

Revised Schedule VI

July 27, 2012

By:
Purushottam Nyati
Mukul Rathi

Contents of the Session

- Introduction
- Why Revised Schedule VI?
- Journey so far
- Key Features
- Format of Balance Sheet
- Format of Statement of Profit & Loss

Introduction

- Section 211 of the Companies Act, 1956 - The form and content of Balance sheet and Profit and Loss Account
 - Must give a true and fair view
 - Balance Sheet must be in the form set out in part- I of Schedule VI
 - Profit & Loss account must comply with the requirements of Part II of Schedule VI
- Do not apply to Insurance Company, Banking Company and Company engaged in generation or supply of Electricity.

Why Revised Schedule VI??

- Simplification of presentation
- Economic and regulatory reforms over past several years - 1960 to 2011
- Evaluate existing format with respect to unwanted and outdated disclosures
- Harmonize and converge with global disclosure requirements
- Step towards adoption of IFRS (IND-AS)
- Management judgment / intention - Demand Loan, Lease deposit, Electricity deposit etc.

Journey so far...

- Notification No. S.O.447(E) dated 28th February, 2011 by MCA
 - Structure
 - I. General Instructions
 - II. Part I - Form of Balance Sheet
 - III. General Instructions for Preparation of Balance Sheet
 - IV. Part II - Form of Statement of Profit and Loss
 - V. General Instructions for Preparation of Statement of Profit and Loss
- Guidance note and FAQ by ICAI on Revised Schedule VI
- Applicability
 - Applicable from accounting Year commencing on or after April 1, 2011
 - Exemption to - Companies intending to go for IPO/FPO by allowing them to present financials in the old format vide General circular No 62/2011, MCA, dated September 5, 2011 - One time exemption is available only if IPO/FPO gets closed before March 31, 2012
 - Not applicable to - Insurance Company, Banking Company, Supply or Generation of Electricity

Structure of Schedule VI

OLD SCHEDULE VI	REVISED SCHEDULE VI
-----	General Instructions
Part - 1 Form of Balance Sheet a.Horizontal Form b.Vertical Form General Instruction for Preparation of Balance Sheet	Part 1 - Form of Balance Sheet General Instruction for Preparation of Balance Sheet
Part II - Requirements as to Profit & Loss Account	Part II - Form of Statement of Profit and Loss General Instruction for Preparation of Profit & Loss
Part III - Interpretation	REMOVED
Part IV - Balance Sheet Abstract and Company's General Business Profile	REMOVED

Key Features

- Accounting Standards and Other applicable Laws prevail over the presentation and disclosure requirements mentioned in Revised Schedule VI (e.g. Proposed Dividend)
- Vertical Form of the BALANCE SHEET
- Revised Schedule VI prescribes the minimum requirements of disclosures (disclosure required under Accounting Standards, Law etc. to be made)
- Miscellaneous Expenditure and Debit Balance in Profit & Loss account needs to be disclosed under Reserves & Surplus (EQUITY)
- Comparative figures should be disclosed as per Revised Schedule VI
- Rounding off rules - Lakhs, Million, Thousands etc.
- Classification of Balance sheet items - Current and Non-Current
- Schedules of Balance Sheet and Profit and Loss account are to be part of notes to accounts

Important Terms

Current and Non- Current Assets

- An asset shall be classified as **current** when it satisfies any of the following criteria:
- it is expected to be realized in, or is intended for sale or consumption in, the company's *normal operating cycle*;
- it is held primarily for the purpose of being traded;
- it is expected to be realized within twelve months after the *reporting date*; or
- it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
- All other assets shall be classified as non-current assets

Important Terms

Operating Cycle

“ The time between the acquisition of assets for processing and their realization in cash or cash equivalents”

Time duration of operating cycle:

- Normal operating cycle may be longer than 12 months (e.g. wine manufacturing company, entity produces airplanes, real estate company etc.)
- Where time is not defined, it is assumed to be **12 Months**

Important Terms

Current and Non- Current Liability

- A liability shall be classified as **current** when it satisfies any of the following criteria:
 - it is expected to be settled in the company's *normal operating cycle*;
 - it is held primarily for the purpose of being traded;
 - it is due to be settled within twelve months after the *reporting date*; or
 - the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
- All other liabilities shall be classified as non-current

Case Study

- Can operating cycle of a company who is engaged in running multiple business be different?

