Revised Schedule VI- A Scientific Approach towards Preparation of Financial Statements

In recent times, the Indian commercial field has undergone a number of significant changes. Changes in Method of Accounting and its presentation in the Financial Statements of corporate bodies is a major outcome of this changing scenario. Institute of Chartered Accountants of India and Government of India have joined hands to make Indian Accounting System convergent with international norms of accounting. Issuance of Ind AS and revision of structure of corporate financial statements are some welcome moves towards making Indian Accounting System internationally acceptable. The Ministry of Corporate Affairs issued the Revised Format of Schedule VI vide Notification No. S.O:447(E) dated 28th February, 2011 which has been made applicable to all companies with effect from 1st April, 2011. Therefore, for the Financial Year 2011-12, every company, whether public or private, listed or unlisted, has to prepare its financial statements disclosing information as required by the Revised Schedule VI. This article focuses on the Revised Schedule VI, which has a great impact on the presentation of Corporate Financial Statements for the financial year 2011-12.

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Salient Features of Revised Schedule VI

i) The presentation of Balance Sheet has been changed from Sources and Application of Fund to Equity and Liabilities and Assets.

ii) Only Vertical Form of Balance Sheet has been recognised in the Revised Schedule VI.

iii) Part III and Part-IV of the earlier Schedule VI has been withdrawn in the Revised Format.

iv) Format of Profit and Loss Account has been prescribed in the Revised Schedule VI. In the previous schedule VI, no format was prescribed for preparation of Profit and Loss Account.

v) General Instructions have been inserted both in respect of preparation of Balance Sheet and Profit and Loss A/c.

vi) Accounting Standards have overriding effect over Schedule-VI.

vii) Minimum disclosure on the face of Balance Sheet and Profit and Loss Account and more information should be depicted by way of notes. Therefore, Notes to Accounts shall contain all the information required under Schedule VI, Companies Act, 1956, information required by any Accounting Standards and any other information which shall be separately disclosed for better understanding of the financial statements.

New Concepts

The Revised Schedule VI has brought in some significant concepts relating to preparation and presentation of Financial Statements, namely:

i) Current and Non-Current classification of Assets and Liabilities (other than investments).
ii) Current and Non-current classification of Investments.
iii) Definition of operating cycle of any enterprise.
iv) Trade Receivables and Trade Payables.

These concepts have great impact for the preparation of Financial Statements. Though these concepts are not at all new in respect of global accounting practices, but of course these have some great impact on the Indian Accounting system. These can be explained as below:

i) Current and Non-Current classification of Assets and Liabilities (other than investments)

Revised Schedule VI requires assets and liabilities to be classified as current and non-current. This classification is nothing but a concept borrowed from the International Accounting Standard-1 (IAS-1). Current Liabilities are liabilities which satisfy any one of the following criteria:

- It is expected to be settled within the normal operating cycle of the company
- The Liability originates from normal operational activity of the company.
- It is likely to be settled within 12 months from the Balance Sheet Date.
- The company has no unconditional right to defer the settlement of such liability for at least 12 months after the reporting date.

All other liabilities which do not fulfill any of the above criteria shall be called as Non-current liability.

Similarly, any asset can be classified as Current Asset when it fulfills any of the following criteria:

- It is expected to be realised or is intended for sale or consumption within the normal operating cycle, or,
- The asset originates from the normal business activity of the enterprise.
- It is expected to be realised within 12 months after the reporting date, or,
- It is cash or cash equivalent.

All other assets shall be classified as Non-Current Assets.

For presenting an asset or liability in the Balance Sheet, we have to first conduct a test to identify whether the particular asset or liability is current or non-current in nature. After being sure about the nature of the asset/liability, we can disclose the same under the appropriate subhead as prescribed in the Revised Schedule VI.

ii) Current and Non-current classification of Investments:

As per the Revised Schedule VI, Accounting Standard always supersedes the requirements of Schedule VI. The general definition of current and non-current regarding classification of assets and liabilities has been prescribed by the Revised Schedule VI itself. However, the same is not in conformity with the Accounting Standard 13 dealing with "Accounting for Investments".

