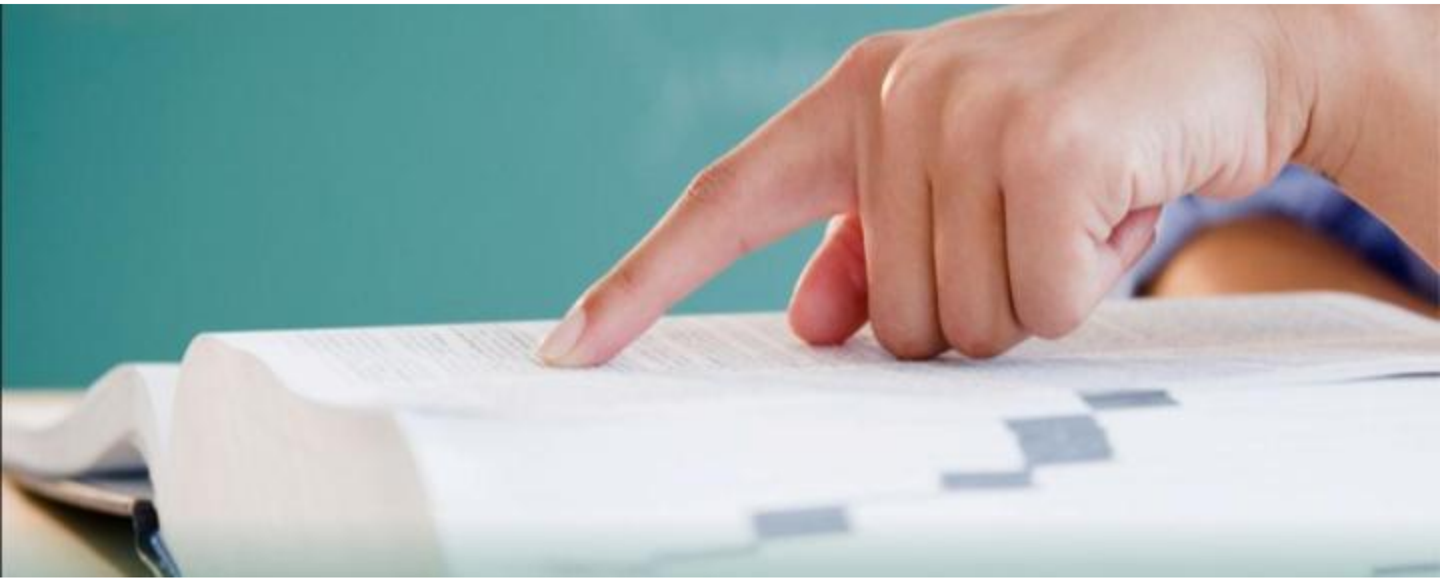
KPMG
cutting through complexity

FIRST NOTES
KPMG in India

The ICAI provides an updated guidance on provisions relating to depreciation under the Companies Act, 2013 *(Addendum to First Notes issued on 24 April 2015)*

8 May 2015



First Notes on:
- **Financial Reporting**
- Corporate law updates
- Regulatory and other information
- Disclosures

Sector:
- **All**
- Banking and Insurance
- Information, Communication, Entertainment
- Consumer and Industrial Markets
- Infrastructure and Government

Relevant to:
- **All**
- Audit committee
- CFO
- Others

Transition:
- **Immediately**
- Within the next 3 months
- Post 3 months but within 6 months
- Post 6 months

Background

On 10 April 2015, the Institute of Chartered Accountants of India (ICAI) issued an application guide to address certain practical issues arising in the implementation of the Schedule II to the Companies Act, 2013 (2013 Act) relating to depreciation of the assets. The application guide also provides examples for a better understanding of the Schedule II to the 2013 Act. As opposed to the Schedule XIV to the Companies Act, 1956 (1956 Act), the Schedule II to the 2013 Act brings along a number of changes in how Indian companies compute depreciation.

Recently, the ICAI has issued a revised version of the application guide which provides an updated guidance for computing depreciation for assets working in double/triple shift.

This issue of First Notes summarises the key aspects added by the application guide on computation of depreciation for assets working in double/triple shift.

Assets on double/triple shift

Requirements under the 1956 Act

The Schedule XIV to the 1956 Act prescribed different rates of depreciation for assets being used under single/double/triple shifts. For example, for general plant and machinery, the rates of depreciation prescribed under the Schedule XIV were 4.75 per cent, 7.42 per cent and 10.34 per cent respectively.

Requirements under the 2013 Act

Part C to the Schedule II to the 2013 Act does not prescribe separate rates/lives for assets working on extra shifts. It states that for the period of time, an asset is used in double shift, depreciation will increase by 50 per cent or by 100 per cent in case of triple shift. For example, if a company uses an asset for double shift for 100 days in a year and for the rest of the year it is used in single shift basis, double shift rates will apply for 100 days only.

