

**Ministry of Corporate Affairs**

**EXPLANATORY MEMORANDUM**

**REVIEW OF SCHEDULE XIV TO THE COMPANIES ACT,1956**

1. Schedule XIV to the Companies Act, 1956 provides for the rates of depreciation to be charged on the assets by the companies while preparing their balance sheet and profit and loss account in accordance with Section 350 and while providing the dividend under section 205, respectively, of the Companies Act, 1956 (the “Act”).

2. The Government of India has in the meantime, notified Companies (Accounting Standards) Rules, 2006 (the “Rules”) under the Act. For the present, in pursuance of the requirements under the Act and to provide guidance for ascertaining the amount of depreciation to be charged, it is proposed to retain Schedule XIV with suitable modifications/amendments. The purpose of such exercise is to provide comprehensive guidance for charging of depreciation by companies in compliance of the Act, enable consistency between Schedule XIV and the Rules, recognition of assets arising out of concession agreements/contracts/agreements relating to relating to infrastructure projects etc, and amortization of the same. The Ministry has constituted a Committee headed by Shri R. Vasudevan, Director (Inspection & Investigation) with the representatives from the Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India and special invitees from some of the

Regulatory bodies to examine the above and related issues and to make recommendations on the changes/modifications necessary to Schedule XIV.

3. On the basis of the issues arising in implementation of provisions relating to depreciation under the Act noticed by the Ministry from time to time, changes felt desirable in Schedule XIV to address the environment determined by the Accounting Standards Rules have been prepared in concept form and a process of consultations initiated. In pursuance of the exercise taken up to review in Schedule XIV, the proposed changes in this Schedule are annexed to this Memorandum for viewing by all stakeholders.

4. Suggestions/Comments on the proposed changes in Schedule XIV along with justification for the same may be addressed/sent latest by 31<sup>st</sup> December 2008 to Shri. M. S. Pachouri, Assistant Director, Ministry of Corporate Affairs, 5<sup>th</sup> Floor, A wing , Shastri Bhavan, New Delhi so the same may also be considered by the Committee while finalizing its recommendations on the subject. The suggestions/comments may also be sent through email at [bn.harish@mca.gov.in](mailto:bn.harish@mca.gov.in) or [mahinder.pachouri@mca.gov.in](mailto:mahinder.pachouri@mca.gov.in). It will be appreciated if the name and address of the sender is also indicated clearly at the time of sending suggestions/comments.

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## **SCHEDULE XIV TO THE COMPANIES ACT, 1956 (WITH PROPOSED CHANGES)**

(See section 205 and 350)

(Rates of Depreciation)

### **PART I**

1. Rates of Depreciation and notes contained in this schedule are subject to the provisions of the Companies Act, 1956 and the Companies (Accounting Standards) Rules, 2006 as amended from time to time.

### **PART II**

2. Subject to the Companies (Accounting Standards) Rules, 2006, for the purpose of ascertainment of depreciation as provided under section 350 of the Companies Act, 1956, the useful life of any specific asset not listed in Part IV, as notified by a Regulatory Authority constituted under an Act of Parliament shall be applied in calculating the depreciation amount to be provided for such asset.

### **PART III**

3. In the case of a company engaged in infrastructure project executed on the basis of a concession agreements, where expenses incurred on the maintenance of such asset are provided out of the revenue of assets or concession agreement or contract derived from a tariff or a toll or otherwise charged to the customer; the value of the said asset arising out the concession agreement shall be amortized over the period of the contract or concession agreement in accordance with the Companies (Accounting Standards) Rules, 2006.

### **PART IV**

4. Subject to the Parts (1), (III) and (III) above, following rates of depreciation shall be applicable to the assets:-

Nature of assets	Single Shift		Double Shift		Triple Shift	
	W.D.V.	S.L.M.	W.D.V.	S.L.M.	W.D.V.	S.L.M.
1	2	3	4	5	6	7

I. (a) Buildings (other than factory buildings) (NESD)	5	1.63	..	..	..	..
	per cent	per cent				
(b) Factory buildings	10	3.34	..	..	..	.
	per cent	per cent				
(c) Purely temporary erections such as wooden structures	100	100	..	..	..	..
	per cent	per cent				
II. Plant and Machinery						
[ (i) General rate applicable to,						
(a) plant and machinery (not being a ship) other than continuous process plant for which no special rate has been prescribed under (ii) below:	13.91	4.75	20.87	7.42	27.82	10.34
	per cent	per cent	per cent	per cent	per cent	per cent
(b) continuous process plant, for which no special rate has been prescribed under (ii) below. (NESD)]	15.33	5.28	..	..	..	..
	per cent	per cent				
(ii) Special rates						
A. 1. Cinematograph films-Machinery used in the production and exhibition of cinematograph films (NESD)	20	7.07	..	..	..	..
	per cent	per cent				
(a) Recording equipment, reproducing equipment, developing machines, printing machines, editing machines, synchronisers and studio lights except bulbs	20	7.07	..	..	..	..
	per cent	per cent				
(b) Projecting equipment of film exhibiting concerns	-do-	-do-	..	..	..	..
2. Cycles (NESD)	20	7.07	..	..	..	..
	per	per				

