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Management

A NOTE ON DEPRECIATION WRITTEN BACK

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ABSTRACT The study was an attempt to examine the extent of writing back of depreciation by Indian firms. For the study data was collected from 1994-95 to 2014-15 from CMIE Prowess IQ database. It was observed that during the study period 2765 firms reported depreciation written back, since several firms wrote back depreciation multiple times, thus 4225 firm years observed depreciation written back. Table-I, provides descriptive statistics year wise for depreciation written back. It may be observed from table-I, that year 2011-12, observed highest depreciation written back by a single firm of Rs. 12871.1 million by Maharashtra State Electricity Distribution Co. Ltd. while year 2008-09 observed maximum number of depreciation written back by 273 firms. During the study period 209 firms and 261 firm years observed depreciation written back of more than Rs. 100 million.

KEYWORDS : Depreciation accounting, accounting standards, financial reporting

INTRODUCTION
As per accounting standard 6 (hereafter AS-6) on Depreciation Accounting, depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. As per para-5 of AS-6, assessment of depreciation and the amount to be charged in respect thereof in an accounting period are usually based on three factors namely, historical cost, expected useful life of the depreciable asset and estimated residual value of the depreciable asset. Economical life generally refers to the period over which a depreciable asset is expected to be used by the enterprise. As stated in para-4 of AS-6, depreciation has a significant effect in determining and presenting the financial position and results of operations of an enterprise. Thus the method of depreciation applied should be consistent to provide comparability of the results of the operations of the enterprise from period to period. But, para-15 of the standard allows a firm to change its depreciation policy, it states that, a change from one method of providing depreciation to another is made if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. As per AS-6, change in method of depreciation is treated as change in accounting policy; hence it should be applied with a retrospective effect. This means, with a change in the method of depreciation, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. Para-15 of AS-6, further prescribes accounting treatment for the deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method. It states that surplus or deficit needs to be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency is charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus is credited to the statement of profit and loss, this also impacts reported earnings of the firm. The objective of current study is to examine the extent of deprecation written back by Indian firms.

II. DESCRIPTIVE STATISTICS
For the study data for the period from 1994-95 to 2014-15 (study period) was collected from CMIE Prowess IQ database. It was observed that during the study period 2765 firms reported depreciation written back, since several firms wrote back depreciation multiple times, thus 4225 firm years observed depreciation written back. Table-I, provides descriptive statistics year wise for depreciation written back. It may be observed from table-I, that year 2011-12, observed highest depreciation written back by a single firm of Rs 12871.1 million by Maharashtra State Electricity Distribution Co. Ltd. while year 2008-09 observed maximum number of depreciation written back by 273 firms. During the study period 209 firms and 261 firm years observed depreciation written back of more than Rs. 100 million.

Table - I DESCRIPTIVE STATISTICS

Year	Mean	Min.	Max.	Number
1991	6.40	0.1	48.8	26
1992	26.60	0.1	279.6	53
1993	28.42	0.1	1170.8	55
1994	30.70	0.1	2681.5	224
1995	7.38	0.1	143.3	210
1996	7.55	0.1	200.4	180
1997	15.05	0.1	865.3	178
1998	22.64	0.1	1098.3	157
1999	32.25	0.1	3250.9	158
2000	12.93	0.1	341.6	135
2001	31.22	0.1	1765.4	174
2002	23.85	-0.1	1033.7	196
2003	20.61	0.1	557.4	190
2004	35.54	0.1	2189.7	184
2005	28.35	0.1	1905.1	190
2006	28.99	0.1	797.7	218
2007	48.27	0.1	4292.9	206
2008	51.04	0.1	5075.4	241
2009	72.96	0.1	9158.7	273
2010	41.66	0.1	3916.8	230
2011	171.05	0.1	11130.5	139
2012	207.51	0.1	12871.1	150
2013	72.19	0.1	2198	128
2014	125.69	0.1	4607.3	122
2015	112.13	0.1	5866.8	208

III. RELEVANT CORPORATE DISCLOSURES

The study made an attempt to examine the relevant disclosures made by selected sample firms towards depreciation write back. The extract of annual report disclosures is reproduced below:

Panacea Biotec Ltd.
Upto the period ended September 30, 2013, the Company had been accounting for depreciation on fixed assets based on written down value method. During the current year, the Company has revised its accounting policy of providing for depreciation with effect from October 1, 2013, from written down value method to the straight-line method as the management believes that the straight line method of depreciation accounting would result in more appropriate presentation of financial information.

