



WHITE PAPER

Two Sets of Books, Legally: Finance Books for Companies Act vs Income-Tax Depreciation

Every Indian company has to depreciate the same asset two different ways. Here's how ERPNext keeps both books straight — on one set of transactions, without a parallel spreadsheet.

For CFOs & finance controllers · 8 min read

EXECUTIVE SUMMARY

Every company in India carries the same fixed asset on two different depreciation schedules at once — one for the financial statements it files under the Companies Act, and a completely different one for the return it files under the Income Tax Act. The methods differ, the rates differ, the asset groupings differ, and the numbers almost never match. Most finance teams reconcile this the hard way: the ERP runs one schedule and a spreadsheet quietly runs the other. This paper explains how ERPNext solves it natively with Finance Books — named parallel ledgers that let you post and depreciate the very same assets and transactions under several sets of rules at once. We ground it in the actual ERPNext doctypes: the Finance Book master, and the Asset Finance Book that holds a separate depreciation method, rate and useful life per book on a single asset. The goal is to show CFOs and controllers what the software genuinely does, what still needs judgement, and where an experienced partner earns their keep.

The dual-depreciation problem every Indian company has

In India, one asset lives a double life. For the financial statements you present to shareholders, lenders and the Registrar of Companies, depreciation is governed by the Companies Act, which frames it around each asset's useful life. For the income-tax return you file with the department, depreciation is governed by the Income Tax Act, which works on prescribed rates applied to blocks of assets on a written-down-value basis. These are not two views of the same number — they are two genuinely different calculations of how much the same machine wore out this year.

Because the rules diverge on method, on rate and on how assets are grouped, the depreciation you book in your accounts and the depreciation you claim on your tax return legitimately differ — and that difference is not an error to be reconciled away. It is a permanent feature of Indian accounting, and it feeds directly into deferred tax. The practical problem is operational: your ERP typically runs one schedule cleanly, and the other one gets kept alive in a spreadsheet that nobody fully trusts by the third year.

The question for any controller evaluating an ERP is simple: can the system hold both books at once, on the same assets, without me maintaining a shadow calculation on the side?

- Companies Act book — useful-life based depreciation for the financial statements filed with the ROC.
- Income Tax Act book — prescribed rates on blocks of assets, written-down-value basis, for the tax return.
- The two legitimately differ — different method, rate and grouping — and the gap drives deferred tax.
- The usual failure mode — the ERP runs one schedule and a fragile spreadsheet runs the other.

The two books an Indian company must keep on every asset

1

Companies Act book

depreciation for the financial statements filed with the Registrar of Companies, framed around each asset's useful life. In ERPNext, a Finance Book (e.g. 'Statutory' or 'Companies Act') with its own Asset Finance Book depreciation settings.

2

Income Tax Act book

depreciation claimed on the income-tax return, on prescribed rates applied to blocks of assets on a written-down-value basis. In ERPNext, a second Finance Book (e.g. 'Income Tax') with its own method, rate and life on the same asset.

What a Finance Book actually is in ERPNext

In ERPNext a Finance Book is deliberately simple: it is a named ledger. The Finance Book master is little more than a name — you create as many as you need and give each one a label that means something to you, such as one for your statutory accounts and one for income tax. That simplicity is the point. A Finance Book is not a separate company, a separate chart of accounts, or a separate database; it is a tag that lets a single set of accounts and assets be viewed and depreciated under more than one set of rules.

Once Finance Books exist, they become a dimension you can attach to transactions. A Journal Entry, for example, carries a Finance Book field: an entry tagged to a specific book is recognised only when you report on that book, while an entry left untagged applies across all books. This is what makes parallel books practical rather than theoretical — the shared, common transactions flow to every book automatically, and you only make separate entries where the books genuinely diverge.

- The Finance Book master is essentially just a unique name — create one per set of rules you must report under.
- It is a tag on shared data, not a separate company, chart of accounts or ledger file.
- Transactions such as Journal Entries carry a Finance Book field to direct an entry to a specific book.
- An entry with no Finance Book applies to all books — so common activity is booked once, not repeated per book.

The screenshot shows the 'New Journal Entry' form in ERPNext. The form is titled 'New Journal Entry' and has a 'Not Saved' indicator. The 'Entry Type' is set to 'Journal Entry'. The 'Series' is 'ACC-JV-YYYY.-'. The 'Finance Book' field is highlighted with a red box and contains the value 'IFRS Tax'. The 'Company' is 'Unico Plastics Inc.' and the 'Posting Date' is '04-14-2021'. There are 'Quick Entry' and 'Save' buttons at the top right.

A transaction in ERPNext carries a Finance Book field — directing this entry to one named book, while untagged entries apply across all books.

