -** Schedule II to the Companies Act, 2013	23
15.	**Annexure B -** Schedule XIV to the Companies Act, 1956	32
16.	**Annexure C -** Circulars and Notifications related to Schedule II issued by MCA so far	45

Introduction

1. The Council of the Institute of Chartered Accountants of India has issued Accounting Standard (AS) 6 on 'Depreciation Accounting'. This Standard lays down general principles of accounting for depreciation applicable to all entities. As such, the Standard is also applicable to companies in all matters where there are no specific requirements under the Companies Act. AS 6 also provides that the statute governing an enterprise may provide the basis for computation of depreciation.

The Companies Act, 2013 requires companies to compute the depreciation in accordance with the Schedule II to the Companies Act which provides useful lives to compute the depreciation. Accordingly, provisions governing charge of depreciation in the erstwhile Schedule XIV to the Companies Act, 1956 have been replaced with Schedule II to the Companies Act, 2013.

2. Overview of some of the key changes in the Schedule II to the Companies Act, 2103 as compared to erstwhile Schedule XIV to the Companies Act, 1956 are as follows:

- Schedule II prescribes indicative useful lives of various assets instead of Straight Line Method (SLM)/ Written Down Value (WDV) rates for calculating depreciation
- Useful lives prescribed for tangible assets only
- No life prescribed for intangible assets. Notified accounting standard to govern the same
- Depreciation is systematic allocation of the depreciable amount of an asset over its useful life.
- The depreciable amount of an assets is the cost of an asset or other amount substituted for cost, less its residual value
- Useful life 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. Schedule XIV of Companies Act, 1956 does not include such requirement.
- Companies are allowed to follow different useful lives/residual value if an appropriate justification is given supported by technical advice.
- Component accounting and useful life of a significant part of an asset to be determined separately

- No separate rate for double/ triple shift; depreciation to be increased based on the double shift/triple shift use of the assets
- Useful lives of fixed assets prescribed under schedule II are Act different from those envisaged under Schedule XIV of the Companies Act, 1956.
- No reference to depreciation on low value assets.

Objective

3. The subject of depreciation has always been a matter of crucial importance for the purpose of true and fair determination of the operating results of an entity and the depiction of its financial position through its statement of profit and loss and the balance sheet, respectively.

In case of companies, some new issues have arisen in this regard because of the introduction of Schedule II to the Companies Act, 2013. With a view to provide an authoritative position of the ICAI on the issues arising out of the said amendment in this regard, ICAI has brought out this Application Guide on the Provisions of Schedule II to the Companies Act, 2013.

Scope

4. This application guide includes provisions of the Companies Act and Schedule II relating to depreciation and provides application guidance for implementing the requirements of the Schedule II.

5. This application guide is applicable to all companies for preparation of its financial statements commencing on or after April 1, 2014.

ICAI had issued "Guidance Note on Accounting for Depreciation in Companies" and "Guidance note on Some Important Issues Arising from the Amendment to Schedule XIV to the Companies Act, 1956" in past. These guidance notes will continue to also apply to the extent applicable post implementation of Schedule II of the Companies Act, 2013 and this application guide provides clarifications and examples for issues arising on implementation of Schedule II.

Shift from Rate based guidance to Useful Life

6. Schedule II of the Companies Act and AS 6 state that 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.

The methods of depreciation which are generally followed by the Companies include straight-line method, the diminishing balance method (Written Down Value method) and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future benefits.

7. AS 6 defines Depreciable assets as follows:

Depreciable assets are assets which (i) are expected to be used during more than one accounting period; and (ii) have a limited useful life; and (iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

8. Further, In Schedule II originally notified on March 27, 2014, all companies were divided into three classes.

- Class I basically included companies which may eventually apply Ind-AS. These companies were permitted to adopt a useful life or residual value, other than those prescribed under the schedule, for their assets, provided they disclose justification for the same.

- Class II covered companies or assets where useful lives or residual value are prescribed by a regulatory authority constituted under an act of the Parliament or by the Central Government. These companies will use depreciation rates/useful lives and residual values prescribed by the relevant authority.

- Class III covered all other companies. For these companies, the useful life of an asset will not be longer than the useful life and the residual value will not be higher than that prescribed in Schedule II.

  Pursuant to an amendment to Schedule II notified on March 31, 2014-, distinction between class (i) and class (iii) has been removed. Rather, the provision now reads as under:

- "The useful life of an asset shall not ordinarily different from the useful life specified in Part C and the residual value of an asset shall not be more than five per cent of the original cost of the asset:

Provided that where a company adopts a useful life different from what is specified in Part C 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 advice."

9. In accordance with the above amendments to the Schedule II of the Companies Act, 2013, all companies now will have an option of depreciating assets over their useful life which could be different from the useful life prescribed in the Schedule II. Also, the residual value of the assets could also be different from the five percent stated in the Schedule II. In case the Company uses a different useful life (higher or lower) or a residual value of more than five percent, then it will have to disclose such difference and provide justification in this behalf in the financial statements. Such justification should be supported by technical advice.

10. Schedule XIV of the old Companies Act prescribed Depreciation rates to be applied under SLM and WDV methods for different class of assets. Accounting Standard (AS) 6 – "Depreciation Accounting" states that the statute governing an enterprise may provide the basis for computation of the depreciation. The depreciation rates prescribed under the Schedule XIV was the minimum rates, and, a company was not permitted to charge depreciation at rates lower than those specified in the Schedule. If, however, on the basis of bona fide technological evaluation, higher rates of the depreciation were justified, it may have provided for with the proper disclosure by way of a note forming part of the financial statements.

11. As Accounting Standard 6 states that depreciation rates prescribed under the statute are minimum, if management's estimate of the useful life of an asset is shorter than that envisaged under the statute, depreciation is computed by applying the higher rate. The requirements of the Schedule II and AS 6 is explained with simple examples:

- The management has estimated the useful life of an asset to be 10 years. The life envisaged under the Schedule II is 12 years. In this case, AS 6 requires the company to depreciate the asset using 10 year life only. In addition, Schedule II requires disclosure of justification for using the lower life. The company cannot use 12 year life for depreciation.
- The management has estimated the useful life of an asset to be 12 years. The life envisaged under the Schedule II is 10 years. In this case, the company has an option to depreciate the asset using either

10 year life prescribed in the Schedule II or the estimated useful life, i.e., 12 years. If the company depreciates the asset over the 12 years, it needs to disclose justification for using the higher life. The company should apply the option selected consistently.

- Similar position will apply for the residual value. The management has estimated that AS 6 life of an asset and life envisaged in the Schedule II is 10 years. The estimated AS 6 residual value of the asset is nil. The residual value envisaged under the Schedule II shall not be more than 5%. In this case, AS 6 depreciation is the minimum threshold. The company cannot use 5% residual value. In addition, Schedule II requires disclosure of justification only in case residual value exceeds 5% of the cost.
- Alternatively, let us assume that the management has estimated AS 6 residual value of the asset to be 10% of the original cost, as against 5% value envisaged in the Schedule II. In this case, the company has an option to depreciate the asset using either 5% residual value prescribed in the Schedule II or the estimated AS 6 residual value, i.e., 10% of the original cost. If the company depreciates the asset using 10% estimated residual value, it needs to disclose justification for using the higher residual value. The company should apply the option selected consistently.

Assessment of useful life and residual value

12. In accordance with the Schedule II, if the company uses a different useful life or a residual value of more than 5%, it is required to disclose the same in the financial statements and provide justification duly supported by the technical advice. Hence, determination of useful life is a matter of judgement and may be decided on a case to case basis. It is not merely an accounting exercise; rather, it involves technical expertise. Hence, the Companies will have to necessarily involve technical experts to determine the useful life of the asset.

13. As per Schedule II, useful life is either (i) the period over which a depreciable asset is expected to be used by an entity; or (ii) the number of production or similar units expected to be obtained from the use of the asset by the entity. Similar definition of useful is also mentioned in AS 6.

14. Determination of the useful life of a depreciable asset is a matter of estimation and is normally based on various factors including experience with similar types of assets. Such estimation is more difficult for an asset using

new technology or used in the production of a new product or in the provision of a new service but is nevertheless required on some reasonable basis.

