# Revised Schedule VI

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# Genesis

# Notification

**NOTIFICATION NO. S.O. 447(E), DATED 28-2-2011.**

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642, read with sub-section (1) of section 210A and sub-section (3C) of section 211 of the Companies Act, 1956 (1 of 1956); Now, therefore, in exercise of the powers conferred by sub-section (1) of section 641 of the Companies Act, 1956 (1 of 1956), **the Central Government hereby replace the existing Schedule VI to the said Act by the following Schedule VI, namely:- "SCHEDULE VI" (See section 211)**

**NOTIFICATION F. NO. 2/6/2008-C.L-V, DATED 30-3-2011**

**"The notification shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011".**

# Applicability

- **Early adoption** of the Revised Schedule VI is **not permitted** since Schedule VI is a **statutory format**
- Comparative information will have to be presented starting from the first year of application. Thus for the financial statements prepared for the year 2011-12, **comparative amounts need to be given for the financial year 2010-11,** except if it is the first year of the entity
- As per MCA's Circular financial statements **for the purpose of IPO/FPO during the financial year 2011-12 maybe in the format of the pre revised schedule VI.** However, for period beyond 31st March 2012, new format is applicable

# Principles

- The requirements of the **Companies Act and AS will prevail over Schedule VI.** Terms to be interpreted as per applicable Accounting Standards, e.g. Associates, Related Parties

- **Disclosure** on the face of the financial statements or in Notes are **minimum requirements**

- The concept of **‘schedule’ is now eliminated** and such information is now to be furnished in the Notes to Accounts

# Major Changes

# Major Changes to the Balance Sheet

- Provides **only Vertical Format** for presentation
- **All items** of assets and liabilities are to be presented separately in **current and non-current** portions
- Number of shares held by **each shareholder** holding **more than 5%** shares, now needs to be disclosed
- Debit balance in Profit & loss account to be shown as part of **Reserves and Surplus**, even if net number is **negative**
- Debtors are now **Trade receivables,** their ageing disclosures are now based on outstanding from **"Due date"** against "Bill date".
- **All** types of **commitments** are to be disclosed
- **Default** in repayment of loans and interest to **be disclosed**

# Major Changes to the Profit & Loss

- It is now a "Statement" and **no longer "Account**"
- Separate disclosures for items exceeding **1% of revenue** from operations **or Rs 100,000**, whichever is higher.
- **Dividend income from subsidiary** is now to be recognized under ***AS 9 -Revenue Recognition**,* when the right to receive is established
- **Revenue** from operations disclosed as (a) Sale of Products , (b) Sale of services and (c) Other operating revenue
- **Exchange difference** considered as Interest Cost as per *AS 16 – Borrowing Cost*, now needs to be **disclosed separately** as finance cost

# Disclosures no longer required

- Disclosures relating **to managerial remuneration** and **computation of net profits** for calculation of commission;
- **Capacity Related Information** such as licensed capacity, installed capacity and actual production;
- Information on investments purchased and sold during the year **i.e. Investment Schedule**;
- Investments, sundry debtors and loans and advances pertaining to companies under the **same management**;
- Maximum **amounts due** on account of loans and advances **from directors or officers** of the company;
- **Commission, brokerage and non-trade discounts**

# General Instructions

# Current Assets

- 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.**

# 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 a duration of **twelve months**

- Where a company is engaged in **running multiple businesses**, the operating cycle could be different for each line of business and hence **classification** has to be done **depending upon the operating cycles for the respective business.**

# Current / Non current Liabilities

A liability shall be classified as current when it satisfies any one of the following criteria:

(a) it is expected **to be settled** in the company's **normal operating cycle**;

(b) it is held primarily for the purpose of **being traded**;

(c) it is due to be settled **within twelve months** after the reporting date;

(d) 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.**

# Breach of Covenants

- The loan was **not repayable on demand** from day one.
- Bank has **not demanded the repayment** of loan up to the date of approval of the accounts.
- In the **Indian context**, banks generally do not demand repayment of loans on minor defaults of debt covenants.
- Considering that **practical implications of minor breaches are negligible in the Indian scenario**, an entity could continue to classify the loan as "**non-current**"
- **In case a bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end, the loan will have to be classified as "Current"**

# Liability settled with Equity

- **The 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**

- **Where the option is with the issuer, the timing of such settlement would decide the classification of liability in current / non current**