AS-13 provides that Current Investment is an investment which by its nature, is readily realisable in cash or which is intended to be held not more than one year from the date on which investment is made. All other investments shall be categorised as Non-current Investments. However, this concept is totally different from the general guidelines for current and non-current classification of assets and liabilities as prescribed in Revised Schedule VI. Therefore, Accounting Standard 13 shall prevail over the Revised Schedule VI in regard to classification of investments.

The Revised Schedule VI has brought in some significant concepts relating to preparation and presentation of Financial Statements namely 'Current and Non-Current classification of Assets and Liabilities (other than investments),' 'Current and Non-current classification of Investments,' 'Definition of operating cycle of any enterprise,' 'Trade Receivables' and 'Trade Payables'.

iii) Definition of Operating Cycle:

For this purpose, Operating Cycle of any business means the time between acquisition of any asset i.e. raw materials for processing and realisation of cash or cash equivalents from customers. If it is not possible to identify the operating cycle of any business, then 12 months shall be considered as operating cycle of the company.

a. Trade Receivables and Trade Payables

In old schedule VI, a company had to disclose sundry debtors and sundry creditors in the financial statements. However, the Revised Schedule VI prescribes to disclose Trade Receivables and Trade Payables on the face of the balance sheet.

Trade Receivables mean amount receivable from customers generated out of normal operational activities of the company i.e. sale of goods or rendering of services. Therefore, trade receivables only comprise parties to whom goods (either manufactured or traded) have been sold by the company on credit. However, the term "Sundry Debtors" signifies a broader meaning which obviously includes trade receivables and many more. In other words, Sundry Debtors include all parties from whom money is receivable by the company either for selling of goods or for some other activities like sale of fixed assets or scrap, which is not the operational activity of the company.

Similarly, Trade Payables mean amount payable to suppliers goods or services which are directly related to normal operational activities of the company i.e. supplier of raw/packing materials, etc. However, the term Sundry Creditors include all parties to whom money is payable by the company. Obviously, Sundry Creditors will include trade payables. However, parties from whom capital assets were purchased by the company will be included in sundry creditors, but shall not be grouped under trade payables.

Discussion Regarding Various Items to be Reported in Balance Sheet

1. Share Capital

The Revised Schedule VI prescribes the following disclosures in respect of share capital

a) The number and amount of Authorised Share Capital.
b) Face Value of per share.
c) The number and amount of share issued, subscribed and paid up shares.
d) A reconciliation statement to be prepared in the following format.

Particulars	Number of shares
Shares at the beginning of the year	xxxx
Add: Shares issued during the period	xxxx
Add: Bonus shares issued during the year	xxxx
Less: Shares bought back, if any	xxxx
Shares at the end of the year	xxxx

e) A list shall be prepared containing names of shareholders having more than 5% of the total issued shares of the company.
f) A disclosure shall be made in respect of number of shares issued without receiving consideration in cash i.e. shares issued at the time of takeover of business or issue of bonus shares. Such disclosures shall be restricted to preceding five financial years.

2. Reserves and Surplus

a) Reserves:

Reserves can be classified as:

- Capital Reserve
- Capital Redemption Reserve
- Securities Premium
- Revaluation reserves
- General Reserves
- Any other reserves

b) Surplus:

Surplus is the accumulated balance of Profit & Loss Account after making all allocations and appropriations like declaration of dividend, issue of bonus shares, etc.

Surplus shall be shown in the following manner:

Particulars	Amount
Opening Balance of Surplus	**xxxx**
Add: Profit/(Loss) for the period	xxxx
Less: Dividend declared	xxxx
Less: Bonus share issued out of Surplus	xxxx
Less: Transfer to any other Reserve	xxxx
Closing Balance of Surplus	**xxxx**

Note: *Accumulated debit balance of Profit & Loss Account shall be disclosed as a negative amount under Surplus in the Revised Schedule VI instead of showing it under Miscellaneous Expenditure.*

Therefore, it is evident from the disclosure pattern of the Revised Schedule VI that the concept of Revenue Reserve and Capital Reserve should have been taken care of while disclosing Reserve and Surplus on the face of the balance sheet. The "Surplus" as shown in Revised Schedule VI is nothing but the distributable surplus i.e.; Revenue Reserve from which dividend can be declared by the company.

