

## **GN(A) 8 (Issued 1994)**

# **Guidance Note on Some Important Issues Arising from the Amendments to Schedule XIV to the Companies Act, 1956.<sup>1</sup>**

1. The Research Committee of the Institute of Chartered Accountants of India has issued a Guidance Note on Accounting for Depreciation in Companies, which was published in 1989. Recently, the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India, issued a Notification<sup>2</sup>, making certain alterations in Schedule XIV to the Companies Act, 1956. This Guidance Note is being issued to provide guidance on certain significant issues arising from these amendments. This Guidance Note, therefore, supplements the earlier Guidance Note and also supersedes para 26 thereof.

### **Continuous Process Plant**

2. The amended Schedule XIV prescribes, inter alia, general rates of depreciation for a new category of plant known as 'continuous process plant', other than those for which special rates have been prescribed.

3. The expression 'continuous process plant' has been defined in the aforesaid Notification as follows:

“ 'Continuous process plant' means a plant which is required and designed to operate 24 hours a day.”

4. The words “required and designed to operate 24 hours a day” are very significant and should be interpreted with reference to the inherent technical nature of the plant, i.e., the technical design of a continuous process plant is such that there is a requirement to run it continuously for 24 hours a day.

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<sup>1</sup> Published in the August 1994 issue of *The Chartered Accountant*.

<sup>2</sup> See the Appendix for the texts of the Notification dated 16.12.1993 and the subsequent Circular dated 20.12.1993 issued by the Department of Company Affairs.

### *Issues Arising from the Amendments to Schedule XIV*

If it is not so run, there are significant shut-down and/or start-up costs. If such a plant is shut-down, there may be significant spoilage of materials-in-process/some damage to the plant itself/significant energy loss. It is, however, possible that due to various reasons, e.g., lack of demand, maintenance etc., such a plant may be shut down for some time. The shut-down does not change the inherent technical nature of the plant. For instance, a blast furnace which is required and designed to operate 24 hours a day, may be shut down due to various reasons; it would still be considered as a continuous process plant and the relevant rate as per Schedule XIV would be applicable.

5. There can be certain plants which, though may work 24 hours a day, yet their technical design is not such that they have to be operated 24 hours a day, e.g., a textile weaving mill. In such cases, extra shift rates as prescribed in Schedule XIV would be applicable.

6. A continuous process plant is distinct from the repetitive process plant or assembly-line type plants. These plants are not continuous process plants since such plants do not involve significant shut-down and/or start-up costs and are not technically required and designed to operate 24 hours a day, e.g., an automobile manufacturing plant.

7. Another question which may arise is whether an equipment/plant which is ancillary to the continuous process plant should also be considered as a continuous process plant. Where an ancillary equipment/plant is an integral part of the continuous process it should be depreciated along with the main continuous process plant.

8. It is noted that Schedule XIV uses the term 'concern' in the context of extra shift depreciation, whereas in the case of the 'continuous process' the term 'plant' is used. This signifies that it is not necessary for the whole concern to be defined as a continuous process plant for the purposes of the applicability of the depreciation rates relevant thereto.

### **Depreciation on Low Value Items<sup>3</sup>**

9. The aforesaid Notification has inserted the following, as Note No. 8, in Schedule XIV to the Companies Act:

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<sup>3</sup> This section supersedes para 26 of the 'Guidance Note on Accounting for Depreciation in Companies', issued by the Research Committee of the Institute of Chartered Accountants of India.

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“Notwithstanding anything mentioned in this Schedule, depreciation on assets, whose actual cost does not exceed five thousand rupees, shall be provided at the rate of hundred percent.”

10. According to the above note, all individual items of fixed assets whose actual cost does not exceed Rs. 5,000 shall be charged depreciation at the rate of 100%. However, in respect of the fixed assets acquired prior to December 16, 1993, alternative bases of computing the depreciation charge are permitted<sup>4</sup>. The amount of write off in respect of low value assets would also therefore depend upon the alternative chosen.

11. It is noted that Note 4 to Schedule XIV requires, inter alia, that where during any financial year any addition has been made to any asset, the depreciation on such assets should be calculated on a pro-rata basis from the date of such addition. Since Note 8 to Schedule XIV (reproduced above) prescribes *the rate of depreciation* of 100 per cent, pro-rata depreciation should be charged on addition of the said low value items of fixed assets also. However, a company can write off fully, low value items on the consideration of materiality. Where such an accounting policy is followed by a company, the same should be disclosed appropriately in the accounts.

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<sup>4</sup> Refer the ‘Guidance Note on Accounting for Depreciation in Companies’ for the permitted alternatives. These alternatives are also given in the para 2 of the Circular issued by the Ministry of Law, Justice & Company Affairs, Department of Company Affairs, (No. 1/12/92-CL. V. Circular No. 14/93, dated 20.12.1993), given in the Appendix.

## **Appendix**

### **Revision of Rates of Depreciation in Schedule XIV of the Companies Act, 1956**

*[No. 1/12/92-CL.V; Circular No. 14/93, dated 20.12.1993 issued by the Ministry of Law, Justice & Company Affairs, Department of Company Affairs]*

I am directed to enclose herewith a copy of Notification GSR No. 756E dated 16.12.93 in respect of revision of the rates of depreciation in Schedule XIV to the Companies Act, 1956, with a request that these changes may please be circulated widely and brought to the notice of all your constituent member - companies.

