

**SEMINAR ON
COMPANIES ACT, 2013
PROVISIONS RELATED TO
ACCOUNTS & AUDIT**

C.A. Durgesh Kabra

TOPICS COVERED

- ❧ Small Companies
- ❧ Dormant Companies
- ❧ Inactive Companies
- ❧ Audit
- ❧ Accounts
- ❧ Depreciation

SMALL COMPANY [SEC. 2(85)]

☞ What does the Companies Act, 1956 say ?

- ✓ There was no such concept.

☞ What does the Companies Act, 2013 say ? Sec 2(85)

- ✓ A company, other than public company
 - ☞ Paid-up share capital of which does not exceed Fifty lakh rupees or such higher amount as may be prescribed which shall not be more than Five crore rupees; OR
 - ☞ Turnover of which as per its last profit & loss account does not exceed Two crore rupees or such higher amount as may be prescribed which shall not be more than Twenty crore rupees
- ✓ Nothing in the above clause shall apply to
 - ☞ A holding company or a subsidiary company; OR
 - ☞ A company registered under Sec. 8; OR
 - ☞ A company or body corporate governed by any Special Act.

Salient Features of Small Company

- ❧ Only a private company can be classified as a small company.
- ❧ Holding company, subsidiary company, charitable company and company governed by any Special Act cannot be classified as a small company.
- ❧ For a small company, either the paid up capital should not exceed Rupees fifty lakhs or the turnover as per last statement of profit & loss should not exceed rupees two crores.
- ❧ The status of a company as “Small Company” may change from year to year. Thus the benefits which are available during a particular year may stand withdrawn in the next year and become available again in the subsequent year.

Privileges of Small Company

- ❧ The annual return of a Small Company can be signed by the company secretary alone, or where there is no company secretary, by a single director of the company.
- ❧ A small company may hold only two board meetings in a year, i.e. one Board Meeting in each half of the calendar year with a minimum gap of ninety days between the two meetings.
- ❧ A small company need not include Cash Flow Statement as part of its financial statement.
- ❧ Provision regarding mandatory rotation of auditor/maximum term of auditor being 5 years in case of an individual and 10 years in case of a firm of auditors is not applicable to an OPC.

DORMANT COMPANIES

☞ What does the Companies Act, 1956 say ? Sec 560

- A Company can be wound up under section 560 of the Companies Act, 1956. For this, the Company should be defunct company i.e. a dormant company with NIL Assets and NIL Liabilities i.e. all the assets should be disposed off and all liabilities should be cleared.
- For this purpose, the Company should prepare audited Accounts for the period ending not later than 30 days from filing the winding up application. Said accounts should show NIL Assets and NIL Liabilities.

DORMANT COMPANIES

❧ **What does the Companies Act, 2013 say ? Sec 455**

- New class of companies to be formed for future transactions
 - ❧ Has no significant accounting transactions
 - ❧ That is, any transaction other than payment of fees, allotment of shares, statutory payments, payment to maintain office records
- Idea is to impose minimal requirements on dormant companies
 - ❧ Rules in this regard under Rule 29.2
- Company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar for obtaining the status of a dormant company.

