Revised Scheduled VI

By :-
Vijay Kumar

Structure of Presentation

- Setting the Context
- Structure of Revised Schedule VI
- Key Changes
- Key Points

Setting the Context

Setting the Context

Towards International Format:

- Harmonize and synchronize the disclosure requirements with Internatinal formats & in the direction of Ind–AS (IFRS converged AS)

  For e. g. Certain concepts like current/ non–current classification of assets and liabilities, Elimination of concept of schedule and such information will now be provided in the notes to accounts

Applicability

- Applicable to all Companies (except Banking and Insurance Companies)
- Applicability date: Financial years commencing on or after 1 April 2011
  Can a company apply Revised Schedule VI early from 1 January 2011?

Setting the Context

Format

- No option to use horizontal format for presentation of BS
- No option to use functional classification of expenses
- Each item of the face of the BS and P&L shall be cross referenced to any related information in notes to accounts
- Revised Schedule VI has flexibility
  - Addition, deletion, amendment, substitution, modification of line/sub–line items
  - AS/ Act override Revised Schedule VI
  - Balance between providing excessive detail or excessive aggregation

Concept of Materiality

- Revised schedule VI specifically recognizes concept of materiality
- Existing schedule VI materiality threshold
  - Expenses exceeding 1% of the total revenue or Rs. 5,000, whichever is higher, shall be shown as a separate and distinct item
- Revised schedule VI materiality threshold
  - Items of income or expense which exceeds 1% of the revenue from operations or Rs 100,000 whichever is higher

Structure of Revised Schedule VI

Balance Sheet – Revised Format

(Rupees in...........)

Particulars	Note No.	current reporting period	previous reporting period
I. EQUITY AND LIABILITIES			
1) Shareholders' funds			
a) Share capital		XX	XX
b) Reserves and surplus		XX	XX
c) Money received against share warrants		XX	XX
2) Share application money pending allotment		XX	XX
3) Non–current liabilities			
a) Long–term borrowings		XX	XX
b) Deferred tax liabilities (Net)		XX	XX
c) Other long term liabilities		XX	XX
d) Long–term provisions		XX	XX
4) Current liabilities			
a) Short–term borrowings		XX	XX
b) Trade payables		XX	XX
c) Other current liabilities		XX	XX
d) Short–term provisions		XX	XX
TOTAL		XX	XX

Balance Sheet – Revised Format

(Rupees in..........)

Particulars	Note No.	current reporting period	previous reporting period
II. ASSETS			
1) Non–current assets			
a) Fixed assets			
i) Tangible assets		XX	XX
ii) Intangible assets		XX	XX
iii) Capital work–in–progress		XX	XX
iv) Intangible assets under development		XX	XX
b) Non–current investments		XX	XX
c) Deferred tax assets (net)		XX	XX
d) Long–term loans and advances		XX	XX
e) Other non–current assets		XX	XX
2) Current assets			
a) Current investments		XX	XX
b) Inventories		XX	XX
c) Trade receivables		XX	XX
d) Cash and Cash Equivalents		XX	XX
e) Short–term loans and advances		XX	XX
f) Other current assets		XX	XX
TOTAL		XX	XX
See accompanying notes to the financial statements			

P&L – Revised Format

(Rupees in…………)

