GN (A) 35
Guidance Note on Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Foreword

Accounting for depreciation is generally a significant matter for the purpose of true and fair determination of the operating results of a company as reflected in its statement of profit and loss as well as its financial position as depicted in its balance sheet. Though Accounting Standard (AS) 6, *Depreciation Accounting* has already been issued by the Institute, in the case of companies, some issues have arisen due to the practical application of Schedule II to the Companies Act, 2013, in the context of AS 6.

With a view to provide an authoritative position of the Council of the Institute on the issues arising out of Schedule II to the Companies Act, 2013, the Research Committee of the Institute has formulated this Guidance Note on Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013.

The publication is culmination of joint efforts of two sub organs of ICAI - Research Committee and Accounting Standards Board. I would like to compliment their respective Chairman CA. Subodh K. Agrawal, Past President and CA. Sanjeev K. Maheshwari, respective Vice-Chairmen, CA. Sanjiv Kumar Chaudhary, and CA. S. Santhanakrishnan and their all other members. I would also like to compliment other colleagues in the Council who have contributed immensely towards bringing out this publication.

I am confident that this Guidance Note will be immensely useful to the members of the Institute as well as to others concerned.

Kolkata
February 6, 2016

CA. Manoj Fadnis
President

Preface

The Council of the Institute has previously issued various Guidance Notes on the subject of accounting for depreciation, with particular reference to companies, viz., Guidance Note on Accounting for Depreciation in Companies and Guidance Note on Some Important Issues Arising from the Amendments to Schedule XIV to the Companies Act, 1956. However, after the withdrawal of the above Guidance Notes since those were no longer relevant in accordance with the provisions of the Companies Act, 2013, the Research Committee was requested to formulate a Guidance Note to provide guidance on issues arising on practical application of Schedule II to the Companies Act, 2013 for the purpose of providing guidance on accounting for depreciation in companies.

In view of the above, the Research Committee of the Institute, took up the project to formulate a Guidance Note on Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013 to be issued under the authority of the Council of the Institute, with a view to establish uniform accounting principles for accounting of depreciation as per Schedule II to the Companies Act, 2013.

The Guidance Note provides guidance on multiple shift depreciation, revaluation of assets, as well as component approach besides providing guidance on estimation of residual value, depreciation on low value items, pro rata depreciation etc. Few illustrations have also been included with view to provide guidance on application of the principles provided in the Guidance Note.

The draft of this Guidance Note was initially considered by the Accounting Standards Board before the Research Committee took up this project. Accordingly, I place on record my special thanks to CA. Sanjeev K. Maheshwari, Chairman, Accounting Standards Board. I also place on record my thanks to CA. Sanjiv K. Chaudhary, Vice-Chairman, members of the Research Committee and my other esteemed Council colleagues.

We are confident that this endeavour of the Institute will be beneficial to all the members and others concerned.

February 5, 2016 CA. Subodh K. Agrawal

Kolkata Chairman, Research Committee

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Background

1. Schedule II to the Companies Act, 2013, specifies useful lives for the purpose of computation of depreciation. The said Schedule II was further amended by the Ministry of Corporate Affairs (MCA) through its notifications G.S.R. 237(E) dated March 31, 2014 and G.S.R. 627(E) dated August 29, 2014, respectively. As compared to Schedule XIV to the Companies Act, 1956, Schedule II, instead of specifying rates of depreciation for various assets, specifies that depreciation should be provided on the basis of useful life of an asset. While Schedule XIV was prescriptive in nature as it specified the minimum rate of depreciation, Schedule II provides indicative useful lives for various assets. As a consequence, the companies are in a position to charge depreciation based on the useful life of an asset supported by technical advice, even though such lives are higher or lower than those specified in the said schedule. In view of this, depreciation charged as per the useful life is true commercial depreciation bringing the financial statements prepared accordingly closer to those prepared in accordance with international standards.

2. In this Guidance Note wherever the term 'Schedule II' is used it refers to Schedule II to the Companies Act, 2013, and wherever term 'Schedule XIV' is used it refers to Schedule XIV to the Companies Act, 1956, unless specified otherwise.

3. Overview of some of the key changes in Schedule II as compared to Schedule XIV are as follows:

- 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 did not include such requirement.
- Schedule II prescribes indicative useful lives of various assets instead of Straight Line Method (SLM)/ Written Down Value (WDV) rates for calculating depreciation
- Depreciation is 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
- Companies are allowed to follow different useful life/residual value if an appropriate justification is given supported by technical advice.
- Useful lives of significant parts 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 to the Act are different from those envisaged under Schedule XIV.
- No reference to depreciation on low value assets.

Objective

4. This Guidance Note is issued with the objective to provide guidance on certain significant issues that may arise from the practical application of Schedule II with a view to establish consistent practice with regard to the accounting for depreciation.

Scope

5. This Guidance Note includes relevant provisions of Schedule II and provides guidance on implementing the requirements of Schedule II.

Shift from Rate-based requirements to Useful Life

6. Paragraph 1 of Part A of Schedule II defines 'useful life' of an asset as:

> "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."

7. Paragraph 3(i) of Part A of Schedule II, as amended, states as follows:

> "3. **Without prejudice** to the foregoing provisions of paragraph 1 (of Schedule II),—
>
> 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 percent 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."

8. In view of the above, paragraph 3 of Part A of Schedule II should be read along with paragraph 1 of Part A of Schedule II which defines useful life.