PROCESS FOR CONVERTING INTO DORMANT COMPANY

After passing special resolution

Company to file Application in Form MSC 1

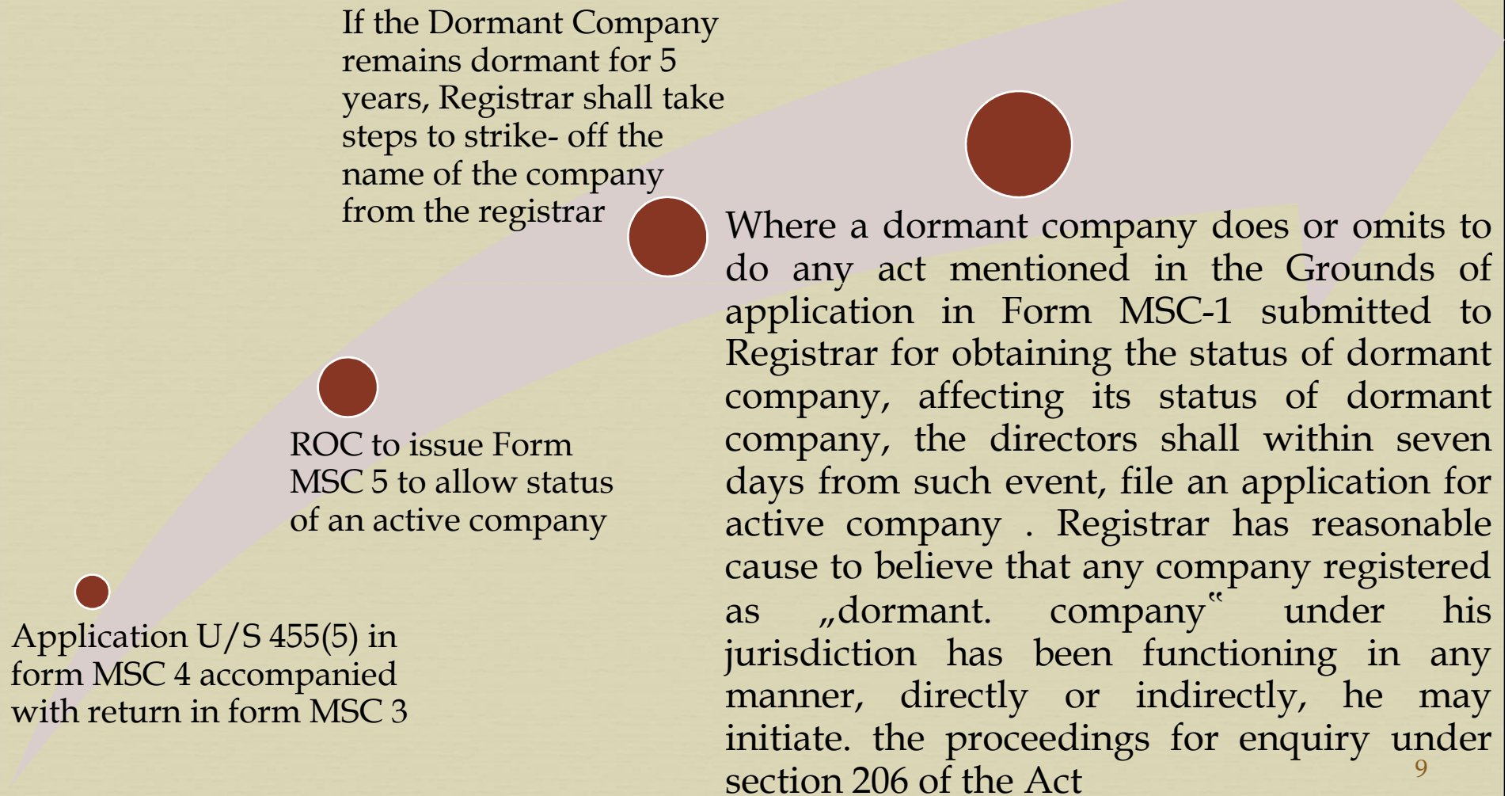
Roc will issue MSC 2 as certificate for status of dormant company

Minimum directors for dormant company-
Public Co. -3, Private Co. -2, OPC -1

[No provision of Rotation of Auditor shall apply to a dormant company]

Return of a dormant company in Form MSC 3

PROCESS FOR CONVERTING INTO ACTIVE COMPANY



INACTIVE COMPANY [EXPL. TO S. 455]

- ❧ Not been carrying on any business or operation; OR
- ❧ Not made any significant transaction during last two years;
OR
- ❧ Not filed financial statements and annual returns during the last two financial years
- ❧ For the purpose of this definition, “significant accounting transaction” means any transaction other than –
 - (a) payment of fees by a company to the Registrar;
 - (b) payments made by it to fulfil the requirements of this Act or any other law;
 - (c) allotment of shares to fulfil the requirements of this Act; and
 - (d) payments for maintenance of its office and records.

AUDIT & AUDITORS

- Appointment of Auditors
- Rotation of Auditors
- Removal of Auditors
- Resignation of Auditors
- Qualifications of Auditors
- Limits on number of audit
- Rights of auditors
- Duties of Auditors
- Few restriction
- Penal Provisions for Auditors



APPOINTMENT OF AUDITOR

∞ What does the Companies Act, 1956 say ? (Section 224) :

- ✓ Every Company to appoint auditor or auditors at each A.G.M. to hold office **until the conclusion of the next A.G.M.**

∞ What does the Companies Act, 2013 say ? (Section 139) :

- ✓ Every Company, to appoint an individual or a firm as an auditor, at the first A.G.M. of the Company. [139(1)]
- ✓ Auditor to hold office from the conclusion of that meeting till the conclusion of its **sixth A.G.M.** and thereafter till the conclusion of **every sixth A.G.M.** **Provided** that the company shall place the matter relating to such appointment for **ratification by members** at every annual general meeting.
- ✓ Where at AGM, no auditor is appointed/re-appointed, the existing auditor shall continue to be the auditor of Company [139(10)]
- ✓ Members of a Company **may** resolve to rotate audit partners and audit team **at such intervals as may be resolved by members** or audit to be conducted by more than one auditor [139(3)]
- ✓ Where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

APPOINTMENT OF AUDITOR

- ❧ In case of companies which have constituted audit committee, audit committee to recommend appointment of auditor to board, in other cases, Board to consider on their own.
- ❧ If Board is satisfied with recommendation of audit committee, it shall consider and recommend the same to members in general meeting.
- ❧ If Board is not satisfied, it will send back to audit committee for reconsideration along with Board's reasons.
- ❧ If audit committee does not reconsider, then Board will make its own recommendation to the Members and record the reason for rejection of recommendation of audit committee in Board's report.

