



Depreciation accounting and comparison between Indian companies act 1956 and 2013 as well as its effect on depreciation

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Abstract

The depreciation accounting is fundamentally in light of the concept of income. The concept of income is organizing of incomes with costs. The items obtained are as frequently as conceivable facilitated through incite bargain or inside a year. The quintessence of the concept of income is that the expenses are to be facilitated against the incomes. A conclusive purpose of planning is finished remembering the ultimate objective to choose the volume of benefit or loss of the transaction. If the favorable circumstances are just whole deal assets obtained by the undertaking should be composed against the incomes of them. To have an effective organizing against the incomes on reliably, the measure of acquisition must be expanded. The stretching out of expenses into various years is known as depreciation. For more than five and a half decades Companies law in India had been spoken to by Companies Act, 1956. Enactment and presentation of Companies Act, 2013 was a phase to reestablish the current corporate lawful segment in the light of the necessities and requirements of the Companies, better governance. In the present, we are dealing with the courses of action regarding the Arrangements, Mergers and Amalgamations; under Companies Act, 2013.

Keywords: depreciation, depreciation accounting, Indian company's act, effects on depreciation

1. Introduction

Depreciation is a method for reallocating the cost of a generous asset over its accommodating future of it being in development. Organizations depreciate whole deal resources for both tax and accounting purposes. The past impacts the monetary record of a business or component, and the last impacts the net wage that they report. All around the cost is distributed, as depreciation cost, among the periods in which the advantage is depended upon to be used. This cost is seen by organizations for budgetary enumerating and tax purposes. Methods for registering depreciation, and the periods over which resources are depreciated, may move between asset sorts inside a comparative business and may vary for tax purposes. These may be demonstrated by law or accounting benchmarks, which may vary by country. There are a couple of standard methods for registering depreciation cost, including settled rate, straight line, and declining balance procedures. Depreciation cost all things considered begins when the benefit is placed in benefit.

2. Concept of Depreciation

Every business obtains some non-exchanging settled resources. These settled resources are used as a piece of the business for empowering its exchanging practices and redesigning its income winning farthest point. These advantages are basically gained for the business with the objective of invariable use and not for resale. Each and every settled asset beside the estimation of land decreases with the movement of time. The estimation of these benefits lessens each year. Such ceaseless decreasing or decrease in the estimation of settled resources with the true

objective of getting income is called depreciation. Depreciation is solidly related with the affirmation of advantage or hardship for the period. Unless depreciation is charged to the incomes, the authentic pay of the business can't be discovered honestly.

3. Meaning of Depreciation

The depreciation is the diminishment in the estimation of an advantage due to use, passage of time, wear and tear, imaginative out dating or obsolete nature, fatigue, deficiency, decay or other such factors.

In accounting, depreciation is a term used to depict any method for crediting the valid or purchase cost of an advantage over its significant life, by and large identifying with standard wear and tear. It is generally used while overseeing resources of a short, settled organization life, and which is an instance of applying the planning principle as indicated by sound accounting rules.

Depreciation is ascertained on each depreciable asset which can be characterized as those which have a supportive life for in excess of one accounting period yet is limited and are held by an endeavor for use in the age or supply of stock and undertakings. Instances of depreciable resources are machines, plants, furniture, structures, PCs, trucks, vans, apparatus, et cetera. What's more, depreciation is the segment of 'depreciable amount' which is the 'evident cost' or other amount substituted for bona fide cost less assessed protect regard.

Depreciation has basic impact in choosing and demonstrating the monetary position and outcomes of activities of an undertaking. Depreciation is charged in each accounting

period by reference to the level of the depreciable amount. Thusly, depreciation is a conveyance of the cost of benefits over their profitable life. A think system for doling out the cost over the seasons of its significant life practically is called depreciation accounting.

4. Types of depreciation

4.1 Straight-line depreciation strategy

This is the simplest strategy for all. It incorporates clear task of an even rate of depreciation reliably completed the supportive presence of the favorable position. The formula for straight line depreciation is:

Yearly Depreciation cost =

$$(\text{Asset cost} - \text{Residual Value}) / \text{Useful existence of the asset}$$

4.2 Unit of Production strategy

This is a two-arrange get ready, not in any way like straight line technique. Here, make back the initial investment with cost rates are named to each unit made. This assignment makes the strategy to a great degree accommodating in get together for age lines. In this manner, the figuring relies upon yield capacity of the favorable position rather than the amount of years.