9. It may be noted that paragraph 3 of Schedule II initially provided that the useful life of an asset shall not be longer than the useful life prescribed in Part C. With a view to clarify that the useful lives as prescribed in Part C to Schedule II are indicative, Schedule II was amended by the MCA vide its notification G.S.R. 627(E) dated August 29, 2014, where the expression '**shall not be longer than'** was changed to **'shall not ordinarily be different'.**

10. Under Schedule XIV which specified rates of depreciation rather than useful lives, the Ministry of Industry, Department of Company Affairs, vide its circular No. 1/17/87-CL.V dated March 7, 1989, clarified that the rates as contained in Schedule XIV should be viewed as the **minimum rates**, and, depreciation at rates lower than those specified in Schedule XIV should not be adopted by the companies. However, on bonafide technical evaluation, higher rate may be applied by a company.

11. Paragraph 13 of Accounting Standard (AS) 6, *Depreciation Accounting,* notified under the Companies (Accounting Standards) Rules, 2006, also contains clarification similar to the aforesaid circular, inter alia, providing that "where the management's estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute, the depreciation provision is appropriately computed by applying a higher rate. If the management's estimate of the useful life of the asset is longer than that envisaged under the statute, depreciation rate lower than that envisaged by the statute can be applied only in accordance with requirements of the statute." As Schedule II permits useful lives different from that specified in Part C of Schedule II, the useful lives specified therein are indicative only and therefore paragraph 13 of AS 6 now permits useful life longer than that specified in statute.

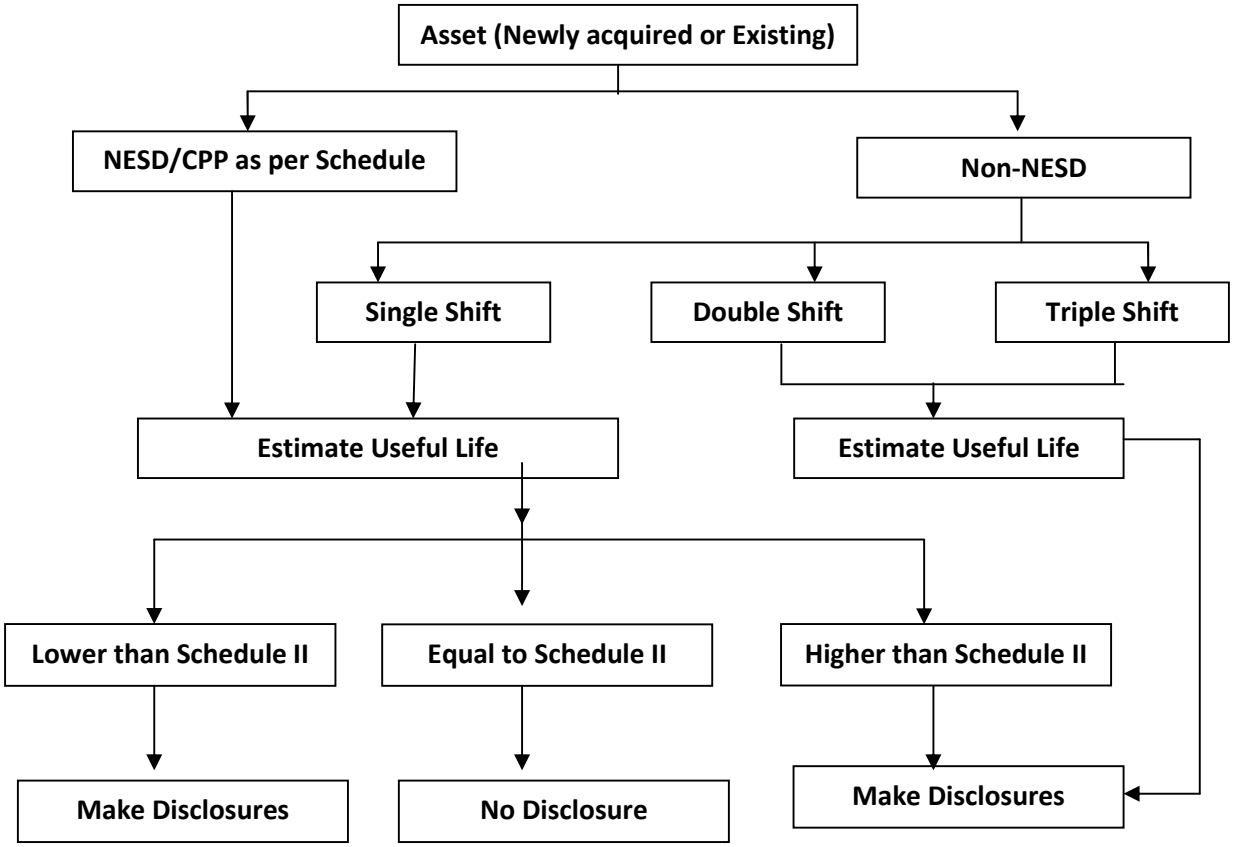
12. Paragraphs 8 and 22 of AS 6 state as follows:

> "8. 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."
>
> ***"22. The useful life of a depreciable asset should be estimated after considering the following factors:***
>
> ***(i) expected physical wear and tear;***
>
> ***(ii) obsolescence;***
>
> (iii) ***legal or other limits on the use of the asset."***

13. In view of the above, the useful lives as given under Part 'C' of Schedule II for various types of assets are indicative only and are not minimum or maximum. Where the useful

lives of various specific assets are the same as those under Schedule II, the company should use these useful lives. In case the useful life of an asset as estimated by the company, supported by the technical advice, external or internal, differs, i.e., higher or lower from the indicative useful life given under Schedule II, the former should be applied by the company for providing depreciation. The disclosures in this regard should be made as described later in this Guidance Note.The process of determination of useful life is explained in the chart below. A company has to determine the useful life at the beginning of the year for all fixed assets, existing as at the end of the immediately preceding period and for newly acquired assets, as and when acquired . All fixed assets existing at the beginning of the year should be classified into assets for which no extra shift depreciation is applicable which would include continuous process plant (CPP) and assets for which extra shift depreciation applies. Of the assets for which extra shift depreciation applies, assets which are going to be used on single shift, double shift or triple shift are segregated. This segregation is required as the extra shift depreciation is applicable only to those assets whose useful life is determined on single shift basis. After segregation, the remaining useful life of the asset is estimated. A company recognises depreciation expense based on the useful life estimated by the management. Where the useful life estimated by the management is different from that specified by Schedule II, the same is disclosed in notes.