ROTATION OF AUDITORS

❧ What does the Companies Act, 1956 say ?

✓ No such provision Provided

❧ What does the Companies Act, 2013 say ? (Section 139(2))

✓ Rotation – Individual Auditor : One Term of Five Years. Section 139(2)

Firm of Auditor : Two Consecutive term of 5 Years

✓ Members can provide for following by passing a resolution:

(a) In the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or

(b) The audit shall be conducted by more than one auditor.

- Rotation on expiry of term: Same procedure as appointment.

- For the purpose of rotation, the period for which the auditor is holding office prior to the commencement of this act will also be counted in calculating the period of 5 years or 10 years as the case may be.

✓ Where a company has appointed two or more persons as joint auditors, the company shall follow the rotation of auditors in such a manner that all of the joint auditors do not complete their term in the same year. Rule 6 (4)

ROTATION OF AUDITORS

∞ Class of Companies: Section 139(2)

The Class of Companies shall mean the following classes of companies excluding one person companies and small companies :

- ✓ All unlisted public companies having paid up share capital of rupees ten crore or more;
- ✓ All private limited companies having paid up share capital of rupees twenty crore or more;
- ✓ All companies having paid up share capital of below threshold limit mentioned in (a) and (b) above, but having public borrowings from financial institutions, banks or public deposits of rupees fifty crores or more.

ROTATION OF AUDITORS

❧ Illustration explaining rotation in case of individual auditor :

Number of consecutive years for which an individual auditor in the same company {in the first AGM held after the commencement of provisions of section 139 (2)}	Maximum Number of consecutive years for which he may be appointed in the same company (including transitional period)	Aggregate period which the auditor would complete in the same company in view of column I and II
I	II	III
5 years (or more than 5 years)	3 years	8 years or more
4 years	3 years	7 years
3 years	3 years	6 years
2 years	3 years	5 years
1 year	3 years	4 years

ROTATION OF AUDITORS

Illustration explaining rotation in case of audit firm :

Number of consecutive years for which an audit firm has been functioning as auditor in the same company {in the first AGM held after the commencement of provisions of section 139 (2)}	Maximum Number of consecutive years for which the firm may be appointed in the same company (including transitional period)	Aggregate period which the firm would complete in the same company in view of column I and II
I	II	III
10 years (or more than 10 years)	3 years	13 years or more
9 years	3 years	12 years
8 years	3 years	11 years
7 years	3 years	10 years
6 years	4 years	9 years
5 years	5 years	10 years
4 years	6 years	10 years
3 years	7 years	10 years
2 years	8 years	10 years
1 year	9 years	10 years

REMOVAL OF AUDITORS

❧ **What does the Companies Act 1956 say? (Section 224 (5)) :**

- ✓ At a general meeting company can remove the auditors by passing a special resolution and after obtaining approval from the central government

❧ **What does the Companies Act, 2013 say? (Section 140) :**

- ✓ Application to be filed with Central Government in form no. ADT -2 within 30 days of passing board resolution.
- ✓ The application shall be accompanied by such fees as specified in Companies (Registration Offices and Fees) Rules, 2014
- ✓ The auditor concerned shall be given a reasonable opportunity of being heard.
- ✓ Special resolution to be passed by company for removal of auditor within 60 days of receipt of approval of Central Government.

RESIGNATION OF AUDITORS

❧ What does the Companies Act, 1956 say ? (Section 225)

- No provision of filling any document with ROC on resignation

❧ What does the Companies Act, 2013 say ? (Section 140)

- Auditor to file statement in form ADT -3 within 30 days of resignation giving reasons and other facts for resignation.
- Statement to be filed with ROC and Company.
- If the auditor does not comply with above provisions, he or it shall be punishable with fine which shall not be less than Rs. 50,000/- but which may extend to Rs. 5,00,000/-.

QUALIFICATIONS OF AUDITORS

∞ What does the Companies Act, 1956 say ? (Section 226) :

- ✓ A person shall be CA or firm of CA (Multi Disciplinary Professional Firm)
- ✓ The person shall not be a Body Corporate, an officer or employee of the company, a person who is a partner, or who is in the employment, of an officer or employee of the company, a person who is indebted to the company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding Rs.1,000 and a person holding any security of that company

∞ What does the Companies Act, 2013 say ? (Section 141) :

- ✓ Only a Chartered Accountant or a firm where majority of partners practicing in India are Chartered Accountants can be appointed as auditor.
- ✓ Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorized to act and sign on behalf of the firm.
- ✓ Following modifications and additions are made to the disqualifications
 - Body corporate doesn't include LLP (to facilitate LLP's being appointed as auditors)

QUALIFICATIONS OF AUDITORS

- A person is not eligible for appointment if he **or his relative or his partner**
 - (a) holds any securities in the company of face value not exceeding rupees **one lakh**:

Provided that the condition under this sub rule shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:

Provided further that in the event of acquiring any security or interest by a relative, the corrective action to maintain the limits as specified above shall be taken by the auditor within sixty days of such acquisition or interest.
 - (b) is **indebted** to the company or its subsidiary or its holding or associate company or subsidiary of such holding company, in excess of rupees **five lakh**
 - (c) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees **one lakh**

A person or a firm who, whether directly or indirectly has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company as **any** transaction entered into for commercial purpose.

