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DIRECTORATE OF COOPERATIVE AUDIT: ORISSA, BHUBANESWAR.

No. 2828 /VI(I)62/99-(P-VI)Addit-8- Dated: 12.5.2004

C I R C U L A R.

Sub: Depreciation of Assets of Coop. institutions.

Valuation of Assets of Coop. institutions is an important duty of Auditor of Coop. Societies as required under Section 62(2) (d) of O.C.S. Act, 1962. Since the value of an asset acquired by an institution gradually decreases due to use or for other reasons, the real face value of such assets at any point of time can be assessed after allowing depreciation to the extent of decrease in value. This loss of value of asset i.e. depreciation, is admitted as loss in P/L account as it is loss to the Organisation.

Years back vide Circular No. 40170 dt. 10.9.1976 and 2591 dt. 23.1.1981, the following annual rates of depreciation on different types of assets was prescribed by R.C.S., Orissa which is in operation till now.

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|-----------------------|---|-------|
| 1. Building | - | 2.5 % |
| 2. Furniture | - | 5% |
| 3. Vehicles | - | 20 % |
| 4. Heavy Vehicle- | | 40 % |
| 5. Plant & Machinery- | | 20 % |
| 6. Library | - | 20 % |

In the meantime, most Commercial Organisations have dispensed with charging annual rate of depreciation i.e. calculating depreciation on assets on the books value at the close of the year and have adopted scientific and logical method of charging depreciation from the date of acquisition of asset. The method of charging depreciation ~~also~~ is also being switched from the "straight line method" to the "written down value method" which is also applicable for drawal of financial statements for I.T. return purpose.

Besides, when keeping pace with the changing pattern of assets, the rates of depreciation are changing from time to time for I.T. return purpose. Such changes are not yet effected in R.C.S. Circulars since last about 20 years.

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As a result difficulties are being faced by Coop. institutions to prepare their financial statement for statutory audit by adopting rate of depreciation prescribed by R.C.S., Orissa and for preparing financial statement for I.T. return purpose by adopting a different rate of depreciation as prescribed under I.T. Act.

It is, therefore, now decided to adopt an uniform pattern of calculation of depreciation on different types of assets which will be beneficial for both Statutory audit under O.C.S. Act. and preparation of I.T. returns. Accordingly in supersession of previous Circular instructions of R.C.S., Orissa on this score, the following rate of depreciation on different categories of assets is now prescribed.

1. Land.	-	No depreciation.
2. Building. (for office purpose)	-	10 %
3. Building. (for residential purpose).	-	5 %
4. Furniture & Fixtures-		15 %
5. Library.	-	20 %
6. Plant & Machinery-		25 %
7. Plant & Machinery - acquired & installed for weaving, processing & garment sector of Textiles Industries purchased under Technology upgradation Scheme of Govt.	-	50 %
8. Computer including Computer Software	-	60 %
9. Roller, Boiler.	-	80 %
10. Vehicle. (Two Wheeler, Car, Jeep)	-	20 %
11. Vehicle. (Truck, Bus, heavy Vehicle).	-	40 %
12. Purely temporary erections such as Wooden structur.	-	100 %

Note:- Building shall include approach roads, bridges, Culverts, Wells, Tube Wells constructed by the Organisation for it's own use.

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The rate of depreciation is to be charged on assets from the date of acquisition and not on the book value at the close of previous year. For example, a vehicle is purchased on 1.6.2003 at the cost of Rs.3.00 Lakhs. The rate of depreciation is 20 %.So, depreciation on this asset as on 31.3.2004 will be,

$$\frac{\text{Rs.3,00,000/-} \times 304 \text{ (days)} \times 20}{365 \text{ (days)} \times 100} = \text{Rs.49972.60}$$

or
Rs.49,973.00

2. On allowing depreciation on different assets as per above norm, the value of assets appearing in the asset side of Balance sheet will be gradually reduced. It may so happen that even if the asset is performing and in Working/Serviceable condition, it's value will go down to abnormally low level. Therefore, since the asset exists and not categorised as bad asset/ Loss asset due to non-functioning & un-usable condition, it's value should not be allowed to become "Zero" or very low. Therefore, if any asset is in working and usable condition, no depreciation is to be charged for the last year in which the value may become less than 25% of purchase value & in such situation immediate steps be taken for re-valuation of the concerned asset through a registered qualified valuer. This revalued value of the asset is to be reflected in the financial statements and books of the society and on this depreciation is to be charged at prescribed rate.

For example, the society purchased a Truck on 1.4.2003 at Rs. 5 Lakhs. The rate of depreciation is 40%. So as on 31.3.2004 the value after depreciation will be Rs.3.00 lakhs. On 31.3.2005 it will be Rs.1.80 lakhs after depreciation. If further depreciation is allowed, the value of the Truck will go down to Rs.1.08 lakhs i.e. less than 25% of purchase value, as on 31.3.2006. So the Society should take steps to re-value this asset in 2005-06 and on this re-valuation depreciation is to be charged on this asset at prescribed rate of 40% while assessing the value as on 31.3.2006.

While revaluing the assets, the difference between the book value before re-valuation and the value of asset after re-valuation is not to be taken as profit of the institution.

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It should be shown as "Revaluation of Asset Reserve" under other Reserves in books of accounts and the Balance Sheet and note to that effect kept in the "Note to Accounts" & also, mentioned "below the line" in the Balance Sheet.

This Circular instruction shall supersede all previous Circulars on this subject and shall have immediate effect.

P. R. Singh
Auditor General,
Coop. Societies, Orissa.

Memo No. 2829 (7) /Dt. 12.5.2004

Copy forwarded to Registrar of Coop. Societies, Orissa/ Director of Textiles & Handlooms, Orissa/Director of A.H. & V.S., Orissa/Director of Fisheries, Orissa/Director of Handicrafts & Cottage Industries, Orissa/Director of Industries, Orissa/Director of Agriculture & Food Productions, Orissa for information and necessary action. They are requested to instruct their field-functionaries to circulate this Circular instruction to the Coop. institutions functioning under their local authority.

Memo No. 2830 (55) /Dt. 12.5.2004 Joint Auditor General of C.S.(O).

Copy forwarded to Managing Directors of all Apex Coop. Institutions/Secretaries of all Central Coop. Banks/Secretaries of all Urban Coop. Banks for information and necessary action.

Memo No. 2831 (16) /Dt. 12.5.2004 Joint Auditor General of C.S.(O).

Copy forwarded to all Asst. A.G.C.S. of Circles for information and necessary action. They are requested to Circulate this Circular amongst their auditors for their guidance.

Memo No. 2832 /Dt. 12.5.2004 Joint Auditor General of C.S.(O).

Copy submitted to the Commissioner-cum-Secretary to Govt. of Orissa, Cooperation Department for favour of kind information.

Memo No. 2833 (80) /Dt. 12.5.2004 Joint Auditor General of C.S.(O).

Copy to G.F./Audit-I-Seat/All Auditors of Apex Coop. including C.As./30 spare copies.

P. R. Singh
Joint Auditor General of C.S.(O)

M.M/-6.5.2004.