

Financial Reporting & Revised Schedule VI



CA. Rajkumar S Adukia

B.Com (Hons), FCA, ACS, ACWA, LLB, DIPR, DLL &LP, IFRS(UK), MBA

email id: rajkumarradukia@caaa.in

Mob: 09820061049/09323061049

To receive regular updates kindly send test email to : rajkumarfca-subscribe@yahoogroups.com & rajkumarfca+subscribe@googlegroups.com

Financial Statements



A **Financial Statement** is a document reporting business financial performance and resources. Some common financial statements are:

- Balance Sheet
- Statement of Profit and Loss
- Cash Flow Statement

Financial Reporting



- Process of **communicating information**
- **Relevant to investors**, creditors, and others in making investment, credit, and other decisions.
- By way of **Preparation of Accounts**
- Complying with the **Statutory Requirements and Applicable Accounting Standards.**

Financial Reports – Bound by



- Laws
- Requirements of Regulators
- Industrial Requirements
- Fairness in Presentation

Components of a Financial Report



- Balance Sheet
- Statement of Profit & Loss
- Cash Flow Statement
- Board of Director's Report
- Director's Responsibility Statement
- Auditor's Report

Format of Financial Reporting



- The Ministry of Corporate Affairs (MCA) has issued revised Schedule VI which lays down a new format for preparation and presentation of financial statements by Indian companies for financial years commencing on or after 1 April 2011.

Users of Financial Statements



- According to the Framework for the Preparation and Presentation of Financial Statements issued by the ICAI in 2000 the users of financial statements include
 - Present and potential investors
 - Employees
 - Lenders
 - Suppliers and other trade creditors
 - Customers
 - Governments and their agencies
 - The Public

Qualitative Characteristics of Information in Financial Report



- Understandability
- Relevance
- Reliability
- Comparability

Quality of Financial Reporting



Financial Statements should reflect

- an accurate picture of a company
- its financial condition and performance

If the financial statements distort economic reality

- Capital will be deployed sub optimally
- Resources will be misallocated
- Investors will pay a huge opportunity cost by investing, inflated values and better investment opportunities may get bypassed

Indian Financial Reporting System



- Corporate Financial Reporting in India is Governed by primarily by
 - Companies Act, 1956
 - Securities and Exchange Board of India
- The Companies Act, 1956 prescribes the financial reporting requirements of all companies registered under it
- The reporting requirements that are imposed by SEBI through its Guidelines and through the Listing Agreement are in addition to those prescribed under the Companies Act, 1956

Role of the Regulator



- The Securities and Exchange Board of India (SEBI) is the regulatory authority in India established under Section 3 of SEBI Act, 1992
- Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities
- SEBI appoints expert committees to direct changes in the disclosure requirements

Statutory Recognition of Accounting Standards



- The Companies Act, 1956 amended **Section 211** to insert **Sub Sections (3A), (3B), (3C)** for compliance with AS for the preparation of Statement of Profit and Loss and Balance Sheet
- Insertion of a new **clause (d) to Section 227** that requires the auditor to report on the compliance with accounting standards by reporting entity

Forms and Contents of the Balance Sheet and Profit and Loss Account



- Sec 211(1) of the Companies Act, 1956 requires that every balance-sheet of a company shall
 - give a true and fair view of the state of affairs of the company
 - as at the end of the financial year and shall,
 - subject to the provisions of this section,
 - be in the form set out in Part I of Schedule VI, or
 - in such order form as may be approved by the Central Government.
- Every profit and loss account and balance-sheet of the company shall comply with the accounting standards.

Forms and Contents of the Balance Sheet and Profit and Loss Account



- Where the profit and loss account and the balance-sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance-sheet, the following, namely:—
 - (a) The deviation from the accounting standards;
 - (b) The reasons for such deviation; and
 - (c) The financial effect, if any, arising due to such deviation.

The Schedule VI to the Companies Act, 1956



- Prior to revision Schedule VI had been in existence for almost five decades
- In 1960, Section 21, which provided for Forms and Contents of Balance Sheet and Profit and Loss Account, was modified by the Companies (Amendment) Act, 1960
- The sub-section (1) and (2) of the said section require that every Balance Sheet and Profit and Loss should be in the form specified in the Part I and II of the Schedule VI
- It is not essential to amend the Act itself for any amendment required in the Schedule VI
- The power to amend Schedule VI is conferred upon the Central Government by the section 641(1) of the Act.