Determination of Useful Life



14. As per paragraph 23 of AS 6, 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. Further, paragraph 21 of Accounting Standard (AS) 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies,* notified under the Companies (Accounting Standards) Rules, 2006, provides '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.'' Therefore, a company is required to assess whether there have been any changes in the measure of wearing out, consumption or other loss of value of the asset during the year and in future. Where there have been such changes, the company is required to re-estimate the useful life of the asset.

Illustration 1

Facts: A Limited is a company incorporated under the Companies Act, 1956, engaged in the business of manufacturing of toys. A Limited purchased a unit of machinery costing Rs. 60 lakhs as on April 01, 2014. As per Schedule II the general useful life of the assets is 15 years. However, as per A Ltd.'s estimation, the useful life of the asset is 20 years supported by the technical advice.

Issue: Should the company use the useful life as 15 years or 20 years?
Response: In this case, keeping in view the requirements under Schedule II, A Ltd. should depreciate the machinery over its useful life of 20 years as determined by the company and not over 15 years as indicated in Schedule II. A limited should also provide disclosures in this regard as recommended later in this Guidance Note in the notes to accounts to justify the reason for difference between the indicative use life and A's estimated useful life.

Illustration 2

Facts: B Limited had considered the minimum rates of depreciation mentioned in Schedule XIV for depreciating all its fixed assets till March 31, 2014. Based on the rates mentioned for SLM and WDV in Schedule XIV, B Limited had derived the useful lives for the assets. Schedule II of the Companies Act, 2013 is now applicable to B Limited w.e.f. April 1, 2014.

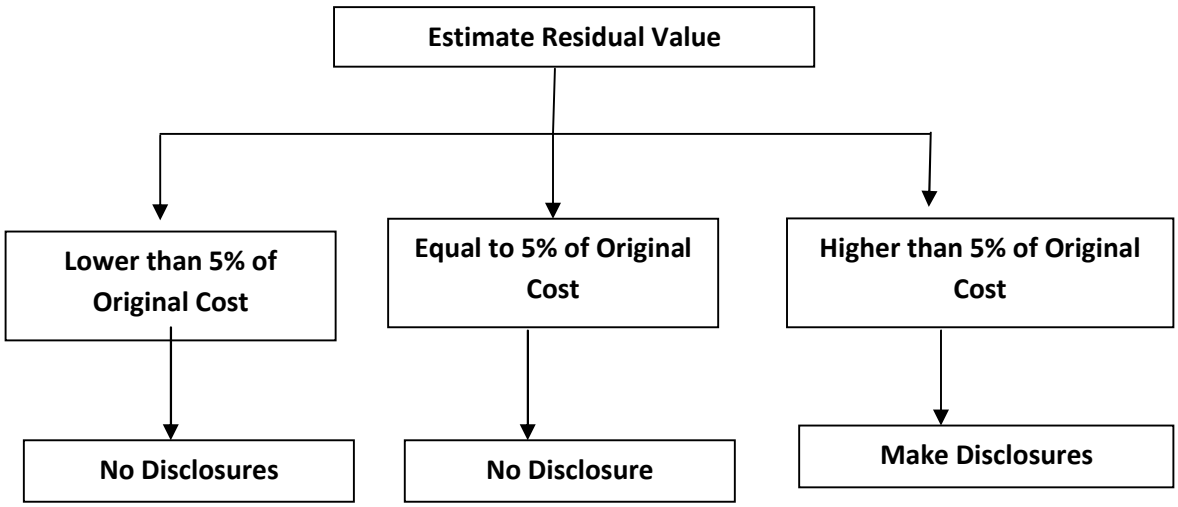
Issue: Whether B Limited needs to follow the useful lives mentioned in the Schedule II or derived useful lives considered till March 31, 2013 can be considered?

Response: W.e.f. April 1, 2014, B limited should estimate the remaining useful lives of its assets based on the definition of useful life in Schedule II and the factors specified in AS 6 for recognising depreciation in the statement of profit and loss. There is no relevance of the derived useful life as per Schedule XIV. However, if B Ltd estimates useful lives different from those specified in Schedule II, it should disclose such differences in the financial statements and provide justification in this behalf duly supported by technical advice.

Residual Value of an Asset

15. As mentioned above, paragraph 3(i) of Part A of Schedule II, inter alia, states that the residual value of an asset shall not be more than five percent of the original cost of the asset; provided that where a company 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. The aforesaid proviso can be taken to mean that the residual value of the asset is indicative in nature. Thus, where the estimate of the residual value of the asset is more than five percent of the original cost of the asset, the company should use that estimate of residual value provided it is supported by technical advice, external or internal, and disclosures in this regard are made as recommended later in this Guidance Note. In case the residual value is estimated to be less than five percent of the original cost of the asset, the same should be used and it would not be necessary to make a disclosure in such a case. The chart given below summarises the position as stated above.