3. ***Money Received against Share Warrants:*** Any amount received against which Share Warrants have been issued by the company. Share warrants are transferable instruments in which the company concerned, promises to issue share certificate to the bearer as per the value mentioned in the warrant.

4. ***Share application money pending allotment:*** Share Application money received from individuals and others, but share certificates not issued by the company till the Balance Sheet date, shall be disclosed under this head. Details shall be given in respect of the name of the applicants, amount received, date of receipt and for what period the allotment is pending.
   This disclosure holds a great importance for us i.e. chartered accountants and we should be very careful if any item of application money pending allotment has appeared in the balance sheet. In most of the cases, especially in private companies, this transaction results into inflow of cash which helps to disguise any backdoor/unlawful income not shown in the accounts.

5. ***Non-Current Liabilities:***
   Non-current liabilities shall be disclosed under the following broad heads:
   a. Long Term Borrowings.
   b. Deferred Tax liabilities.
   c. Other Long Term Liabilities.
   d. Long Term Provisions.

The Revised Schedule VI differs significantly from the earlier format of Schedule VI in respect to Profit and Loss Account. The old schedule VI did not prescribe any format of Profit & Loss Account, but the new one prescribes a format for disclosing various items of Incomes & Expenditures.

6. ***Current Liabilities:***
   Current Liabilities shall be disclosed under the following broad heads:
   a. Short Term Borrowings.
   b. Trade Payables.
   c. Other Current Liabilities.
   d. Short Term Provisions.

Long Term and Short Term Classification of Borrowings:

Borrowings denote the amount borrowed from banks, financial institutions or some other parties either for funding of working capital of the enterprise or for acquiring any capital asset of the company. The classification of borrowings between long term and short term shall primarily depend upon the terms of repayment of the same to the lender. If the loan is repayable over a period of more than 12 months, then the same can be classified as long term borrowing. In any other case, the borrowing shall be short term borrowing.

However, this long term and short term classification shall depend upon the situation and no blanket rule shall be prescribed for this classification. Suppose, a term loan having repayment terms of five years can be shown as long term borrowings. However, if the lender (bank or any financial institution) finds that the purpose for which loan has been granted was to build a residential house for the borrower, but the borrower has used the money to run his/her business, then it may happen that the bank has demanded the full installment within the tenure of repayment. In such a situation, though the actual repayment term was five years, however it shall be grouped under Short Term Borrowing.

Therefore, subject to scrutiny, it can be generally said that term loans can be grouped under Long Term Borrowings, and Cash Credit facility granted by the bank can be grouped under short term borrowings.

Disclosures to be made regarding borrowings:

a) Term Loan shall be classified under term loans borrowed from banks and from other parties.
b) Borrowing from related parties shall be disclosed separately.
c) Loans guaranteed by any director shall be disclosed separately.

d) Each type of borrowing shall be further classified as secured or unsecured and nature of security provided shall also be disclosed.
e) Terms of repayment shall be stated for each type of loan.

Long Term and Short Term Provisions:
The objective behind creating a provision is to set aside a portion of profit of an enterprise for some future obligation. Accounting Standard 29 shall be referred in this respect which defines a liability as "present obligation of the enterprise arising from past events which may result into future cash outflow of the enterprise". The provision shall be nullified when the expense for which it had been made becomes the actual liability of the enterprise. Therefore, short term provision shall be the provision for expenses, which will fall due within a period of 12 months from the reporting date. Similarly, long term provisions shall fall due not within 12 months from the reporting date.

Examples:
a. *Provision for Income Tax:* Short Term Provision, as it shall be nullified with advance income tax shown under Short Term Loans and advances.
b. *Provision for Employee Benefit:* Short term employee benefit can be the salaries, wages, bonus, etc., which shall be directly payable to the employee or his/her family within 12 months from the reporting date. However, post employment benefits like gratuity, pension, etc can be categorised under Long Term Benefits depending upon the tenure of service of the employee.
c. *Provision for Proposed Dividend:* The Revised Schedule VI is silent regarding disclosure of proposed dividend on the face of balance sheet. However, following AS 4, we have to create a provision for dividend proposed after the balance sheet date, but before finalisation of accounts and such provision shall be a short term provision.