Yes

- A company has excess finished goods inventory that it does not expect to realize within the company's operating cycle of 15 months. Can these excess finished goods be classified as current asset?

Yes

Case Study

- A company produces airplanes. The length of time between first purchasing raw materials to make the planes and the completion of the production and delivery is 10 months. The company receives payment for the planes 6 months after the delivery.
 - How should the company show its inventory and trade receivables in its balance sheet?
 - Would the answer be different if the production time was 14 months and the time between delivery and payment was further 15 months?

Time between purchase and realization is 16 months. Even though inventory will not be realised in cash within 12 months of the balance sheet date all of the inventory would be classified as a current asset.

No (as it is realised within the Normal Operating Cycle)

Case Study

- A company has made an investment in Preference Shares which are convertible into Equity Shares within one year from the Balance Sheet date. Will it be classified as Investment as a current asset or a non current asset?

An investment realizable within 12 months from the reporting date is classified as current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non current asset. Hence, the Company must classify such an investment as a non current, unless it expects to sell the preference shares or the equity shares on conversion and realise within 12 months.

Case Study

- A company has taken a three year loan specifically for a business whose operating cycle is four years. Accordingly, the Company needs to classify the three year loan as current Liability.
 - a. Should the Loan be classified in the Balance Sheet under the head Long Term borrowing, short term borrowing, or current maturities of long term debt?
 - b. Does the Company need to make all the disclosures?

Any borrowing whose repayment falls within the operating cycle will be only a current liability. Hence, it will be included under short term borrowings. Disclosures will also be required accordingly.

Case Study

- How would a rollover/refinance arrangement entered for a loan, which was otherwise required to be repaid in six months, impact current/non current classification of the loan? Consider these scenarios:
 - a. Rollover is with the same lender on same terms
 - b. Rollover is with the same lender but on substantially different terms
 - c. Rollover is with different lender on similar/different terms

In general, the classification of the loan will be based on the tenure of the loan. Thus, in the above cases, if the original term of the loan is short term, the Loan would be treated as only current irrespective of the rollover/refinance arrangement. However, in exceptional cases, there may be a need to apply significant judgment on substance over form.

Case Study

- A parent provides loan to a subsidiary. Interest of 8% is paid annually. The Loan is repayable on demand. How should loan be classified in the parent's Balance Sheet?

Ordinarily, financial assets due on demand are current assets. However, if there is no intention (judgment) that the loan to be repaid within 12 months of the reporting period, it should be classified as a non current asset

Case Study

- A Company has classified the loan as non current liability in the previous year. The Loan becomes a current liability in the current year's financial statement. Is the Company required to re classify the loan as current liability in previous year also to match the current year classification?

Current/non current classification of assets/liabilities is determined on a particular date viz the Balance Sheet date. Thus, the Company should have determined the current/non current classification in the previous year. If there is any change in the position at the end of current years resulting in different classification in the current year, it will not impact the classification made in the previous year. In other words, the Company will continue to classify the loan as non current liability in the figures of the previous period.

Case Study

- A company gives a 3 year loan of Rs. 10 crores on 1st April 2011. The following table shows an extract of the principal repayment schedule:

1st April 2012	Rs. 2 crores
1st October 2012	Rs. 2 crores
1st April 2013	Rs. 2 crores
1st October 2013	Rs. 2 crores
1st April 2014	Rs. 2 crores

Will the loan be classified as current or non-current in 2011-12, 2012-13 and 2013-14? Please state the amount of recognition.

The reporting date is 31st March 2012. Therefore all amounts which will become due in the 12 months after the reporting date are to be classified as current.

Year	Current	Non-current
2011-12	Rs. 4 crores	Rs. 6 crores
2012-13	Rs. 4 crores	Rs. 2 crores
2013-14	Rs. 2 crores	-

Key Features

Rounding Off Rules

Based on the turnover of the company, the figures may be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores,

Once a unit of measurement is used, it should be used uniformly used at all places in the Financial Statements.