Determination of Residual Value



Continuous Process Plant (CPP)

16. Note 8 to Schedule II defines the expression 'Continues Process Plant' as:

> ‘‘Continuous process plant’’ means a plant which is required and designed to operate for twenty-four hours a day.

17. The words “required and designed to operate twenty-four 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 CPP is such that there is a requirement to run it continuously for twenty-four 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., such a plant may be shut down for some time. The shut down does not change the inherent technical nature of the plant. For instance, a blast furnace which is required and designed to operate twenty-four hours a day, may be shut down due for various reasons; it would still be considered as a CPP and useful life as estimated would be applicable for providing depreciation.

18. There can be certain plants which though may work twenty-four hours a day, yet their technical design is not such that they have to be operated twenty-four hours a day, e.g., a textile weaving mill. In such cases, depreciation to be charged would be on the basis of estimated useful life.

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

20. It is noted that Schedule XIV, inter alia, specified the general rates of 15.28% under Written Down Value method (WDV) and 5.33% under Straight Line Method (SLM) of depreciation for CPP, other than those for which special rates had been prescribed. In other words, as per the depreciation rates provided under Schedule XIV for the CPP, the useful life was 20 years (approx). However, Schedule II indicates useful life of 25 years for CPP, other than those for which special rates have been prescribed in Schedule II. The principle of estimation of useful life as explained in paragraph 12 of this Guidance Note will also apply to CPP.

21. It may be noted that what should be considered as CPP under Schedule II is same as it was under Schedule XIV. Accordingly, in case a plant was not considered as CPP under Schedule XIV, the same cannot be considered as CPP under Schedule II.

Multiple Shift Depreciation

22. Note 6 to Schedule II to the companies Act, 2013, states that:

> "6. 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."

23. On the other hand, Schedule XIV specified the depreciation rates for double shift and triple shift separately. Therefore, an issue may arise whether the rates for extra shift as given under Schedule II should be applied without estimating the useful lives of the assets under multiple shifts.

24. It is noted that extra shift depreciation does not apply to CPP and the assets which have been marked as No Extra Shift Depreciation (NESD) under Schedule II. The concept of extra shift depreciation applies only to those assets for which the useful life has been estimated on single shift basis at the beginning of the year.

25. Where a company, which estimated the useful life of an asset on single shift basis at the beginning of the year, used the asset on double or triple shifts during the year, the depreciation expense should be increased by 50% or 100% as the case may be for that period. Further, for such asset/s, the company at the beginning of the next year should determine whether the asset used in extra shift during the past year was on sporadic basis and is expected to be used on sporadic basis in future also. In such a case, the useful life to be on single shift basis and if in future the asset is used on double or triple shift then as in the past, the depreciation expense for the double or triple shift should be increased by 50% or 100% as the case may be for the period of use. In case the company estimates that the use of the asset for extra shift would not be on sporadic basis i.e. the extra shift working for the asset would be on regular or continuous basis, it should reassess its useful life considering its use on extra shift basis. The reassessed useful life should then be used for the purpose of charging depreciation expense henceforth.

26. For assets which are not marked as NESD under Schedule II and for which the useful life has been estimated on double/triple shift basis at the beginning of the year, the concept of extra shift deprecation will not apply. For such assets, a company should consider

whether there is any change in circumstances on which the useful life of asset was based or any new developments have taken place which may have impact on the estimated useful life of the asset. If there is no such indication, the company should continue to depreciate such assets on the basis of previous estimates. If there is any such indication, the company should reassess the remaining useful life of the assets on the basis of changed circumstances or new developments, e.g., use of the asset on single shift basis in future.

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Unit of Production (UOP) Method of Depreciation

27. Schedule II to the Companies Act, 2013 defines 'Useful Life' as:

> "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."

28. The depreciation on an asset can be provided, where appropriate, on the basis of the units expected to be obtained from the use of the asset. This method of providing depreciation is generally known as *'Unit of Production'* method (UOP).

29. Paragraph 12 of AS 6 , state as follows:

> "12. There are several methods of allocating depreciation over the useful life of the assets. Those most commonly employed in industrial and commercial enterprises are the straight line method and the reducing balance method. The management of a business selects the most appropriate method(s) based on various important factors e.g., (i) type of asset, (ii) the nature of the use of such asset and (iii) circumstances prevailing in the business. A combination of more than one method is sometimes used. In respect of depreciable assets which do not have material value, depreciation is often allocated fully in the accounting period in which they are acquired."

30. In view of the above, as a result of application of Schedule II, a company may use UOP method, where appropriate, keeping in view the various factors mentioned in paragraph 12 of AS 6. UOP method is generally considered appropriate where the number of units that can be produced or serviced from the use of the asset is the major limiting factor for the use of the asset rather than the time. Following are some examples where UOP method can be identified appropriate:

(i) Useful life of Aircraft engine is restricted by number of flying hours
(ii) Useful life of Boiler is limited to number of hours
(iii) Useful life of Mould is limited by the number of imprints

31. A company will have to review the number of units that can be produced or serviced from the asset in the future periodically. The carrying amount of such an asset will be depreciated over the revised remaining number of units expected to be obtained or serviced on a prospective basis. Where, such an asset is idle for a long period of time, the company should assess whether the use of UOP method is still appropriate.

32. Under Schedule XIV primarily two methods of depreciation, i.e., Written Down Value (WDV) and Straight Line Method (SLM) were prescribed. Therefore, an issue may arise that whether the change in method of depreciation from SLM to UOP or WDV to UOP would be a change in accounting policy and need to be applied retrospectively or required to be applied prospectively.