15. As a general principle, the following factors shall be considered in determining the useful life of an asset –

(a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life based on the management's intention. This presumption can only be overcome when the facts and circumstances clearly indicate otherwise. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

AS 6 states that determination of residual value of an asset is normally a difficult matter. If such value is considered as 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 the asset. One of the bases for determining the residual value would be the realisable value of similar assets which have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used after allowing for the effect of

any anticipated developments such as significant technological changes. The possible effects of future price-level changes (inflation) in estimating residual values should not be considered because anticipated increases in residual values as a result of inflation represent gain contingencies that should be recognized only when realized.

16. It is quite possible for an asset's useful life to be shorter than its economic life. Many entities have a policy of disposing of assets when they still have a residual value, which means that another user will benefit from the asset. This is particularly common with property and motor vehicles, where there are effective second-hand markets, but less usual for plant and machinery. For example, an entity may have a policy of replacing all of its motor vehicles after three years, so this will be their estimated useful life for depreciation purposes. The entity will depreciate them over this period down to the estimated residual value. The residual values of motor vehicles are often easy to obtain and the entity will be able to reassess these residuals in line with the requirements of Schedule II and AS 6.

17. Companies need to carry out technical evaluation to assess the useful lives of its assets and maintain adequate details about its technical assessment of useful lives of the assets.

Useful life or residual value governed by other regulatory authority

18. Part B of the schedule II states that 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 the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule.

For example: The MCA had issued a General Circular dated 31 May 2011, which states that for companies engaged in generation/supply of electricity, rates of depreciation prevail over the Schedule XIV to the Companies Act.

Accordingly, in accordance with Part B of the schedule II, electricity companies will still continue to charge depreciation in accordance with the Electricity Act.

Depreciation for Intangible assets

19. Schedule II states that for intangible assets, the provisions of the accounting standards applicable for the time being in force shall apply. As

per the amendment issued by MCA on March 31, 2104, it provides a manner in which amortisation of intangible assets (Toll Roads) created under 'Build, Operate and Transfer' (BOT), 'Build, Own, Operate and Transfer' (BOOT) or any other form of Public Private Partnership (PPP) route in case of road projects.

Earlier, in accordance with amendment made to Schedule XIV to the1956 Act in April 2012, a company was allowed to use revenue based amortization for intangible assets (toll roads) created under BOT, BOOT or any other form of PPP route (collectively, referred to as "BOT assets"). Since Schedule II as originally notified did not contain a similar provision, an issue had arisen whether revenue based amortization will be allowed going forward.

As per the amendment dated March 31, 2014 to Schedule II has addressed this concern. In accordance with the amendment, a company may use revenue based amortization for BOT assets. For amortization of other intangible assets, AS 26 needs to be applied.

Component Accounting

20. As per note 4 Schedule II to the Companies Act, 2013 -"Useful life specified in Part C of the Schedule is for whole of the asset. Where cost of a part of the asset is significant to total cost 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 shall be determined separately."

As per the amendment dated August 29, 2014 notified by the MCA, the said requirement shall be voluntary in respect for the financial year commencing on or after the April 1, 2104 and mandatory for financial statements in respect of financial years commencing on or after April 1, 2015.

21. The above requirement is commonly known as 'component accounting'. Companies will need to identify and depreciate significant components with different useful lives separately. The component approach is already allowed under current AS 10, paragraph 8.3. Under AS 10, there seems to be a choice in this matter; however, the Schedule II requires application of component accounting mandatorily when relevant and material.

The determination as to whether a part of an asset is significant requires a careful assessment of the facts and circumstances. This assessment would include at a minimum:

- comparison of the cost allocated to the item to the total cost of the aggregated property, plant and equipment; and

- consideration of potential impact of componentisation on the depreciation expense.

Component accounting requires a company to identify and depreciate significant components with different useful lives separately. The application of component accounting is likely to cause significant change in the measurement of depreciation and accounting for replacement costs. Currently, companies need to expense replacement costs in the year of incurrence. Under component accounting, companies will capitalize these costs as a separate component of the asset, with consequent expensing of net carrying value of the replaced part. When it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement may be used as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

22. As component accounting was hitherto not mandatory in India, it is possible that the separate cost of each significant component of an asset is not available in the books of accounts. In order to determine the cost of such component following criteria can be used:

(a) Break up cost provided by the vendor

(b) Cost break up given by internal/external technical expert

(c) Current replacement cost of component of the related asset and applying the same basis on the historical cost of asset

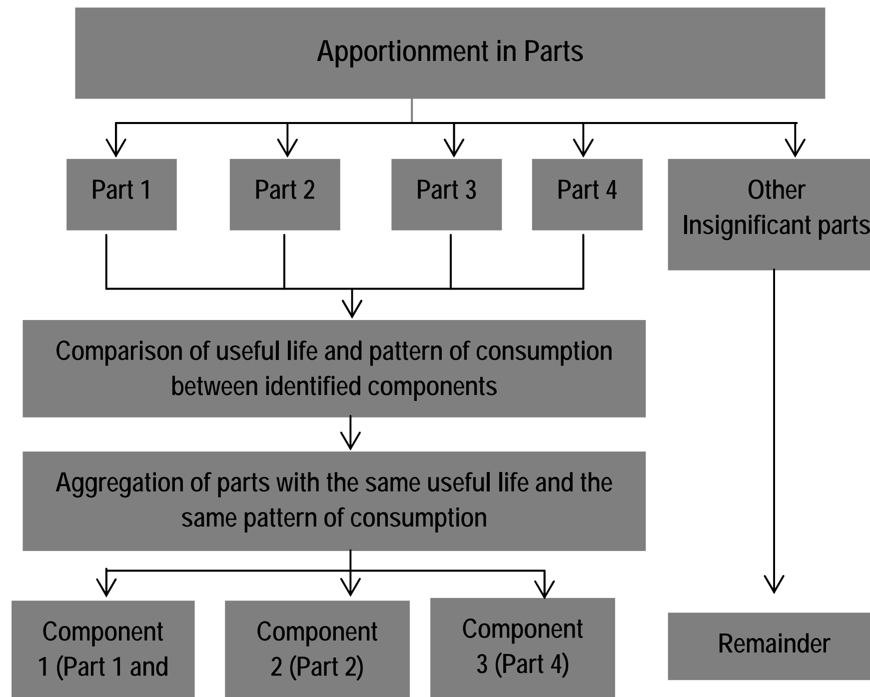
23. Component accounting is required to be done for the entire block of assets as at 1 April 2014 if a company opts to follow it voluntarily and as at 1 April, 2015 mandatorily. It cannot be restricted to only new assets acquired after 1 April 2014 or 1 April, 2015 as the case may be.

24. The first step is to identify key components requiring separate depreciation. Schedule II requires separate depreciation only for parts of an item of tangible fixed asset having

(i) Significant cost, and

(ii) Different useful lives from remaining parts of the asset.

Following diagram depicts a method for bifurcating Fixed Assets into major components-



The company must split the fixed asset into various identifiable parts to the extent possible. The identified parts should be grouped together if they have the same or similar useful life for the purpose of separate depreciation. Insignificant parts may be combined together in the remainder of the asset or with the principal asset.

For instance:

(a) A Building may be split up into the following components -

- (i) Structural design
- (ii) Elevators
- (iii) Heating system
- (iv) Water system
- (v) Electrical system

(b) A Ship may be bifurcated into the following components –

- (i) Hull
- (ii) Keel

(iii) Engine

(iv) Navigation system

(v) Major overhaul/ inspections

(vi) Other fit out assets

Identification of significant parts is a matter of judgment and decided on case-to-case basis. Identification of separate parts of an asset and determination of their useful life is not merely an accounting exercise; rather, it involves technical expertise. Hence, it may be necessary to involve technical experts to determine the parts of an asset.