FORMAT OF BALANCE SHEET

I. Equity & Liabilities	Amount (Rs)	Amount (Rs)
(1) Shareholders' Funds		
(a) Share Capital	XXXX	
(b) Reserves & Surplus	XXXX	XXXX
(c) Money received against share warrants	XXXX	
(2) Share application money pending allotment	XXXX	XXXX
(3) Non current liabilities		
(a) Long term borrowings	XXXX	
(b) Deferred Tax liabilities (Net)	XXXX	XXXX
(c) Other Long Term liabilities	XXXX	
(d) Long term Provisions	XXXX	
(4) Current Liabilities		
(a) Short term borrowings		
(b) Trade Payables	XXXX	XXXX
(c) Other current liabilities		
(d) Short term provisions		
Total	XXXX	XXXX

New Requirement under Share Capital

Key Changes

For each class of share capital (different classes of preference shares to be treated separately), following additional disclosures are required to be made in the **notes**:

- a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;
- the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
- shares in the company held by each **shareholder holding more than 5 percent** shares specifying the number of shares held
- shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

New Requirement under Share Capital

Key Changes

- Disclosure of shares held by holding company or ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate
- Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order, starting from the farthest such date.
- **For the period of five years** immediately preceding the date as at which the Balance Sheet is prepared:
 - Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
 - Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
 - Aggregate number and class of shares bought back.

New Requirement under Share Capital

Key Changes

Following are the disclosures not required to be given as per Revised Schedule VI:

- Sources of Bonus Shares
- Shares allotted as fully paid pursuant to contracts without payment being received in cash “beyond 5 years”
- Shares allotted as fully paid up by way of bonus shares “beyond 5 years”

New Requirements under Share Application Money

- Separate Line Item Inserted (Not part of shareholder's fund)
- Share application money to the extent **not refundable** is to be disclosed under this line-item .Otherwise, the same is to be shown under '**Other Current Liabilities**'
- Various disclosure requirements pertaining to Share Application Money are as follows :
 - terms and conditions;
 - number of shares proposed to be issued;
 - the amount of premium, if any;
 - the period before which shares are to be allotted;
 - whether the company has sufficient authorized share capital to cover the share capital amount on allotment of shares out of share application money;
 - Interest accrued on amount due for refund;
 - The period for which the share application money has been pending beyond the period for allotment as mentioned in the share application form along with the reasons thereof for such share application money being pending is to be disclosed

Other Important Disclosure Requirements

- Long Term Borrowings
 - Continuing default on the Balance Sheet date in repayment of Loans and Interest
 - Details of Loans Guaranteed by Directors and Others
- Other Long Term Liabilities
 - Trade Payable in respect of amounts due on account of goods purchased and services received in the normal course of Business. Does not include amounts under contractual/statutory obligations e.g. creditors for purchase of fixed asset
- Short Term Borrowings
 - All Loans repayable within 12 months from date of Loan
- Other Current Liabilities
 - Current maturity of long term borrowings
 - Share application money to the extent **refundable**

FORMAT OF BALANCE SHEET

II. Assets	Amount (Rs)	Amount (Rs)
(1) (a) Fixed assets	XXXX	
(i) Tangible assets	XXXX	
(ii) Intangible assets	XXXX	
(iii) Capital Work in Progress	XXXX	
(iv) Intangible assets under development	XXXX	
(b) Non current investments	XXXX	
(c) Deferred tax assets (Net)	XXXX	
(d) Long-term loans and advances	XXXX	
(e) Other non current assets		XXXX
(2) Current Assets		
(a) Current Investments	XXXX	
(b) Inventories	XXXX	
(c) Trade receivables	XXXX	
(d) Cash and Cash equivalents	XXXX	
(e) Short term loans and advances	XXXX	
(f) Other current assets	XXXX	XXXX
Total	XXXX	XXXX

Other Important Disclosure Requirements

- Non Current Investment:
 - Classified into Trade Investments and Other Investments
 - Trade Investments - Meaning under common parlance - Investment made by a Company in shares or debentures of another Company to promote the trade or business of the first Company
- Long term loans and advances shall be classified as:
 - Capital advances;
 - Security deposit;
 - Loans and advances to related parties;
 - Other loans and advances (nature to be specified)
- The above shall be sub-classified as:
 - Secured, considered good
 - Unsecured, considered good
 - Doubtful
- Allowances for bad and doubtful loans and advances shall be disclosed under the relevant heads separately