Revised Schedule VI



- Revised Schedule VI introduces some significant conceptual changes such as
 - current/non-current distinction,
 - primacy to the requirements of the accounting standards,
- Corporate disclosures closer to international practices
- Applicable to all companies
- Applies to Consolidated Financial Statements
- Clause 41 & Revised Schedule VI
- Interim Financial Statement as per AS 25

Revised Schedule VI



- Only Vertical format allowed
- Introduction of Format for P&L also
- Existing Part III & Part IV are done away with
- The narrative descriptions or disaggregation to be presented in Notes instead of schedule format.
- Each item of BS and P&L to be cross referenced to related information in notes.

Highlights of Revised Schedule VI



- **Minimum requirements for disclosure** on the face of financial statements or in the notes
- Line & sub-line items & subtotals can be presented as an addition
- Additional disclosures under accounting standards & in the Act
- Additional disclosures in the notes to accounts
- Act and/ or accounting standards prevail over the Schedule VI
- Corresponding amounts for the immediately preceding period
- Terms will carry meaning as defined by the applicable AS
- Requirement to use the same unit of measurement uniformly throughout the financial statements

Revised Schedule VI – An Overview



- Part 1- Format of Balance Sheet and General Instructions
- Part 2- Format of Profit & Loss account and General Instructions

“Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements,”.

PART I – Form of BALANCE SHEET

Name of the Company.....
Balance Sheet as at

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

PART I – Form of BALANCE SHEET

Name of the Company.....

Balance Sheet as at

		(Rupees in.....)	
Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
II. ASSETS			
Non-current assets			
(1) (a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2)			
Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

1. Current Asset to satisfy any of the following Criteria



- Expected to be realized in or intended for sale or consumption in normal operating cycle
- Held for purpose of trade
- Expected to be realized within 12 months from reporting date
- Cash or cash equivalent unless restricted from being used

All other assets shall be classified as non-current.

3. Current Liability - satisfying any of the following Criteria



- Expected to be settled in normal operating cycle
- Held for purpose of being traded
- Due to be settled within 12 months from reporting date
- Company does not have an unconditional right to defer settlement of the liability for at least 12 months from the reporting date

All other liabilities shall be classified as non-current

4. Trade Receivable and 5. Trade Payable



- 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.
- 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.

6. A. Share Capital



- (a) the number and amount of shares authorized;
- (b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- (c) par value per share;
- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

A. Share Capital

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

A. Share Capital



(i) For the period of five years immediately preceding the date as at which the Balance Sheet is prepared:

- Aggregate number and class of shares allotted as fully paid up pursuant to contract (s) without payment being received in cash.
- Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- Aggregate number and class of shares bought back.

A. Share Capital



(j) Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date.

(k) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)

(l) Forfeited shares (amount originally paid up)

B. Reserve and Surplus



- (i) Reserves and Surplus shall be classified as:
- (a) Capital Reserves ;
 - (b) Capital Redemption Reserve;
 - (c) Securities Premium Reserve;
 - (d) Debenture Redemption Reserve;
 - (e) Revaluation Reserve;
 - (f) Share Options Outstanding Account;
 - (g) Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof);

B. Reserve and Surplus



(h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc. (Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

C. Long-Term Borrowings



- (i) Long-term borrowings shall be classified as:
- (a) Bonds/debentures.
 - (b) Term loans
 - from banks.
 - from other parties.
 - (c) Deferred payment liabilities.
 - (d) Deposits.
 - (e) Loans and advances from related parties.
 - (f) Long term maturities of finance lease obligations
 - (g) Other loans and advances (specify nature).

C. Long-Term Borrowings



- (ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- (iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
- (iv) Bonds/debentures shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due.

C. Long-Term Borrowings



- (v) Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.
- (vi) Terms of repayment of term loans and other loans shall be stated.
- (vii) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

D. Other Long Term Liabilities



Other Long term Liabilities shall be classified as:

- (a) Trade payables
- (b) Others

E. Long-term Provisions



The amounts shall be classified as:

- (a) Provision for employee benefits.
- (b) Others (specify nature).