2. The changes made in Schedule XIV as per enclosed amending Notification shall apply in respect of the accounts of the companies closed on or after the date of issue of the notification. The revised rates of depreciation shall apply to assets acquired by the companies on or after that date. As regards applicability of these changes to existing assets, the companies are advised to follow the recommendations of the Institute of Chartered Accountants of India contained in its Guidance Notes on the 'Accounting for Depreciation in Companies', reproduced below:

- (a) A company following the written down value (W.D.V.) method of depreciation in respect of its assets should apply the relevant W.D.V. rates prescribed in Schedule XIV to the written down value as at the end of the previous financial year as per the books of the company.
- (b) A company following the straight line method of depreciation in respect of its assets existing on the date of Schedule XIV coming into force may adopt any of the following alternative bases for computing the depreciation charge:
  - (i) The specified period may be recomputed by applying to the original cost, the revised rate as prescribed in Schedule XIV and depreciation charge calculated by allocating the unamortized value as per the books of account over the remaining part of the recomputed specified period.

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- (ii) The company can continue to charge depreciation on straight line basis at old rates in respect of assets existing on the date on which the new provisions relating to depreciation came into force.
- (iii) SLM rates prescribed in Schedule XIV can be straightway applied to the original cost of all the assets including the existing assets from the year of change of the rate.

A.S. Dhillon  
*Under Secretary*

**Alterations in Schedule XIV to the Companies Act, 1956**

*[File No. 1/12/92 CL.V. dated 16.12.1993 issued by the Ministry of Law, Justice and Company Affairs, Department of Company Affairs]*

**NOTIFICATION**

G.S.R. 756(E) In exercise of the powers conferred by sub-section (i) of Section 641 of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following alterations in Schedule XIV (hereinafter referred to as the said Schedule) to the said Act namely:

- (1) Under the heading II. PLANT AND MACHINERY:
  - (a) for item (i) relating to general rate and the entries relating thereto, the following shall be substituted, namely:

*Issues Arising from the Amendments to Schedule XIV*

**Rates of Depreciation**

Nature of assets 1	Single shift		Double shift		Triple shift	
	WDV 2	SLM 3	WDV 4	SLM 5	WDV 6	SLM 7
(1) 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
	percent percent		percent percent		percent percent	
(b) continuous process plant, other than those for which no special rate has been prescribed under (ii) below. <sup>1</sup> (NESD)	15.33	5.28				
	percent percent					

(b) under item (ii) relating to special rates, for sub-items A.3, A.4, A.5, A.6, A.7, A.8 and A.9 and the entries relating thereto, the following shall be substituted; namely:

**Rates of Depreciation**

Nature of assets 1	Single shift		Double shift		Triple shift	
	WDV 2	SLM 3	WDV 4	SLM 5	WDV 6	SLM 7
"3. Electrical machinery, X-ray and electrotherapeutic apparatus and accessories thereto, medical, diagnostic equipments, namely, Catscan, Ultrasound machines, ECG monitors, etc. (NESD)	20	7.07	-	-	-	-
	percent percent					
4. Juice boiling pans (karhais) (NESD)	20	7.07	-	-	-	-
	percent percent					
5. Motor cars, motor cycles, scooters and other mopeds (NESD)	25.89	9.5	-	-	-	-
	percent percent					

<sup>1</sup> Editor's Note: There is an apparent drafting error. It should appear as "Continuous process plant, other than those for which a special rate has been prescribed under (ii) below (N.E.S.D.)"

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Nature of assets 1	Single shift		Double shift		Triple shift	
	WDV 2	SLM 3	WDV 4	SLM 5	WDV 6	SLM 7
6. Electrically operated vehicles including battery powered or fuel cell powered vehicles (NESD)	20 percent	7.07 percent				
7. Sugarcane crushers (indigenous kolus and belans) (NESD)	20 percent	7.07 percent				
8. Glass manufacturing concerns except direct fire glass melting furnaces-Recuperative and regenerative glass melting furnaces.	20 percent	7.07 percent	30 percent	11.31 percent	40 percent	16.21 percent
9. Machinery used in the manufacture of electronic goods and components.	15.62 percent	5.38 percent	23.42 percent	8.46 percent	31.23 percent	11.87 percent

- (2) under the heading, III. FURNITURE AND FITTINGS, for items 1 and 2 and the entries relating thereto, the following shall be substituted; namely:

**Rates of Depreciation**

Nature of assets 1	Single shift		Double shift		Triple shift	
	WDV 2	SLM 3	WDV 4	SLM 5	WDV 6	SLM 7
"1. General rates (NESD)	18.1 percent	6.33 percent	-	-	-	-
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 percent	9.5 percent	-	-	-	-".

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- (3) in the Notes below the said Schedule:
- (a) in note 6;
- (i) for the figures and words "15 per cent", occurring after clause (b), the figure and words "13.91 per cent" shall be substituted,
- (ii) in item 8, the following shall be omitted, namely:  
" (a) Boilers  
 (c) Process plants",
- (iii) in item 10 the following shall be omitted, namely:  
" (a) Boilers  
 (c) Process plants",
- (iv) in item 11, the following shall be omitted, namely:  
" (d) Boilers",
- (v) item 24 relating to "chemical beneficiation process for magnesite ore" shall be omitted;
- (b) after note 6, the following notes shall be inserted, namely:
- "7. 'Continuous process plant' means a plant which is required and designed to operate 24 hours a day.
8. Notwithstanding anything mentioned in this Schedule depreciation on assets, whose actual cost does not exceed five thousand rupees, shall be provided at the rate of hundred per cent."

R.D. Joshi  
*Joint Secretary*

Amending Notification, GSR 416 (E)  
dated 14th May, 1993.