
# REVISED SCHEDULE VI: RAISING PRESENTATION LEVEL BY INDIAN CORPORATE

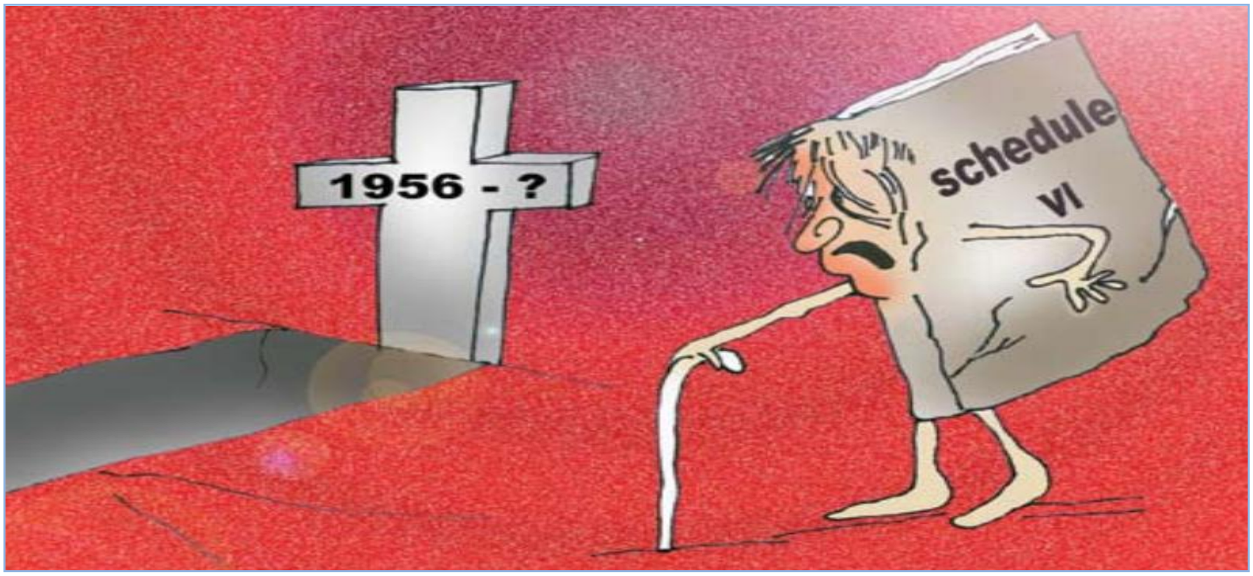
Indian corporate is increasingly getting innovative in preparation and presentation of financial statements, with a view to make their business competitive and globally recognizable. It is essential that our financial statements should speak the global language to have a better presentation level and greater transparency in financial statements.

The classification under the old Schedule VI was, however, not in line with the international practices, making investors reluctant to invest in the Indian companies. Due to these reason Indian companies were required to prepare another set of financial statements for off-shore investors to make them understand the performance and position of their companies, which resulted in higher costs and also consumed considerable time and effort.

So a need was felt that Format of Financial Statement of Indian Corporate should be comparable with International Format for better presentation of Financial Statement and The Ministry of Corporate Affairs introduced the Revised Schedule VI vide Notification No. 447 (E) dated 28.02.2011 which is framed as per the existing Indian Accounting Standards and has no link with the converged Indian Accounting Standards notified under the Companies (Accounting Standards) Rule, 2006 and IND AS also. The revised Schedule VI will apply to all the companies uniformly for the financial statements to be prepared for the financial year commencing on or after 1/4/2011.

## Why Has Schedule VI Outlived its Utility?

More and more people were believed that Schedule VI of the Companies Act, 1956 has become outdated. Particularly when new standards in respect of deferred taxes, intangibles, leases, consolidation, impairment etc. were introduced. The big question was how to fit the disclosures under these standards in the Schedule VI format. More often it was like fixing a square peg in a round hole. Take, for instance,




i. Deferred tax asset or liability, which is a non-current item as per Accounting Standards (AS). Schedule VI does not contain any prescription on where and how to disclose non-current assets and liabilities.
ii. Schedule VI requires detailed disclosure for fixed assets, but there is no separate line item for intangibles, which under Schedule VI are stacked in the fixed asset line item, contrary to international practice.
iii. Schedule VI does not contain any format for consolidated financial statements nor does it deal with disclosure in respect of leases, impairment, discontinuing operations, etc.
iv. It does not contain any format for the profit and loss account.
v. Measurement principles in Schedule VI, which could be contrary to the principles of an AS. A case in point is, the capitalization of foreign exchange difference, which AS-11 did not allow, but Schedule VI required, here law prevails over an AS.