F. Short-Term Borrowings



(i) Short-term borrowings shall be classified as:

(a) Loans repayable on demand

- from banks.
- from other parties.

(b) Loans and advances from related parties.

(c) Deposits.

(d) Other loans and advances (specify nature).

F. Short-Term Borrowings



- (ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- (iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
- (iv) Period and amount of default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

G. Other Current Liabilities



- The amounts shall be classified as:
 - (a) Current maturities of long-term debt;
 - (b) Current maturities of finance lease obligations;
 - (c) Interest accrued but not due on borrowings;
 - (d) Interest accrued and due on borrowings;
 - (e) Income received in advance;
 - (f) Unpaid dividends

G. Other Current Liabilities



- (g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital.
- (h) Unpaid matured deposits and interest accrued thereon
- (i) Unpaid matured debentures and interest accrued thereon
- (j) Other payables (specify nature);

H. Short-term Provisions



The amounts shall be classified as:

- (a) Provision for employee benefits.
- (b) Others (specify nature).

I. Tangible Assets



(i) 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).

I. Tangible Assets



- (ii) Assets under lease shall be separately specified under each class of asset.
- (iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

I. Tangible Assets



(iv) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

J. Intangible Assets



- (i) Classification shall be given as:
 - (a) Goodwill
 - (b) Brands /trademarks.
 - (c) Computer software.
 - (d) Mastheads and publishing titles.
 - (e) Mining rights.
 - (f) Copyrights, and patents and other intellectual property rights, services and operating rights.
 - (g) Recipes, formulae, models, designs and prototypes.
 - (h) Licenses and franchise.
 - (i) Others (specify nature).

J. Intangible Assets



(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reversals shall be disclosed separately.

J. Intangible Assets



- (iii) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets,
- every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and
 - shall by way of a note also show the amount of the reduction or increase as applicable
 - together with the date thereof for the first five years subsequent to the date of such reduction or increase.

K. Non-Current Investments



(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

- (a) Investment property;
- (b) Investments in Equity Instruments;
- (c) Investments in preference shares
- (d) Investments in Government or trust securities;
- (e) Investments in debentures or bonds;
- (f) Investments in Mutual Funds;
- (g) Investments in partnership firms
- (h) Other non-current investments (specify nature)

K. Non-Current Investments



- (ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.
- (iii) The following shall also be disclosed:
 - (a) Aggregate amount of quoted investments and market value thereof;
 - (b) Aggregate amount of unquoted investments;
 - (c) Aggregate provision for diminution in value of investments

L. Long-Term Loans and Advances



- (i) Long-term loans and advances shall be classified as:
 - (a) Capital Advances;
 - (b) Security Deposits;
 - (c) Loans and advances to related parties (giving details thereof);
 - (d) Other loans and advances (specify nature).
- (ii) The above shall also be separately sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured, considered good;
 - (c) Doubtful.

L. Long-Term Loans and Advances



- (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- (iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

M. Other Non-Current Assets



Other non-current assets shall be classified as:

- (i) Long Term Trade Receivables (including trade receivables on deferred credit terms);
- (ii) Others (specify nature)
- (iii) Long term Trade Receivables, shall be sub-classified as:
 - (i) (a) Secured, considered good;
 - (b) Unsecured considered good;
 - (c) Doubtful
 - (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
 - (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

N. Current Investments



(i) Current investments shall be classified as:

- (a) Investments in Equity Instruments;
- (b) Investment in Preference Shares
- (c) Investments in government or trust securities;
- (d) Investments in debentures or bonds;
- (e) Investments in Mutual Funds;
- (f) Investments in partnership firms
- (g) Other investments (specify nature).

N. Current Investments



(ii) The following shall also be disclosed:

- (a) The basis of valuation of individual investments
- (b) Aggregate amount of quoted investments and market value thereof;
- (c) Aggregate amount of unquoted investments;
- (d) Aggregate provision made for diminution in value of investments.