33. In this regards, it may be noted that paragraph 15 of AS 6, states as follows:

> "15. The method of depreciation is applied consistently to provide comparability of the results of the operations of the enterprise from period to period. A change from one method of providing depreciation to another is made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When such a change in the method of depreciation is made, depreciation is recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method is adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency is charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus is credited to the statement of profit and loss. Such a change is treated as a change in accounting policy and its effect is quantified and disclosed."

34. In view of the above, with the introduction of UOP method in Schedule II, a company may change from SLM or WDV method to UOP method. In such cases, in accordance with AS 6, depreciation on the underlying asset should be calculated retrospectively using the UOP method from the date the asset came into use to the company with adjustment of any surplus or deficiency arising from change in method to the statement of profit and loss as such change is required by the statute. However, as a first time application of Schedule II, if a company changes its method of depreciation from WDV to SLM or vice versa, the same cannot be justified as required by law as both the methods were allowed under Schedule XIV and AS 6. In accordance with AS 6, a shift from WDV to SLM or vice versa can only be applied by the company if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the company. In such a case also, any surplus or deficiency arising from change in method should be adjusted to the statement of profit and loss in accordance with AS 6. It may also be noted that in case of change in method of depreciation, transitional provisions given under Note 7 (b) of Schedule II will not apply.

Illustration:

Facts: A Limited is a company incorporated under the Companies Act and engaged in the business of oil exploration. Keeping in view the requirement in Schedule XIV it was depreciating its oil and gas assets on SLM basis. In the financial year 2014-15, when A applies Schedule II it decides to depreciate the said assets by following the UOP method.

Issue: How should change in method be accounted for?

Response: In this case, in accordance with AS 6, A Ltd. should calculate depreciation on all such assets following the UOP method since the assets came into existence and recognise any deficiency/gain in the statement of profit and loss for the period ending on March 31, 2015.

Transition to Schedule II

35. Note 7 to Schedule II to the Companies Act, 2013, states that

> "7. From the date this Schedule comes into effect, the carrying amount of the asset as on that date-
>
> (a) shall be depreciated over the remaining useful life of the asset as per this Schedule;
>
> (b) after retaining the residual value, may be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil."

36. An issue may arise that in what circumstances due to transition to Schedule II, the carrying amount of an asset may be transferred to retained earnings .

37. Note 7 (b) uses the phrase 'remaining useful life of an asset'. This means on transition to Schedule II, a company should estimate the remaining useful life of an asset over which the company expects to use the asset, which may or may not be equal to remaining useful life as per the rate of depreciation specified in Schedule XIV. In other words, there may be a situation that when a company initially applies Schedule II, the remaining useful life of some assets is estimated at nil, whereas for other assets some useful life remains as per the said Schedule. In respect of an asset whose remaining useful life is nil, as per the option provided under Note 7 to Schedule II, the carrying amount of such assets may be transferred directly either to the opening balance of retained earnings or recognised in the statement of profit and loss as depreciation expense as required by AS 5 , and AS 6. If the company opts to adjust the carrying amount of the assets to the retained earnings in accordance with the transitional provisions of Schedule II, the tax effect of the same has also to be adjusted directly against the retained earnings in accordance with the

Announcement issued by the Institute of Chartered Accountants of India, "*Tax effect of expenses/income adjusted directly against the reserves and / or Securities Premium Account*".

38. If a company uses straight line method (SLM) of depreciation, the asset will be depreciated equally over the new remaining useful life of the asset. 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 its 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 } x 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

Illustration:

Facts: B Limited has followed Schedule XIV rates for depreciation of a plant and machinery under WDV method by following the rate of 13.91% as it runs under single shift. The WDV of the asset as at March 31, 2014 is Rs. 23,63,919 and remaining useful life as estimated by the company is 11 years. B Ltd. estimates that the residual value of the asset is 5% of the original cost of the asset, i.e., Rs. 2,50,000.

Issue: On transition to Schedule II, how plant and machinery should be depreciated?

Response: As per the transitional provisions given under Schedule II assets are required to be depreciated over their remaining useful lives. In the above case, since B Ltd follows WDV method for depreciation, the carrying value of Rs. 23,63,919 of plant and machinery should be depreciated by following the WDV method over its remaining useful life of 11 years. B Ltd. should determine the rate of depreciation to be charged under WDV method as follows:

Rate of Depreciation: {1- (Residual Value/Cost of the Asset)^1/ useful life}*100

Rate of Depreciation in the above case= {1- (2,50,000/23,63,919)^1/11}*100

=18.47 %

Year	Carrying Value	Dep. For the year	WDV
1	2,363,919.00	436,690.25	1,927,228.75
2	1,927,228.75	356,019.82	1,571,208.93
3	1,571,208.93	290,251.75	1,280,957.19

4	1,280,957.19	236,633.11	1,044,324.07
5	1,044,324.07	192,919.53	851,404.54
6	851,404.54	157,281.22	694,123.32
7	694,123.32	128,226.43	565,896.90
8	565,896.90	104,538.97	461,357.93
9	461,357.93	85,227.33	376,130.59
10	376,130.59	69,483.16	306,647.43
11	306,647.43	56,647.43	250,000.00

Illustrations:

1. ***Facts::*** B Limited purchased a unit of plant and machinery on April 1, 2005, and depreciated the same at the rate of 4.75% on straight line basis as per the depreciation rate given in Schedule XIV (equivalent useful life approximately 21 years), even though the useful life as estimated by the management at the time of initial recognition of the asset was higher (30 years). For the financial year beginning on April 1, 2014, when B Ltd. applies Schedule II it estimates that the remaining useful life of the plant and machinery as on April 1, 2014, is 18 years, which is different from the useful life remaining as per Schedule XIV i.e., 12 years.