7. ***Assets:***
Revised schedule VI requires disclosure of assets under two broad heads:
a. Non-Current Assets
b. Current Assets

Further, Non-Current assets are to be classified under the following sub-heads
- Fixed Assets
- Deferred Tax Assets
- Non-current Investments
- Long Term Loans and Advances
- Other Non-current Assets

Similarly, current assets are to be classified under following subheads:
- Current Investments
- Inventories
- Trade Receivables
- Cash and Cash Equivalents
- Short Term Loans and Advances
- Other current assets

Fixed Assets:
Fixed Assets are to be primarily classified as
- Tangible Assets
- Intangible Assets
- Capital Work in Progress of Tangible Assets
- Intangible Assets under development.
  Information to be disclosed in the balance sheet is same as was in the old schedule VI except that assets under lease shall be disclosed separately.

Non-current Investments:
To classify an investment into current and non-current, we have to go in the following process:
i) Identify the date on which investment has been made
ii) Identify the nature of the investment i.e. whether it can be convertible into cash as per requirement of the company or there is some lock-in period during which the investment cannot be cashed.
iii) Identify the intention of the person who has invested the money-whether he intends to continue the investment for more than one year or whether he has made it to realise early profits.
iv) In this respect, great emphasis can be put on the events occurred after the Balance Sheet Date. An investment primarily made for long term basis can be withdrawn before the maturity date but after the balance sheet date due to some urgent requirement of money. In that case, we have to classify the investment as current rather than non-current.

Long Term Loans and Advances:

Long term loans and advances are such type of advances which can be realised after one year or more. If a loan or advance fulfills this criterion, then such loan or advance shall be bifurcated under the following sub-heads:

- Loans and advances from related parties as defined in AS-18. Generally, related parties are companies under same management, partnership firm in which one or more of the directors are partners etc.
- Loans or advances due by directors either severally or jointly with some other person shall be separately disclosed.
- Long term security deposits shall also be disclosed under long term loans and advances.
- Advances given for acquiring capital assets shall be separately identified and disclosed.
- Any other Loans and advances which fulfills long term criteria.

Further any loans and advances as specified above, shall be subclassified on the basis of security criteria i.e.

- Secured, considered good
- Unsecured, considered good and
- Doubtful

In this respect, it shall be mentioned that the Revised Schedule VI has not mentioned some important disclosures regarding advances given to employees other than key management personnel. However, it is felt that advances given to employees shall be disclosed separately under other loans and advances.

Other Non-current Assets:

Any other assets which is primarily non-current in nature but does get a place in the above mentioned heads, shall be grouped under this head. Most common type of Other Non-current asset is Long Term Trade Receivables including trade receivables on deferred credit terms.

Current Assets:

The Revised Schedule VI prescribes to show current assets under the following heads:

a) Current Investments
b) Inventories
c) Trade Receivables
d) Cash and Cash Equivalents
e) Short term Loans and Advances
f) Other Current Assets

a) *Current Investments:*

Those investments, which fall under the current category as per definition given in AS-13 should be reported under this head. The method of classification as per Accounting Standard-13 is given herein above.

b) *Inventories:*

Inventories shall be subclassified as:

- Raw Materials
- Work-in-progress
- Finished Goods
- Stock-in Trade (goods held for trading)
- Stores and spares
- Loose Tools
- Others

Goods in transit shall be stated under relevant sub-heads as mentioned above.

Method of valuation of each class of inventories shall be disclosed separately.

c) *Trade Receivables:*

Trade receivables are money due from customers originated out of the normal course of business of the company. Therefore, there lies a thin line of difference between Sundry Debtors and Trade Receivables. Sundry Debtors denotes all parties from whom money is due. However, Trade Receivables are only a part of Total Sundry Debtors which are generated in normal operation of the company.

Trade receivables shall be disclosed in the following manner:

	Amount	**Amount**
Trade Receivables		
Outstanding for more than six months		
a) Secured Considered Good	xxxx	
b) Unsecured, Considered Good	xxxx	
c) Doubtful	xxxx	xxxx
-Other Trade Receivables		
a) Secured Considered Good	xxxx	
b) Unsecured, Considered Good	xxxx	
c) Doubtful	xxxx	xxxx

Further, New Schedule VI differs from old schedule VI in regard to method classification of trade

receivables between outstanding for more than six months and others. As per the Old Schedule VI, classification shall be made from the date of raising invoice to the customer. However, the Revised Schedule VI prescribes to make the classification on the basis of due date of payment by a customer. Therefore, credit limit granted by the company to the customers shall be considered to classify the outstanding.