# Balance Sheet Review

| Schedule VI (OLD) | Schedule VI (Revised – 2011) |
|---|---|
| **PART I**<br>**BALANCE – SHEET** | |
| I. SOURCES OF FUNDS | I. EQUITY & LIABILITIES |
| (1) Shareholders' Funds<br>(a) Capital<br>(b) Reserves & Surplus | (1) Shareholders' Funds<br>(a) Share Capital<br>(b) Reserves & Surplus<br>(c) Money received against share warrants |
| (2) Loan Funds<br>(a) Secured Loans<br>(b) Unsecured Loans | (2) Share application money pending allotment |
| (3) Deferred Tax Liabilities (Net) | (3) Non-current Liabilities<br>(a) Long-term borrowings<br>(b) Deferred tax liabilities (Net)<br>(c) Other long term liabilities<br>(d) Long-term provisions |
| (4) Current Liabilities & Provisions (Reclassified)<br>(a) Liabilities<br>(b) Provisions<br><br>**TOTAL** | (4) Current Liabilities<br>(a) Short-term borrowings<br>(b) Trade payables<br>(c) Other current liabilities<br>(d) Short-term provisions<br><br>**TOTAL** |

# Share Capital

- Includes both Equity as well as **Preference Capital**
- **Early adoption of AS 30 and AS 31** on Financial Instruments based on which **Preference shares have been treated as Liability**
- Reconciliation of number of shares outstanding at the beginning and end of the period
- Rights, preference and restrictions attaching to **each class are to be disclosed**
- Shares in respect of **each class held by holding company, ultimate holding company and subsidiaries or associates of the holding or ultimate holding company**

# Share Application Money Pending Allotment

- Required to be shown as a **separate line item** on the face of the Balance Sheet after Shareholders' Funds
- Share application **money not exceeding the issued capital and to the extent not refundable** shall be shown under this head
- Share application money to the **extent refundable** i.e., the amount in excess of subscription **or** in case the requirements of minimum subscription are not met, shall be separately shown under **'Other current liabilities'**

# Non Current Liabilities

- **Deferred tax liability is default Non current**
- Bonds/debentures shall be stated in descending order of maturity or **conversion**, starting from farthest redemption or conversion date, as the case may be
- Non current liabilities include:
  - **Long term Borrowings (secured / unsecured)**
  - **Deferred Tax liabilities**
  - **Other Long term liabilities**
  - **Long term provisions, including employee benefits**

# Default disclosures

- Requires for default in repayment of loans and interest under the head **"Borrowings"**
- To disclose period and amount of **"continuing default (in case of long-term borrowing) and default (in case of short-term borrowing)"** as on the Balance Sheet
- The disclosures to be made for **all items listed under the category of "Borrowings"** such as:
  - **bonds/ debentures, Term Loans,**
  - **deposits, loans & advances from Related party,**
  - **deferred payment liabilities,**
  - **finance lease obligations, others, etc.**

# Current Liabilities

- Short-term borrowings (secured / unsecured);
- Trade payables;
- Other current liabilities;
  - Current maturities of long-term debt, finance lease
  - Interest accrued on borrowings (due and not due);
  - Income received in advance;
  - Unpaid dividends;
  - Application money received with accrued interest
  - Unpaid matured deposits and interest accrued thereon;
  - Unpaid matured debentures and interest accrued thereon;
  - Other payables (specify nature).
- Short-term provisions – <u>Employee benefits & others</u>

| II. APPLICATION OF FUNDS | II. ASSETS |
| --- | --- |
| (1) Fixed Assets<br>(a) Gross Block<br>(b) Less: depreciation<br>(c) Net Block<br>(d) Capital Work-in-Progress | (1) (a) Fixed Assets<br>(i) Tangible Assets<br>(ii) Intangible Assets<br>(iii) Capital Work-in-Progress<br>(iv) Intangible Assets under development<br>(b) Non-current Investments<br>(c)Deferred tax assets (net)<br>(d) Long-term loans and advances<br>(e) Other non-current assets |
| (2) Investments (Long term and Current) | (2) Current Assets<br>(a) Current Investments<br>(b) Inventories<br>(c) Trade Receivables<br>(d) Cash and Cash equivalents<br>(e) Short-term loans and advances<br>(f) Other current assets |
| (3) Deferred Tax Assets (Net) | |

| | |
|---|---|
| (4) Current Assets, Loans and advances<br>(a) Inventories<br>(b) Sundry debtors<br>(c) Cash and Bank balances<br>(d) Loans & Advances<br>(e) Other current Assets | |
| (5) (a) Miscellaneous expenditure to the extent not written off or adjusted.<br>(b) Profit and Loss Account | |
| TOTAL | TOTAL |