Issue: Which remaining useful life of plant and machinery should be considered by the B Ltd. to provide depreciation?

Response: B Ltd. should depreciate the plant and machinery over its estimated remaining useful life of 18 years on prospective basis and not on the basis of remaining useful life as per Schedule XIV, i.e., 12 years (21 years – 9 years).

2. ***Facts:*** B Limited purchased machinery as on April 1, 2005 and depreciated the same on straight line method as per the depreciation rates given in Schedule XIV. For the financial year beginning on April 1, 2014, when B Limited applies Schedule II, it estimates that the remaining useful life of machinery is nil and requires to be disposed off.

Issue: What should be the treatment of carrying amount of machinery?

Response: The carrying amount of machinery (net of tax) may be recognised in the opening balance of the retained earnings as on April 01, 2014.

Regulatory Rates

39. Part B of Schedule II to the Companies Act, 2013, states as follows:

"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."

40. In view of the above, where a Regulatory Authority prescribes useful life, rate of depreciation or residual value for any specific asset for accounting purposes, the company should use that useful life, rate of depreciation or residual value even though it is different from that as estimated by the management. For example, Govt. Of India, Ministry of Power vide resolution dated 6th January, 2006 has notified Tariff Policy in terms of section 3 of the Electricity Act, 2003. The said policy inter-alia provides that rates of depreciation as notified by Central Electricity Regulatory Commission (CERC) would be applicable for the purpose of tariffs as well as **accounting**. Therefore, in accordance with Part B of Schedule II, companies which are regulated by the abovementioned tariff policy should apply the rate of depreciation as specified in the abovementioned tariff policy.

Purchase of Used Assets

41. The expression 'available for use by an entity' in the definition of 'useful life' of assets as given in paragraph 1 of Part A of Schedule II clarifies that the useful life of an asset is estimated on the basis of the expectations of the company that purchases the asset irrespective of whether the asset is a new asset or a used asset.

Illustration:

Facts: B Limited, a company incorporated under the Companies Act, acquired a second hand machinery for Rs. 5,00,000 from C Ltd. As per the estimate of the C Ltd., the useful life of the asset when it was newly purchased by it was 15 years out of which 8 years have already elapsed (duration for which machinery is used by the C Ltd.). B Limited, for the purpose of providing depreciation on SLM basis under Schedule II, estimates that the asset can be used for 10 years and the residual value is estimated to be nil.

Issue: What useful life of such second hand machinery should be considered by the B Ltd. for providing depreciation?

Response: In this case, B Limited should provide for depreciation on the machinery on the basis of useful life of 10 years and not 7 years remaining as per the earlier estimate of C Ltd. (15 years – 8 years). Therefore, depreciation expense to be recognised in the statement of profit and loss for the year would be Rs. 50,000 (5,00,000/10 yrs.).

Intangible Assets

42. The Ministry of Corporate Affairs (MCA), vide its notification G.S.R. 237 (E) dated March 31, 2014, made amendments to clause (ii) of paragraph 3 of Schedule II with regard to amortisation of intangible assets. Through the amendments, the MCA provides that revenue-based methodology **'may be'** used for 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.

43. The words 'may be' used in clause (ii) of paragraph 3 of Schedule II indicates that revenue-based amortisation as provided in Schedule II is optional and not mandatory. Moreover, the option is available only for intangible assets arising from toll road projects. Therefore, a company can follow a basis other than revenue-based amortisation for intangible assets arising from toll road projects. Intangible assets other than those arising from toll-roads should be amortised in accordance with Accounting Standards (AS) 26, *Intangible Assets,* notified under the Companies (Accounting Standards) Rules, 2006 .

Illustration:

Facts: B Limited is a company engaged in various projects of infrastructure development. B's basic business model is to enter into various infrastructure development projects with the Central and State Governments controlled enterprises under Public Private Partnership Model (PPP). During the year 2011-12, B Limited entered into a contract with the State Government of Haryana for developing a coal-fired thermal power plant serving the states of Haryana, Delhi, Rajasthan and Punjab.

Issue: At the year-end, i.e., 31st March, 2015, for providing amortisation on the intangible assets arising from the abovementioned projects for developing thermal power plant, B Limited was of the view that the revenue-based amortisation methodology as permitted by the Schedule II may be applied. Whether the view taken by B Ltd. is appropriate?

Response: In this case, use of revenue-based amortisation is inappropriate as Schedule II permits revenue based amortisation only for intangible assets arising from toll road projects and not from any other infrastructure projects even though they are entered into through PPP model, BOT or BOOT.

Revaluation of Assets

44. Paragraph 1 of Part A of Schedule II defines 'depreciable amount' as:

"The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value."

45. AS 6, also defines the term 'depreciable amount' in the same way. The expression ***'other amount substituted for cost'*** used in the said definitions means that in case of a revalued asset, the depreciable amount should be the carrying value of the asset after revaluation (revalued amount).