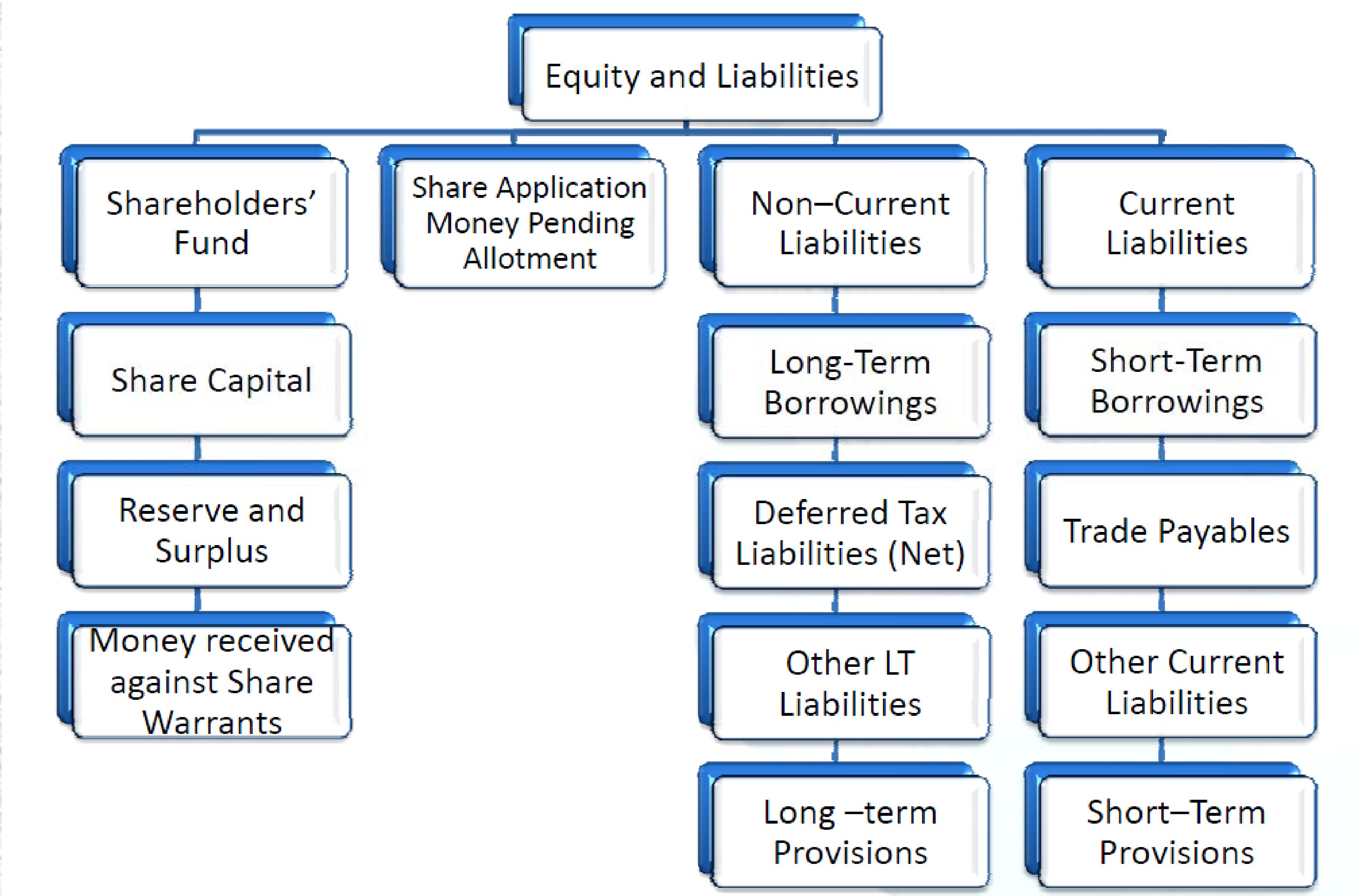
Particulars	Note No.	current reporting period	previous reporting period
I. Revenue from operations (Net)		XX	XX
II. Other income		XX	XX
III. Total Revenue (I+II)		XX	XX
IV. Expenses:			
- Cost of raw materials consumed		XX	XX
- Purchases of Stock–in–Trade		XX	XX
- Changes in inventories of finished goods work–in–progress and Stock–in- Trade		XX	XX
- Employee benefits expense		XX	XX
- Finance costs		XX	XX
- Depreciation and amortization expense		XX	XX
- Other expenses		XX	XX
Total Expenses		XX	XX
V. Profit before exceptional and extraordinary items and tax (III–IV)		XX	XX
VI. **Exceptional items**		XX	XX
VII. Profit before extraordinary items and tax (V–VI)		XX	XX