# Assets

- Divided into two:
  - Current and Non current assets

- Deferred tax asset, net – default non current

- Fixed asset are non current and include:
  - Tangible assets;
  - Intangible assets;
  - Capital work-in-progress;
  - Intangible assets under development

# Tangible assets

- **Classification shall be given as:**
  **(a) Land;**
  **(b) Buildings;**
  **(c) Plant and Equipment;**
  **(d) Furniture and Fixtures;**
  **(e) Vehicles;**
  **(f) Office equipment;**
  **(g) Others (specify nature).**
- **Assets under lease shall be separately specified <u>under each class of asset</u>.**
- **Capital advances to be <u>disclosed under long term loans and advances and not under CWIP</u>**

# Intangible assets

- Classification of intangible assets was **not there in Old Schedule VI**
- Intangibles assets to be classified as Goodwill, Brands/trademarks, Computer software, Mastheads and publishing titles, Mining rights, Copyrights, patents and other intellectual property rights, services and operating rights, Others (specify)

# Investments

- To be classified into **Current and Non current.**
- Further bifurcated in **Trade and Non trade.**
- Current Investment is an investment that is by its nature readily realisable and **is intended to be held not more than one year from the date on which such investment is made.**
- Long term investment is an investment other than a current investment.
- Investments in Equity, Preference shares, Govt or trust securities, debentures or bonds, Mutual funds, Partnership, Others ..
- **Basis of valuation to be disclosed**

# Long term advances and other assets

- To be bifurcated in to **long term and short term and secured, unsecured and doubtful.**
- Further classified as **Capital advances** , Securities deposits (long term), Loans and advances to related parties and Others (specify)
- **Capital advances – <u>default non current</u>**
- **<u>Other inclusions:</u>**

  Prepaid Expenses, Advance tax, Cenvate, VAT recoverable etc which are not expected to be realised within next 12 months or operating cycle whichever is longer as on the balance sheet date.
- **No due date / on demand loans and advances - <u>Current</u>**
- **Other non-current assets to be bifurcated in to Long term trade receivables (secured, unsecured and doubtful) and Others (specify)**

# Cash and cash equivalent

**Cash & bank balances" in the Old Schedule VI is replaced with "Cash & Cash Equivalents"**

Cash and cash equivalents include

- Cash & Cash Equivalents as:

  (a) Balances with banks;

  (b) Cheques, drafts on hand;

  (c) Cash on hand;

  (d) Others (specify nature)

- **Margin Deposit with Banks**
- **Earmarked balances with banks**
- **Balances with repatriation restrictions**
- .

**There may be a need to reinstate the original caption**

# Contingent liabilities & Commitments

**Contingent liabilities** shall be classified as:

(a) Claims against the company not acknowledged as debt;

(b) Guarantees;

(c) Other money for which the company is contingently liable

**Commitments** shall be classified as:

(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;

(b) Uncalled liability on shares and other investments partly paid

(c) **Other commitments**

**Examples may include commitments in the nature of buy-back arrangements, commitments to fund subsidiaries and associates, non-disposal of investments in subsidiaries and undertakings, derivative related commitments, etc.**

# Statement of Profit & Loss

| | Particulars | Note | CY | PY |
|---|---|---|---|---|
| I. | Revenue from operations | 21 | - | - |
| II. | Other income | 22 | - | - |
| **III.** | **Total Revenue (I + II)** | | - | - |
| IV. | Expenses: | | | |
| | (a) Cost of materials consumed | | - | - |
| | (b) Purchases of Stock-in-Trade | | - | - |
| | (c ) Changes in inventories of finished goods work-in-progress and Stock-in-Trade | | - | - |
| | (d) Employee benefits expense | 23 | - | - |
| | (e) Finance costs | 24 | - | - |
| | (f) Depreciation and amortization expense | | - | - |
| | (g) Other expenses | 25 | - | - |
| | Total expenses | | - | - |
| **V.** | **Profit before exceptional and extraordinary items and tax (III-IV)** | | - | - |
| VI. | Exceptional items | | - | - |
| **VII.** | **Profit before extraordinary items and tax (V - VI)** | | - | - |
| VIII. | Extraordinary Items | | - | - |
| **IX.** | **Profit before tax (VII- VIII)** | | - | - |
| X | Tax expense: | | | |
| | (1) Current tax | | - | - |
| | (2) Minimun Alternate Tax | | - | - |
| | (3) Minimun Alternate Tax Entitlement | | - | - |
| | (4) Deferred tax | | - | - |
| **XI** | **Profit (Loss) for the period from continuing operations (IX - X)** | | - | - |
| XII | Profit/(loss) from discontinuing operations | | | |
| XIII | Tax expense of discontinuing operations | | | |
| **XIV** | **Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)** | | - | - |
| **XV** | **Profit (Loss) for the period (XI + XIV)** | | - | - |
| XVI | Earnings per equity share: | | | |
| | (1) Basic | | | |
| | (2) Diluted | | | |

