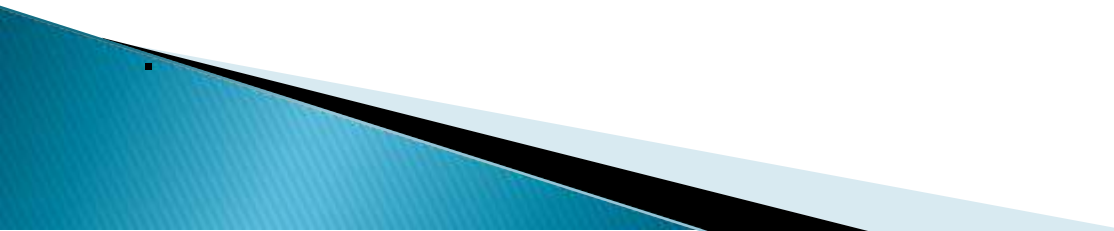



DEPRECIATION

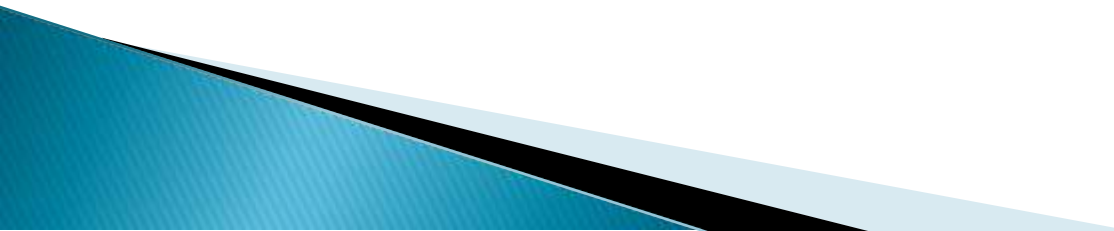
AS PER SCHEDULE II OF THE COMPANIES ACT, 2013
AND AS PER INCOME TAX ACT

DEPRECIATION AS PER SCHEDULE II OF THE COMPANIES ACT, 2013:

▶ As per Part A

1. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by the entity.
 2. For the purpose of this Schedule, the term depreciation includes amortisation.
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- ▶ Without prejudice to the foregoing provisions of paragraph 1,—
 - ❑ Useful life of an asset shall not ordinarily be different from the useful life specified in Part C
 - ❑ Residual value of an asset shall not be more than five per cent of the original cost of the asset.
 - ❑ Provided that where a company adopts anything different than specified above the financial statements shall disclose such difference and provide justification in this behalf duly supported by technical advice.
 - ❑ For intangible assets, the relevant Indian Accounting Standards (Ind AS) shall apply. Where it is not required follows Ind AS then following AS.
 - ❑ Except in case of intangible assets (Toll Roads) created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects.
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- ▶ As per Part B
 - The useful life or residual value of any specific asset, as notified for accounting purposes by a Regulatory Authority constituted under an Act of Parliament or by the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule.
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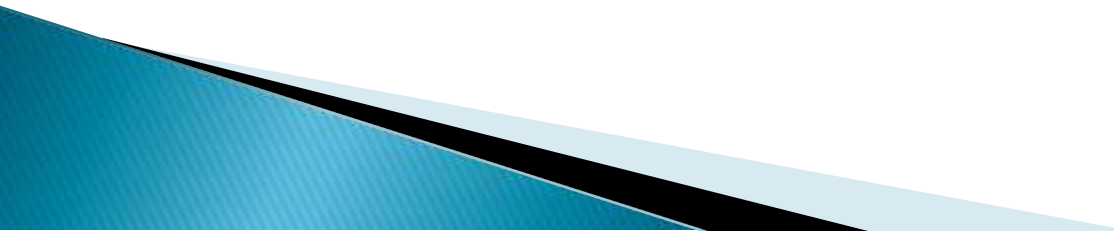
As per Part C

Nature of assets	Useful life of assets
Buildings	
a) Buildings (other than factory buildings) RCC Frame Structure	60
b) Buildings (other than factory buildings) other than RCC Frame Structure	30
c) Factory buildings	30
d) Fences, wells, tube wells	5
e) Others (including temporary structure, etc.)	3
Bridges, culverts etc.	30
Plant and Machinery	
General rate applicable to plant and machinery not covered under special plant and machinery	
a) Plant and Machinery other than continuous process plant not covered under specific industries	15
b) Continuous process plant for which no special rate has been prescribed under (ii) below [NESD]	25