25. A company needs to identify only material/ significant components separately for depreciation. Materiality is a matter of judgment and needs to be decided on the facts of each case. For example: a component having original cost equal to or less than 5% of the original cost of an asset may not be material. Similarly, a component having original cost equal to 25% or more of the original cost of complete asset may be material. The Company may consider 10% of original cost of the asset as a threshold to determine whether a component is material/significant. In addition, a company also needs to consider impact on retained earnings, current year profit or loss and future profit or loss (say, when part will be replaced) to decide materiality. If a component may have material impact from either perspective, the said component will be material and require separate identification.

26. Each significant component of the asset having useful life, which is different from the useful life of the remaining asset, should be depreciated separately. If the useful life of the component is lower than the useful life of the principal asset as per Schedule II, such lower useful should be used. On the other hand, if the useful life of the component is higher than the useful life of the principal asset as per Schedule II, the company has a choice of using either the higher or lower useful life. However, higher useful life for a component can be used only when management intends to use the component even after expiry of useful life for the principal asset.

To illustrate, assume that the useful life of an asset as envisaged under the Schedule II is 10 years. The management has also estimated that the useful life of the principal asset is 10 years. If a component of the asset has useful life of 8 years, AS 6 requires the company to depreciate the component using 8 year life only. However, if the component has 12 year life, the company may depreciate the component using either 10 year life as prescribed in the Schedule II.

Continuous Process Plant

27. Companies can continue to follow the guidance note issued by the ICAI with regard to continuous process plant – "Guidance note on some important issues arising from the amendments to Schedule XIV to the Companies Act, 1956."

28. Continuous process plant' means a plant which is required and designed to operate 24 hours a day. The words "required and designed to operate 24 hours a day" are very significant and should be interpreted with reference to the inherent technical nature of the plant, i.e., the technical design of a continuous process plant is such that there is a requirement to run it continuously for 24 hours a day. If it is not so run, there are significant shut-down and/or start-up costs. If such a plant is shut-down, there may be significant spoilage of materials-in-process/some damage to the plant itself/significant energy loss. It is, however, possible that due to various reasons, e.g., lack of demand, maintenance etc., and such a plant may be shut down for some time. The shutdown does not change the inherent technical nature of the plant.

For instance, a blast furnace which is required and designed to operate 24 hours a day, may be shut down due to various reasons; it would still be considered as a continuous process plant.

There can be certain plants which though may work 24 hours a day, yet their technical design is not such that they have to be operated 24 hours a day, e.g., a textile weaving mill.

A continuous process plant is distinct from the repetitive process plant or assembly-line type plants. These plants are not continuous process plants since such plants do not involve significant shut-down and/or start-up costs and are not technically required and designed to operate 24 hours a day, e.g., an automobile manufacturing plant.

29. Concept of component accounting as stated in para 21 will be applicable for continuous process plants also.

Double/ triple shift working

30. Under Schedule II, no separate rates/ lives are prescribed for extra shift working. Rather, it states that for the period of time, an asset is used in double shift depreciation will increase by 50% and by 100% in case of triple shift working.

31. For determining depreciation charge for assets used in double/triple shift operations, the useful life as given in Schedule II is to be treated as based on single shift operations. When an asset is used for double/ triple shift operations, the useful life of the asset will not change. As provided in Schedule II, the depreciation charge will increase by 50%/100% for double/triple shift operations, as the case may be.

If a company uses its assets for single, double or triple shifts in a financial year/accounting period, the depreciation charge for no. of days operated for double/triple shift has to be increased by 50%/100%, as the case may be.

32. If a company has purchased one plant and machinery three years prior to the commencement of the 2013 Act. Under Schedule XIV, single, double and triple shift depreciation rates applicable to the asset are 4.75%, 7.42% and 10.34%, respectively. Under Schedule II, its life is 15 years. For all three years, the company has used the asset on a triple shift basis and therefore, depreciated 31.02% of its cost over three years. For simplicity, residual value is considered to be Nil. On transition to Schedule II, the asset has remaining Schedule II life of 12 years, i.e., 15 years – 3 years. The management has estimated that on single shift basis, remaining useful life is also 12 years. The company will depreciate carrying amount of the asset over 12 years on a straight-line basis. If the company uses the asset on triple shift basis during any subsequent year, depreciation so computed will be increased by 100%. In case of double shift, depreciation will be increased by 50%.

Transitional provision under Schedule II

33. From the date Schedule II comes into effect i.e. 1 April 2014, the carrying amount of the asset as on that date

(a) Shall be depreciated over the remaining useful life of the asset .

(b) After retaining the residual value, may be recognised in the opening balance of retained earnings or may be charged off to Profit and Loss account where the remaining useful life of an asset is nil.

Hence the company will have to reassess the useful life of its existing fixed assets in accordance with Schedule II.

Example:

Useful Life of General Furniture and Fittings has been reduced from 15 years to 10 years. Consider the below scenarios for different age of a piece of furniture on the date of applicability of Schedule II–

- The furniture is 8 years old – The remaining WDV of the furniture shall be depreciated over the remaining 2 years.
- The furniture is 12 years old – Company has an option of charging the remaining WDV of the furniture to the retained earnings of the company or charging the same to the statement of profit and loss.

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. However, if a company uses Written Down Value (WDV) method of depreciation, it will need to calculate a new rate for depreciation to depreciate the asset over their remaining useful life using the formula for calculation of rate for depreciation as per WDV method which is reproduced below –

$$R= \{1 – (s/c)^{1/n} \} \times 100$$

Where R = Rate of Depreciation (in %)

n = Remaining useful life of the asset (in years)

s = Scrap value at the end of useful life of the asset

c= Cost of the asset/Written down value of the asset

It may be noted that upon transition to Schedule II, the company may have different rates of depreciation for individual assets within the same class in case of existing assets as there will be a different remaining useful life for each asset.

34. 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.*".

Charging of Depreciation in Case of Revaluation of Assets

35. Under the Companies Act, 1956, depreciation was to be provided on the original cost of an asset. Considering this, the ICAI *Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets* allowed an amount equivalent to the additional depreciation on account of the upward

revaluation of fixed assets to be transferred from the revaluation reserve to the statement of profit and loss.

36. In contrast, schedule II to Companies Act, 2013 Act requires depreciation to be provided on historical cost or the amount substituted for the historical cost.. Therefore, in case of revaluation, a company needs to charge depreciation based on the revalued amount. Consequently, the ICAI Guidance Note, which allows an amount equivalent to the additional depreciation on account of upward revaluation to be recouped from the revaluation reserve, may not apply. AS 10 allows amount standing to the credit of revaluation reserve to be transferred directly to the general reserve on retirement or disposal of revalued asset. A company may transfer the whole of the reserve when the asset is sold or disposed of. However, some of the surplus may be transferred as the asset is used by a Company. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the general reserve are not made through the statement of profit and loss.

Practical Examples

1. ABC Limited had considered the minimum rates mentioned in the Schedule XIV of the Companies Act, 1956 for the depreciating all its fixed assets till March 31, 2014. Based on the rates mentioned for SLM and WDV in the Schedule XIV, ABC Limited has derived the useful life for the assets and considered the same useful life for its assets.

Schedule II of the Companies Act, 2013 is now applicable to ABC Limited w.e.f. April 1, 2014. Whether ABC Limited needs to follow the useful lives mentioned in the Schedule II or derived useful lives considered till March 31, 2013 can be considered?

Response:

w.e.f. April 1, 2014, ABC limited should follow the useful lives mentioned in the Schedule II for the purpose of calculating depreciation. There is no relevance of the derived useful life as per schedule XIV of the Companies Act, 1956. However, if it follows a different useful life as compared to schedule II, in financial statements it shall disclose such difference and provide justification in this behalf duly supported by technical advice. e.g. ABC Limited was following 4.75% depreciation for single shift under SLM method for its Plant and machinery and accordingly the useful life of the plant

and machinery was considered to be 20 years. In accordance with the Schedule II, general plant and machinery needs be depreciated over a period of 15 years. Hence, ABC Limited has two options available either it can follow 15 years as useful life or it can also follow 20 years. If the Company decides to follow 20 years, it needs to disclose it in its financial statements and justification for the same supported by the technical advice.