O. Inventories



(i) Inventories shall be classified as:

- (a) Raw materials;
- (b) Work-in-progress;
- (c) Finished goods;
- (d) Stock-in-trade (in respect of goods acquired for trading);
- (e) Stores and spares;
- (f) Loose tools;
- (g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

P. Trade Receivables



- (i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.
- (ii) Trade receivables shall be sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured considered good;
 - (c) Doubtful.
- (iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iv) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. Cash and Cash Equivalents



- (i) Cash and cash equivalents shall be classified as:
 - (a) Balances with banks;
 - (b) Cheques, drafts on hand;
 - (c) Cash on hand;
 - (d) Others (specify nature).
- (ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.
- (iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- (iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.
- (v) Bank deposits with more than 12 months maturity shall be disclosed separately.

R. Short-Term Loans and Advances



- (i) Short-term loans and advances shall be classified as:
 - (a) Loans and advances to related parties (giving details thereof);
 - (b) Others (specify nature).
- (ii) The above shall also be sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured, considered good;
 - (c) Doubtful.
- (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- (iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

S. Other Current Assets (specify nature)



- This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

T. Contingent Liabilities and Commitments

(to the extent not provided for)



(i) 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

(ii) 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 (specify nature).

U. Dividends



- The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.

V. Issue of Securities



- Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

W. No Value on Realization



- If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated

Disclosure Requirement Removed under Revised Schedule VI



- 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
- Commission, brokerage and non-trade discounts

PART II – Form of STATEMENT OF PROFIT AND LOSS*Name of the Company.....**Profit and loss statement for the year ended*

		(Rupees in.....)		
	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx_
III.	Total Revenue (I + II)		xxx	xxx
IV.	Expenses:			
	Cost of materials consumed		xxx	xxx
	Purchases of Stock-in-Trade		xxx	xxx
	Changes in inventories of finished goods work-in-progress and Stock-in-Trade		xxx	xxx
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses		xxx	xxx

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended

		(Rupees in.....)	
	Particulars	Note No.	
			Figures for the current reporting period
			Figures for the previous reporting period
V.	Profit before exceptional and extraordinary items and tax (III-IV)		XXX
VI.	Exceptional items		XXX
VII.	Profit before extraordinary items and tax (V - VI)		XXX
VIII.	Extraordinary Items		XXX
IX.	Profit before tax (VII- VIII)		XXX
X	Tax expense:		
	(1) Current tax	XXX	XXX
	(2) Deferred tax	XXX	XXX

2. (A) Other than Finance Company



In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from

- (a) sale of products;
- (b) sale of services;
- (c) other operating revenues;
- Less: (d) Excise duty

2.(B) Finance Company



In respect of a finance company, revenue from operations shall include revenue from

- (a) Interest; and
- (b) Other financial services

Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3. Finance Cost



Finance costs shall be classified as:

- (a) Interest expense;
- (b) Other borrowing costs;
- (c) Applicable net gain/loss on foreign currency transactions and translation.

4. Other Income



Other income shall be classified as:

- (a) Interest Income (in case of a company other than a finance company);
- (b) Dividend Income;
- (c) Net gain/loss on sale of investments
- (d) Other non-operating income (net of expenses directly attributable to such income).

5. Additional Information



A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-

- (i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses].
- (b) Depreciation and amortization expense;
- (c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.1,00,000, whichever is higher;
- (d) Interest Income;
- (e) Interest Expense;
- (f) Dividend Income;
- (g) Net gain/ loss on sale of investments;
- (h) Adjustments to the carrying amount of investments;

5. Additional Information



- (i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
- (j) Payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for management services, (e) for other services, (f) for reimbursement of expenses;
- (k) Details of items of exceptional and extraordinary nature;
- (l) Prior period items;

5. Additional Information



- (ii) (a) In the case of manufacturing companies,-
 - (1)Raw materials under broad heads.
 - (2)goods purchased under broad heads.
- (b) In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.
- (c) In the case of companies rendering or supplying services, gross income derived form services rendered or supplied under broad heads.
- (d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads.
- (e) In the case of other companies, gross income derived under broad heads.

