I. CHANGES RELATED TO DEPRECIATION:

The 2013 Act brought a major alteration in the regulations governing depreciation provisions. The insertion of Schedule II under the 2013 Act provides for systematic allocation of the depreciable amount of an asset over its useful life unlike Schedule XIV of the Act (which specifies minimum rates of depreciation to be provided by a company). The depreciable amount is defined as the cost of an asset, or other amount substituted for cost, less its residual value. The residual value is 5 percent of the original cost of the asset.

Following are certain differences between Schedule II of the 2013 Act and Schedule XIV of the 1956 Act:

(1) Schedule II deals with amortization of intangible assets while Schedule XIV dealt with only depreciation of tangible assets.

(2) Schedule II contains only useful lives of tangible assets and does not prescribe depreciation rates while Schedule XIV contained rates of depreciation of tangible assets.

(3) Schedule II omits the provision for 100% depreciation on asset whose actual cost does not exceed Rs.5, 000/- while Schedule XIV provided for the same. Hence, now the small assets with negligible values will now appear in the books of accounts adding to unnecessary exercise of small calculations and provisions.

(4) Schedule II provides that Extra Shift Depreciation (ESD) not applicable to items marked NESD in the Schedule. ESD will apply to plant and machinery items subject to general rate- i.e., useful life of 15years. While in Schedule XIV ESD not applicable to (i) Items marked NSED in the Schedule (ii) Specified items of plant and machinery to which general rate of depreciation was applicable.

(5) The 2013 Acthas simplified the working of ESD. It provides:

- 50% more depreciation for that period for which asset is used for double shift and
- 100% more depreciation for that period for which asset is used for triple shift.

While Schedule XIV provided that ESD for double and triple shift was to be made separately in proportion which number of days for which concern worked second shift or triple shift bears to normal number of working days in a year (greater of actual and 180 days for seasonal factory; greater of actual and 240 days in other cases). The useful lives specified in Schedule II of the 2013 Act for various assets will result in their depreciation over a different period than currently applicable under Schedule XIV of the Act. For example, for an entity using Straight line method of depreciation under the Act, useful life has been reduced for

• General plant and machinery from 21 years to 15 years;
• General furniture and fittings from 15 years to 10 year;
• Computers from 6 years to 3 years;

Hence, due to such change in the useful lives of the assets many companies will now need to charge much higher depreciation in the books of accounts as compared to earlier rates, specially considering the fact the backlog of depreciation not provided will have to be divided amongst the remaining residual life of the asset.

E.g. Suppose X Ltd. has purchased Machinery whose 10 years of life has already expired. Now up to 10 years company was providing depreciation at the rate of 4.52% (95/21). That means X Ltd. has already provided 45% (4.52*10 years). So, now as per Schedule II the remaining useful life is only 5 years. Hence, for these 5 years it will have to provide depreciation at a higher rate of 10% (50/5 years).

As per schedule II of the 2013 Act, in case of prescribed class of companies, whose financial statements comply with Accounting Standards prescribed for such class of companies under section 133 of the 2013 Act, can have different useful life and residual value other than indicated in Part C of Schedule II of the Act, on disclosure of justification for the same i.e. on the basis of a bona fide technological evaluation. For other companies the useful life of an asset cannot be longer than the useful life and the residual value cannot be higher than that prescribed in Part C of the schedule-II of the 2013 Act.

Now such change in the depreciation regulations triggers doubts regarding following issues which are not yet clarified:

1. How the rates of depreciation will be arrived for each class under WDV method as per Schedule II, where each asset is capitalized at different dates in a year?

2. Whether there will be any retrospective impact if company changes its existing depreciation policy (from WDV to SLM and Vice versa) under the 2013 Act and charge depreciation as per useful life provided in Schedule II?

3. What will be the treatment of the balance depreciable value of the asset in case when useful life of such asset has already expired as per new schedule II of the 2013 Act? For example remaining carrying value of the asset is 50% of the original cost and the remaining useful life is zero as per Schedule II, then what will be treatment of entire 50% remaining value? Should it be charged to reserves?

4. Under block of assets method when different plant and machineries under the same block are purchased in different years then in that case there will be different rates of depreciation for each year for each new machinery purchased.