P&L – Revised Format

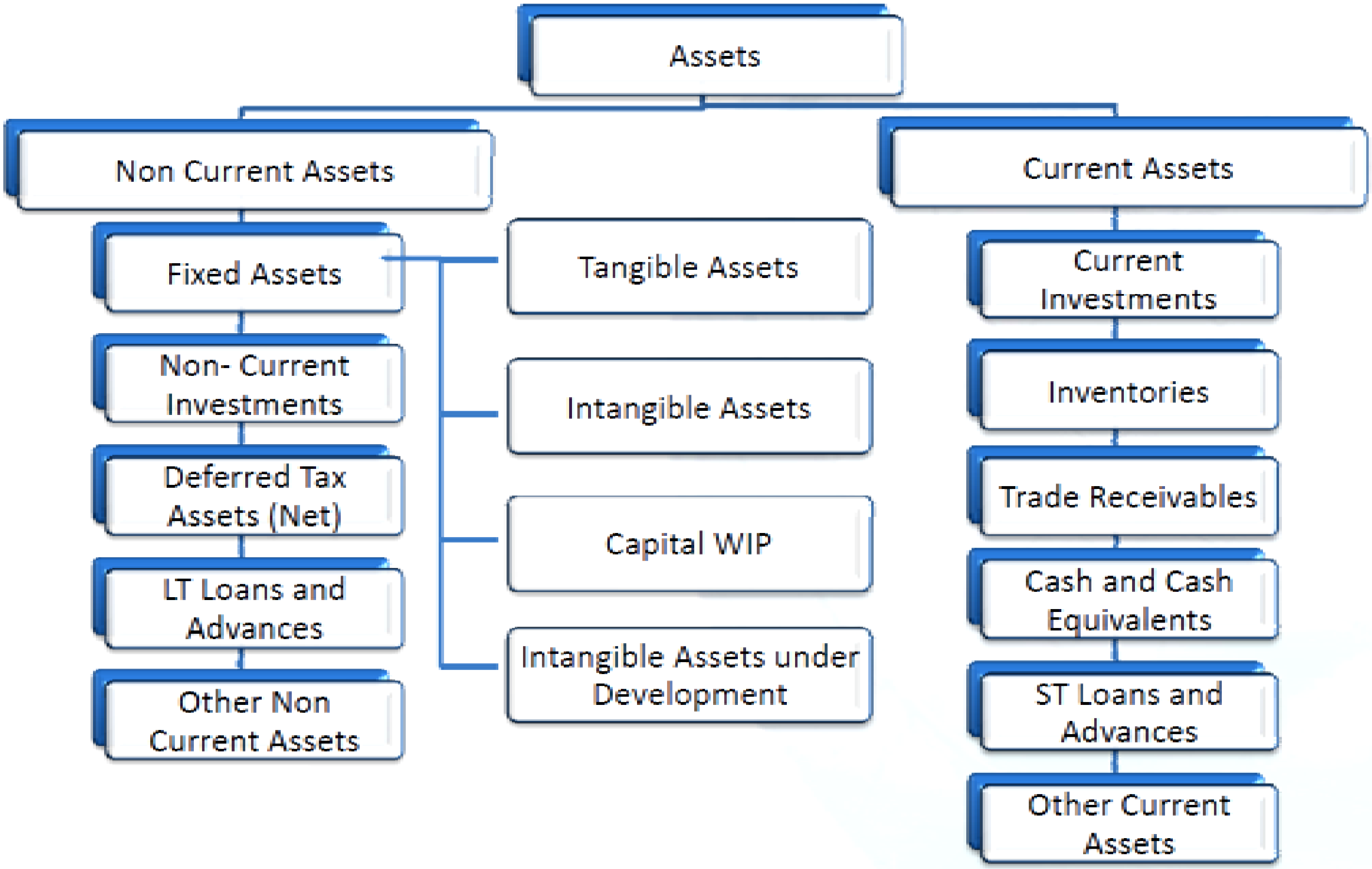
(Rupees in…………)

Particulars	Note No.	current reporting period	previous reporting period
VII. Profit before extraordinary items and tax (V–VI)		XX	XX
VIII. Extraordinary items		XX	XX
IX. Profit before tax (VII– VIII)		XX	XX
X. Tax Expense:		XX	XX
1) Current tax		XX	XX
2) Deferred tax		XX	XX
XI. Profit/(Loss) for the period from continuing operations (IX–X)		XX	XX
XII. Profit/(loss) from discontinuing operations		XX	XX
XIII. Tax expense of discontinuing operations		XX	XX
XIV. Profit/(loss) from Discontinuing operations (after tax) (XII–XIII)		XX	XX
XV. Profit/(Loss) for the period		XX	XX
XVI. Earnings per equity share:		XX	XX
1) Basic		XX	XX
2) Diluted		XX	XX
See accompanying notes to the financial statements			

Equity and Liability Classification



Assets Classification



Key Changes

New Disclosures

Current/ non–current classification

- If an asset or a liability has both the portions, company will need to break the same into current and non–current portions e.g., Current maturities of a long term borrowing will have to be separated and classified under the head “other current liabilities”
- Will Impact Working Capital, Current Ratio & Debt Equity Ratios

Loans and Advances from Related Parties

- Revised schedule VI requires separate disclosure for loans and advance received from and given to related parties

New Disclosures

Commitments

- Requires disclosure of all commitments (including commitments other than capital commitments)