46. Thus the definition of 'depreciable amount' under Schedule II has been aligned with the definition of 'depreciable amount' under AS 6. Therefore, Schedule II requires depreciation to be provided on historical cost or the amount substituted for the historical cost. Accordingly, in case of revaluation of an asset, a company should recognise depreciation based on the revalued amount (substituted cost) of the asset. In accordance with paragraph 32 of Accounting Standard (AS) 10, *Accounting for Fixed Assets,* notified under the Companies (Accounting Standards) Rules, 2006, on disposal of an item of fixed asset, the difference between net disposal proceeds and the net book value (carrying amount) should be charged or credited to the statement of profit and loss. However, in case of loss on sale of fixed asset, if such loss is related to a previously recorded increase in the carrying amount of the asset (revaluation gain) as credit to revaluation reserve and which has not been subsequently reversed or utilised, such loss should be first charged directly to that revaluation reserve, and any remaining balance to the statement of profit and loss. 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 revenue reserves are not made through the statement of profit and loss.

47. A company that followed the policy of recouping additional depreciation as a credit to the statement of profit and loss, with Schedule II becoming applicable starts recouping additional depreciation on account of revaluation as a credit to revenue reserves, such a company should disclose the change as a change in accounting policy in accordance with AS 5.

Component Approach

48. As per note 4 of Schedule II -"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, 2014 and mandatory for financial statements in respect of financial years commencing on or after April 1, 2015.

49. 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 in paragraph 8.3 of the current AS 10. Under AS 10, there seems to be a choice in this matter; however, Schedule II requires application of component accounting mandatorily. 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:

- Determine the threshold value to determine which asset requires componentisation.
- Threshold value in percentage of cost of component to the total cost of the asset
- Proportion of useful life of that part as compared to the useful life of the asset
- Potential impact on the total depreciation expenditure

50. 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 capitalise these costs as a separate component of the asset and decapitalise the carrying amount of previously recognised component. 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.

51. 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 account. For the purpose of determining the cost of such component, the following criteria can be used in the order given below:
    a) Break-up cost provided by the vendor;
    b) Cost break-up given by internal/external technical expert;
    c) Fair values of various components; or
    d) Current replacement cost of component of the related asset and applying the same basis on the historical cost of asset

52. A company is required to apply component accounting (if appropriate) for all depreciable fixed assets (existing or newly acquired) as at 1 April 2014 if a company opts to follow it voluntarily and as at 1 April, 2015 mandatorily. However, if the carrying amount of any asset is lower than or equal to the estimated residual value of the asset(s), company is not required to apply component accounting for such asset(s).

53. The guidance related to providing depreciation on fixed assets as provided in the Guidance Note from paragraph 12 onwards will apply *mutatis mutandis* to component accounting, where applicable, as well.

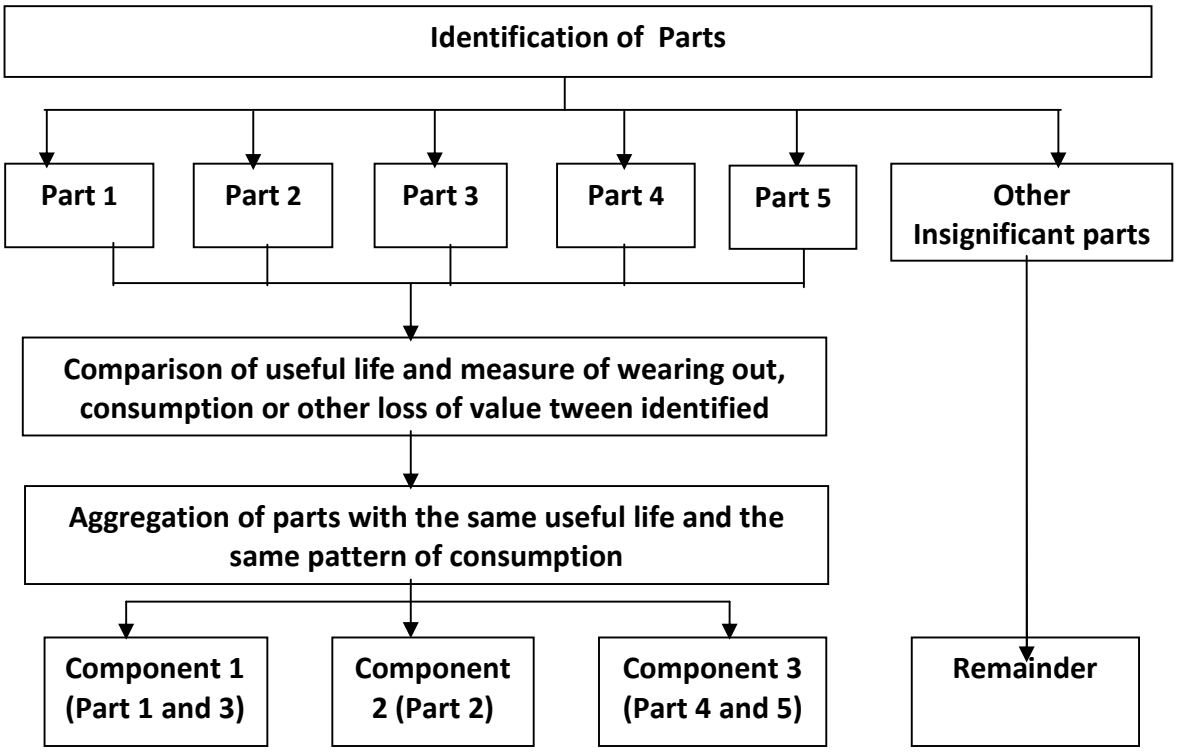
54. Further, under component accounting, an issue arises whether the transitional provision under Note 7 of Schedule II will be available to company on April 1, 2015, with respect

to componentisation, though it adopted the other provisions (useful life) of Schedule II as on April 1, 2014. This Guidance Note clarifies that if a company determines the life of a component which is different from the remaining asset and such useful life happens to be nil as on the date of transition to Schedule II either on voluntary basis or on mandatory basis as the case may be, the carrying amount of such component may be transferred directly to the retained earnings. In other words, the transitional provisions of Schedule II may be applied *mutatis mutandis* w.r.t. component accounting. Further, if the company opts to adjust the carrying amount of the components to the retained earnings in accordance with the transitional provisions of Schedule II, the tax effect of the same has also to be adjusted directly against the retained earnings in accordance with the Announcement issued by the Institute of Chartered Accountants of India, *"Tax effect of expenses/income adjusted directly against the reserves and / or Securities Premium Account"*.

