

# RECENT KEY DEVELOPMENTS ON IFRS CONVERGENCE IN INDIA



In continuation to our series of IFRS communiqué, we would like to share one of the recent key developments on IFRS convergence by Institute of Chartered Accountants of India (ICAI) namely, **“Exposure draft on Schedule XIV of the Companies Act, 1956”**. Since ICAI does not have power to make amendments to the Companies Act, the revised schedule can only be implemented through changes in the law.

## **Synopsis of Exposure Draft to Schedule XIV of the Companies Act, 1956**

Schedule XIV of the Companies Act, 1956 prescribes the minimum rates of depreciation which are required to be charged / provided by the Company while preparing its financial statements. However, under IFRS, the proposed accounting standard on Property, Plant and Equipment requires systematic allocation of depreciable amount over the useful life of the assets.



**The exposure draft encompasses the following:**

Particulars	Key Points
Tangible Assets	The exposure draft provides for indicative useful life of the asset
Intangible Assets	<p>The exposure draft provides indicative useful life. Further the following points are also clarified</p> <ul style="list-style-type: none"> <li>○ Where the useful life of the assets is determined on the basis of the contract governing such an intangible asset, its useful life shall be in accordance with the terms of the contract. (For example - intangible assets created under service concession agreement).</li> <li>○ Similarly in respect of intangible assets which are governed by applicable law, the useful life shall be determined in accordance with the relevant law unless the useful life as per the relevant accounting standard of the asset is shorter.</li> <li>○ For other intangible assets having definite useful life, the indicative useful life may be taken as 10 years</li> <li>○ Intangible assets having an indefinite useful life shall be accounted for as per the relevant accounting standard as such assets are not required to be amortized.</li> </ul>
Calculation of depreciation for the purpose of section 350 of the Companies Act, 1956	The useful life of the specific asset as notified by a regulatory authority constituted under the Act of Parliament or the by the government for accounting purpose shall be applied in calculating the depreciation to be provided for such asset
Disclosure requirement	<ul style="list-style-type: none"> <li>○ Depreciation methods used</li> <li>○ Depreciation rates or useful life of the assets if they are different from the life specified in the schedule</li> </ul>
Others	<ul style="list-style-type: none"> <li>○ Indicative useful life is for the whole of the asset. In cases where the cost of a part of a asset is significant to the total cost of the asset and the 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.</li> </ul>



### Key Difference with the existing Schedule XIV and exposure draft

Particulars	Existing Schedule XIV	Exposure Draft (ED)
Rate of depreciation & useful life	The existing schedule XIV prescribes the rates of depreciation.  The depreciation rates for plant and machinery where determined based on shift worked and also whether the asset is a continuous process plant or not.	The ED specifies the indicative useful life of the assets. The depreciation is required to be charged based on the useful life.  There is no concept of extra-shift depreciation and continuous process plant.
Method of charging depreciation	Two methods i.e. straight line method and written down method are prescribed.	The ED does not prescribe any method of depreciation.
Assets costing less than Rs 5,000/-	With respect to plant and machinery costing less than Rs 5,000/- 100 percent depreciation is required to be provided.	No such requirement under the ED.
Coverage	It covered only fixed assets	It covers both tangible as well as intangible assets.

### Comparison of useful life as per existing schedule XIV with proposed indicative life for few assets

Asset	Written Down Value Method		Straight Line Method		Life as per proposed Schedule XIV
	Rate	Approx Life	Rate	Approx Life	
<b>No Major Variance</b>					
Building (RCC Structure)	5.00%	60 years	1.63%	58 years	60 years
Computers	40.00%	6 years	16.21%	6 years	6 years
Factory Building	10.00%	28 years	3.34%	28 years	30 years
<b>Major Variance</b>					
Plant & Machinery (Single shift rate)	13.91%	20 years	4.75%	20 years	15 years
Office equipments	13.91%	20 years	4.75%	20 years	5 years
Furniture	18.10%	15 years	6.33%	15 years	10 years

Note: Above useful life calculated based on assumption that asset will be depreciated upto 95% of its original cost.



## Conclusion

The issuance of ED is an interesting move by ICAI. The ED would have been issued with an objective to address and simplify a key aspect of 'ascertainment of useful life'. However one is not sure whether they have been able to achieve the same or create more confusion.

Few points to be considered are:

1. There is some inconsistency between component accounting as per accountings standard vis-à-vis broad level useful life indicated as per the ED. Component accounting under the accounting standard requires that asset be broken up into smaller parts based on useful life whereas the ED provides broad level useful life partly ignoring the component accounting concept.
2. The depreciation charge would depend on the residual value and no guidance is provided of how the same should be determined.
3. Whether the indicative life is with respect to single shift use of assets? If yes, how are adjustments to be made in useful life when the assets are used for double or triple shift?
4. For the purpose of depreciation under section 350 of the Companies Act, further clarifications are expected / required. The depreciation amount provided/charged amongst other things is also relevant for the purpose of computation of Managerial remuneration.

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