1. Applicable from financial years commencing on or after 1 April 2011.

2. Early adoption of the Revised Schedule VI is not permitted since Schedule VI is a statutory format.

3. The Revised Schedule VI has eliminated the concept of 'Schedule' and such information is now to be furnished in the Notes to Accounts.

4. There is an explicit requirement to use the ***same unit of measurement uniformly*** throughout the Financial Statements and notes thereon.

5. ***Current and non-current classification*** has been introduced for presentation of assets and liabilities in the Balance Sheet. The application of this classification will require assets and liabilities to be segregated into their current and non-current portions.

   The Revised Schedule VI defines "current assets" and "current liabilities", with the non-current category being the residual. It is therefore necessary that the balance pertaining to each item of assets and liabilities contained in the Balance Sheet be split into its current and non-current portions and be classified accordingly as on the reporting date.

   (a) **Current Assets** - An asset shall be classified as current when it satisfies any of the following criteria:

      i) It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;

      ii) It is held primarily for the purpose of being traded;

      iii) It is expected to be realized within twelve months after the reporting date; or

      iv) 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.

   (b) **All other assets** shall be classified as non-current."

   (c) **Current Liability -** A liability shall be classified as current when it satisfies any of the following criteria:

      i) It is expected to be settled in the company's normal operating cycle;

      ii) It is held primarily for the purpose of being traded;

      iii) It is due to be settled within twelve months after the reporting date; or

      iv) 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.

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(d) **All other liabilities** shall be classified as non-current."

6. **Operating Cycle -** An operating cycle is the time between the acquisition of assets for processing and their realization in Cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have duration of twelve months.

   Where a company is engaged in running multiple businesses, the operating cycle could be different for each line of business. Such a company will have to classify all the assets and liabilities of the respective businesses into current and non-current, depending upon the operating cycles for the respective businesses.

7. Any ***debit balance in the Statement of Profit and Loss*** will be disclosed under the head "Reserves and surplus.

8. Specific disclosures are prescribed for ***Share Application money***. The application money not exceeding the capital offered for issuance and to the extent not refundable will be shown separately on the face of the Balance Sheet. The amount in excess of subscription or if the requirements of minimum subscription are not met will be shown under "Other current liabilities.

9. Any ***item of income or expense*** which exceeds one percent of the revenue from operations or Rs. 100,000 (earlier 1 % of total revenue or Rs. 5,000) whichever is higher needs to be disclosed separately.

10. Break-up in terms of ***quantitative disclosures*** for significant items of Statement of Profit and Loss, such as raw material consumption, stocks, purchases and sales have been simplified and replaced with the disclosure of "***broad heads***" only. The broad heads need to be decided based on considerations of materiality and presentation of true and fair view of the Financial Statements.

11. Disclosures no longer required

(a) Disclosures relating to managerial remuneration and computation of net profits for calculation of commission;

(b) Information relating to licensed capacity, installed capacity and actual production;

(c) Information on investments purchased and sold during the year;

(d) Investments, sundry debtors and loans & advances pertaining to companies under the same management;

(e) Maximum amounts due on account of loans and advances from directors or officers of the company;

(f) Commission, brokerage and non-trade discounts

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12. The requirements of the Act and / or the notified Accounting Standards will prevail over the Schedule.

Act, laws and legislation will prevail over notified accounting standards and accounting standards will prevail over revised schedule VI

They further clarify that the additional disclosures specified in the Accounting Standards shall be made in the Notes to Accounts or by way of an additional statement unless required to be disclosed on the face of the Financial Statements. All the other disclosures required by the Accounting Standards will continue to be made in the Financial Statements.

Further, the disclosures required by the Act will continue to be made in the Notes to Accounts.

For examples

(a) Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve account referred to section 80(1)(d) and details of such transfer shall be disclosed in the balance-sheet.

(b) Separate disclosure required by Section 293A of the Act for donations made to political parties and amounts contributed to the he National Defence Fund or any other Fund approved by the Central Government for the purpose of national defence during the financial year.

(c) <u>Disclosures mandated by other Acts or legal requirements</u>

i) For examples, The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 requires specified disclosures to be made in the annual Financial Statements of the buyer wherever such Financial Statements are required to be audited under any law. Accordingly, such disclosures will have to be made in the buyer company's annual Financial Statements.

ii) The above principle would apply to disclosures required by other legal requirements as well such as, disclosures required under Clause 32 to the Listing Agreement, etc.

iii) A further extension of the above principle also means that specific disclosures required by various pronouncements of regulatory bodies such as the ICAI announcement for disclosures on derivatives and unhedged foreign currency exposures, and other disclosure requirements prescribed by various ICAI Guidance Notes, such as Guidance Note on Employee Share-based Payments, etc. should continue to be made in the Financial Statements in addition to the disclosures specified by the Revised Schedule VI.

(d) Such disclosures would be made in the Notes.