55. 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.

This portion has been left blank intentionally.

Following diagram depicts a method for bifurcating Tangible 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 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, wherever appropriate.

Depreciation on Low Value Items

56. Note 8 to Schedule XIV to the Companies Act, 1956, stated as follows:

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

57. It may be noted that Schedule II does not prescribe any such requirement to provide depreciation at the rate of hundred percent. Therefore, an issue may arise whether the earlier requirement of providing hundred percent depreciation on assets with value less than rupees five thousand can still be followed or not.

58. In this regard, it may be noted that the provisions of Schedule XIV permitting 100% depreciation of the cost of an asset having individual value of Rs. 5000/- or less was based on practices followed by the companies based on the materiality of the financial impact of such charge. As the life of the asset is a matter of estimation, 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

Pro-rata Depreciation

59. Note no.2 in Schedule II prescribes 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.". The 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 assets keeping in view the materiality of the amounts involved.

Adoption of different methods for similar assets at different geographical locations

60. An issue may arise, whether a company can use different methods for depreciation for similar assets located at different locations.

61. As per the requirements of Schedule II and AS 6, it may be noted that the basic purpose of charging depreciation is to allocate depreciable amount of an asset over its useful life. As stated in paragraph 12 of this Guidance Note, for the purpose of estimating useful life of an asset, a company should consider various factors given in AS 6 such as *expected physical wear and tear, obsolescence, etc.* Therefore, selection of a method of depreciation is a matter of judgement by the management considering various factors, such as, type of asset, the nature of the use of such asset and circumstances prevailing in the business, to allocate the depreciable amount of an asset over its useful life so that the depreciation method best reflects the way the asset is consumed, i.e., depreciation should be allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset . As per AS 6, the selection of a method depends upon the facts and circumstances of the case and thus, the company should select the most appropriate method based on various factors, as discussed above.

62. Different methods for similar assets at different geographical locations can only be used if the said methods are selected based on the factors discussed in paragraph 61 above. Otherwise, the use of different methods for similar assets at different geographical locations is not justified.

Disclosures

63. Apart from the disclosures required under the accounting standards, Schedule II requires disclosure of useful life and/or residual value, if they are different from those specified under that Schedule. In this regard, following disclosures should be made:

i. Disclosure of assets alongwith their useful lives where different from those specified under Schedule II including where the useful life estimated as per double/triple shift is different from that as would be estimated on the basis of increase in depreciation by 50% or 100% in case of double shift and triple shift respectively of single shift based depreciation.

ii. The fact that the said useful lives/residual values are supported by technical advice.

Transitional provisions & Effective Date

64. This Guidance Note will be applicable for accounting periods beginning on or after April 1, 2016; its earlier application is encouraged. Any cumulative impact (net of taxes) due to its applicability should be recognised in revenue reserves and disclosed separately.

Appendix A

SCHEDULE II (As Amended)
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 amortisation.

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 amortization

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

Amortisation Amount

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

(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 amortization amount or rate should ensure that the whole of the coast 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 he 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	:	Rs. 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 Rs. 600 Crores, in the following manner:-

Year No.	**Revenue (In Rs. 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 Rs. 4.16 Crore (approximately) (i.e Rs. 5/Rs. 600 × Rs. 500 Crores) which would be charged to profit and loss and 0.83% (i.e. Rs. 4.16 Crore/Rs. 500 Crore×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 underground 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 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 1 st April, 2014 and mandatory for financial statements in respect of financial years commencing on or after the 1 st April, 2015."

5. Omitted

6. 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.

7. From the date this Schedule comes into effect, the carrying amount of the asset as on that date—

(a) shall be depreciated over the remaining useful life of the asset as per this Schedule;

(b) after retaining the residual value, may be recognized in the opening balance of retained earnings where the remaining useful life of an asset is nil.

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

Appendix B

MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 31st March, 2014

G.S.R.237 (E).__ In exercise of the 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-paragraphs (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' 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 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 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: -

(b) Mode of amortization

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

Amortisation Amount

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

(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 amortization amount or rate should ensure that the whole of the coast 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 he 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	:	Rs. 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 Rs. 600 Crores, in the following manner:-

Year No.	**Revenue (In Rs. 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 Rs. 4.16 Crore (approximately) (i.e Rs. 5/Rs. 600 × Rs. 500 Crores) which would be charged to profit and loss and 0.83% (i.e. Rs. 4.16 Crore/Rs. 500 Crore×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."

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

"(b) continuous process plant for which no special rate has been prescribe under (ii) below [NESD] 25 Years"

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

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

[F.No.A-17/60/2012-CL-V]

RENUKA KUMAR, Jt. Secy.

Appendix C

THE GAZETTE OF INDIA EXTRA ORDINARY

MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 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, 20132 (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 1 st April, 2014 and mandatory for financial statements in respect of financial years commencing on or after the 1 st April, 2015."

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

[F.No.A-17/60/2012-CL-V]

AMARDEEP S. BHATIA, Jt. Secy.

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.