# Statement of Profit & Loss

- **It is no more an account**
- **Functional classification not permitted**
- Requirement of **parent company to recognize dividends** declared by subsidiary companies even after the date of the Balance Sheet no longer exists in the Revised Schedule VI. AS-9 is required to be followed. ***(Consolidation point!!)***
- Any item of income or expense which exceeds 1% 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.
- **Specific disclosure required by AS-24 Discontinuing Operations is now on the face of the Statement.**

# Revenue

**Revenue from Operations**

| | |
|---|---|
| Sale of products | xx |
| Sale of services | xx |
| Other operating revenues | xx |
| Less: Excise duty | xx |

**Other Income**

| | |
|---|---|
| Interest Income (for non finance company); | xx |
| Dividend Income; | xx |
| Net gain / loss on sale of investments; | xx |
| Other non-operating income (net of expenses directly attributable to such income). | xx |

**Increase in inventory is no longer part of revenue**

# FAQs issued by ICAI

**21. There is a breach of a major debt covenant as on the balance sheet date related to long-term borrowing. This allows the lender to demand immediate repayment of loan. However, the lender has not demanded repayment till authorisation of financial statements for issue. Can the company continue to classify the loan as non-current? Will the classification be different if the lender has waived the breach before authorisation of financial statements for issue?**

- As per the Guidance Note on the Revised Schedule VI, a breach is considered to impact the non-current nature of the loan only if the loan has been irrevocably recalled. Hence, in the Indian context, long-term loans, which have a minor or major breach in terms, will be considered as current only if the loans have been irrevocably recalled before authorisation of the financial statements for issue.

# FAQs issued by ICAI

**22. What will be the scenario if a long-term loan has been classified as a nonperforming asset by the bank / financial institution? Can it still be classified as non-current?**

- The situation in case of a loan being classified as a non-performing asset will also be the same as the case of a performing asset. The essential ingredient to impair the long-term nature of the loan would be irrevocable recall of the loan by the lender.

# FAQs issued by ICAI

**47. Revised Schedule VI requires disclosure of the period and amount of continuing default / default as on the balance sheet date in the repayment of loans and interest. Will a company be required to make this disclosure if the default has been made good after the reporting date?**

- Revised Schedule VI requires disclosure of default in the repayment of loan and interest existing on the balance sheet date. We believe that a company needs to make this disclosure even if the default has been made good after the reporting date.

  However, it may choose to also disclose the fact that default has been made good after the reporting date.

# Revised Schedule VI

# V/s

# IAS 1 / Ind AS 1

# Few Differences

| | Revised Schedule VI | IAS 1 / Ind AS 1 |
|---|---|---|
| 1. | Functional classification in Profit & loss statement is not permitted. | Classification using Functional as well as Nature approach is permitted. |
| 2. | Retirement Benefits - Can be current as well as non current. | Retirement Benefits - Default Non current. |
| 3. | Share application Money pending allotment is classified as Quasi Equity | It is either Clear Equity or Liability |
| 4. | Interest accrued on Borrowings to be grouped under other liabilities. | Borrowings are accounted using effective interest method and hence inclusive of interest. |
| 5. | Redeemable preference shares are classified as Equity | Redeemable preference shares are classified as Borrowings |
| 6. | Convertible Bonds continue to be classified as Debt with disclosure of conversion terms. | Convertible Bonds are split into Debt an Equity. |
| 7. | Contingent assets are not part of off balance sheet disclosures. | Contingent assets are to be disclosed in notes |
| 8. | Continue non current classification if lender has not recalled the loan before approval of FS | Need unconditional right at the balance sheet date irrespective of action from Bank |

# Impact of Revised Schedule VI

**a. Financial ratios**

**- Net Current Assets**

**- Debt to Equity ratio**

**b. Financial Covenant calculations turning adverse**

**c. Going Concern issues**

*Further thoughts!*

Thank You