Other Important Disclosure Requirements

- Other Non Current Assets
 - Long Term Trade Receivable to be disclosed under Other Non Current Assets
 - Further sub classified to Secured and considered good, Unsecured and considered good and Doubtful
- Trade Receivables
 - Amount due on account of goods sold or services rendered in the normal course of business. However, as per the old schedule VI, the term 'sundry debtors' included amounts due in respect of goods sold or services rendered or in respect of other contractual obligations as well.
 - Aggregate amount of Trade receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated. (as per old schedule VI, the outstanding was based on the billing date)
 - The outstanding will be calculated from the due date and not from the billing date
 - Shall be sub classified as Secured and considered good, Unsecured and considered good and Doubtful

Profit and Loss Account For the year ended 31.03.2011

(Rs. in lacs)

	Schedule	Year ended 31.03.2011	Year ended 31.03.2010
INCOME			
Sales [Refer Note No 16.1(b) of Schedule 19]		103,056.01	76,169.50
Less: Excise Duty		3,080.65	1,607.79
Sales (Net)		99,975.36	74,561.71
Other Income	13	709.51	221.66
Total		100,684.87	74,783.37
EXPENDITURE			
Purchase of Trading Goods		523.57	948.10
Raw Materials Consumed	14	54,627.35	45,317.43
Decrease in Inventories	15	334.36	665.51
Personnel Expenses	16	2,041.97	1,794.39
Operating and Other Expenses	17	17,250.76	13,911.41
Financial Expenses	18	1,682.58	2,082.65
Depreciation / Amortisation / Impairment		2,706.86	2,932.99
Less: Transferred from Revaluation Reserve		193.97	510.05
Total		78,973.48	67,142.43
Profit Before Tax and Prior Period Items		21,711.39	7,640.93
[Including Profit of Discontinuing Operations: Corn Processing business Rs. 22,007.25 lacs (Previous Year Rs. 7,708.89 lacs)]			
Less: Provision for Taxation			
Current Tax		4,368.10	2,398.73
Less: MAT Credit entitlement		-	239.20
Net Current Tax Liability		4,368.10	2,159.53
Wealth Tax		0.83	0.50
Deferred Tax Charge		893.62	1,563.40
		5,262.55	3,723.43
[Including total tax expense related to Discontinued Operations: Corn Processing business Rs. 4,881.94 lacs (Previous Year Rs. 3,689.26 lacs)]			
Profit After Tax and before Prior Period Items		16,448.84	3,917.50
Add: Prior Period Items [net of tax Rs. Nil (Previous Year: Rs. 0.15 lacs)]		-	4.42
Net Profit		16,448.84	3,921.92
Balance Brought Forward from Previous Year		6,954.41	4,231.03
Profit Available for Appropriation		23,403.25	8,152.95
Appropriations			
- Dividend on Preference Shares		40.00	40.00
- Proposed Dividend on Equity Shares		1,391.80	557.07
- Tax on Dividend		232.27	101.47
- Transfer to General Reserve		2,000.00	500.00
		3,664.07	1,198.54
Surplus Carried to Balance Sheet		19,739.18	6,954.41
Earning Per Share (Basic and Diluted) (Rs.)		147.22	34.78
[Nominal value of shares of Rs. 10 (Previous Year: Rs. 10)]			
(Refer Note 8 of schedule 19)			
Notes to Accounts	19		

FORMAT OF STATEMENT OF PROFIT AND LOSS

Particulars	Amount (Rs)	Amount (Rs)
(1) Revenue from operations	XXXX	XXXX
(2) Other income	XXXX	XXXX
Total Income (I)	XXXX	XXXX

Revenue from Operations is to be separately disclosed in the notes:

Sale of Product	XXX
Sale of Services	XXX
Other Operating Revenue	XXX
Less : Excise Duty	<u>(XXX)</u>

FORMAT OF STATEMENT OF PROFIT OR LOSS

Particulars	Amount (Rs)	Amount (Rs)
Expenses		
Cost of materials consumed	XXXX	
Purchases of Stock-in-Trade	XXXX	XXXX
Changes in inventories of finished goods Work-in-progress and Stock-in-Trade	XXXX	
Employee benefits expense	XXXX	
Finance costs	XXXX	
Depreciation and amortization expense	XXXX	
Other expenses	XXXX	XXXX
Total Expenses(II)		
Profit before exceptional and extraordinary items and tax (III=I-II)	XXXX	XXXX
Exceptional items(IV)		XXXX
Profit before extraordinary items and tax (V=III - IV)		XXXX