QUALIFICATIONS OF AUDITORS

- ✓ A person whose relative is a director or is in the employment of the company as a director or key managerial personnel.
- ✓ A person who is in same brand/network/common control
- ✓ A person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies.
- ✓ A person who has been convicted by court for fraud and ten years has not elapsed from the date of such conviction.
- ✓ Any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

LIMITS ON NUMBER OF AUDIT

☞ What does the Companies Act, 1956 say ? [Section 224 (1B)]

- ✓ Ceiling on audit is as under :
 - (a) in the case of a person or firm holding appointment as auditor of a number of companies each of which has a paid-up share capital of less than rupees 25 lakhs, 20 such companies;
 - (b) in any other case, 20 companies, out of which not more than 10 shall be companies each of which has a paid-up share capital of Rs 25 lakhs or more
- ✓ In computing the Specified number of audits for the purpose of Section 224(1B), the following audit shall not be taken into consideration :
 1. Audit of Private Company
 2. Audit of Guarantee Companies not having Share Capital
 3. Special Audits
 4. Audit of Foreign Companies
 5. Branch Audit

LIMITS ON NUMBER OF AUDIT

∞ What does the Companies Act, 2013 say ? [Section 141(3)(g)]

- ✓ A person or a partner of a firm holding appointment as auditor of company, will not be eligible for appointment, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than 20 companies
- ✓ No exclusion permitted in Act while calculating the number of 20 Company Audits.
- ✓ Draft notification for public comments dt. 24/06/2014 provides exclusion of private companies.

RIGHTS OF AUDITORS

❧ What does the Companies Act, 1956 say ? (Section 227) :

- Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company

❧ What does the Companies Act, 2013 say ? (Section 143) :

- Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company;
- further if he is an auditor of a holding company, shall also have right to access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries
- To require from the officer of the company relevant information & explanation
- Enquire into specified matters [sec 143(1)(a-e)]

DUTIES OF AUDITORS

☞ What does the Companies Act, 1956 say ? (Section 227) :

- CARO required to report on internal control matter relating to the inventory, fixed assets and sale of goods and services
- CARO required to report of any fraud on or by the company has been noticed or reported during the year

☞ What does the Companies Act, 2013 say ? (Section 143) : (only changes)

- Auditor shall report that company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- If an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the CG within 60 days.
- Whether had auditor has sought the information/explanations which he considered necessary and received

NEGATIVE LIST OF SERVICES - AUDITORS

Section 144

- ❧ Accounting and book keeping services
- ❧ Internal audit
- ❧ Design and implementation of any financial information system
- ❧ Actuarial services
- ❧ Investment advisory services
- ❧ Investment banking services
- ❧ Rendering of outsourced financial services
- ❧ Management services

Directly/ Indirectly not allowed

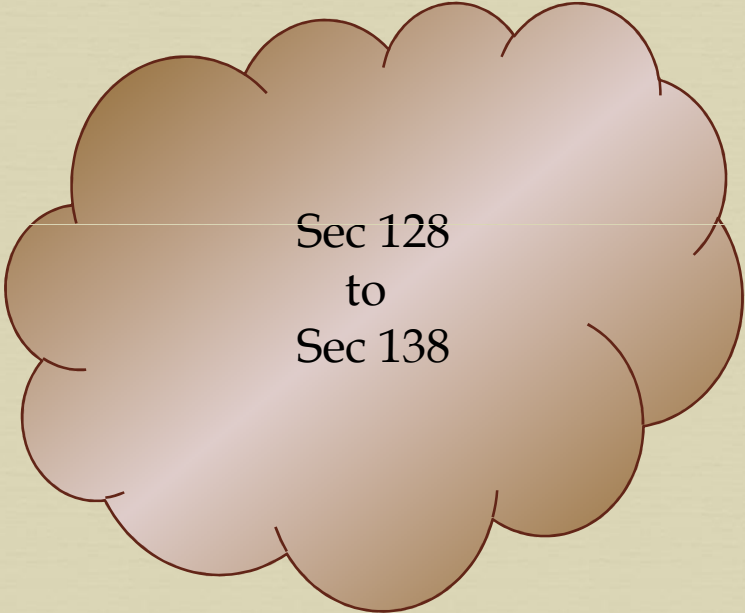
PENAL PROVISIONS FOR AUDITORS

Violation		Penalty		
Section	Descriptions	Section	Contravention By	
140(2)	On resignation by auditor, he needs to intimate Company and ROC and may be CAG.	140(3)	<u>Individual Auditor</u> Min: 50000 Max: 500000	<u>Firm</u> Min: 50000 Max: 500000
141(3)	Disqualification of auditors	141(4)	Vacation of office	Vacation of office
143(12)	CA/CWA /PCS required to intimate to CG about an offence involving fraud is being or has been committed against the company by officers or employees of the company.	141(15)	Individual Auditor Min: 1,00,000 Max: 25,00,000	Firm Min: 1,00,000 Max: 25,00,000
139 to 146 Both Inclusive	Contraventions of Sec. 139 to 146 (both inclusive) by Company and its officer	147(1)	Company Min: 25000 Max: 5,00,000	Every officer in default IMPRISONMENT Min: 1 Day Max : 1 Year FINE Min: 10,000 Max: 1,00,000 either of above or both

