

AMENDMENTS TO COMPANIES ACT, 2013

- 1) Application guide on the provisions of Schedule II to the Companies Act, 2013 issued by Corporate Laws and Corporate Governance Committee on 5th February, 2015
- 2) Notification GSR 364(E) dtd.30th March 2016 regarding the Companies (Accounting Standards) Amendment Rules, 2016 – About amendments to AS-2 Valuation of Inventories, AS-4 - Contingencies and Events Occurring After the Balance Sheet Date, AS-10 - Property, Plant and Equipment, AS-13 - Accounting for Investments, AS-14 - Accounting for Amalgamations, AS-21 - Consolidated Financial Statements, AS-29 - Provisions, Contingent Liabilities and Contingent Assets [AS-6 – Depreciation Accounting – Withdrawn]
- 3) General Circular No.04/2016 dtd. 27th April 2016, regarding clarification with regard to Companies (Accounting Standards) Amendment Rules, 2016 – Explaining that amended rules should be used for preparation of accounts for accounting periods commencing on or after 30th March 2016.
- 4) Amendments to AS-2, 4, 6, 10, 13, 14, 21 and 29 to Accounting Standards for non-corporate entities applicable for accounting periods commencing on or after 1st April 2017 [ICAI Notification dtd.28.09.2016]
- 5) Notification no. GSR 404(E) dtd.6th April 2016 Amending Schedule III of the Companies Act, 2013, splitting General Instructions for preparation of Balance Sheet and Profit & Loss A/c – Division 1 for all companies and Division 2 for IND-AS.
- 6) Notification No.GSR 308(E) Dtd. 30th March 2017 Amending Schedule III for Disclosing details of specified Bank Notes (SBN) held and transacted during the period 8.11.2016 to 30.12.2016.

SCHEDULE II – COMPANIES ACT, 2013

APPLICATION GUIDE BY ICAI

- I. Overview of some of the key changes in the Schedule II to the Companies Act, 2013 as compared to erstwhile Schedule XIV to the Companies Act, 1956 are as follows:
- Schedule II prescribes indicative useful lives of various assets instead of Straight Line Method (SLM)/ Written Down Value (WDV) rates for calculating depreciation
 - Useful lives prescribed for tangible assets only
 - No life prescribed for intangible assets. Notified accounting standard to govern the same
 - Depreciation is systematic allocation of the depreciable amount of an asset over its useful life.
 - The depreciable amount of an assets is the cost of an asset or other amount substituted for cost, less its residual value
 - Useful life 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. Schedule XIV of Companies Act, 1956 does not include such requirement.
 - Companies are allowed to follow different useful lives/residual value if an appropriate justification is given supported by technical advice.
 - Component accounting and useful life of a significant part of an asset to be determined separately
 - No separate rate for double/ triple shift; depreciation to be increased based on the double shift/triple shift use of the assets

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- Useful lives of fixed assets prescribed under schedule II are Act different from those envisaged under Schedule XIV of the Companies Act, 1956.
- No reference to depreciation on low value assets.

- II. Shift from rate based guidance to useful life.
- III. AS-6 states that depreciation rates prescribed under the statute are minimum and therefore, if the management's estimate of the useful life of an asset is shorter than that envisage under the statute depreciation is computed by applying the higher rates.
- IV. Schedule II requires justification only in case residual value exceeds 5% of the cost
- V. The useful life of an asset may be shorter than its economic life based on management's intention. The asset management policy of the entity may involve the disposal of asset after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset i.e. on completion of the asset's expected utility to the entity.
- VI. AS-6 states that determination of residual value of an asset is normally a difficult matter. If such value is considered as insignificant, it is normally regarded as NIL. If such value is likely to be significant then it is determined based on realizable value of similar assets which have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used after allowing for effects of any anticipated developments such as significant technological changes. The possible effects of future price level changes (inflation) in estimating residual value should not be considered as it represents gain contingencies that should be recognized only when realized. The entity will depreciate assets over its useful life down to the estimated residual value.

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- VII. Useful life or residual value governed by other regulatory authority.
- VIII. Component accounting – where cost of the part of asset is significant to total cost of the asset and useful life of that part is different from useful life of the remaining asset. A company needs to identify only material / significant component separately for depreciation. Materiality is a matter of judgment and needs to be decided on the facts of each case.
- IX. A continuous process plant means a plant which is required and designed to operate 24 hrs a day. If such plant is shut down due to various reason such as lack of demand, maintenance etc. it does not change the inherent technical nature of the plant. A continuous process plant is distinct from the repetitive process plant (Textile Weaving Mill) or assembly- line type plant (Automobile, Manufacturing plant)

GUIDANCE NOTE ON THE COMPANIES (AUDITOR'S REPORT)
ORDER, 2016

- I. U/s 143(11) of Companies Act, 2013 vide order No. S.O.1228(E) dtd. 29th March 2016
- II. Supersedes earlier order issued in 2015
- III. The requirements of the order are supplemental to existing provisions of Sec. 143 of the Act regarding the Auditor's Report.
- IV. The Companies covered u/s 143(5) to also give report under directions given by C&AG. Similarly, the order is applicable to branches of a company since Sec. 143(8) read with Rule 12 of the Companies (Audit and Auditors) Rules, 2014 states that the branch auditor has the same duties in respect of audit as the company's auditor.
- V. The applicability of the order would be based on the status of the company as at the Balance Sheet date.
- VI. The order does not apply to the auditor's report on consolidated financial statements.