The Company has also carried out a technical evaluation to assess the revised useful life of fixed assets. The change in the above accounting policy has resulted in a surplus of Rs.1,948.3 million relating to the depreciation already charged upto the period ended September 30, 2013. Out of the total surplus of Rs.1,948.3 million, surplus of Rs.1,770.9 million has been credited to the statement of profit and loss and shown as exceptional income and the balance surplus of Rs.177.4 million which are related to the revalued amount of fixed assets has been credited to the revaluation reserve. Consequently, the net profit for the current year is higher by Rs.1,770.9 million. Pursuant to the change in accounting policy w.e.f. October 1, 2013, a depreciation expense of Rs.643.1 million has been charged to the statement of profit and loss and Rs.68.5 million has been recouped from the revaluation reserve during the current year. Had the Company followed the written down value basis of depreciation accounting for the full year ended, the depreciation expense for the current year would have been higher by Rs.84.5 million and recoupment to revaluation reserve would have been higher by Rs.29.2 million

ISMT Ltd.

The Company, hitherto, provided depreciation in accordance with the Schedule XIV of the Companies Act,1956 based on the Straight Line Method. Part C of Schedule II of the Companies Act, 2013 permits to use estimated useful life for providing depreciation and accordingly the Company for the first time has adopted useful life, which is based on external experts' report, for providing depreciation on Plant & Machinery located at Ahmednagar, Baramati and Jejuri from the date of acquisition of assets. The Company has also changed its depreciation policy effective from April, 01, 2014 for providing depreciation from Straight Line Method to Written Down Value Method. Consequent to the change in method of depreciation and the revision in depreciation calculation as per useful life of assets from the date of acquisition of assets and based on the experts' opinion obtained on its treatment in the financial statements by the Company, excess depreciation provided till March 31, 2014 amounting to Rs. 103.71 Crore has been credited to the Statement of Profit and Loss.

Pursuant to Companies Act, 2013, becoming effective April 1, 2014, the Company has reworked depreciation with reference to the estimated useful life of the aforesaid Plant & Machinery based on technical evaluation and for other fixed assets based on the life prescribed under part C of Schedule II of the Companies Act, 2013. As a result, the charge of depreciation for the year is lower by Rs. 32.37 Crore. Further, in terms of Note 7(b) of schedule II of the Companies Act, 2013, in respect of assets whose life is already exhausted, carrying value as at April 1, 2014 of Rs. 5.93 Crore has been adjusted against the retained earnings

Escorts Ltd.

Effective April 01, 2014, the Company has with retrospective effect changed its policy of providing depreciation on fixed assets to Straight Line Method for all assets as against the earlier policy of providing depreciation on Straight Line Method for plant and machinery and Diminishing Balance Method for other assets. The Management believes that this change will result in more appropriate presentation and will give a systematic basis of depreciation charge, representative of the time pattern in which the economic benefits will be derived from the use of these assets.

The Company has revised its policy of providing depreciation on fixed assets effective April 1, 2014. Depreciation is now provided on a straight line basis for all assets as against the policy of providing on written down value basis for some assets and straight line basis for others. As a result of these changes, the differential depreciation effect relating to the period prior to April 1, 2014 has been included in 'Exceptional Item' in the statement of profit and loss. Had the Company continued to use the earlier methods of depreciation, the profit after tax for the current year would have been lower by the like amount. Further the Company has also realigned the remaining useful life of its fixed assets in accordance with the provisions prescribed under Schedule II to the Companies Act, 2013. Consequently, the carrying value of those assets which have completed their useful life in accordance with the life prescribed under Schedule II to the Act, as on April 1, 2014 amounting to ` 94.48 crores (net after deferred tax ` 21.75 Crores) has been adjusted to the retained earnings and in case of the other assets the carrying value is being depreciated over the revised remaining useful life.

Cosmo Films Ltd.

Depreciation on Plant and Machinery of line IV, V and VI which was hitherto provided @ 25% on written down value method has been recomputed at the rates prescribed in schedule XIV of the Companies Act 1956 on straight line method with retrospective effect. As a result of above change: (a) the excess depreciation of Rs. 67.75 crores provided in earlier years has been written back in the profit & loss account and shown as an extraordinary item in order to reflect a more appropriate preparation / presentation of financial statements (b) deferred tax liability of Rs. 23.03 crores on excess depreciation of earlier years has also been adjusted as an extraordinary item. Consequently, depreciation for the year is lower by Rs. 0.92 crores, the profit after tax including extraordinary item is higher by Rs. 45.64 crores , deferred tax liability is higher by Rs. 23.03 crores and fixed assets are higher by Rs. 68.67 crores.

REFERENCES:

[1] Accounting Standard 6, Depreciation Accounting
[2] Annual report (2008-09), Cosmo Films Ltd.
[3] Annual report (2013-14), Panacea Biotec Ltd.
[4] Annual report (2014-15), Escorts Ltd.
[5] Annual report (2014-15), ISMT Ltd.