2. PQR Limited has followed Schedule XIV rates for depreciation of a plant and machinery under WDV method by following rate of 13.91% as it runs under single shift. Date of acquisition is April 1, 2010 and cost incurred is ₹ 12,50,000 and accordingly WDV as at March 31, 2014 is ₹ 686,627. On transition to Schedule II, how same will be accounted in the books of account of PQR Limited.

Response:

In accordance with the transitional provision of Schedule II, if there is a balance useful life on the date of transition, the remaining WDV needs to be depreciated over the balance useful life period. If the Company follows the life provided in the Schedule II, the life of the assets will be 15 years and hence remaining useful life is 11 years. Hence, the balance WDV of ₹ 686,627 needs to be depreciated over the period of 11 years.

Since the Company follows WDV method for depreciation, the WDV needs to be depreciated by following the WDV method over the balance useful life. Hence, the Company needs to calculate the WDV rate for the depreciation. Considering residual value of 5%, the revised WDV rate would be 20% by following the formula mentioned in the para 35 and hence the depreciation charge for the year 2014-15 would be ₹ 134,424.

3. **Whether it is necessary to review useful life every year?**

Response:

Para 23 of AS 6 says that, the useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. Where there is a revision of the estimated useful life of an asset, the unamortized depreciable amount should be charged over the revised remaining useful life.

Para 21 of AS 5 says that, an estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item.

Ind-AS 16 Para 51 says that, the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Ind-AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The entity preparing its financial statement applying Ind-AS should comply with the requirement of the Ind-AS 16.

The entity preparing its financial statement in accordance with Indian GAAP should frame and implement a policy of periodical review of the useful life of assets.

4. Can a company still have a policy to fully depreciate 100% of cost of asset below certain amount?

Response:

The provisions of Schedule XIV to the companies act 1956 allowed 100% depreciation of the cost of an asset having individual value of ₹ 5000/- or less was based on practices followed by the companies based on the materiality of the financial impact of such charge.

Life of the asset is a matter of estimation, therefore the materiality of impact of such charge should be considered with reference to the cost of asset. The size of the company will also be a factor to be considered for such policy.

Accordingly, a company may have a policy to fully depreciate assets upto certain threshold limits considering materiality aspect in the year of acquisition.

5. How to work out Charging of depreciation on pro-rata basis?

Response:

Para 24 of the existing guidance note on depreciation accounting provides that "where during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, 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. Also, a company may group additions and disposals in appropriate time period(s), e.g. 15 days, a month, a quarter etc., for the purpose of charging pro rata depreciation in respect of additions and disposals of its asset keeping in view the materiality of the amount involved.

6. XYZ Limited a listed company follows December 31 as its financial year. Whether the requirements of the Schedule II are applicable for the year ending December 31, 2014?

Response:

Schedule II of the Companies Act, 2013 came into force with effect from the 1st April, 2014 and was amended (with effect from 1st April 1, 2014) vide notification number S.O. 237 (E), dated the 31st March, 2014. Further, MCA has also issues notification dated 29th August, 2014 whereby the requirements of component accounting have been made voluntary in respect of the financial year commencing on or after the 1st April, 2014 and mandatory for financial statements in respect of financial years commencing on or after 1st April, 2015.

For XYZ Limited, requirements of Schedule II other than component accounting will be applicable for the year ending December 31, 2015 and the requirements of the Component accounting will be applicable mandatorily for the year ending December 31, 2016. Hence, in respect of the financial year for the year ending December 31, 2014, requirements of the Schedule XIV of the Companies Act, 1956 will be applicable.

7. DEF Limited is a manufacturing company and it uses its plant and machinery either in single, double shift or triple shift depending upon its production requirements. In accordance with the Schedule II, the useful life of the plant and machinery is15 years. The Company intends to follows the same useful life for the purpose of the depreciating its plant and machineries. How depreciation should be worked out by the Company for the purpose of its financial reporting?

Response:

As per Schedule II, useful life of plant and machinery is 15 years considering it is used in a single shift and if the company uses the asset on triple shift basis during any subsequent year, depreciation so computed will be increased by 100%. In case of double shift, depreciation will be increased by 50%. Accordingly, DEF limited has to increase the charge by 50% and 100% for the period in which it is using the plant and machinery in double or triple shift.

8. If a company was calculating depreciation charge as per WDV method till 31st March 2014 under the provision of Companies Act, 1956 and wants to shift to SLM method w.e.f 1st April 2014 (or vice versa) whether the same will be covered under transitional provisions as provided in Schedule II of the Companies Act, 2013??

Response:

No, such cases will not be covered by transitional provision of Schedule II. It will be considered as change of accounting policy as per AS 5.

Example: A Company has purchased a plant and machinery in the month of April 200 and it was depreciating the said machinery by applying WDV method @ 13.91% p.a. Accordingly WDV of plant and machinery as at March 31, 2014 was ₹ 472,894 which was calculated as follows:

Year	Cost/Op. WDV	Depreciation as WDV @13.91%	Closing WDV
Year 1	1,000,000	139,100	860,900
Year 2	860,900	119,751	741,149
Year 3	741,149	103,094	638,055
Year 3	638,055	88,753	549,302
Year 5	549,302	76,408	472,894

Schedule II is applicable to the Company w.e.f. April 1, 2014 and in accordance with the requirements of Schedule II, the Company has assessed useful of the said machinery as 15 years and residual value of 5%. Considering the five years have been expired as at March 31, 2014, the balance WDV needs to be depreciated over the balance useful life of i.e. 10 years (as expired life is 5 years).

If the company continues with the WDV method, it needs to work out a revised WDV rate to depreciate the WDV as at March 31, 2104 over a period of 10 years considering residual value of 5%. By applying the formula mentioned in the para 33, revised WDV rate would be 20% and hence depreciation for the year 2014-15 would be ₹ 94,579 and year-wise depreciation for the next 10 years would be as follows:

Year	Opening WDV	Depreciation @20% - WDV	Closing WDV
Year 1	472,894	94,579	378,315
Year 2	378,315	75,663	302,652
Year 3	302,652	60,530	242,122
Year 4	242,122	48,424	193,697
Year 5	193,697	38,739	154,958
Year 6	154,958	30,992	123,966
Year 7	123,966	24,793	99,173
Year 8	99,173	19,835	79,338
Year 9	79,338	15,868	63,471
Year 10	63,471	12,694	50,777

However, if the company wants to change its method of depreciation from WDV to SLM, it needs to first calculate the impact on account of change in the method and difference in the WDV needs to be accounted through statement of profit and loss. Hence, revised WDV as at March 31, 2014 would be ₹ 7,62,500 by applying 4.75% SLM rate for five years (₹ 10,00,000 – ((₹ 10,00,000*4.75%)*5)). Difference between revised WDV as at March 31, 2014 based on SLM rate and carrying amount in the books at March 31, 2014 i.e. ₹ 289,606 (₹ 762,500 – ₹ 472,894) needs to be credited to the statement of profit and loss.

Further, by applying the transitional provisions of Schedule II, balance WDV of ₹ 762,500 needs to be depreciated over the balance useful life of 10 years considering the residual value of 5%. Hence, depreciation for the year 2014-15 and yearly depreciation for next nine years would be ₹ 63,333.

9. The Company is a Special Purpose Vehicle floated to execute a project in accordance with the service concession agreement signed with the grantor. Service concession agreement is for 30 years and the company has option to renew it for additional period of 30 years. Assets created by the Company is capitalised as Tangible assets under the various applicable heads. While applying schedule II, how the company should assess useful life of its various assets?

Response:

In such a situation, the Company needs to assess the renewable option and evaluate the likelihood of renewal. If the Company is reasonably certain at the inception of the service concession period that it will be renewed for further period of 30 years and accordingly the same needs to be considered for evaluating the useful life of various assets. The useful life of the various assets will be lower of the following:

- Useful life of assets as mentioned in the Schedule II or as assessed by the Company based on the technical justification or
- Service concession period of 30 years or 60 years as the case may be

ANNEXURES

Annexure- A

SCHEDULE II (Including the amendments)

(*See* section 123)

USEFUL LIVES TO COMPUTE DEPRECIATION

PART 'A'

1. 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.