Violation		Penalty		
Section	Descriptions	Section	Contravention By	
139, 143, 144, 145	Contraventions by Auditor <input type="checkbox"/> 139: Appointment of auditor <input type="checkbox"/> 143: Power & duties of Auditor <input type="checkbox"/> 144 Auditor not to render certain services <input type="checkbox"/> 145: Auditor to sign audit report	147(2) &(3)	<u>INDIVIDUAL AUDITORS</u> WILFULLY / KNOWNIGLY to deceive Imprisonment <input type="checkbox"/> Min: 1day <input type="checkbox"/> Max: 1 Year AND fine <input type="checkbox"/> Min: 100,000 <input type="checkbox"/> Max: 25,00,000 AND <input type="checkbox"/> Refund the remuneration <input type="checkbox"/> Pay for damages arising out of incorrect or misleading statements.	<u>FIRM</u> WITHOUT KNOWINGLY Min: 25,000 Max: 5,00,000 AND <input type="checkbox"/> Refund the remuneration <input type="checkbox"/> Pay for damages arising out of incorrect or misleading statements.
Special 147(5)	In case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm <input type="checkbox"/> acted in a fraudulent manner or <input type="checkbox"/> abetted or <input type="checkbox"/> colluded in any fraud by, or <input type="checkbox"/> in relation to or by, the company or its directors or officers,		liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.	

BOOKS OF ACCOUNTS

- ❧ Financial Statements
- ❧ Reopening of Accounts
- ❧ Constitution of NFRA
- ❧ CSR
- ❧ Maintenance & preservation
Of books of accounts
- ❧ Authentication of FS
- ❧ Internal Audit



Sec 128
to
Sec 138

FINANCIAL STATEMENTS

∞ **Financial statement (Clause 2(40))** - in relation to a company, includes –

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity; If applicable and
- (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement

ACCOUNTING YEAR

☞ What does the Companies Act, 1956 say ?

- ✓ A company can adopt any accounting year for maintaining its accounts

☞ What does the Companies Act, 2013 say ? (Section 2(41))

- ✓ All companies shall have to follow uniform accounting year ending 31st March of every year.
- ✓ Existing companies will have to comply within period of 2 years from the date of applicability of the Act.

REOPENING OF ACCOUNTS

❧ What does the Companies Act, 1956 say ?

- ✓ There is no provision to reopen the accounts of the company

❧ What does the Companies Act, 2013 say? (Section 130 & 131)

The Companies Act 2013 permits restatement of financial information in the following circumstances

- Mandatory: Order being passed by court/Tribunal
 - (i) when accounts were prepared in a fraudulent manner; or
 - (ii) company's affairs were mismanaged affecting reliability of accounts
 - Voluntary revision of financial statements by the Board on application to the Tribunal
- ❧ 3 years limit for voluntary revision of financial statements
 - ❧ Revision/restatement not permitted more than once in a year
 - ❧ Detailed disclosures required on restatement

NFRA

❧ What does the Companies Act, 1956 say ?

- ✓ There were no provision to regarding NFRA or any such Authority

❧ What does the Companies Act, 2013 say? (Section 132, 133 and 143) :

- ✓ NACAS will be re-named as NFRA (Attempted to be on-line of PCAOB)
- ✓ The Government will notify the accounting standards as recommended by ICAI in consultation with NFRA
- ✓ Similarly, the Government will notify the auditing standards as recommended by ICAI in consultation with NFRA. This will mean that the present authority of ICAI to formulate auditing standards will now be taken over by the Government
- ✓ NFRA has been given powers to **monitor and ensure compliance** with accounting and auditing standards.

NFRA

❧ Constitution

- ❧ CG to constitute NFRA - Quasi judicial authority by notification
- ❧ Appeal for a order of NFRA shall lie before Appellate Authority
- ❧ NFRA given powers of a civil court for investigation.