Loan Defaults

- Requires disclosure of all defaults in repayment of loans and interest
- Currently CARO requires only defaults in repayment of dues to financial institutions, banks and debenture holders to be specified
- Terms of repayment of term loans & other loans to be disclosed (earlier only debentures)

Shares of each class held by:

- Holding Company
- Ultimate Holding Company
- Subsidiaries or Associates of Above 2

New Disclosures

Shareholder’s Funds – Additional Disclosures

- Reconciliation of no. of shares outstanding at beginning and end of reporting period
- Rights, preferences and restrictions of each class of shares including restrictions on distribution of dividends and repayment of capital
- Details of shareholders holding more than 5% shares
- Details of shares issuable under options and contracts/ commitments
- Unpaid calls by directors **and officers shall be shown separately**

For 5 years immediately preceding the date of BS disclose aggregate number & class of shares :

- pursuant to contract(s) without payment being received in cash (presently to be given throughout the life of the Company)
- bonus shares (presently to be given throughout the life of the Company)
- bought back (presently not required)

New Disclosures

Share Application money pending allotment

- Not exceeding issued capital and not refundable – disclosure after shareholders fund and before liability
- If refundable – other current liability

Additional Disclosures of Share Application Money

- Terms & Conditions
- Number of shares to be issued
- Amount of premium
- period before which shares will be allotted
- Whether company has sufficient authorized capital to allot the shares out of application money
- Period for which it is pending beyond the date of allotment mentioned in
- offer document with reasons

Investments

- With respect to Investments, separate disclosure required for investment in "controlled special purpose entities" What is meant by "controlled special purpose entities"

Disclosures No Longer Required

Profit and Loss Account

- Commission, brokerage and non–trade discounts

Balance Sheet

- Investments purchased and sold during the year
- Investments, sundry debtors and loans & advances pertaining to companies under the same management
- Break up of Bank Balances between Scheduled & Other Banks, Break up between current account, call account & deposit accounts, Details of names, amount, maximum amounts with non scheduled banks

Notes

- Managerial remuneration and computation of net profits for calculation of commission
- Licensed capacity, installed capacity and actual production
- Balance sheet Abstract & Company’s General Profile under Part IV

Accounting No Longer Required

Dividend

- Existing Schedule VI required the parent company to recognize dividend declared by subsidiary companies even after the date of the balance sheet if they were pertaining to the period ending on or before the balance sheet date. Such requirement no longer exists in Revised Schedule VI
- Whether the dividend recognized in the previous year needs to be derecognized and the previous year financial statement to be restated?
- By virtue of AS-4, Subsidiary Co will provide for proposed dividend and if holding Co., would not recognise same, how to deal with it in Consolidated Accounts?

Disclosures Modified

Debtors

- Currently, debtors Outstanding for a period exceeding 6 months based on billing date
- Revised schedule VI requires debtors outstanding for a period exceeding 6 months from the date they became due for payment

Capital advances

- Currently, capital advances can be presented as part of Capital Work–in–Progress / Fixed Assets
- Revised Schedule VI requires the same to be presented separately under the
- head “Loans & Advances”

Profit & Loss Account Appropriation / Reserves & Surplus

- Appropriation of Profit & Loss to be presented under Reserves & Surplus
- Debit Balance of Profit & Loss to be shown as a ‘negative’ figure under Surplus
- Reserves & Surplus balance will be shown after adjusting negative balance of P&L, even if negative

Key Points

Important Definitions

Current/ Non Current asset – An asset is 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.

Current/ 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.

Important Definitions

Operating Cycle

- It 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 12 month

Trade Receivable

- A receivable shall be classified as a ‘Trade Receivable’ if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business

Trade Payable

- A payable shall be classified as a ‘Trade Payable’ if it is in respect of the amount due on account of goods purchased or services received in the normal course of business

Key Points

Commitments

- Earlier Schedule VI - only “capital commitments”. Revised Schedule VI requires the disclosure of all commitments, i.e., including “other commitments.” What is the nature of “commitments” that will get covered under this disclosure requirement?