How ERPNext keeps parallel books on the same assets

The elegance of the model is that both books sit on one underlying reality. You do not create the asset twice. You create it once, and then tell ERPNext how it should depreciate under each Finance Book. The shared transactions — the purchase, the payments, the disposals — are recorded a single time; only the depreciation treatment forks per book.

For fixed assets this is handled by a child table on the asset called Asset Finance Book. A single asset can carry multiple Asset Finance Book rows, each pointing to a different Finance Book. Each row is a complete, independent depreciation configuration for that book. ERPNext then generates a separate depreciation schedule per book and posts each book's depreciation to its own ledger on its own dates. So the same MacBook, the same plant, the same building depreciates one way for your Companies Act accounts and another way for income tax — from one asset record, with no duplicate masters and no side spreadsheet to reconcile.

- One asset record — created once, not duplicated per book.
- The Asset Finance Book child table holds one row per Finance Book on that asset.
- Each row is an independent depreciation setup; ERPNext generates a separate schedule per book.
- Shared events (purchase, disposal) are booked once; only the depreciation treatment differs per book.

Per-book depreciation: method, rate and useful life

This is where the Indian requirement is actually met. Each Asset Finance Book row carries its own depreciation method, chosen from ERPNext's supported methods — Straight Line, Written Down Value, Double Declining Balance, or Manual. It carries its own total number of depreciations and frequency of depreciation in months, which together express the useful life and the posting cadence for that book. It carries its own depreciation posting date, its own salvage or expected value after useful life, and — for the Written Down Value method — its own rate of depreciation as a percentage.

That field set is exactly what lets one asset satisfy both regimes. In the book you keep for the financial statements you can configure the method and life your accounting policy and the asset's useful life call for; in the book you keep for income tax you can configure the written-down-value method and the rate appropriate to that asset's block. ERPNext also supports finer real-world behaviour on these rows — for example depreciating on a daily pro-rata basis, or on shifts for the straight-line method — so the schedule reflects how the asset is actually used rather than a crude annual slab. Each configuration produces its own schedule of dated depreciation entries, independently of the other.

- Depreciation method per book — Straight Line, Written Down Value, Double Declining Balance or Manual.
- Useful life per book — total number of depreciations plus frequency (in months) set the life and cadence.
- Rate of depreciation per book — a percentage, used by the Written Down Value method.
- Salvage value and posting date per book — expected value after useful life and when depreciation starts.

- Real-world options — daily pro-rata and shift-based depreciation so schedules match actual usage.

The screenshot shows the ERPNext interface for an asset named 'MacBook Air #AHJ569'. The 'Finance Books' table is as follows:

No.	Finance Book	Depreciation Method	Total Number of Depr...	Frequency of Depreci...	Depreciation Posting ...	
1	Regular	Straight Line	36	1	30-04-2021	Edit

The 'Depreciation Schedule' table is highlighted with a red box and contains the following data:

No.	Finance Book	Schedule Date	Depreciation Amount	Accumulated Depreci...	Journal Entry	
1	Regular	30-04-2021	₹ 645.16	₹ 645.16		Edit
2	Regular	30-05-2021	₹ 1,000.00	₹ 1,645.16		Edit
3	Regular	30-06-2021	₹ 1,000.00	₹ 2,645.16		Edit
4	Regular	30-07-2021	₹ 1,000.00	₹ 3,645.16		Edit
5	Regular	30-08-2021	₹ 1,000.00	₹ 4,645.16		Edit

One asset in ERPNext: the Finance Books table sets each book's depreciation method and useful life, and ERPNext generates the dated Depreciation Schedule below it, tagged by finance book.

Reporting and reading each book

Keeping parallel books is only useful if you can read them apart. Because the Finance Book is a dimension on the underlying entries, ERPNext's financial reports can be run for a specific Finance Book, so you can produce a view driven by the statutory book and a separate view driven by the tax book from the very same data. The depreciation that posts under each book lands in that book's schedule and its ledger, so the accounting depreciation and the tax depreciation stay cleanly separated rather than tangled in one column.

On a fixed asset itself, the effect is visible directly: the asset shows its Finance Books table listing each book's method and life, and below it a Depreciation Schedule showing dated depreciation amounts and accumulated depreciation per book, each line tagged with the Finance Book it belongs to. The result is that the number you take into your financial statements and the number you take into your tax computation each have a clear, auditable origin inside one system — which is precisely what makes the deferred-tax working, and any statutory or tax audit, defensible.

- Financial reports can be filtered to a specific Finance Book — a statutory view and a tax view from one dataset.
- Each book's depreciation posts to its own schedule and ledger — accounting and tax figures never co-mingle.
- The asset's Depreciation Schedule tags each line with its Finance Book, so every figure is traceable.
- One auditable source for both the financial-statement and the tax-computation depreciation.