❧ Role

- ❧ Advisory role, monitoring compliances & Investigation of professional misconduct by CA's;
- ❧ Oversee the quality of service of the Auditors;

APPLICABILITY & CONSTITUTION OF A CSR COMMITTEE

❧ **What does the Companies Act, 1956 say ?**

✓ There were no Provisions in this regards

❧ **What does the Companies Act, 2013 say ? (Section 135)**

❧ Section 135 of the 2013 Act states that every company having

✓ net worth of Rs. 500 crore or more, or

✓ turnover of Rs 1000 crore or more ,or

✓ net profit of Rs 5 crore or more during any financial year

shall constitute a Corporate Social Responsibility Committee of the Board

❧ The committee would comprise of three or more directors, out of which at least one director shall be an independent director

[Rules in this regards are given in Rule 9.9]

MAINTENANCE & PRESERVATION OF BOOKS OF ACCOUNTS

❧ **What does the Companies Act, 1956 say ?(Section 209)**

- ❧ The books of accounts are required to be kept at the Registered Office of the Company.
- ✓ The Companies Act, 1956 was silent on maintenance of accounts in electronic form.
- ✓ Preservation of accounts were required for a period not less than 8 years immediately preceding the current year

❧ **What does the Companies Act, 2013 say ? (Section 128)**

- ❧ The books of accounts are required to be kept at the Registered Office of the Company.
- ✓ The Act seeks to permit maintenance of accounts in electronic form
- ✓ The Act provides where investigation is ordered in respect of a company, the Central Government may direct that accounts may be kept for such longer period as it thinks fit. (Otherwise 8 years)

MAINTENANCE & PRESERVATION OF BOOKS OF ACCOUNTS

❧ Which books to be maintain as per Companies Act, 1956 ?

❧ Sec 209 (1) of the Companies Act provides that every Company is required to maintain necessary books of accounts reflecting true and fair view of the transactions in relation to –

- All sales & purchases made by the Company.
- All assets & liabilities of the Company.
- All sums of money received & spent by the Company together with details of receipts & expenditure made.
- If Company is engaged in manufacturing, production or mining activities then all details relating to utilization of labour, material and other costs must also be described.

❧ Which books to be maintain as per Companies Act, 2013 ?

- Same as above

AUTHENTICATION OF FS

❧ What does the Companies Act, 1956 say ? (Section 215)

❧ In the case of a company not being a banking company, the balance sheet and the profit and loss account shall be signed, by its, managing agent, secretaries and treasurers, manager or secretary, if any, and by not less than two directors of the company one of whom shall be a managing director where there is one.

❧ What does the Companies Act, 2013 say ? (Section 134)

❧ Act requires that Both Standalone and consolidated financial statement to be signed by following person:

- ❖ Chairperson of the company where he is authorized by the BOD
- ❖ 2 director out of which one shall be managing director
- ❖ Chief Executive Officer, if he is director of the company
- ❖ Chief Financial Officer
- ❖ Company Secretary

INTERNAL AUDIT

❧ What does the Companies Act, 1956 say ?

- ✓ There were no Provisions in this regards

❧ What does the Companies Act, 2013 say ? Sec 138

- ✓ The Class or classes of companies as prescribed in Rule 9.13 shall be required to appoint an internal auditor, who shall either be a Chartered Accountant or a Cost Accountant, or such other professional as may be decided by the board to conduct internal audit of the functions and activities of the company
- ✓ The Central Government may, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the board.

INTERNAL AUDIT

❧ The following class of companies required to appoint an internal auditor or a firm of internal auditor, namely : (Section 138)

- Every listed company;
- Every unlisted public company having-
 - a) paid up share capital of fifty crore rupees or more during the preceding f.y; or
 - b) turnover of two hundred crore rupees or more during the preceding f.y; or
 - c) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding f.y; or
 - d) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding f.y; and
- Every private company having-
 - a) turnover of two hundred crore rupees or more during the preceding f.y; or
 - b) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding f.y :

Provided that an exiting company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within six months of the commencement of such section.

For the purpose of Internal Audit, Chartered Accountants may be in Practice or not ,its required only that he is member of ICAI.

DEPRECIATION

☞ What does the Companies Act, 1956 say ?(Schedule XIV)

- ✓ Schedule XIV read with AS 6
- ✓ 95% of original cost to be depreciated over specified period
- ✓ Low value items (<Rs 5K) to be fully depreciated
- ✓ Separate rates for Intangibles/electricity companies/EST etc.

☞ What does the Companies Act, 2013 say ? (Schedule II)

- ✓ Schedule II provides useful Lives of assets and no rates (SLM or WDV)
- ✓ No provision for low value items or rates for intangibles
- ✓ Schedule Rate for some items like Building, Furniture etc. are different
- ✓ The balance of WDV (depreciable amount)- after Schedule II is effective to be depreciated as per provisions of this schedule
- ✓ Companies may face difficulties in year of transition

DEPRECIATION

Statement showing computation of depreciation

Sr. No.	Particulars	Result
1)	Original Cost	Rs. 100.00
2)	Original Useful Life & Depreciation as per Sch. XIV	20 Years (4.75%)
3)	Revised Useful Life as per Sch. II	15 Years (6.33%)
4)	Expired useful Life	10 Years
5)	Accumulated Depreciation at the end of expired useful life	Rs. 47.50
6)	Carrying amount of the asset at the end of Expired of useful life [(1) - (5)]	Rs. 52.50
7)	Remaining Useful life	5 Years
8)	Depreciation per year for next 5 year [52.5/5]	Rs. 10.50
	--- OR---	
9)	Depreciation per year for next 5 year [100 - 5 - 47.50 = 47.50/5]	Rs. 9.50 ⁴³