Trade Receivable/ Payable classification

- Liability for purchase of fixed assets/ receivable for sale of Fixed Assets not to be classified as Trade Payable/ Trade Receivable

Investment

- Investments– Basis of valuation (Revised) Vs Mode of Valuation (earlier)
  - Long–Term investments carried at other than cost
  - Current Investment (individual investments)

Key Points

Current and Non-Current Classification

- Deferred Tax should always be classified as Non–Current
- Capital advances to be classified as non-current assets
- Unconditional right to defer settlement of liability
  - Non compliance of debt covenants e.g. quarterly information, non payment of monthly interest.
  - Most loan agreements have a clause that in case of non compliance of any clause the loan will be payable on demand.
- Classification of Long–term investment expected to be realized within 12 months from the BS date as current investment
- Employee Benefits like Bonus/ Incentives, Post employment obligations e.g. Gratuity and Pension, Other long–term benefits e.g. Accumulated compensated absence

Key issues related to Balance Sheet

Current and non-current classification – some questions

- Company A has taken a loan which is repayable on demand. However, based on the past experience, it is not expected that the lender will demand the repayment within next 12 months.
- Company B has taken a 5 year loan. The loan contains certain debt covenants, e.g., filing of quarterly information. The company defaulted in filing of such information in the previous quarter, with the effect that loan has become repayable on demand. However, based on the past experience, the management believes that default is minor and the bank will not demand the repayment of loan. It has also started the process of getting waiver for this default. After the reporting period and before the approval of the financial statements for issue, the bank agreed to waive the default and not to demand payment as a consequence of the default.
- A company has taken a 5 year term loan. Out of abundant caution, the bank includes a covenant that it has a right to recall the loan on demand even where the company has not violated any of the debt covenants.

Key Points

Share Capital

- Shareholder holding more than 5% shares

Classification of preference shares

- Different classes of Preference Shares to be “treated separately”.
- Does it mean that a company should compulsorily classify preference shares based on their substance, i.e., redeemable preference shares should always be classified as liability?
- Disclosure of Preference Shares for companies following AS-30 to 32 on Financial Instruments.

Key Points - Disclosure

Level of disclosure pertaining to default/continuing default in repayment of loans & interest in each case i.e. category–wise or loan–wise within the category?

Details of “continuing default (in case of long–term borrowing) and default (in case of short–term borrowing) as on the balance sheet date in *repayment of loans and interest shall be specified separately in each case". The wordings* give rise to following issues:

- Default pertaining to borrowing apart from banks and FI’s are also required for items such as bonds/ debentures, deposits, finance lease obligations
- Defaults other than repayment of loan and interest, e.g., compliance with debt covenants not required to be disclosed

Key Points - Disclosure

Loans and Advances to related parties

- "Details" of Loans and Advances given to related parties to be disclosed
- What details need to be disclosed are not specified?
- Whether disclosures required to be made in addition to AS–18 (& ASI–13)

Disclosure for information about items that do not qualify for recognition in financial statements

- Postponement of Revenue Recognition
- Disputed Cases – Remote Liability – Not Contingent

Key Issues – Profit and Loss Account

Quantitative Information

Nature of Company	Disclosures Required
Manufacturing companies	Raw materials under broad heads Goods purchased under broad heads
Trading companies	Purchases of goods traded under broad heads
Companies rendering or supplying services	Gross income derived from services rendered under broad heads
Company that falls in more than one category	It will be sufficient compliance with the requirements, if purchases, sales and consumption of raw material and the gross income from services rendered are shown under broad heads

Key Issues – Profit and Loss Account

Quantitative Information

- Is a Company required to disclose quantitative details or not?
- Will a manufacturing company disclose purchase, sale or consumption of raw material?
- What is meant by "good purchased" in case of manufacturing companies?
- Does a manufacturing or a trading company required to disclose sales?
- How should broad heads for Work–in–Progress be disclosed?
- Whether broad heads of Opening and Closing Inventory should also be disclosed?

Key Issues – Profit and Loss Account

Excise Duty, Sales Tax and VAT

- Revised Schedule VI requires excise duty to be presented as deduction from revenue of a non–finance company in the notes
- No specific requirement for presentation of VAT and Sales Tax
- Issues
  - AS 9 *Revenue Recognition requires excise duty to be shown as deduction* from sales on the face of P&L Account (and not in notes)
  - No notified AS deals with accounting for VAT. However, the ICAI GN requires that revenue recognized should be net of VAT
  - Service Tax–??

Key Issues – Profit and Loss Account

- Accounting and disclosure of share of profit/ loss in Partnership Firms
- Whether disclosures for Names of all Partners, Total Capital and Share (Profit/ Loss Sharing Ratio) of Each Partner should be disclosed for LLP also?
- Proposed dividend – accounting and disclosure
- Whether dividend income for finance companies should be taken to main revenue or Other Income ?