	cent	cent				
3. Electrical Machinery, X-ray and electrothepeutic, apparatus and acces-sories thereto, medical, diagnostic equipments, namely, Cat-scan, Ultrasound Machines, ECG Monitors etc. (NESD)	20	7.07	..	..	..	..
	per cent	per cent				
4. Juice boiling pairs (karhais) (NESD)	20	7.07	..	..	..	..
	per cent	per cent				
5. Motor-cars, motor cycles, scooters and other mopeds (NESD)	25.89	9.5	..	..	..	..
	per cent	per cent				
6. Electrically operated vehicles including battery powered or fuel call powered vehicles (NESD)	20	7.07	..	..	..	..
	per cent	per cent				
7. Sugarcane crushers (indigenous kulus and belans) (N.E.S.D.)	20	7.07	..	..	..	..
	per cent	per cent				
8. Glass manufacturing concerns expect direct fire glass melting furnaces- Recuperative and regenerative glass melting furnaces	20	7.07	30	11.31	40	16.21
	per cent	per cent	per cent	per cent	per cent	per cent
9. Machinery used in the manufacture of electronic goods and components.	15.62	5.38	23.42	8.46	31.23	11.87
	per cent	per cent	per cent	per cent	per cent	per cent
B. 1. Aeroplanes, Aero Engines, Simulators, Visual System and Quick Engine Change Equipment (NESD)	16.2	5.6				
	per cent	per cent]				
2. Concrete pipes manufacture Moulds (NESD)	30	11.31	..	..	..	..

	per cent	per cent				
3. Drum container manufacture dies (NESD)	-do-	-do-	..	..	..	..
4. Earth-moving machinery employed in heavy construction works, such as dams, tunnels, canals, etc. (NESD)	-do-	-do-	..	..	..	..
5. Glass manufacturing concerns expect direct fire glass melting furnaces Moulds(NESD)	-do-	-do-	..	..	..	..
6. Moulds in iron foundaries (NESD)	-do-	-do-	..	..	..	..
7. Mineral oil concerns Field operations (above ground) Portable boilers drilling tools, well-head tanks, rigs, etc. (NESD)	-do-	-do-	..	..	..	..
8. Mines and quarries-Portable underground machinery and earth moving machinery used in open cast mining (NESD)	-do-	-do-	..	..	..	..
9. Motor buses and motor lorries other than those used in a business of running them on hire (NESD)	30	11.31	..	..	..	..
	per cent	per cent				
9A. Motor tractors, harvesting combines (NESD)	-do-	-do-	..	..	..	..
10. Patterns, dies and templates (NESD)	-do-	-do-	..	..	..	..
11. Ropeway structures-Ropeways, ropes and trestle sheaves and connected parts(NESD)	-do-	-do-	..	..	..	..
12. Shoe and other leather goods factories-Wooden lasts used in the manufacture of shoes.	30	11.31	45	18.96	60	29.05
	per cent	per cent	per cent	per cent	per cent	per cent
C.						
1. Motor buses, motor lorries and motor taxies used in a business of running them on hire (NESD)	40	16.21	..	..	..	..
	per cent	per cent				
2. Rubber and plastic goods factories Moulds (NESD)	-do-	-do-	..	..	..	..

3. Data processing machines including computers (NESD)	-do-	-do-	..	..	..	..
4. Gas cylinders including valves and regulators (NESD)	-do-	-do-	..	..	..	..
D. 1. Artificial silk manufacturing machinery wooden parts	100	100	..	..	..	..
	per cent	per cent				
2. Cinematograph films Bulbs of studio lights	-do-	-do-	..	..	..	..
3. Flour mills Rollers	-do-	-do-	..	..	..	..
4. Glass manufacturing concerns Direct fire glass melting furnaces	100	100	..	..	..	..
	per cent	per cent				
4A. Float Glass Melting Furnaces (NESD)	27	10	..	..	..	..
	per cent	per cent				
5. Iron and Steel industries Rolling mill rolls	100	100	..	..	..	..
	per cent	per cent				
6. Match factories Wooden match frames	-do-	-do-	..	..	..	..
7. Mineral oil concerns (a)- Plant used in field operations (below ground)- Distribution - returnable packages (b) Plant used in field operations (below ground) but not including assets used in field operations (distribution) - Kerbside pumps including underground tanks and fittings	100	100	..	..	..	..
	per cent	per cent				
8. Mines and quarries - (a) Tubs, winding ropes, haulage ropes and sand stowing pipes (b) Safety lamps	-do-	-do-	..	..	..	..
9. Salt works - Salt pans, reservoirs and condensers, etc., made of earthy, sandy or clay material or any other similar material	-do-	-do-	..	..	..	..
10. Sugar works Rollers	-do-	-do-	..	..	..	..
III. Furniture and fittings						