The steps are

- Step 1: Calculate per unit depreciation: Per unit Depreciation = $(\text{Asset cost} - \text{Residual esteem}) / \text{Useful life in units of generation}$
- Step 2: Calculate the aggregate depreciation of actual units created: Add up to Depreciation Expense = Per Unit Depreciation * Units Produced

3. Twofold declining technique

Twofold declining technique

This is one of the two basic techniques an organization uses to represent the costs of a settled asset. This is a quickened depreciation technique. As the name proposes, it considers cost twice much as the book estimation of the asset consistently.

The formula is:

Depreciation = $2 * \text{Straight line depreciation percent} * \text{book an incentive toward the start of the accounting time frame}$

Book esteem = Cost of the asset – collected depreciation

Collected depreciation is the aggregate depreciation of the repaired asset amassed to a predetermined time.

5. Arrangements towards Depreciation

Indian Companies Act, 2013 has brought a significant measure of changes and challenges for each one of the companies. One such test is change in the arrangements relating to Depreciation.

The key features of the arrangements as indicated by the Act, standards and heading notes issued thusly are as under:

1. Part A to Schedule II of the Companies Act 2013 characterizes depreciation as "Depreciation is the orderly assignment of the depreciable amount of an asset over its valuable life."

Here, Systematic portion suggests division or task according to a structure or a technique i.e. Companies are by and by permitted to use their own procedure for

estimation of depreciation (SLM or WDV or whatever other) Depreciable amount is the cost of the asset or some other amount substituted for cost, less remaining regard i.e. depreciable amount will be the recorded cost or the revalued cost if any revaluation is done or other such amount substituted for cost, diminished by its extra regard. Helpful existence of the asset is the period over which an asset is required to be open for use by the component or the amount of creation or tantamount units expected that would be gotten from the asset by the substance. This gives the companies to take the helpful life as fiscal life. For example, a company may have an approach of supplanting all its motor vehicles following 3 years, so this will be their surveyed helpful life for depreciation purposes. In any case, the helpful existence of the asset ought not usually be not exactly the same as valuable life decided in Part C to Schedule II and the waiting regard won't not be more than 5% of the main cost of the asset. Where a company grasps a valuable life one of a kind in connection to what is demonstrated in Part C or usages an other remaining regard, the budgetary explanations should unveil such contrast and give side interest for this purpose appropriately maintained by specific appeal.

2. Where cost of the piece of the asset is basic to indicate cost of the asset and the valuable existence of the part isn't the same as helpful existence of whatever is left of the asset, helpful existence of that essential part ought to be settled autonomously and depreciation to be charged on that part as necessities be. This suggests companies need to grasp part accounting. For example, a building may be part into essential diagram, lifts, water structure, warming system et cetera. A company needs to recognize simply essential/material portions freely for depreciation. Materiality includes judgment, however company may think about 10% of exceptional cost as an edge to choose materiality/giganticness.

In addition, where the fragment can't be used freely from the asset, comparative ought to be degraded in light of the helpful existence of the asset.

It is purposeful for each one of the companies to grasp above changes (for part accounting) in monetary articulations in respect of the money related year 2014-15 however required in respect of budgetary proclamations of money related years beginning on or after first April 2015.

3. In the event that there ought to emerge an event of Second hand assets the depreciable amount will be cost of the asset i.e. cost to the foremost proprietor and the calculation of remaining valuable life will in like manner be done from the date of its purchase by the primary proprietor.
4. The helpful existence of the assets wearing down move preface have been resolved in Part C in perspective of their single move working. Beside the assets in respect of which no extra move depreciation is permitted (exhibited by NESD in Part C), if an asset is used for at whatever point in the midst of the year for twofold move, the depreciation will increase considerably the actual depreciation for that period and if there ought to be an event of triple move the additional/incremental depreciation is to be determined on the introduce of @ 100% of actual depreciation for that period.