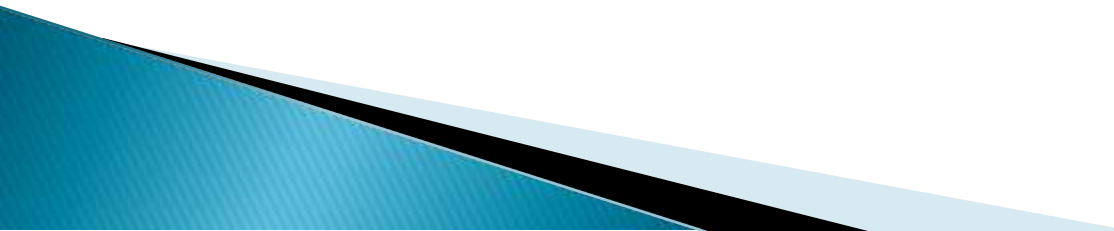
Special Plant and Machinery	
a) Plant and Machinery related to production and exhibition of Motion Picture Films	
Cinematograph films, Projecting equipment for exhibition of films	13
Plant and Machinery used in Telecommunications [NESD]	
a) Towers	18
b) Telecom transceivers, switching centers, transmission and other network equipment	13
c) Telecom — Ducts, Cables and optical fibre	18
d) Satellites	18
Plant and Machinery used in generation, transmission and distribution of power [NESD]	
a) Thermal/Gas/Combined Cycle Power Generation Plant	40
b) Hydro Power Generation Plant	40
c) Nuclear Power Generation Plant	40
d) Transmission lines, cables and other network assets	40
e) Wind Power Generation Plant	22
f) Electric Distribution Plant	35
g) Gas Storage and Distribution Plant	30
h) Water Distribution Plant including pipelines	30

- a) "Factory buildings" does not include offices, Godown and staff quarters.
- b) Where, during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such assets shall be calculated on a pro rata basis from the date of such addition or, as the case may be, up to the date on which such asset has been sold, discarded, demolished or destroyed.
- c) The following information shall also be disclosed in the accounts, namely:—
 - a) depreciation method used
 - b) The useful lives of the assets for computing depreciation.

Useful life specified in Part C of the Schedule is for whole of the asset.

- a) The useful lives of assets working on shift basis have been specified in the Schedule
incase of double shift the depreciation will be increased by 50%
incase of triple shift the depreciation will be increased by 100% for the period.
- b) “Continuous process plant”
means a plant which is required and designed to operate for twenty four hours a day.
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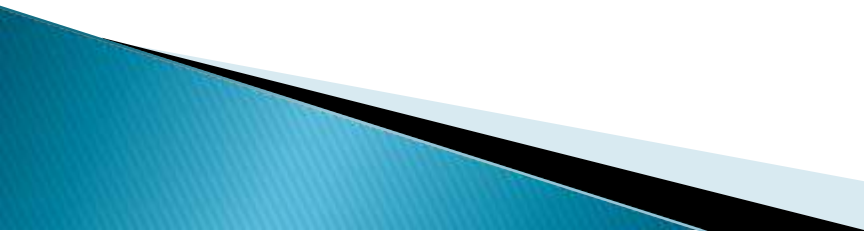
DEPRECIATION UNDER INCOME-TAX ACT:

- ▶ Depreciation is defined as positive decline in the real value of a tangible asset because of consumption, wear and tear or obsolescence.
 - ▶ In Income Tax, depreciation is a charge against the income.
 - ▶ The Income-tax Act, 1961 ('the Act') recognizes WDV method, save and except for undertaking engaged in generation or generation and distribution of power.
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CONDITIONS FOR CLAIMING DEPRECIATION [SECTION 32(1) OF THE ACT]

- a) Asset must be owned by the assessee, wholly or partly.
- b) Asset must be used for purpose of business and profession.
- c) Asset must be used during the previous year.
- d) The asset must fall under the eligible block of asset.

If any of the above conditions are not satisfied, depreciation shall not be allowed.