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

3. Without prejudice to the, foregoing provisions of paragraph 1,—

(*i*) The useful life of an asset shall not ordinarily be different from the useful life specified in Part C and the residual value of an asset shall not be more than five per cent. of the original cost of the asset:

Provided that where a company adopts a useful life different from what is specified in Part C 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 advice.

(ii) For intangible assets, the provisions of the accounting standards applicable for the time being in force shall apply, except in case of intangible assets (Toll Roads)created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects. Amortisation in such cases may be done as follows:-

(a) Mode of amortisation

$$\text{Amortisation Rate} = \frac{\text{Amortisation Amount x 100}}{\text{Cost of Intangible Assets (A)}}$$

$$\text{Amortisation Amount} = \frac{\text{Cost of Intangible Assets (A) x Actual Revenue for the year (B)}}{\text{Projected Revenue from Intangible Asset (till the end of the concession period) (C)}}$$

(b) Meaning of particulars are as follows:-

Cost of Intangible Assets (A)	=	Cost incurred by the company in accordance with the accounting standards.
Actual Revenue for the year (B)	=	Actual revenue (Toll Charges) received during the accounting year.
Projected Revenue from Intangible Asset (C)	=	Total projected revenue from the Intangible Assets as provided to the project lender at the time of financial closure / agreement.

The amortisation amount or rate should ensure that the whole of the cost of the intangible asset is amortised over the concession period.

Revenue shall be reviewed at the end of each financial year and projected revenue shall be adjusted to reflect such changes, if any, in the estimates as will lead to the actual collection at the end of the concession period.

(c) Example:-

Cost of creation of Intangible Assets	:	₹ 500/- Crores
Total period of Agreement	:	20 Years
Time used for creation of Intangible Assets	:	2 Years
Intangible Assets to be amortised in	:	18 Years

Assuming that the Total revenue to be generated out of Intangible Assets over the period would be ₹ 600 Crores, in the following manner:-

Year No.	Revenue (In ₹ Crores)	Remarks
Year 1	5	Actual
Year 2	7.5	Estimate *
Year 3	10	Estimate *
Year 4	12.5	Estimate *
Year 5	17.5	Estimate *
Year 6	20	Estimate *
Year 7	23	Estimate *
Year 8	27	Estimate *
Year 9	31	Estimate *

Year 10	34	Estimate *
Year 11	38	Estimate *
Year 12	41	Estimate *
Year 13	46	Estimate *
Year 14	50	Estimate *
Year 15	53	Estimate *
Year 16	57	Estimate *
Year 17	60	Estimate *
Year 18	67.5	Estimate *
Total	600	

'*' will be actual at the end of financial year.

Based on this the charge for first year would be ₹ 4.16 Crore (approximately) (i.e. ₹ 5/₹ 600 x ₹ 500 Crores) which would be charged to profit and loss and 0.83% (i.e. ₹ 4.16 Crore/ Rs 500 Crore x 100) is the amortisation rate for the first year.

Where a company arrives at the amortisation amount in respect of the said Intangible Assets in accordance with any method as per the applicable Accounting Standards, it shall disclose the same."

PART 'B'

4. 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 the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule.

PART 'C'

5. Subject to Parts A and B above, the following are the useful lives of various tangible assets:

Nature of assets	Useful Life
I. Buildings [NESD]	
(*a*) Buildings (other than factory buildings) RCC Frame Structure	60 Years
(*b*) Buildings (other than factory buildings) other than RCC Frame Structure	30 Years
(*c*) Factory buildings	-do-

(*d*) Fences, wells, tube wells	5 Years
(*e*) Others (including temporary structure, etc.)	3 Years
II. Bridges, culverts, bunders, etc. [NESD]	30 Years
III. Roads [NESD]	
(*a*) Carpeted roads	
(*i*) Carpeted Roads—RCC	10 Years
(*ii*) Carpeted Roads—other than RCC	5 Years
(*b*) Non-carpeted roads	3 Years
IV. Plant and Machinery	
(*i*) **General rate applicable to plant and machinery not covered under special plant and machinery**	
(*a*) Plant and Machinery other than continuous process plant not covered under specific industries	15 Years
(*b*) Continuous process plant for which no special rate has been prescribed under (*ii*) below [NESD]	25 Years
(*ii*) **Special Plant and Machinery**	
(*a*) Plant and Machinery related to production and exhibition of Motion Picture Films	
1. Cinematograph films—Machinery used in the production and exhibition of cinematograph films, recording and reproducing equipments, developing machines, printing machines, editing machines, synchronizers and studio lights except bulbs	13 Years
2. Projecting equipment for exhibition of films	-do-
(*b*) Plant and Machinery used in glass manufacturing	
1. Plant and Machinery except direct fire glass melting furnaces — Recuperative and regenerative glass melting furnaces	13 Years
2. Plant and Machinery except direct fire glass melting furnaces — Moulds [NESD]	8 Years
3. Float Glass Melting Furnaces [NESD]	10 Years
(*c*) Plant and Machinery used in mines and quarries—Portable under ground machinery and earth moving machinery used in open cast mining [NESD]	8 Years
(*d*) Plant and Machinery used in Telecommunications	

[NESD]	
1. Towers	18 Years
2. Telecom transceivers, switching centres, transmission and other network equipment	13 Years
3. Telecom—Ducts, Cables and optical fibre	18 Years
4. Satellites	-do-
(*e*) Plant and Machinery used in exploration, production and refining oil and gas [NESD]	
1. Refineries	25 Years
2. Oil and gas assets (including wells), processing plant and facilities	-do-
3. Petrochemical Plant	-do-
4. Storage tanks and related equipment	-do-
5. Pipelines	30 Years
6. Drilling Rig	-do-
7. Field operations (above ground) Portable boilers, drilling tools, well-head tanks, etc.	8 Years
8. Loggers	-do-
(*f*) Plant and Machinery used in generation, transmission and distribution of power [NESD]	
1. Thermal/Gas/Combined Cycle Power Generation Plant	40 Years
2. Hydro Power Generation Plant	-do-
3. Nuclear Power Generation Plant	-do-
4. Transmission lines, cables and other network assets	-do-
5. Wind Power Generation Plant	22 Years
6. Electric Distribution Plant	35 Years
7. Gas Storage and Distribution Plant	30 Years
8. Water Distribution Plant including pipelines	-do-
(*g*) Plant and Machinery used in manufacture of steel	
1. Sinter Plant	20 Years
2. Blast Furnace	-do-
3. Coke ovens	-do-
4. Rolling mill in steel plant	-do-
5. Basic oxygen Furnace Converter	25 Years

(*h*) Plant and Machinery used in manufacture of non-ferrous metals	
1. Metal pot line [NESD]	40 Years
2. Bauxite crushing and grinding section [NESD]	-do-
3. Digester section [NESD]	-do-
4. Turbine [NESD]	-do-
5. Equipments for Calcination [NESD]	-do-
6. Copper Smelter [NESD]	-do-
7. Roll Grinder	40 Years
8. Soaking Pit	30 Years
9. Annealing Furnace	-do-
10. Rolling Mills	-do-
11. Equipments for Scalping, Slitting , etc. [NESD]	-do-
12. Surface Miner, Ripper Dozer, etc., used in mines	25 Years
13. Copper refining plant [NESD]	-do-
(*i*) 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
2. Other Equipments.	15 Years
(*j*) Plant and Machinery used in manufacture of pharmaceuticals and chemicals [NESD]	
1. Reactors	20 Years
2. Distillation Columns	-do-
3. Drying equipments/Centrifuges and Decanters	-do-
4. Vessel/storage tanks	-do-
(*k*) Plant and Machinery used in civil construction	
1. Concreting, Crushing, Piling Equipments and Road Making Equipments	12 Years
2. Heavy Lift Equipments—	
Cranes with capacity of more than 100 tons	20 Years
Cranes with capacity of less than 100 tons	15 Years