6. Comparison between Companies Act 2013 and Companies Act 1956

Table 1

SI No	Point	Companies Act 2013	Companies Act 1956
1	Financial Year	Companies must have their financial year finishing on 31 March each year.	Companies were permitted to have money related year finishing out on the date choose by Company.
2	Configurations of Financial Statement	Schedule III	Schedule VI
3	Max. Number of Associates	According to rules, Maximum 100. Presently is 50.	10 in managing an account business and 20 in some other business.
4	Most extreme Shareholders in Private Limited Company	200 barring over a significant time span workers	50 barring over a significant time span workers
5	One Person Company (OPC)	Company which has just a single individual (regular individual) as its part.	Did not present.
6	Share at rebate	Section 53 restricts issue of shares at rebate. Nonetheless, Section 54 grants issue of ESOPs to its workers at rebate.	Section 79 allowed issue of shares at rebate.
7	Security Premium Reserve	Use of Securities Premium Reserve is given in Section 52(2)	Use of Securities Premium Reserve was given in Sec 77A and 78
8	Interest for Calls falling behind financially	Without a proviso in the Articles of Association, the most extreme intrigue chargeable on Calls-financially past due is 10% p.a.	Without a proviso in the Articles of Association, most extreme intrigue chargeable on Calls-financially past due was 5% p.a.
9	Interest for Calls in Advance	Without a condition in the Articles of Association, the greatest intrigue payable on Calls ahead of time is 12% p.a.	Without a provision in the Articles of Association, the most extreme intrigue payable on Calls ahead of time was 6% p.a.
10	Least Subscription	Section 39 an organization might not allocate Securities unless the sum expressed in the outline as least membership has been bought in and the whole paid	Section 69 the prerequisite of least membership was concerning Shares as it were.
11	Discounting of Premium/ Discount on Redemption of Preference Share, Debentures and FCCB	Profit and Loss A/C is to be used to w/off recovery premium identifying with debenture, inclination shares and FCCB by companies which are recommended independently and whose monetary articulations consent to the bookkeeping principles endorsed for such class of companies.	Securities Premium is to be used to recovery premium identifying with debenture, inclination share and FCCB by any organization.
12	ESOP Definition	Companies Act 2013 notwithstanding individual indicated in Old Act incorporates decision given to executives, officers or workers of holding organization or backup company(s) which gives such chiefs, officers or representatives, the preferred standpoint or appropriate to buy, or to buy in for, the shares of the organization at a future date at a pre-chosen cost.	Companies Act 1956 incorporate decision, favorable position or right given to buy or buy in at a future date, the securities offered by the organization at a predestined cost to workers, chiefs, officers and whole time executives of an organization just and not to representatives, executives or workplaces of holding or backup organization.
13	Explanation of Change in Equity	Companies Act 2013 described 'money related articulations' surprisingly as takes after: Monetary Statement in connection to organization should, incorporates: 1. Accounting report 2. P&L or Income and Expenditure Account whichever appropriate 3. Income Statement 4. Articulation of Changes in Equity 5. Illustrative notes. However the Act doesn't sets out any configuration for arrangement of State-ment of Change in Equity.	Planning of Statement of Change in Equity and importance of money related explanation isn't canvassed in the old Act.
14	Planning of CFS	An organization with no less than one Subsidiary needs to plan CFS notwithstanding Stand Alone Financial Statement. As per Section 129(3), 'Where an organization has no less than one auxiliaries, it should, notwithstanding monetary explanations gave, set up a CFS of the organization.	Companies Act 1956 or AS doesn't orders arrangement of CFS. As of now Clause 42 of posting assention of SEBI commands planning of CFS for Companies whose shares are recorded on a Stock Exchange.
15	Associate	'Associate organization' is described as in connection to another organization, implies an organization in which that other organization has a noteworthy impact, however which isn't an auxiliary organization of the organization having such impact and incorporates a joint meander organization.	For the inspirations driving this definition, 'critical impact' implies control of no less than 20% of aggregate share capital, or of business choices under an assention. Existing Act doesn't portrays 'Relate organization'. AS 23 described Associate as an endeavor in