DEPRECIATION

Statement showing computation of depreciation

Sr. No.	Particulars	Result
1)	Original Cost	Rs. 100.00
2)	Original Useful Life & Depreciation as per Sch. XIV	20 Years (4.75%)
3)	Revised Useful Life as per Sch. II	15 Years (6.33%)
4)	Expired useful Life	15 Years
5)	Accumulated Depreciation at the end of expired useful life	Rs. 71.25
6)	Remaining Useful life	NIL
7)	Carrying amount of the asset at the end of Expired of useful life [(1) - (5)]	Rs. 28.75
	--- OR ---	
8)	Carrying amount of the asset at the end of Expired of useful life after retaining the residual value [100 - 5 - 71.25]	Rs. 9.50

DEPRECIATION

Extra Shift depreciation

❧ Illustration:- Binani Ltd. is using Roll Grinder (falling in category of Plant and Machinery used in manufacture of non-ferrous metals in Schedule II) in its operation process. Details are as follows:

Capitalised value of the Roll Grinder Rs. 10,00,000/-

Useful Life 40 Years

Residual Value Rs. 50,000/-

Useful Life prescribed in Schedule II 40 years

DEPRECIATION

Statement showing computation of depreciation

Particulars	Single shift Depreciation	Double Shift Depreciation	Triple Shift Depreciation
Under Schedule XIV			
(Rs. 10,00,000)* 4.75%	Rs.47,500	Rs. 74,200	Rs. 1,03,400
(Rs. 10,00,000)* 7.42%			
(Rs.10,00,000)* 10.34%			
As per the minimum rate			
Under Schedule II			
(Rs. 10,00,000-Rs. 50,000)* 2.50%	Rs. 23,750	Rs. 35,625	Rs. 47,500
(Rs. 10,00,000-Rs. 50,000)* 3.75%			
(Rs. 10,00,000-Rs. 50,000)* 5.00%			
Difference (Extra Depreciation under Schedule XIV)	Rs. 23,750	Rs. 38,575	Rs. 55,900

DEPRECIATION

Extra Shift depreciation

❧ Illustration:- Amazing Ltd. is using Reactors in its operation process. Details are as follows:

Purchase cost of the Reactors	Rs.400,000
Cost of installation	Rs. 50,000
Residual Value	Nil
Estimated Useful Life	25 Years
Useful Life prescribed in Schedule I	20 years

DEPRECIATION

Statement showing computation of depreciation

Particulars	Single shift Depreciation	Double Shift Depreciation	Triple Shift Depreciation
Under Schedule XIV			
(Rs.4,00,000+Rs.50,000)* 4.75%	Rs. 21,375	Rs. 33,390	Rs. 46,530
(Rs.400,000+Rs.50,000)* 7.42%			
(Rs.4,00,000+Rs.50,000)* 10.34%			
As per the minimum rate			
Under Schedule II			
(Rs.4,00,000+ Rs.50,000)*5.00%	Rs. 22,500	Rs. 22,500 (NSED)	Rs. 22,500 (NSED)
Difference (Extra Depreciation under Schedule II)	Rs. 1,125	(Rs. 10,890)	(Rs. 24,030)

(Refer Notes on Next Slide)

DEPRECIATION

☞ Notes:

- a) Prescribed rates have been used for computation of depreciation under Schedule XIV of the Companies Act, 1956.
- b) The rates prescribed in the Schedule XIV of the Companies Act, 1956 have the inbuilt effects of residual value, i.e., the rates are prescribed such that 5% of residual value remains after depreciating 95% of the cost. Accordingly, the residual value is not deducted in the example in computing the depreciation under Schedule XIV. But it is deducted for depreciation computed under the Schedule II of the Companies Act, 2013.
- c) Useful life considered for computation of depreciation under Schedule II of the Companies Act, 2013 is the one that is prescribed in Part C of the Schedule.
- d) According to the Schedule XIV of the Companies Act, 1956, lower rate of depreciation (based on higher estimated useful life of 25 years) than prescribed cannot be used.
- e) It is assumed that the entity chooses to follow the useful life as prescribed in Schedule II. In case, it can justify a longer useful life, then it may charge a lower depreciation than the rate envisaged in Schedule II. In case the entity goes with the option of charging depreciation at the rates lower than the prescribed rates

DEPRECIATION

Component Accounting

☞ Useful life specified in Part C of the Schedule is for whole of the asset. 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 should be determined separately. Hence, component accounting is mandatory pursuant to the introduction of Companies Act, 2013.