3. Transmission line, Tunneling Equipments [NESD]	10 Years
4. Earth-moving equipments	9 Years
5. Others including Material Handling /Pipeline/Welding Equipments [NESD]	12 Years
(*l*) Plant and Machinery used in salt works [NESD]	15 Years
V. Furniture and fittings [NESD]	
(*i*) General furniture and fittings	10 Years
(*ii*) Furniture and fittings used in hotels, restaurants and boarding houses, schools, colleges and other educational institutions, libraries; welfare centres; meeting halls, cinema houses; theatres and circuses; and furniture and fittings let out on hire for use on the occasion of marriages and similar functions.	8 Years
VI. Motor Vehicles [NESD]	
1. Motor cycles, scooters and other mopeds	10 Years
2. Motor buses, motor lorries, motor cars and motor taxies used in a business of running them on hire	6 Years
3. Motor buses, motor lorries and motor cars other than those used in a business of running them on hire	8 Years
4. Motor tractors, harvesting combines and heavy vehicles	-do-
5. Electrically operated vehicles including battery powered or fuel cell powered vehicles	8 Years
VII. Ships [NESD]	
1. Ocean-going ships	
(*i*) Bulk Carriers and liner vessels	25 Years
(*ii*) Crude tankers, product carriers and easy chemical carriers with or without conventional tank coatings.	20 Years
(*iii*) Chemicals and Acid Carriers :	
(*a*) With Stainless steel tanks	25 Years
(*b*) With other tanks	20 Years
(*iv*) Liquified gas carriers	30 Years
(*v*) Conventional large passenger vessels which are used for cruise purpose also	-do-
(*vi*) Coastal service ships of all categories	-do-
(*vii*) Offshore supply and support vessels	20 Years

(*viii*) Catamarans and other high speed passenger for ships or boats	-do-
(*ix*) Drill ships	25 Years
(*x*) Hovercrafts	15 Years
(*xi*) Fishing vessels with wooden hull	10 Years
(*xii*) Dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes	14 Years
2. Vessels ordinarily operating on inland waters—	
(*i*) Speed boats	13 Years
(*ii*) Other vessels	28 Years
VIII. Aircrafts or Helicopters [NESD]	20 Years
IX. Railways sidings, locomotives, rolling stocks, tramways and railways used by concerns, excluding railway concerns [NESD]	15 Years
X. Ropeway structures [NESD]	15 Years
XI. Office equipment [NESD]	5 Years
XII. Computers and data processing units [NESD]	
(*i*) Servers and networks	6 Years
(*ii*) End user devices, such as, desktops, laptops, etc.	3 Years
XIII. Laboratory equipment [NESD]	
(*i*) General laboratory equipment	10 Years
(*ii*) Laboratory equipments used in educational institutions	5 Years
XIV. Electrical Installations and Equipment [NESD]	10 years
XV. Hydraulic works, pipelines and sluices [NESD]	15 Years

Notes.

1. "Factory buildings" does not include offices, godowns, staff quarters.

2. Where, during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, 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.

3. The following information shall also be disclosed in the accounts, namely:—

(*i*) depreciation methods used; and

(*ii*) the useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.

4. (a) Useful life specified in Part C of the Schedule is for whole of the asset. Where cost of a part of the asset is significant to total cost 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 shall be determined separately.

(b) The requirement under sub-paragraph (a) shall be voluntary in respect of the financial year commencing on or after the 1st April, 2014 and mandatory for financial statements in respect of financial years commencing on or after the 1st April, 2015.

5. 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.

6. 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, may be recognised in the opening balance of retained earnings where the remaining useful life of an asset is *nil*.

7. "Continuous process plant" means a plant which is required and designed to operate for twenty-four hours a day.

Annexure- B

[1][SCHEDULE XIV

(Rates of Depreciation)

(See section 205 and 350)

Nature of assets	Single Shift		Double Shift		Triple Shift	
	W.D.V	S.L.M.	W.D.V.	S.L.M.	W.D.V.	S.L.M.
1	2	3	4	5	6	7
I. (a) Buildings (other than factory buildings) (NESD)	5 per cent	1.63 per cent	..	..	..	..
(b) Factory buildings	10 per cent	3.34 per cent	..	..	..	.
(c) Purely temporary erections such as wooden structures	100 per cent	100 per cent	..	..	..	..
II. Plant and Machinery						
[2][(i) General rate applicable to,						
(a) plant and machinery (not being a ship) other than continuous process plant for which no special rate has been prescribed under (ii) below:	13.91 per cent	4.75 per cent	20.87 per cent	7.42 per cent	27.82 per cent	10.34 per cent
(b) Continuous process plant, [3][***] for which no special rate has been prescribed under (ii) below. (NESD)]	15.33 per cent	5.28 per cent	..	..	..	..
(ii) Special rates						
A. 1. Cinematograph	20	7.07	..	..	..	..

[1] Inserted by the Companies (Amendment) Act, 1988, w.r.e.f. 2-4-1987
[2] Substituted by Notification No. GSR 756(E), dated 16-12-1993.
[3] Omitted by Notification No. GSR 101(E), dated 1-3-1995.

films-Machinery used in the production and exhibition of cinematograph films (NESD)	per cent	per cent				
(a) Recording equipment, reproducing equipment, developing machines, printing machines, editing machines, synchronizers and studio lights except bulbs	20 per cent	7.07 per cent	..	..	..	..
(b) Projecting equipment of film exhibiting concerns	-do-	-do-	..	..	..	..
2. Cycles (NESD)	20 per cent	7.07 per cent	..	..	..	..
[4][3. Electrical Machinery, X-ray and electrotherapeutic, apparatus and accessories thereto, medical, diagnostic equipments, namely, Cat-scan, Ultrasound Machines, ECG Monitors etc. (NESD)	20 per cent	7.07 per cent	..	..	..	..
4. Juice boiling pans (karhais) (NESD)	20 per cent	7.07 per cent	..	..	..	..
5. Motor-cars, motor cycles, scooters and other mopeds (NESD)	25.89 per cent	9.5 per cent	..	..	..	..

[4] Substituted by Notification No. GSR 756(E), dated 16-12-1993.2

6. Electrically operated vehicles including battery powered or fuel call powered vehicles (NESD)	20 per cent	7.07 cent	..	..	..	..
7. Sugarcane crushers (indigenous kolus and belans) (N.E.S.D.)	20 per cent	7.07 per cent	..	..	..	..
8. Glass manufacturing concerns expect direct fire glass melting furnaces- Recuperative and regenerative glass melting furnaces	20	7.07 per cent	30 per cent	11.31 per cent	40 per cent	16.21 per cent
9. Machinery used in the manufacture of electronic goods and components.	15.62 per cent	5.38 per cent	23.42 per cent	8.46 per cent	31.23 per cent	11.87 per cent
B. [5][1. Aeroplanes, Aero Engines, Simulators, Visual System and Quick Engine Change Equipment (NESD)	16.2 per cent	5.6 per cent				
2. Concrete pipes manufacture Moulds (NESD)	30 per cent	11.31 per cent	..	..	..	..
3. Drum container manufacture dies (NESD)	-do-	-do-	..	..	..	..
4. Earth-moving machinery employed in heavy construction works, such as dams, tunnels, canals, etc. (NESD)	-do-	-do-	..	..	..	..
5. Glass manufacturing	-do-	-do-	..	..	..	..

[5] Substituted by Notification No. GSR 788(E), dated 4-11-1994.

concerns expect direct fire glass melting furnaces Moulds(NESD)						
6. Moulds in iron foundaries (NESD)	-do-	-do-	..	..	..	..
[6]7. Mineral oil concerns Field operations (above ground) Portable boilers drilling tools, well-head tanks, etc. (NESD)	30 per cent	11.31 per cent	..	..	..	..
7A. Rigs (NESD)	10 per cent	3.34 per cent	..	..	..	..
8. Mines and quarries- Portable underground machinery and earth moving machinery used in open cast mining (NESD)	-do-	-do-	..	..	..	..
9. Motor buses and motor lorries other than those used in a business of running them on hire (NESD)	30 per cent	11.31 per cent	..	..	..	..
9A. Motor tractors, harvesting combines (NESD)	-do-	-do-	..	..	..	..
10. Patterns, dies and templates (NESD)	-do-	-do-	..	..	..	..
11. Ropeway structures-Ropeways,	-do-	-do-	..	..	..	..