What it takes to run this well

The capability is real, but a clean dual-book close still rests on judgement the software cannot supply. Someone has to decide, as accounting policy, the method and useful life for each asset in the statutory book, and to map each asset to the correct income-tax block and rate for the tax book — ERPNext holds those settings faithfully, but it does not choose them for you. The Asset Finance Book rows have to be configured on the asset before depreciation runs, because the schedule is generated from them; getting the method, life, rate and salvage right up front is far cheaper than restating a year of schedules later.

There is also a genuine boundary to be honest about. ERPNext's Finance Books give you parallel accounting and depreciation ledgers cleanly; they are the engine, not the whole tax return. The deferred-tax reasoning that sits on top of the gap between the two books, and India's specific block-of-assets treatment on the tax side, are still professional judgements your finance team and auditors own. The value ERPNext delivers is that both books are computed and posted from one reliable set of transactions — so the people making those judgements are working from figures they can trust, not reconciling two systems that were never meant to agree.

- Policy first — decide the statutory method and useful life, and the income-tax block and rate, per asset.
- Configure the Asset Finance Book rows before depreciation runs — the schedule is built from them.
- Set method, life, rate and salvage right at the outset — restating schedules later is expensive.
- Know the boundary — ERPNext runs the parallel books; deferred tax and block treatment stay professional judgements.

When to get help

Many teams can operate ERPNext Finance Books once they are set up correctly. Where a partner earns their fee is the setup and the seams — creating the right Finance Books, configuring the Asset Finance Book rows so each asset depreciates correctly under both the Companies Act and the Income Tax Act, and making sure the reporting cleanly separates the statutory view from the tax view. Get that right at implementation, and every subsequent close and audit runs off it.

As an official ERPNext partner working with Indian companies, we set up the dual-book structure to match how your accounting policy and your tax positions actually work — so your statutory depreciation, your tax depreciation and the deferred-tax gap between them all come from one honest set of transactions, not a spreadsheet nobody wants to own at year-end. If you are running a fixed-asset register of any size in India, that is the difference between ERPNext being a genuine system of record and being one more schedule to reconcile.

KEY TAKEAWAYS

- 1 Every Indian company depreciates the same asset two ways — useful-life under the Companies Act for its accounts, and prescribed block rates under the Income Tax Act for its return.
- 2 ERPNext Finance Books are named parallel ledgers: a Finance Book is a tag on shared data, not a separate company or chart of accounts.
- 3 The Asset Finance Book child table lets one asset carry multiple depreciation setups — each with its own method, rate, useful life and salvage — from a single asset record.
- 4 Each book generates its own dated depreciation schedule and posts to its own ledger, and reports can be run per Finance Book, so statutory and tax depreciation stay cleanly separated.
- 5 ERPNext runs the parallel books reliably; deferred tax and India's block-of-assets treatment remain professional judgements — the win is that both books come from one trusted set of transactions.

FAQ

Why does an Indian company need two depreciation schedules on the same asset?

Because two different laws apply. Depreciation in the financial statements you file with the Registrar of Companies follows the Companies Act, which is framed around each asset's useful life. Depreciation you claim on your income-tax return follows the Income Tax Act, which uses prescribed rates on blocks of assets on a written-down-value basis. The two legitimately differ on method, rate and grouping, and that gap feeds deferred tax — so the same asset carries two schedules at once.

What is a Finance Book in ERPNext?

A Finance Book is a named ledger — essentially a tag — that lets a single set of accounts and assets be recorded and depreciated under more than one set of rules at the same time. It is not a separate company, chart of accounts or database. You create one Finance Book per regime you must report under (for example, one for your statutory accounts and one for income tax), and transactions such as Journal Entries carry a Finance Book field so entries can be directed to a specific book or, if left untagged, applied to all books.

Can ERPNext depreciate the same asset differently for the Companies Act and Income Tax?

Yes. On a single asset, ERPNext's Asset Finance Book child table holds one row per Finance Book, and each row is an independent depreciation configuration — its own method (Straight Line, Written Down Value, Double Declining Balance or Manual), its own useful life (total number of depreciations and frequency in months), its own rate of depreciation and salvage value. ERPNext then generates a separate depreciation schedule per book, so one asset record satisfies both the Companies Act and the Income Tax Act without duplicate masters.

Does ERPNext handle deferred tax and the income-tax block of assets automatically?

ERPNext gives you the parallel accounting and depreciation ledgers cleanly — both books are computed and posted from one set of transactions, and you can report each book separately. The deferred-tax reasoning that sits on the gap between the two books, and India's specific block-of-assets treatment on the tax side, remain professional judgements your finance team and auditors own. The

value is that those judgements are made from figures you can trust, rather than by reconciling an ERP against a shadow spreadsheet.

Talk to a real ERPNext expert.

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