Key Issues – Disclosure

- Meaning of “other operating revenues” for non–finance companies
- Where should Profit on Sale of Fixed Assets be classified – Other Operating Revenue/ Other Income?
- Should the net gains arising on foreign exchange fluctuations be included under the head “Other Operating Revenues” or “Other Income”?
- Disclosure of value of imports and expenditure in foreign currency whether accrual or cash?
- Does Small and Medium Company as defined under Companies (Accounting Standards) Rules, 2006 need to disclose Diluted EPS?

Key Issues – Takeaways

- Comparative Numbers – To commence exercise of validating previous year numbers in Revised Schedule VI Format
- Changes to be made MIS/ IT systems to collate information of current/ non–current portions of each asset and liabilities
- Break-up of Employee Benefit Liabilities in Current and Non Current to be obtained from Independent Actuary.
- Review Loan Agreements to avoid becoming current liability in case of non compliance of minor clauses
- Additional time and efforts for the Companies and Auditors to understand and implement changes
- Use of judgment to maintain balance between excessive information and over aggregation

Differential Comparison

SN	Particular	Existing	Revised
1	**Net Working Capital**	Current assets and Liabilities are shown together under application of funds. Net Working Capital appears on balance sheet	Assets & Liabilities are to be bifurcated into current & Non–current and shown separately. Hence, **Net Working Capital will not be appearing in Balance sheet**
2	**Fixed Assets**	No bifurcation required into Tangible & Intangible assets	Fixed assets to be shown under non–current assets and it has to be bifurcated in to **Tangible & Intangible assets**
3	**Borrowings**	Short term & long term borrowings are grouped together under the head Loan funds sub–head Secured/ Unsecured	• Long term borrowings to be shown under non current liabilities and short term borrowings to be shown under current liabilities with separate disclosure of secured/ unsecured loans. • Period and amount of continuing default as on the balance sheet date in repayment of loans and interest to be separately specified

Differential Comparison

SN	Particular	Existing	Revised
4	**Finance lease obligation**	Finance lease obligations are included in current liabilities	Finance lease obligations are to be grouped under the head non–current Liabilities
5	**Deposits**	Lease deposits are part of loans & advances	Lease deposits to be disclosed as long term loans & advances under the head non–current assets
6	**Investments**	Both current & non–current investments to be disclosed under the head investments	Current and non–current investments are to be disclosed separately under current assets & non–current assets respectively
7	**Loans & Advances**	Loans & Advances are disclosed along with current assets Loans & Advance to subsidiaries & others to be disclosed separately	Loans & Advances to be broken up in long term & short term and to be disclosed under non–current & current assets respectively. Loans & Advance from related parties & others to be disclosed separately.

Differential Comparison

SN	Particular	Existing	Revised
8	**DTA/ DTL**	Deferred Tax assets/ liabilities to be disclosed separately	DTA/ DTL to be disclosed under non–current assets/ liabilities as applicable
9	**Cash & Bank Balances**	Bank balance to be bifurcated in scheduled banks & others	Bank balances in relation to earmarked balances, held as margin money, deposits with more than 12 months maturity, each to be shown Separately.
10	**Profit & Loss (Dr Balance)**	P&L debit balance to be shown under the head Miscellaneous expenditure & losses	Debit balance of Profit and Loss Account to be shown as negative figure under the head Surplus. Therefore, reserve & surplus balance can be negative
11	**Format**	A company has an option to use **horizontal format for presentation** of financial statements.	A company will not have option to use horizontal format for presentation of financial statements.

Differential Comparison

SN	Particular	Existing	Revised
13	**Other current liabilities**	No separate disclosure of Current maturities of long term debt. No separate disclosure of Current maturities of finance lease Obligation	Current maturities of long term debt to be disclosed under other current Liabilities. Current maturities of finance lease obligation to be disclosed
14	**Purchases**	Purchases, Opening & closing stock, giving break up in respect of each class of goods traded in indicating the quantities thereof	Goods traded in by the company to be disclosed in broad heads notes. Disclosure of quantitative details of goods is much diluted.
15	**Expense Classification in P & L A/c.**	Function wise & Nature wise	Classification based on nature of expenses
16	**Finance Cost**	To be classified in fixed loans & other loans	To be classified as interest expense, other borrowing costs & Gain/ Loss on forex transactions/ translations.
17	**Foreign exchange gain/ loss**	Gain/ Loss on foreign currency transaction to be shown under finance cost	Gain/ Loss on foreign currency transaction to be separated into finance costs and other expenses

THANKS