

AMENDMENTS IN PROVISIONS RELATING TO DEPRECIATION (SCHEDULE II)

The Ministry of Corporate Affairs (MCA) has issued notification on 29th August 2014 for amendments in the Schedule II of the Companies Act 2013 ('the Act') in respect of useful life of fixed assets to compute depreciation.

The amendments are summarized below:

- 1) As per the amended provisions, useful life of an asset shall not be ordinarily different from the useful life specified in Schedule II. However, it is possible to use different useful life (higher or lower) by making disclosure in financial statement about such difference and by providing justification duly supported by technical advice. Similar option is given for residual value also in case it is more than 5% of the original cost.
- 2) As per the earlier provisions, only justification was required to be disclosed in case different useful life or residual value is adopted as compared to Schedule II. However, as per the amendment, justification is required to be given duly supported by technical advice. Considering the same, henceforth useful lives & residual value will not be based only on management estimates though it is not clear whether technical advice has to be from external consultant or in-house expert advice is acceptable.
- 3) As per the existing provisions of Schedule II to the Act, 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 is required to be determined separately. As per the amendment, this requirement is now voluntary in respect of financial year commencing on or after 1st April 2014 and will be mandatory in respect of financial years commencing on or after 1st April 2015.
- 4) Under the transitional provisions, if the balance useful life of an asset was nil, the corresponding carrying value (net of residual value) was required to be charged to opening balance of retained earnings. Now, companies will have an option to either charge the same against the opening balance of retained earnings or to the statement of profit & loss. One issue on which clarity may be required is whether adjustments already made to opening balance of retained earnings by certain listed entities while presenting their quarterly financial results can be changed or not.

Disclaimer:

This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.

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