1. General Rates (NESD)	18.1	6.33	..	..	..	..
	per cent	per cent				
2. Rate for furniture and fittings used in hotels, restaurants and boarding houses; schools, colleges and other educational institutions, libraries; welfare centres; meeting halls, cinema houses; theatres and circuses; and for furniture and fittings let out on hire for use on the occasion of marriages and similar functions. (NESD)]	25.88	9.5	..	..	..	..
	per cent	per cent				
IV. Ships						
1. Ocean-going ships-						
(i) Fishing vessels with wooden hull (NESD)	27.05	10	..	..	..	..
	per cent	per cent				
(ii) Dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes (NESD)	19.8	7	..	..	..	..
	per cent	per cent				
(iii) Other ships (NESD)	14.6	5	..	..	..	..
	per cent	per cent				
2. Vessels ordinarily operating on inland waters-						
(i) Speed boats (NESD)	20	7.07	..	..	..	..
	per cent	per cent				
(ii) Other vessels (NESD)	10	3.34	..	..	..	..
	per cent	per cent				

W.D.V.: means Written Down Value.

S.L.M.: means Straight Line Method.

**Notes.-**

1. "buildings" include roads, bridges, culverts, wells and tube-wells.
2. "factory buildings" does not include offices, godowns, officers and employees' quarters, roads, bridges, culverts, wells and tube-wells.
3. "speed boat" means a motor boat driven by a high speed internal combustion engine capable of propelling the boat at a speed exceeding 24 Kilometers per hour in still water and so designed that when running at a speed it will plane, i.e., its bow will rise from the water.
4. 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.
5. The following information should also be disclosed in the accounts:
  - (i) depreciation methods used; and
  - (ii) depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the Schedule.
6. The calculations of the extra depreciation for double shift working and for triple shift working shall be made separately in the proportion which the number of days for which the concern worked double shift or triple shift, as the case may be, bears to the normal number of working days during the year. For this purpose, the normal number of working days during the year shall be deemed to be-
  - (a) in the case of a seasonal factory or concern, the number of days on which the factory or concern actually worked during the year or 180 days, whichever is greater; (b) in any other case, the number of days on which the factory or concern actually worked during the year or 240 days, whichever is greater.

The extra shift depreciation shall not be charged in respect of any item of machinery or plant which has been specifically, excepted by inscription of the letters "N.E.S.D." (meaning "No Extra Shift Depreciation") against it in sub-items above and also in respect of the following items of machinery and plant to which the general rate of depreciation of 13.91 per cent applies-

- (1) Accounting machines
- (2) Air-conditioning machinery including room air-conditioners
- (3) Building contractor's machinery.
- (4) Calculating machines.
- (5) Electrical machinery - switchgear and instruments, transformers and other stationary plant and wiring and fitting of electric light and fan installations.
- (6) Hydraulic works, pipelines and sluices

(7) Locomotives, rolling stocks, tramways and railways used by concerns, excluding railway concerns.

(8) Mineral oil concerns - field operations:

- (a) Prime movers.
- (b) Storage tanks (above ground).
- (c) Pipelines (above ground).
- (d) Jetties and dry docks.

(9) Mineral oil concerns - field operations (distribution) - Kerbside pumps, including underground tanks and fittings.

(10) Mineral oil concerns - refineries:

- (a) Prime movers.
- (b) LPG Plant

(11) Mines and quarries:

- (a) Surface and underground machinery (other than electrical machinery and portable underground machinery).
- (b) Head-gears.
- (c) Rails.
- (d) Shafts and inclines.
- (e) Tramways on the surface.

(12) Neo-post franking machines.

(13) Office machinery

(14) Overhead cables and wires.

(15) Railway sidings.

(16) Refrigeration plant containers, etc. (other than racks).

(17) Ropeway structures:

(a) Trestle and station steel work.

(b) Driving and tension gearing.

(18) Salt works - Reservoirs, condensers, salt pans, delivery channels and piers if constructed of masonry, concrete, cement, asphalt or similar materials; barges and floating plant; piers, quays and jetties; and pipelines for conveying brine if constructed of masonry, concrete, cement, asphalt or similar materials.

(19) Surgical instruments

(20) Tramways electric and tramways run by internal combustion engines- permanent way: cars- car trucks, car bodies, electrical equipment and motors; tram cars including engines and gears.

(21) Typewriters.

(22) Weighing machines.

(23) Wireless apparatus and gear, wireless appliances and accessories.]

7. "Continuous process plant" means a plant which is required and designed to operate 24hours a day.

8. Notwithstanding anything mentioned in this Schedule depreciation on assets, whose actual cost does not exceed five thousand rupees, shall be provided depreciation at the rate of hundred per cent:]

Provided that where the aggregate actual cost of individual items of plant and machinery costing Rs. 5,000 or less constitutes more than 10 per cent of the total actual cost of plant and machinery, rates of depreciation applicable to such items shall be the rates as specified in Item II of the Schedule.]