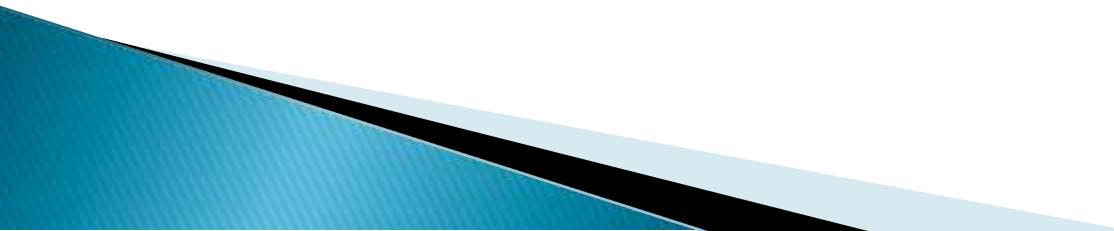


- ▶ Further, the following points can be noted in respect of depreciation:
- ▶ Depreciation is allowed if assessee is beneficial owner.
- ▶ In case of Lease, Depreciation is always claimed by lessor whether it is financial lease or Operating lease [CBDT circular]
- ▶ In case of Hire Purchase, assessee gets the ownership only after payment of last installment but he can claim depreciation from beginning, assuming assessee is the owner from beginning.
- ▶ Depreciation on asset partially owned by the assessee shall be allowed to him to the extent of his shares in asset.
- ▶ In case of stand by machinery and emergency spares , the depreciation shall be allowed even if they are ready for use & not put to use.

BLOCK OF ASSETS [Sec 2(11)]:

- ▶ Block of assets means a group of assets falling within a class of assets comprising –
 - a) tangible assets, being building, machinery, plant or furniture.
 - b) intangible assets, being knowhow, patents, copyrights, trade–marks etc. not being goodwill of a business or profession.

in respect of which the same percentage of depreciation is prescribed.



RATES OF DEPRECIATION:

Rates of depreciation:	%
Buildings:	
(a) Residential purpose building other than hotel	5%
(b) Non residential purpose building including hotel	10%
(c) temporary erections and building for installing P&M for supply project and used in business for infrasture facilities	40%
Furniture and fittings including electrical fittings	10%
Machinery and plant:	
a) Motor car other than used in a business of running them on hire and machinery and plant[general]	15%
b) Ships	20%
c) Motor vehicles used in the business of running them on hire	30%
d) Airplanes	40%
e) Computer including computer software	40%
f) books	40%
Intangible assets (NO DEP. ON GOODWILL OF BUSINESS OR PROFESSION)	25%

Method of Depreciation:

- a) Business of generation and generation & distribution of power option to follow SLM or WDV.
- b) Other Assessee– always follows WDV method.

System of depreciation:

WDV Method– block of asset system shall apply

SLM Method– individual asset system shall apply(power units)

*Block of asset means “ Group of assets having Same Rate of dep within the Same Class of Asset”

*Individual assets system : Depreciation calculated on Individual asset

▶ WDV of block for Depreciation:

- a) Asset acquired but not put to use– no depreciation
- b) Used for less than 180 days – half rate depreciation
- c) Balance – full rate depreciation

Proviso to Sec. 32 (1); Depreciation in case of Amalgamation /Demerger/Succession in these cases depreciation is calculated normally & after that it shall be distributed between

Amalgamating co./ Demerged co./ Predecessor AND Amalgamated co. /resulting co./Successor in the Ratio of the number of days for which assets were used by them.

▶ Section 32(1)(ia) : Additional Depreciation

- ▶ Assessee – engaged in the business of manufacture of any article or generation or transmission or distribution of power
- ▶ Additional depreciation @20% allowed on plant & machinery
- ▶ Excluding following :
 - ▶ i. Second hand P&M
 - ▶ ii. Any P&M installed in office premises or residential accommodation including guest house
 - ▶ iii. Ships, aircraft & road transports vehicles
 - ▶ iv. P&M on which 100% deduction allowed

Additional depreciation is allowed Only in the First year in which it is put to use. If put to use for less than 180 days then 10% depreciation shall be allowed.

If additional depreciation allowed at Half Rate [asset used less than 180 days]then balance half rate depreciation shall be allowed in Next year.

- ▶ Additional depreciation is allowed only if assessee follow WDV method. It is not allowed to Power units if they follow SLM method

Thank you