## Why Revision of the Schedule VI?

The Schedule VI to the Companies Act, 1956 has been prepared on the following concepts:

i. To ‘have a readable, useful, transparent and user friendly’ form of Schedule VI.
ii. To set out minimum disclosure requirements which are considered essential to ensure true and fair presentation of the financial position, which can be comparable with the company’s previous periods and with other companies.
iii. The Balance Sheet (BS) and the Statement of Profit and Loss (Statement of P&L) should not be burdened with too many disclosure requirements.
iv. To remove irrelevant disclosure requirements in view of the changed socio-economic structure and level of development of the economy.
v. To remove disclosure requirements which are meant for statistical purposes only e.g. Part IV of Schedule VI.
vi. To have inherent flexibility for amendments and industry/sector specific improvements from time to time and to cater to industry/sector specific disclosure requirements.
vii. To harmonize and synchronize the general disclosure requirements with those prescribed in the AS.

## Features of Revised Schedule VI:

I. Compliance with the requirements of the Companies Act including Accounting Standards to have precedence over the requirements of the Schedule VI.
II. Requirements mentioned therein for disclosure on the face of the financial statements or in the notes are minimum requirements: The Revised Schedule VI clarifies line items, sub-line items and sub-totals can be presented as an addition or substitution on the face of the

financial statements when such presentation is relevant for understanding of the company's financial position and /or performance;

III. The Revised Schedule VI has eliminated the concept of 'schedule' and such information is now to be furnished in the notes to accounts;

IV. Terms in the Revised Schedule VI will carry the meaning as defined by the applicable AS notified under Companies (Accounting Standards) Rules, 2006;

V. Rounding off requirements:

| ***Sr. No.*** | ***Turnover*** | ***Rounding off*** |
|---|---|---|
| (i) | If T/O <100 Crore | To the nearest hundreds, thousands, lakhs or millions, or decimals thereof |
| (ii) | If T/O >=100 Crore | To the nearest lakhs rupees or more or millions or crores, or decimals thereof |

Once aUnit of measurement is used, it should be used uniformly in the Financial Statements.

VI. Balance to be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation;

**<u>Major changes related to the Balance sheet:</u>**

- The Revised Schedule VI prescribes only vertical format for presentation of financial statements;
- Now assets and liabilities are to be segregated into their current and non-current portions;
- Number of shares held by **each shareholder** holding **more than 5%** shares, now needs to be disclosed;
- Details pertaining to aggregate number and class of shares allotted for consideration other than cash, bonus shares and shares bought back will need to be disclosed only for a period of 5years immediately preceding the BS date;
- Debit balance in the Statement of P&L will be disclosed under the head "Reserves and surplus" even if net number is negative;
- "Sundry Debtors" and "Sundry Creditors" are replaced with the term "Trade Receivables" and" Trade Payables and Disclosure of trade

receivables outstanding for a period exceeding six months from the date the bill/invoice is due for payment;
- Capital commitments and Other Commitments need to be disclosed in Revised Schedule VI, and
- The Revised Schedule VI requires disclosure of all defaults in repayment of loans and interest to be specified in each case.

**Major changes related to the Statement of Profit & loss:**

- In the Revised Schedule VI name of 'Profit and Loss Account' has been changed to "Statement of Profit and Loss" and lays down a format for the presentation of Statement of P&L;
- Any item of income or expense which exceeds 1% of the revenue from operations or Rs. 100,000, whichever is higher, needs to be disclosed separately;
- Dividend income from subsidiary is now to be recognized under AS 9 - Revenue Recognition, when the right to receive is established;
- In respect of companies other than finance companies, revenue from operations need to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues**,** and
- 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:**

The Revised Schedule VI has removed a number of disclosure requirements that were irrelevant in present. Examples:

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

## Raising presentation level of Financial Statement:

Revised Schedule VI brings in a lot of changes from reporting perspective and will facilitate better presentation level of financial statements as follow:

i. By complete revamping of the presentation of assets and liabilities. Current assets may turn out to be Non-current and vice versa. This will reflect true 'current and quick ratios' which assist the users in analysis of liquidity;

ii. Full details of convertible instruments will facilitate better analysis of financial statements;
iii. Bifurcation of sundry creditors into creditors for operating activities and others will assist in accurate forecasting of payable days/operating cash flows;
iv. Similarly, since Trade receivables are to be classified based on the days passed from the Due date only rather than the Billing date, companies will be far relieved to present the affairs since the amount of old outstanding as exhibited by their BS will drop significantly. This also improves the liquidity assessment by financial institutions and Banks;
v. Current maturity of long-term debt (debt repayable within one year) will be disclosed separately under 'Other current liabilities' will leads better presentation of financial statements;
vi. Debtors exceeding six months post due date of payment will help stakeholders for better analysis ;
vii. Exchange differences to the extent they can be regarded as an adjustment to interest cost is to be disclosed under the head 'Finance costs' in P&L. This will affect companies which have resorted to External Commercial Borrowing; etc.
viii. Even Proprietary concern; Partnership Firm, LLP etc. can adopt Revised Schedule VI for preparation of financial statement to have a common and better presentation level among Indian corporate.

## Conclusion:

Any change, even a change for the better, is always accompanied by drawbacks and discomforts. But Revised Schedule VI is a better and bold step to harmonising with international regulatory environment and it definitely raises the presentation levels of the Indian corporate. It also poses a few challenges to Indian professionals and at the same time provides them with golden opportunities.

**Any queries/suggestions are most welcomed at:**

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