5. Additional Information



- (iii) In the case of all concerns having works in progress, works-in-progress under broad heads.
- (iv) (a) The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the balance-sheet is made up.
 - (b) The aggregate, if material, of any amounts withdrawn from such reserves.
- (v) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.
 - (b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

5. Additional Information



(vi) Expenditure incurred on each of the following items, separately for each item:-

- (a) Consumption of stores and spare parts.
- (b) Power and fuel.
- (c) Rent.
- (d) Repairs to buildings.
- (e) Repairs to machinery.
- (g) Insurance .
- (h) Rates and taxes, excluding, taxes on income.
- (i) Miscellaneous expenses,

(vii) (a) Dividends from subsidiary companies.

(b) Provisions for losses of subsidiary companies.

5. Additional Information



(viii) The profit and loss account 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 in respect of –
- I .Raw materials;
 - II .Components and spare parts;
 - III .Capital goods;

5. Additional Information



- b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters;
- c) Total value of 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 with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related

5. Additional Information



e) Earnings in foreign exchange classified under the following heads, namely:-

- I. Export of goods calculated on F.O.B. basis;
- II .Royalty, know-how ,professional and consultation fees;
- III. Interest and dividend;
- IV. Other income, indicating the nature thereof



Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.

Compliance with Accounting Standards



- It is noteworthy that the Ministry of Corporate Affairs (MCA) has notified 35 Indian IFRS standards (known as “Ind-AS”), without announcing the applicability date that will be applied in a phased manner.

Regulation of Financial Reporting



- The Companies Act, 1956
- Companies (Accounting Standards) Rules, 2006.
- Accounting Standards issued by ICAI
- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (Regulations)
- Clause 41 of the Listing Agreement

Amendments to Clause 41 of the Listing Agreement



- All filings made after 16th April, 2012, the revised format (Annexure-I and IX) of Clause 41 of the Listing Agreement should be used for interim disclosure of financial results by listed entities to the stock exchanges.
- All companies following Indian GAAP are required to follow the revised Schedule VI as well as clause 41 unless they are required to follow International Financial Reporting Standards (IFRS) and converged Indian Accounting Standards (Ind. AS).

Board Responsibility on Reporting – Sec 217 of Co's Act



- **Every balance-sheet laid before a company in general meeting shall have a report by its Board of directors detailing**
 - The company's affairs,
 - The amounts it proposes to carry to any reserves,
 - The amount it recommends to be paid by way of dividend,
 - Material changes and commitments affecting the financial position
 - Conservation of energy, technology absorption, foreign exchange earnings and outgo
 - Reasons for failure to complete the buy-back within the time specified in sub-section (4) of section 77A.
 - Fullest information and explanations in cases falling under the proviso to section 222

Director's Responsibility Statement



The Statement shall include the following details

- That applicable accounting standards had been followed
- That directors had selected such accounting policies and applied them consistently
- Made judgments and estimates that are reasonable and prudent
- That directors had taken proper and sufficient care for the maintenance of adequate accounting records
- That directors had prepared the annual accounts on a going concern basis

Standards on Engagement Work



*“There are **44 Standards**
on*

*Engagement (Audit and Assurance)work
including those related to quality control, assurance
engagement and related services issues by ICAI”*

Auditing Standards – SA 700, 705 and 706



- **SA 700 (Revised), “Forming an Opinion and Reporting on Financial Statements”;**
- **SA 705, “Modifications to the Opinion in the Independent Auditor’s Report”;**
- **SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”**

ICAI defers applicability of Auditing Standard SA 700 (Revised), 705, 706 to 1st April, 2012.

The said Standards shall now be effective/applicable for audits of financial statements for periods beginning on or after 1st April, 2012 (instead of audits of financial statements for periods beginning on or after 1st April, 2011).

1. Standards on Quality Control **(SQC)**



- SQC 1, “Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements”
- Announcement on Amendment to SQC 1 - Retention Period for Engagement Documentation (Working Papers)

Standards on Auditing



- **There are 7 categories of SAs**
 - 100-199 Introductory Matters
 - 200-299 General Principles and Responsibilities
 - 300-499 Risk Assessment and Response to Assessed Risks
 - 500-599 Audit Evidence
 - 600-699 Using Work of Others
 - 700-799 Audit Conclusions and Reporting
 - 800-899 Specialized Areas