[6] Substituted by Notification dated 14-12-2011 for the following:
"7. Mineral oil concerns Field operations -do- -do- .. .. ..
(above ground) Portable boilers drilling tools,
well head tanks, rigs, etc. (NESD)

ropes and trestle sheaves and connected parts(NESD)						
12. Shoe and other leather goods factories-Wooden lasts used in the manufacture of shoes.	30 per cent	11.31 per cent	45 per cent	18.96 per cent	60 per cent	29.05 per cent
C. [7][1. ***]						
2. Motor buses, motor lorries and motor taxies used in a business of running them on hire (NESD)	40 per cent	16.21 per cent	..	..	..	..
3. Rubber and plastic goods factories Moulds (NESD)	-do-	-do-	..	..	..	..
4. Data processing machines including computers (NESD)	-do-	-do-	..	..	..	..
5. Gas cylinders including valves and regulators (NESD)	-do-	-do-	..	..	..	..
D. 1. Artificial silk manufacturing machinery wooden parts	100 per cent	100 per cent	..	..	..	..
2. Cinematograph films Bulbs of studio lights	-do-	-do-	..	..	..	..
3. Flour mills Rollers	-do-	-do-	..	..	..	..
4. Glass manufacturing concerns Direct fire glass melting furnaces	100 per cent	100 per cent	..	..	..	..
[8][4A. Float Glass Melting	27	10	..	..	..	..

[7] Omitted by Notification No. GSR 788(E), dated 4-11-1994
[8] Inserted by Notification No. GSR 500(E), dated 18-8-1998

Furnaces (NESD)	per cent	per cent				
5. Iron and Steel industries Rolling mill rolls	100 per cent	100 per cent	..	..	..	..
6. Match factories Wooden match frames	-do-	-do-	..	..	..	..
7. Mineral oil concerns (a)- Plant used in field operations (below ground)- Distribution - returnable packages (b) Plant used in field operations (below ground) but not including assets used in field operations (distribution) - Kerbside pumps including underground tanks and fittings	100 per cent	100 per cent	..	..	..	..
8. Mines and quarries - (a) Tubs, winding ropes, haulage ropes and sand stowing pipes (b) Safety lamps	-do-	-do-	..	..	..	..
9. Salt works - Salt pans, reservoirs and condensers, etc., made of earthy, sandy or clay material or any other similar material	-do-	-do-	..	..	..	..
10. Sugar works Rollers	-do-	-do-	..	..	..	..

III. Furniture and fittings

[9][1. General Rates (NESD)	18.1 per cent	6.33 per cent	..	..	..	..
2. Rate for furniture and fittings used in hotels, restaurants and boarding houses; schools, colleges and other educational institutions, libraries; welfare centres; meeting halls, cinema houses; theatres and circuses; and for furniture and fittings let out on hire for use on the occasion of marriages and similar functions. (NESD)]	25.88 per cent	9.5 per cent	..	..	..	..
IV. Ships						
1. Ocean-going ships-						
(i) Fishing vessels with wooden hull (NESD)	27.05 per cent	10 per cent	..	..	..	..
(ii) Dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes (NESD)	19.8 per cent	7 per cent	..	..	..	..
(iii) Other ships (NESD)	14.6 per cent	5 per cent	..	..	..	..
2. Vessels ordinarily operating on inland waters-						
(i) Speed boats (NESD)	20 per cent	7.07 per cent	..	..	..	..
(ii) Other vessels (NESD)	10 per cent	3.34 per cent	..	..	..	..

[9] Substituted by Notification No. GSR 756(E), dated 16-12-1993

[10][*V. Intangible Assets*

1. Intangible Assets (Tool Road) created under 'Build Operate and Transfer', Build, Own, Operate and Transfer or any other form of Public Private Partnership Route.

$$\text{Amortization Rate} = \frac{\text{Amortization Amount}}{\text{Cost of Intangible Assets}} \times 100$$

$$\text{Amortization Amount} = \text{Cost of Intangible Assets (A)} \times \frac{\text{Actual revenue for the Year}}{\text{Projected Revenue from Intangible Asset (till the end of the concession period) (C)}}$$

2. Meaning of particulars are as follows:-

Cost of Intangible Assets (A) =	Cost incurred by the company in accordance with the accounting standards
Actual Revenue for the year (B)=	Actual revenue (Toll Charges) received during the Accounting year
Projected Revenue from =	Total projected revenue from the Intangible Assets
Intangible Assets (C)	as provided to the project lender at the time of Financial closure/agreement.

The amortization amount or rate should ensure that the whole of the cost of the intangible asset is amortized over the concession period.

Total Revenue shall be reviewed at the end of each financial year and the projected revenue shall be adjusted to reflect any changes in the estimate which will lead to the actual collection at the end of the concession period.

3. For Example:-

Cost of creation of Intangible Assets	:	₹ 500 Crores
Total period of Agreement	:	20Years
Time used for creation of Intangible Assets	:	2 Years
Intangible Assets to be amortized in	:	18 Years

[10] Inserted by F. no. 17/292/2011-CL-V, dated 17-4-2012

Assuming that the Total revenue to be generated out of Intangible Assets over the period would be ₹ 600 Crores, in the following manner:-

Year No.	***Revenue (In ₹ Crores)***	***Remarks***
Year 1	*5*	*Actual*
Year 2	*7.5*	*Estimate**
Year 3	*10*	*Estimate**
Year 4	*12.5*	*Estimate**
Year 5	*17.5*	*Estimate**
Year 6	*20*	*Estimate**
Year 7	*23*	*Estimate**
Year 8	*27*	*Estimate**
Year 9	*31*	*Estimate**
Year 10	*34*	*Estimate**
Year 11	*38*	*Estimate**
Year 12	*41*	*Estimate**
Year 13	*46*	*Estimate**
Year 14	*50*	*Estimate**
Year 15	*53*	*Estimate**
Year 16	*57*	*Estimate**
Year 17	*60*	*Estimate**
Year 18	*67.5*	*Estimate**
Total	***600***	

'' will be actual at the end of financial year*

Based on this the charge for first year would be ₹ 4.16 Crore (approximately) (i.e. ₹ 5/₹ 600 x ₹ 500 Crores) which would be charged to profit and loss and 0.83% (i.e. ₹ 4.16 Crore/₹ 500 x 100) is the amortization rate for the first year.

W.D.V.: means Written Down Value.

S.L.M.: means Straight Line Method.

Notes.-

1. "buildings" include roads, bridges, culverts, wells and tube-wells.

2. "factory buildings" does not include offices, godowns, officers and employees' quarters, roads, bridges, culverts, wells and tube-wells.

3. "speed boat" means a motor boat driven by a high speed internal combustion engine capable of propelling the boat at a speed exceeding 24 Kilometers per hour in still water and so designed that when running at a speed it will plane, i.e., its bow will rise from the water.

4. Where, during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, 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.

5. The following information should also be disclosed in the accounts:

(i) depreciation methods used; and

(ii) depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the Schedule.

6. The calculations of the extra depreciation for double shift working and for triple shift working shall be made separately in the proportion which the number of days for which the concern worked double shift or triple shift, as the case may be, bears to the normal number of working days during the year. For this purpose, the normal number of working days during the year shall be deemed to be-

(a) in the case of a seasonal factory or concern, the number of days on which the factory or concern actually worked during the year or 180 days, whichever is greater;

(b) in any other case, the number of days on which the factory or concern actually worked during the year or 240 days, whichever is greater.

The extra shift depreciation shall not be charged in respect of any item of machinery or plant which has been specifically, excepted by inscription of the letters "N.E.S.D." (meaning "No Extra Shift Depreciation") against it in sub-items above and also in respect of the following items of machinery and plant to which the general rate of depreciation of [11][13.91 per cent] applies-

(1) Accounting machines

(2) Air-conditioning machinery including room air-conditioners

(3) Building contractor's machinery.

[11] Substituted for “15 per cent” by Notification No. GSR 756(E), dated 16-12-1993.

(4) Calculating machines.

(5) Electrical machinery - switchgear and instruments, transformers and other stationary plant and wiring and fitting of electric light and fan installations.