Therefore, the following process shall be followed at the time of making classification of sundry debtors:

1. Classify the Debtors between two categories: From Operation and others
2. Debtor originating from other activities shall be separately reported under other current assets.
3. Trade Receivables shall further be classified on the basis of its period of outstanding:
   - identify the closing Amount of trade receivables.
   - identify the bills included in the closing balance.
   - measure the due date of payment of the identified bills.
   - see whether it is due for more than six months or not.
   - if the trade receivables are due for more than six months, then identify whether the amount is at all recoverable or the recovery is doubtful.
   - further, any amount due from company/ firm in which any director of the company is a director or partner or member shall be disclosed separately in the balance sheet.

d) Cash and Cash Equivalents

Cash and Cash Equivalents shall be disclosed under current assets. In this respect, Cash Equivalent denotes deposits/investments which can be easily convertible into cash like Balances with Banks, Fixed Deposits.

New Schedule VI prescribes the following in respect of reporting of Cash and Cash Equivalents:

a) Bank Deposits with more than 12 months of maturity shall be separately stated.
b) Balances with banks to the extent held as margin money or security against borrowings shall be disclosed separately.
c) Earmarked bank balances shall be stated separately.

In this respect, it is pertinent to mention that restricted cash balances shall not be classified under Cash and Cash Equivalents, but under other non-current assets.

e) Short Term Loans and Advances

This shall be classified as:

a) Loans and Advances from related parties.
b) Other Loans and Advances.

Further classification shall be made under:

a) Secured, considered good.
b) Unsecured, considered good.
c) Doubtful.

f) Other Current Assets

Current Assets, which cannot be fitted in any of the aforementioned heads, shall be reported under this head. For example: Accrued Interest on securities, unbilled revenue, recoverable from government agencies, etc.

Discussion Regarding Various Items to be Reported in Statement of Profit and Loss

The Revised Schedule VI differs significantly from the earlier format of Schedule VI in respect to Profit and Loss Account. The old schedule VI did not prescribe any format of Profit & Loss Account, but the new one prescribes a format for disclosing various items of Incomes & Expenditures. The broad heads of profit and loss account are as follows:

1. Total Revenue
2. Total Expenditure
3. Extraordinary and Exceptional items
4. Tax Expense
5. Tax expenses relating to discontinuing operation
6. Profit/Loss for the period
7. Earning per share-Basic and Diluted

1. Total Revenue

Total Revenue is to be disclosed under two broad heads:

a) Revenue from operation and,
b) Other Income

Though, no definition of revenue from operation has been given in the General Instruction appended to the Schedule VI, the commercial meaning of the wording differs significantly from what we used to do i.e. Gross Turnover. The apparent meaning of the term "Revenue from Operation" denotes Income generated due to normal operational activities

of the enterprise. Therefore, only that portion of the total turnover is to be reported under the "Revenue from Operation" which relates to normal operational activities of the company i.e. sale of traded or manufactured product that the company is dealing with. However, some scrap may be generated out of the manufacturing process and the enterprise may earn some revenue by selling those scraps. The turnover of this scrap items should not be disclosed under "Revenue from Operation", but shall be included in "Other Income".

Nevertheless, Para 12 of Accounting Standard 9 dealing with "Revenue Recognition" prescribed the following disclosure requirement of turnover on the face of the Profit and Loss Account:

Gross Turnover xxxx.
Less: Excise Duty xxxx
Net Turnover xxxx

Therefore, in respect of the disclosure requirement of revenue from operation, the accounting standard requirement and Schedule VI requirement differs and so we have to follow the accounting standard as it overrules the Schedule VI. However, if we follow the schedule VI and AS-9 in conjunction, then the following disclosure can be made on the face of profit and loss account:

Revenue from operation:

Gross Turnover xxxx.
Less: Excise Duty xxxx.
Net Turnover xxxx

2. ***Total Expenses:***

Total expenses have been grouped under the following broad heads:

a) Cost of Materials Consumed.
b) Purchase of Stock in Trade.
c) Changes in inventories of Finished Goods, Work-in-Progress and Stock in Trade.
d) Finance Costs.
e) Employee Benefits.
f) Depreciation and Amortisations.
g) Other Expenses.