DEPRECIATION

Component Accounting

❧ Illustration:- AMC Ltd., a steel company is in the process of enhancing its production capacity. The company has got another furnace commissioned. Based on its historical experience, the company determines the life of furnace to be 30 years. The cost of the furnace is Rs. 90 crores. The break-down of the cost is as below

	Useful life	Cost (Rs. in crores)
Structure	30	45
Internal lining of refractory	5	11
Heating components	7	14
Motors & other operating parts for controlling tem	10	20
Total		90

51

(Residual value may be assumed NIL)

DEPRECIATION

∞ Treatment under the Companies Act, 1956

- The component accounting was not mandatory under the Companies Act, 1956. The replacement cost was charged to the
- Statement of Profit and loss in the year in which it was incurred.
- Annual depreciation of the furnace =Rs. 90 crore/30 = Rs. 3 crores
- Replacement cost of various components will be charged to the statement of Profit and loss.

DEPRECIATION

☞ Treatment under the Companies Act, 2013:
Statement showing component wise annual depreciation

Furnace	Depreciable Amt (Rs. In crores) (A)	Useful life (B)	Depreciation (Rs. in crores) SLM (A)/(B)
Structure	45	30	1.5
Internal lining of refractory	11	5	2.2
Heating components	14	7	2
Motors & other operating parts for controlling tem	20	10	2
Total	90		9.7

DEPRECIATION

When at the end of the respective useful lives of the components, the components will be replaced, the replacement cost should be capitalised because by that time, they are fully depreciated and the carrying value at the end of their respective useful lives is nil. Thus, although the overall amount that will be charged to the statement of Profit and loss will be same during the entire life of the furnace, the annual charge to the statement of profit and loss will differ significantly.

Illustration

A company acquired a building (other than factory building and RCC Frame Structure) at a cost of Rs. 10 crores. The company was depreciating the building according to Schedule XIV SLM rate, i.e., 1.63% (rate computed assuming useful life to be approximately 60 years). Now, in April, 2014, Schedule II of the Companies Act, 2013 became effective, useful life specified in which is 30 years.

Explain how the transitional provision effect will be accounted for:

- A. If the building is acquired on 1st April, 2000
- B. If the building is acquired on 1st April, 1980

Analysis:

A. Transition effect in case the building is acquired on 1st April, 2000

Depreciation charged till FY 2013-14, i.e., depreciation on SLM for 14 years

Rs. 10 crores*1.63%*14 yrs

Rs. 2,28,20,000

Carrying Value as on 1st April, 2014

Cost less accumulated depreciation till FY 2013-14

Rs. 10,00,00,000 – Rs. 2,28,20,000

Rs. 7,71,80,000

The carrying value as on 1st April, 2014 will be depreciated over the remaining useful life of the asset as per Schedule II of the Companies Act, 2013. The remaining useful life as per new Schedule is (30-14) 16 years. Accordingly, depreciable amount of Rs. 7,71,80,000 will be depreciated over 16 years. So, annual depreciation to be charged to Profit and loss account from FY 2014-15 onwards would be Rs. 7,71,80,000/16 yrs , i.e., Rs. 48,23,750.

Impact

After 16 years from FY 2014-15, i.e., from FY 2030-31 onwards no depreciation would be charged

For 16 years, i.e., from FY 2014-15 to FY 2029-30, higher depreciation would be charged. If Schedule II would not have been introduced, depreciation charged annually would have been Rs. 10 cr. * 1.63% = Rs. 16,30,000. After the introduction of Schedule II of the Companies Act, 2013, depreciation charged for these 16 years would be Rs. 48,23,750 which is higher by Rs. 31,93,750.

B. Transition effect in case the building is acquired on 1st April, 1980

If the building would have been purchased on 1st April, 1980, then as on 1st April, 2014, useful life of 30 years as per new Schedule has already expired. In such case, the carrying value as on 1st April, 2014 would be recognised in the opening balance of retained earnings.

Depreciation charged till FY 2013-14, i.e., depreciation on SLM for 34 years

Rs. 10 crores*1.63%*34 yrs

Rs. 5,54,20,000

Carrying Value as on 1st April, 2014

Cost less accumulated depreciation till FY 2013-14

Rs. 10,00,00,000 – Rs. 5,54,20,000

Rs. 4,45,80,000

Carrying value as on 1st April, 2014 of Rs. 4,45,80,000 would be recognised in the opening balance of retained earnings. (assuming residual value to be nil)

Impact

Opening balance of retained earnings would reduce by the carrying amount.

No depreciation from FY 2014-15 onwards shall be charged to the profit and loss account, which otherwise would have been charged if Schedule II would not have come into force.

Note: In case, there is a residual value, say, Rs. 10,00,000 then Rs. 4,35,80,000 would be recognized in the opening balance of retained earnings and Rs. 10,00,000 will remain in the carrying amount of asset.

“when we are no longer
able to change a situation,
we are challenged to
change ourselves!”

Victor Frank

FEEL FREE ...
TO ASK QUESTION ...
OR DO CLARIFY

THANK YOU.....