(6) Hydraulic works, pipelines and sluices

(7) Locomotives, rolling stocks, tramways and railways used by concerns, excluding railway concerns.

(8) Mineral oil concerns - field operations:

[12][(a) ***]

(b) Prime Movers.

[13](c) ***]

(d) Storage tanks (above ground).

(e) Pipelines (above ground).

(f) Jetties and dry docks.

(9) Mineral oil concerns - field operations (distribution) - Kerbside pumps, including underground tanks and fittings.

(10) Mineral oil concerns - refineries:

[14][(a) ***]

(b)Prime Movers.

[15][(c) ***]

[16][(d) LPG Plant]

(11) Mines and quarries:

(a) Surface and underground machinery (other than electrical machinery and portable underground machinery).

(b) Head-gears.

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[12] The word "Boilers" omitted by Notification No. GSR 756(E), dated 16-12-1993.
[13] The word "Process Plants" omitted, *ibid.*
[14] The word "Boilers" omitted *ibid.*
[15] The word "Process Plants" omitted by Notification No. GSR 756(E), dated 16-12-1993
[16] Inserted by Notification No. GSR 416(E), dated 14-5-1993,

(c) Rails.

[17][(d)***]

(e) Shafts and inclines.

(f) Tramways on the surface.

(12) Neo-post franking machines.

(13) Office machinery

(14) Overhead cables and wires.

(15) Railway sidings.

(16) Refrigeration plant containers, etc. (other than racks).

(17) Ropeway structures:

(a) Trestle and station steel work.

(b) Driving and tension gearing.

(18) Salt works - Reservoirs, condensers, salt pans, delivery channels and piers if constructed of masonry, concrete, cement, asphalt or similar materials; barges and floating plant; piers, quays and jetties; and pipelines for conveying brine if constructed of masonry, concrete, cement, asphalt or similar materials.

(19) Surgical instruments

(20) Tramways electric and tramways run by internal combustion engines- permanent way: cars- car trucks, car bodies, electrical equipment and motors; tram cars including engines and gears.

(21) Typewriters.

(22) Weighing machines.

(23) Wireless apparatus and gear, wireless appliances and accessories.]

[18][***]

[19][7. "Continuous process plant" means a plant which is required and designed to operate 24 hours a day.

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[17] No. The word "Boilers" omitted by Notification GSR 756(E), dated 16-12-1993.
[18] No. The word "Boilers" omitted by Notification GSR 756(E), dated 16-12-1993.
[19] Inserted by Notification No. G.S.R 756(E), dated 16-12-1993

8. Notwithstanding anything mentioned in this Schedule depreciation on assets, whose actual cost does not exceed five thousand rupees, shall be provided depreciation at the rate of hundred per cent:]

[20][Provided that where the aggregate actual cost of individual items of plant and machinery costing ₹ 5,000 or less constitutes more than 10 per cent of the total actual cost of plant and machinery, rates of depreciation applicable to such items shall be the rates as specified in Item II of the Schedule.]

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[20] Inserted by Notification No. 101(E), dated 1-3-1995

Annexure- C

Notification on Schedule II dated 29th August, 2014
(G.S.R. 627(E))

In exercise of the powers conferred by sub section (1) of Section 467 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following amendments further to amend Schedule II of the said Act with effect from the date of publication of this notification in the Official Gazette, namely:—

1. In Schedule II of the Companies Act, 2013, —

(a) in Part 'A', in paragraph 3, for sub-paragraph (i), the following sub-paragraph shall be substituted, namely:—

"(i) The useful life of an asset shall not ordinarily be different from the useful life specified in Part C and the residual value of an asset shall not be more than five per cent. of the original cost of the asset:

Provided that where a company adopts a useful life different from what is specified in Part C 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 advice",.

(b) After Part 'C' under the heading Notes, —

(i) for paragraph 4 the following paragraph shall be substituted namely:—

"4(a) Useful life specified in Part C of the Schedule is for whole of the asset and where cost of a part of the asset is significant to total cost 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 shall be determined separately.

(b) The requirement under sub-paragraph (a) shall be voluntary in respect of the financial year commencing on or after the 1st April, 2014 and mandatory for financial statements in respect of financial years commencing on or after the 1st April, 2015."

(c) In paragraph 7, in sub-paragraph (b) for the words "shall be recognized", the words "may be recognized' shall be substituted.

Note: Schedule II of the Companies Act, 2013 came into force with effect from the 1st April, 2014 and was amended (with effect from 1st April, 2014) *Vide* notification number S. O. 237(E), Dated the 31st March, 2014.

Notification on Schedule II dated 31st March, 2014
(G.S.R. 237 (E))

In exercise of powers conferred by Sub-Section (2) of Section-123 read with Sub-Section (1) of Section 467 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following alterations to Schedule II to the said Act, namely:-

1. In Schedule II,-

(1) In Part 'A', in para 3, for sub paragraph (i) to (iii), the following sub – paragraphs shall be substituted, namely:-

"(i) The useful life of an asset shall not be longer than the useful life specified in Part 'C' & the residual value of an asset shall not be more than 5% of the original cost of the asset:

Provided that where a company uses a useful life or residual value of the asset which is different from the above limits, justification for the difference shall be disclosed in its financial statement.

(ii) **For intangible assets, the** provisions of the accounting standard applicable for the time being in force shall apply, except in case of intangible assets (Toll Roads) created under 'Build, Operate & Transfer', 'Build, Own, Operate & except or any other form of public private partnership route in case of roads projects. Amortization in such cases may be done as follows:-

(a) Mode of amortization

$$\text{Amortization Rate} = \frac{\text{Amortization Amount}}{\text{Cost of Intangible Assets}} \times 100$$

Amortization Amount

$$\text{Amount of Intangible Assets} \times \frac{\text{Actual revenue for the Year}}{\text{Projected Revenue from Intangible Asset (till the end of the concession period) (C)}}$$

(b) Meaning of particulars are as follows:-

Cost of Intangible Assets (A) = Cost incurred by the company in accordance with the accounting standards

Actual Revenue for the year (B) =	Actual revenue (Toll Charges) received during the Accounting year
Projected Revenue from = Intangible Assets (C)	Total projected revenue from the Intangible Assets as provided to the project lender at the time of financial closure/agreement.

(c) Example:-

Cost of creation of Intangible Assets	:	₹ 500 Crores
Total period of Agreement	:	20Years
Time used for creation of Intangible Assets	:	2 Years
Intangible Assets to be amortised in	:	18 Years

Assuming that the Total revenue to be generated out of Intangible Assets over the period would be ₹ 600 Crores, in the following manner:-

Year No.	Revenue (In ₹ Crores)	Remarks
Year 1	5	Actual
Year 2	7.5	Estimate*
Year 3	10	Estimate*
Year 4	12.5	Estimate*
Year 5	17.5	Estimate*
Year 6	20	Estimate*
Year 7	23	Estimate*
Year 8	27	Estimate*
Year 9	31	Estimate*
Year 10	34	Estimate*
Year 11	38	Estimate*
Year 12	41	Estimate*
Year 13	46	Estimate*
Year 14	50	Estimate*
Year 15	53	Estimate*
Year 16	57	Estimate*
Year 17	60	Estimate*
Year 18	67.5	Estimate*
Total	**600**	

'*' will ne actual at the end of financial year

Based on this the charge for first year would be ₹ 4.16 Crore (approximately) (i.e. ₹ 5/₹ 600 x ₹ 500 Crores) which would be charged to profit and loss and 0.83% (i.e. ₹ 4.16 Crore/₹ 500 x ₹ 100 Crores) is the amortization rate for the first year. Where a company arrives at the amortization amount in respect of the said Intangible Assets in accordance with any method as per the applicable Accounting Standards, it shall disclose the same".

(2) In Part 'C', in para 5, in item IV, in Sub-item (1), for clause (b), the following clause shall be substituted, namely:-

"(b) continuous process plant for which no special rate has been prescribed 25 years"

Under (ii) below [NESD]

(3) Under the heading 'Notes' appearing after para 'C', paragraph 5 shall be omitted.

2. This notification shall come into force with effect from 01 April, 2014.