			<p>which the money related pro has huge impact and which is neither a backup nor a joint meander of the theorist.</p> <p>'Huge impact' is 'the capacity to take an interest in the money related/working strategy choices of the investee however not control over those strategies'. There is a rebuttable suspicion that holding of no less than 20% of voting vitality of investee constitutes huge impact. In any case, in certain circumstances, an organization may show that 20% share proprietorship does not constitute critical impact.</p>
16	Helpful life and Residual estimation of benefit	As indicated by new Companies Act 2013 supportive presence of an advantage and remaining worth won't be higher than those predetermined in the Part C of Schedule II aside from the recommended companies whose money related explanations follow AS endorsed for such class of companies.	Companies Act 1956 gave the rates of devaluation and those were the base rates for charging deterioration.
17	Part bookkeeping	Schedule III of Companies Act 2013 has made it obligatory for the companies to perceive and devalue noteworthy part with different supportive lives independently.	Companies Act 1956 doesn't examine anyplace in respect of giving devaluation on part premise.
18	Meaning of Control	Significance of Control is critical for building up Holding Subsidiary definition. Companies Act 2013 gives the accompanying definition: "Control" might incorporate the privilege to select larger part of the Directors or to control the administration or approach choices exercisable by a man or individuals acting exclusively or in show, straightforwardly or in a roundabout way.	Existing Act doesn't describe "control" be that as it may it clarifies the significance of Holding and Subsidiary.
19	Deliberate	The Companies Act 2013 contains plans for: 1. Voluntary change in Accounting Policy, oversights and renaming. 1. 2. Reopening of records on court/council orders.	As of now there isn't an idea of "Intentional Revision of Accounts". MCA Circular permitted to restore and refresh its records: 1. To consent to specialized essential of some other law. 1. 2. To show bonafide and reasonable view.
20	Depreciation on premise of Units of Production	Companies Act 2013 portrays important presence of a benefit as the amount of generation or comparable units anticipated that would be gotten from the advantage by the substance. This demonstrates an organization may have the ability to use UOP procedure for depreciation.	Companies Act 1956 blocks depreciation on UOP procedure for those benefits which are secured under Schedule XIV.
21	Introduction of Minority Interest	Schedule III of the New Companies Act 2013 gives the arrangement to planning of "CFS" and as indicated by Schedule III Minority Interest is to be showed up inside value independently from the value of the proprietors of the Parent Shareholder's equity.	Redesigned Schedule VI of Old Act was quiet about the planning of "CFS" and in that capacity no organization was given. However minority interest was uncovered in 'Non-Current Liabilities'.

7. Effect of Companies Act 2013 on Depreciation

From the date these game-plans end up compelling, if the organization continues with the strategy for charging depreciation (i.e. WDV or SLM); the passing on sum (i.e. the net shutting estimation of the square as appearing in books consequent to charging depreciation of prior year) of the benefit as on that date:

1. Shall be devalued over the remaining profitable presence of that benefit as indicated by Schedule II consequent to recalculating the rate of depreciation.
2. Where the remaining supportive presence of the benefit is nil, passing on sum consequent to holding the extra esteem, may be seen in the opening equality of the held salary or charged to profit and loss account (in perspective of organization decision).

If the organization picks to change the technique for charging depreciation (i.e. other than WDV or SLM), such change will provoke change in the bookkeeping approach and should be

overseen according to Accounting Standard – 6, as requirements be an audit re-figuring of depreciation ought to be done. Its impact should be estimated and uncovered. The Following information may be uncovered in accounts:

1. Depreciation techniques used. In case there is a change in strategy divulgence should be according to AS 6.
2. Useful presence of the benefits for enlisting depreciation, if they are interesting in connection to the life demonstrated in the Schedule.
3. Residual Value, if not the same as what decided.

8. Conclusion

It gives the idea that Companies Act, 2013 influences merger to get ready more gainful yet it in like manner has some absence of definition which ought to be balanced with a particular true objective to decrease or avoid any multifaceted nature in the process which can be recognized once the relating zones are exhorted. The outbound mergers now being allowed (when exhorted) open an open entryway towards

globalization.

It has been inspected that the company Bill 2011 has various new courses of action which required for corporate imaging field appear differently in relation to companies Act 1956 .As well as have some input also like with respect to compulsory arrangement of company secretary in certain evaluated companies is hoped to be guarded on the supplication that there is no such plan for interchange experts. Furthermore according to expert see that there should be underwrite key instructive and expert or we can express the administration capacity for company executives, there is no sure importance of fundamental commitments and obligations of key regulatory work constrain leaving unobtrusive components to be compulsorily included by the loads up of companies.

The bill hopes to diminish government intervention in the issues of company by clearing controls and endorsements however the companies and the chiefs are depended upon to work completely according to the regulatory structure. Another it remains to be seen how the self-sufficient executives will discharge their watchman commitment with respect to satyam disaster. Two or three changes in the method for arrangement of self-ruling chiefs are required to ensure and guarantee the free executive come.

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