Certain Reporting requirements under Total Expenses

Purchases and Consumption:

Type of Companies	Disclosure Requirements
Manufacturing Companies	Cost of Raw Materials and Packing Materials consumed, to be disclosed under broad heads on the face of the statement of profit or loss.
Trading Companies	Purchases in respect of goods traded by the company to be shown separately.
Company having diversified operations	a) Cost of Raw Materials consumed shall be disclosed under broad heads. b) Purchase cost of Trading Goods shall be disclosed separately.

Finance costs:

Finance Costs shall be classified as:

a) Interest Costs.
b) Other Borrowing costs.
c) Applicable net gain/loss on foreign currency transactions and translation (only in respect of Foreign Currency borrowings).

For recognising any interest cost, we have to borrow the guidance specified in Accounting Standard-16 dealing with "Borrowing Costs" as there is no definition specified Revised Schedule VI. As per AS-16 " Borrowing Cost" is the interest and other cost incurred by an enterprise in connection with borrowing of funds.

Employee Benefits Expense:
Employee benefit expense shall include the following:
a) Salaries and Wages payable to staff and workers.
b) Employer's Contribution to Provident Fund and other funds.
c) Staff Welfare Expenses.
d) Any other expense incurred by an enterprise for the present or future benefits of its employees.

Accounting Standard-15 shall be taken care of in this regard.

Depreciation and Amortisation Expenses:
Under this broad head the following shall be reported:
a) Depreciation (at the rate prescribed in Schedule XIV)
b) Amortisation
c) Impairment of Assets(As per AS-28)

Other Expenses
Any other expenditure which does not fall under any of the above mentioned heads shall be grouped under this head. Further, separate disclosure is necessary in respect of the followings:
a) Any expenditure which exceeds 1% of Revenue from Operation or ₹1,00,000/-, whichever is higher.
b) Net Gain/Loss from Foreign Currency transaction and translation(other than in regard to foreign currency borrowings).
c) Net Gain/Loss from sale of Investments
d) Adjustments to the carrying amount of investments.

Treatment of Prior Period Items in the Statement of Profit and Loss:
The Revised Schedule VI requires that every company shall disclose by way of note, aggregate amount of income and expenditure in respect of prior period items. In this respect, guidance can be borrowed from Accounting Standard 5 regarding disclosure of prior period items on the face of the Statement of Profit and Loss.
As defined in AS-5, prior income or expense is the result of errors or omissions in the preparation of financial statements in one or more prior periods.
The nature and amount of prior period items shall be disclosed in the statement of profit and loss in a manner so that the effect of it on the current year's profit can be disclosed.

Extraordinary and Exceptional items:
The Revised Schedule VI requires separate disclosure of exceptional and extraordinary items of income or expenditure. However, the Schedule VI does not give any further guidance in disclosing the same in the statement of profit and loss. Therefore, one has to follow Accounting Standard 5 in this regard.
As per AS 5, extraordinary items are income and expenditure that arises from activities of the enterprise which are clearly distinct from ordinary activities of the company. Therefore, the chances of recurring such income or expenditure is very low. For example, Merger and Acquisition related items, Loss from natural calamities, etc.
However, exceptional items are nothing but ordinary activities of the company, the recurrence of which is not very frequent in nature. Separate disclosure of such items is necessary to explain the performance of the company for the reporting period. For example, profit or loss from sale of fixed assets.

Tax Expense:
The Revised Schedule VI specifies to disclose tax expense under the following sub-heads:
a) Current Tax and,
b) Deferred Tax

However, the disclosure requirements, as specified in the revised schedule VI are the minimum disclosure requirement which can be extended as per the requirement of the company.

Conclusion
At the conclusion, it can be said that the Revised Schedule VI is a scientific approach to the presentation of the Financial System. However, we shall be much more cautious before presenting any asset or liability as current or non-current. ■