Application guide (updated)

- Application guide mentions that challenges are arising in determining the remaining useful life for assets working in multiple shifts when a company transitions from the Schedule XIV to the 1956 Act to the Schedule II to the 2013 Act. The Schedule II does not treat each shift as a single unit of account i.e. in case each shift is treated as a single unit of account then for an asset being used in triple shift, extra depreciation could be 200 per cent. Further, depreciation includes impact due to efflux of time, obsolescence of technology and number of shifts used by companies could vary.

- Accordingly, the application guide mentions that the Schedule II to the 2013 Act and AS 6, *Depreciation Accounting*, aim to allocate the depreciable amount of an asset over its remaining useful life.

- The application guide mentions that in case management of a company determines lower useful life than the life determined under the Schedule II to the 2013 Act, the asset should be depreciated over such lower life as required by AS 6. If the management of a company determines useful life to be longer than the life determined under the Schedule II to the 2013 Act, then the use of longer life is acceptable provided management has appropriate justification based on technical advise for the same.

Application guide (issued on 10 April 2015) – guidance given below has been superseded

For determining depreciation charge for assets used in double/triple shift operations, the useful life as given in the Schedule II to the 2013 Act is to be treated as based on single shift operations. When an asset is used for double/triple shift operations, the useful life of the asset will not change. In case a company uses its assets for single, double or triple shifts in a financial year, the depreciation charge for number of days operated for double/triple shift has to be increased by 50 per cent/100 per cent respectively.

Our comments

The ICAI has removed its prescriptive guidance given in the earlier version of the application guide and notes that estimating useful life for assets used in multiple shifts is not always straight forward and it may involve judgement based on specific facts and circumstances. It reiterates that companies could conduct technical evaluation to determine the useful life of the assets working in multiple shifts.

The bottom line

The ICAI has recognised the need for some flexibility in computing depreciation for assets working in multiple shifts as companies transition from the Schedule XIV to the 1956 Act to the Schedule II to the 2013 Act.

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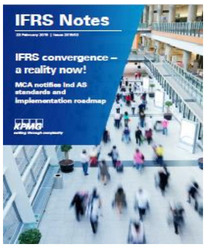
Introducing KPMG in India IFRS Institute

KPMG in India is pleased to re-launch IFRS Institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

IFRS Notes



The IASB proposes to defer the effective date of the new revenue standard

On 28 April 2015, the International Accounting Standards Board (IASB) voted to publish an exposure draft (ED) proposing a one-year deferral of the effective date of the revenue standard to 1 January 2018.

The IASB and FASB Joint Transition Resource Group have discussed a number of application issues and some companies have called for more time to implement the new requirements, due to the significance of the changes they face and the complexity of the IT solutions needed. The U.S. Financial Accounting Standards Board (FASB) has voted to propose a one-year deferral of the effective date of the standard earlier in April 2015. Accordingly, the IASB is planning to issue an ED with proposed clarifications to the standard as well as to keep the effective date of the IASB's and the FASB's revenue standard aligned.

Missed an issue of Accounting and Auditing Update or First Notes?

April 2015

The April 2015 edition of the Accounting and Auditing Update captures the recent issue of the 'Income Computation and Disclosure Standards' (ICDS) by the Ministry of Finance. In this article, we have provided an overview of key matters and our brief comments. This month we discussed the disclosure requirements of the AS 14, Accounting for Amalgamations and the Equity Listing Agreement when a company formulates a scheme of amalgamation.

The Institute of Chartered Accountants of India (ICAI) has recently issued a guidance note on fraud reporting. We have provided an overview of this guidance note along with the requirements of the Companies Act, 2013. In addition, we have discussed the requirement of Clause 49 of the Equity Listing Agreement relating to aggregation of the related party transactions. Finally, we also highlighted key amendments for the year ending 31 March 2015 introduced under Indian GAAP, IFRS and U.S. GAAP by the respective regulatory bodies in addition to our regular round up of regulatory updates

The ICAI provides guidance on provisions relating to depreciation under the Companies Act, 2013

On 10 April 2015, the Institute of Chartered Accountants of India (ICAI) has issued an application guide to address certain practical issues arising in the implementation of the Schedule II to the Companies Act, 2013 (2013 Act) relating to depreciation of the assets. The application guide also provides examples for a better understanding of the Schedule II to the 2013 Act. As opposed to the Schedule XIV to the Companies Act, 1956, the Schedule II to the 2013 Act brings along a number of changes in how Indian companies compute depreciation.

Our issue of First Notes summarises the key aspects of the application guide issued by the ICAI.

KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 22 April 2015, we covered following topics :

(1) an overview of the key changes and implementation challenges for companies that adopt ICDS from this year

(2) an overview of the financial reporting and regulatory developments introduced under the Indian GAAP during the year ended 31 March 2015.

Feedback/queries can be sent to aaupdate@kpmg.com

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