FORMAT OF STATEMENT OF PROFIT AND LOSS

Particulars	Amount (Rs)	Amount (Rs)
Extraordinary Items (VI)	XXXX	XXXX
Profit before tax (VII=V- VI)	XXXX	XXXX
Tax expense: (VIII) (1) Current tax (2) Deferred tax		
Profit (Loss) for the period from continuing operations (IX= VII-VIII)	XXXX	XXXX
Profit/(loss) from discontinuing operations (X)		XXXX
Income Tax expense of discontinuing operations (XI)		XXXX
Profit/(loss) from Discontinuing operations (after tax) (XII= X- XI)		XXXX

FORMAT OF STATEMENT OF PROFIT AND LOSS

Particulars	Amount (Rs)	Amount (Rs)
Profit (Loss) for the period (IX + XII)		XXXX
Earnings per equity share:		XXXX
(1) Basic		XXXX
(2) Diluted		XXXX

Additional Information in case of ALL COMPANIES

Company shall disclose (by way of Notes), additional information regarding aggregate expenditure and income on the following terms

- Employee Benefit Expenses showing
 - Salaries and Wages
 - Contribution to PF and Other Funds
 - Expenses on ESOP/ESPP
 - Staff Welfare expenses
- Depreciation and Amortization Expenses
- Any item of income or expenditure which exceeds 1% of the revenue from operations **or** Rs.1,00,000, whichever is higher
- Interest Income
- Interest Expense
- Dividend Income

Additional Information in case of ALL COMPANIES

- Net (Gain)/Loss on Sale of Investments
- Adjustments to the Carrying Amount of Investments
- Payments to the auditor as
 - auditor,
 - for taxation matters,
 - for company law matters,
 - for management services,
 - for other services,
 - for reimbursement of expenses
- Details of Items of Exceptional and Extraordinary nature
- Prior Period Items

Exceptional and Extra-ordinary Items

Exceptional Items

- Not defined in Revised Schedule VI
- Para 12, 13 and 14 of AS-5 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies',

Exceptional items arise from ordinary activity and are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period.

Extra ordinary Items

- Not defined in Revised Schedule VI
- Para 4.2 of AS-5 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies',

Extra ordinary items are those that arise other than from ordinary activity of the Company and hence are not expected to be recurring.

Profit and loss account also to show by way of notes

- Value of imports calculated on C.I.F basis by company during the financial year in respect of:
 - Raw materials
 - Components and spare parts
 - Capital goods
- Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.
- Total value of all raw materials, spare parts and components consumed during the financial year bifurcating into *imported* and *indigenous* and the percentage of each to the total consumption.

Profit and loss account also to show by way of notes

- The amount remitted during the year in foreign currencies on account of dividends detailing:
 - the total number of non-resident shareholders
 - the total number of shares held by them and
 - the year to which the dividends related
- Earnings in foreign exchange classified under the following heads, namely:
 - Export of goods calculated on F.O.B. basis
 - Royalty, know-how ,professional and consultation fees
 - Interest and dividend;
 - Other income, indicating the nature thereof

Proposed Dividend

- Initially disclosed under the head “Provisions”
- As per Revised Schedule VI, disclosure is required to be given in notes
- As per *AS-4 requires that dividends* stated to be in respect of the period covered by the Financial Statements, which are proposed or declared by the enterprise after the Balance Sheet date but before approval of the Financial Statements, should be adjusted.
- Unless AS 4 is revised, companies will have to continue to create a provision for dividends in respect of the period covered by the Financial Statements

Contingent Liabilities & Commitments

- Contingent liabilities shall be classified as:
 - Claims against the company not acknowledged as debt
 - Guarantees
 - Other money for which the company is contingently liable
- Commitments shall be classified as:
 - Estimated amount of contracts remaining to be executed on capital account and not provided for
 - Uncalled liability on shares and other investments partly paid
 - Other Commitments

Disclosures No Longer Required

- Managerial Remuneration & computation of Net Profits for Commission
- Licensed capacity, installed capacity & actual production
- Investments purchased & sold during the year
- Investments, Sundry debtors & Loans & advances - Companies under same Management
- Maximum amount due from directors or officers
- Commission, brokerage and non-trade discounts

Questions?????



Thank You....