Page Header/ Subject:

12 Important points: Depreciation as per New Companies Act 2013

Body Content (Full page):

Introduction

The time for preparation of the first financial statements as per the New Companies Act 2013 is here. One of the most important provisions of the Act for Companies as well as the auditors to consider is the new method of the calculating depreciation as per Schedule II Part C of the Companies Act 2013.

Important Points:

Here is a list of important points to remember while calculating Depreciation as per New Companies Act 2013:

1. Schedule II of the Companies Act 2013 for calculating depreciation is applicable only on tangible assets. For calculating Depreciation on intangible assets, the companies have to follow the applicable accounting standards.

2. Depreciation as per Companies Act 2013 depends on the useful life of various assets as defined in the Schedule II to the Companies Act 2013

3. Rates of depreciation depend on the useful life of assets. No separate rates of depreciation are defined in the Act.

4. 95% of the original cost of the asset has to be depreciated

5. 5% is the residual value of assets prescribed as per schedule II of the Companies Act 2013. The residual value of asset is to be calculated on the original cost of the Asset

6. The useful life of various assets as given in schedule II is mandatory to be followed. If a Company does not follow such useful life then it has to submit a technical report substantiating the useful life taken by it. Also, a disclosure mentioning a different useful life to that prescribed in the Act is used by the Company is mandatory

7. Date of purchase is most important to calculate the remaining useful life of the asset as on 01.04.2014. Existing assets are to be depreciated over the remaining useful lives as on 01.04.2014. Date of purchase can be found in the fixed asset register or the depreciation chart of the company and can also be available in the tax audit report of the Company for various years

8. If the life of the asset as on 01.04.2014 is already more than useful life as prescribed in Schedule II, then no depreciation can be charged after 01.04.2014. However, an amount equal to the (WDV-Residual value) has to be written off from either the P&L A/c or from the retained earnings of the Company in the FY 2014-15

9. During the transitional year i.e. FY 2014-15, The Company cannot change its method of calculating depreciation from WDV to SLM or vice-versa. Any change by the company in the method of calculating depreciation will amount to change in accounting policy as per AS-5. The calculation of the impact of such change on the Statement of Profit & Loss has to be disclosed by the company in its financial statements

10. The rate of depreciation becomes 1.5 times & 2 times of the normal rates in case of double shifts and triple shifts respectively

11. Charging depreciation is mandatory if the company wants to declare dividend or for payment of managerial remuneration. Charging depreciation is also mandatory as per the applicable accounting standards in order to give a true & fair view

12. As per ICAI guidance note, if the value of the asset is up to Rs. 5000/- then it can be fully depreciated

Content Courtesy: www.taxguru.in