13. Earnings before Interest, Tax, Depreciation and Amortisation are often an important measure of financial performance of the company relevant to the various users of Financial Statements and stakeholders of the company. Hence, a company may choose to present the same as an additional line item on the face of the Statement of Profit and Loss. The method of computation adopted by companies for presenting such measures should be followed consistently over the years. Further, companies should also disclose the policy followed in the measurement of such line items.

14. **In case of accumulated leave outstanding as on the reporting date,**

    The amount of Non-current and Current portions of leave obligation should normally be determined by a qualified

15. **Regarding funded post-employment benefit obligations,**

    Normally the actuary should determine the amount of current & non-current liability for unfunded post-employment benefit obligation based on the definition of Current and Non-current assets and liabilities in the Revised Schedule VI.

16. **Settlement of a liability by issuing of equity**

    If the conversion option in convertible debt is exercisable by the holder at any time, the liability cannot be classified as "current" if the maturity for cash settlement is greater than one year. A question therefore arises as to how does the aforesaid requirement affect the classification of items for say a) convertible debt where the conversion option lies with the issuer, or b) mandatorily convertible debt instrument.

17. Net Deferred Tax asset or liability; the same should always be classified as "non-current".

18. Preference Shares will have to be classified as Share Capital. Preference shares of which redemption is overdue should continue to be disclosed under the head 'Share Capital'.

19. It is not necessary to give the year-wise break-up of the shares allotted or bought back, but the aggregate number for the last five financial years needs to be disclosed.

20. The Revised Schedule VI requires disclosure of all ***defaults in repayment*** of loans and interest to be specified in each case.

21. ***Where loans have been guaranteed by directors or others***, the aggregate amount of such loans under each head shall be disclosed. The word "others" used in the phrase "directors or others"

would mean any person or entity other than a director. Therefore, this is not restricted to mean only related parties. However, in the normal course, a person or entity guaranteeing a loan of a company will generally be associated with the company in some manner.

22. Capital work-in-progress

(a) As per the Revised Schedule VI, capital advances should be included under Long-term loans and advances and hence, cannot be included under capital work-in-progress.

(b) Capital advances are advances given for procurement of fixed assets which are non-current assets. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into fixed assets which, by nature, are non-current assets. Hence, capital advances should be treated as non-current assets irrespective of when the fixed assets are expected to be received and should not be classified as Short-Term/Current.

23. Investments

The Revised Schedule VI also require basis of valuation of individual investment. It is pertinent to note that there is no requirement to classify investments into trade & non-trade in respect of current investments.

24. Contingent Liability

The term '***Other commitments***' would include all expenditure related contractual commitments apart from capital commitments such as commitments arising from long-term contracts for purchase of raw material, employee contracts, lease commitments, etc.

25. The specific format laid down for presentation of various items of Income and Expenses in the Statement of Profit and Loss indicates that expenses should be aggregated based on their nature. Accordingly, ***functional classification of expenses*** *is prohibited*.

26. ***Indirect taxes such as Sales tax, Service tax, Purchase tax*** etc. are generally collected from the customer on behalf of the government in majority of the cases. However, this may not hold true in all cases and it is possible that a company may be acting as principal rather than as an agent in collecting these taxes. Whether revenue should be presented gross or net of taxes should depend on whether the company is acting as a principal and hence responsible for paying tax on its own account or, whether it is acting as an agent i.e. simply collecting and paying tax on behalf of government authorities. In the former case, revenue should also be grossed up for the tax billed to the customer and the tax payable should be shown as an expense. However, in cases, where a company collects tax only as an intermediary, revenue should be presented net of taxes.

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27. Any ***interest on shortfall in payment of advance income-tax*** is in the nature of finance cost and hence should not be clubbed with the Current tax. The same should be classified as Interest expense under finance costs. However, such amount should be separately disclosed.

28. Any ***penalties levied under Income tax laws*** should not be classified as Current tax. Penalties which are compensatory in nature should be treated as interest and disclosed in the manner explained above. Other tax penalties should be classified under other expenses.

29. ***Wealth tax*** payable by a company on assets liable for wealth tax should not be included within current tax since the same is not a tax on income. Accordingly, wealth tax should be included in Rates and taxes under other expenses.

30. ***Excess/Short provision of tax*** relating to earlier years should be separately disclosed.

31. Other Disclosures

The Statement of Profit and Loss shall also contain by way of a note the following information, namely:-

(a) Value of imports calculated on C.I.F basis by the company during the financial year

(b) Expenditure in foreign currency during the financial year

(c) Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;

(d) The amount remitted during the year in foreign currencies on account of dividends

(e) Earnings in foreign exchange

32. Definitions

(a) '**Capital**' refers to the amount invested in an enterprise by its owners e.g. paid-up share capital in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.

(b) An '**asset**' is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

(c) A '**liability**' is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

(d) '**Equity**' is the residual interest in the assets of the enterprise after deducting all its liabilities.

(e) '**Share Capital**' as the "aggregate amount of money paid or credited as paid on the shares and/or stocks of a corporate enterprise