2. Standards on Auditing



- **100-199 Introductory Matters**
- **200-299 General Principles and Responsibilities**
 - SA 200 issued under the Clarity Project, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”
 - SA 210 under the Clarity Project, “Agreeing the Terms of Audit Engagements”
 - SA 220 issued under the Clarity Project , “Quality Control for an Audit of Financial Statements”

2. Standards on Auditing



- SA 230 under the Clarity Project, “Audit Documentation”
- SA 240 under the Clarity Project, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”
- SA 250 under the Clarity Project, “Consideration of Laws and Regulations in an Audit of Financial Statements”
- SA 260 under the Clarity Project, “Communication with Those Charged with Governance”
- SA 265 issued under the Clarity Project, “Communicating Deficiencies in Internal Control to Those Charged With Governance and Management”
- SA 299 (AAS 12), “Responsibility of Joint Auditors”

2. Standards on Auditing



- **300-499 Risk Assessment and Response to Assessed Risks**
 - SA 300 - “Planning an Audit of Financial Statements”
 - SA 315 - “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”
 - SA 320 - “Materiality in Planning and Performing an Audit”
 - SA 330 - “The Auditor’s Responses to Assessed Risks”
 - SA 402 - “Audit Considerations Relating to an Entity Using a Service Organisation”
 - SA 450 - “Evaluation of Misstatements Identified During the Audit”

2. Standards on Auditing



- **500-599 Audit Evidence**
 - SA 500 - “Audit Evidence”
 - SA 501 - “Audit Evidence—Specific Considerations for Selected Items”
 - SA 505 - “External Confirmations”
 - SA 510 under the Clarity Project, “Initial Audit Engagements – Opening Balances”
 - SA 520 issued under the Clarity Project, “Analytical Procedures”
 - SA 530 - “Audit Sampling”

2. Standards on Auditing



- SA 540 - “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”
- SA 550 - “Related Parties”
- SA 560 - “Subsequent Events”
- SA 570 - “Going Concern”
- SA 580 - “Written Representations”

2. Standards on Auditing



- **600-699 Using Work of Others**
 - SA 600 (AAS 10) - “Using the Work of Another Auditor”
 - SA 610 - “Using The Work of Internal Auditors”
 - SA 620 - “Using the Work of an Auditor’s Expert”

2. Standards on Auditing



- **700-799 Audit Conclusions and Reporting**
 - SA 700 - “Forming an Opinion and Reporting on Financial Statements
 - SA 705 - “Modifications to the Opinion in the Independent Auditor’s Report”
 - SA 706 - “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”
 - SA 710 - “Comparative Information—Corresponding Figures and Comparative Financial Statements”
 - SA 720 - “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”

2. Standards on Auditing



- **800-899 Specialized Areas**
 - SA 800 - “Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”
 - SA 805 – “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”
 - SA 810 - “Engagements to Report on Summary Financial Statements”

3. 2000-2699 Standards on Review Engagements (SREs) - 2



- SRE 2400 , “Engagements to Review Financial Statements
- SRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”

4. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information



- 3000-3699 Standards on Assurance Engagements (SAEs)
- 3000-3399 Applicable to All Assurance Engagements
- 3400-3699 Subject Specific Standards
- SAE 3400 (AAS 35), “The Examination of Prospective Financial Information”
- SAE 3402, “Assurance Reports on Controls At a Service Organisation”

Audit Report



- The auditor shall make a report to the members of the company on the accounts examined by him, and
- On every balance sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance sheet or profit and loss account,
- Which are laid before the company in general meeting during his tenure of office, and
- The report shall state whether, in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this Act in the manner so required and give a true and fair view-
 - (i) in the case of the balance sheet, of the state of the company' s affairs as at the end of its financial year; and
 - (ii) in the case of the profit and loss account, of the profit or loss for its financial year.

SA 700 - The Auditor's Report on Financial Statements



- This SA establishes standards on the form and content of the auditor's report.
- Clear written expression of opinion on the financial statements taken as a whole.
- Include a statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit
- Report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement.

SA 705 - Modifications to the Opinion in the Independent Auditor's Report



- There are auditor's reports containing "modified opinions".
- These are issued where the auditor has some reservation about the financial statements.
- Under SA 705 there can be three types of "modifications" to an auditor's opinion:
 - (a) a "qualified opinion",
 - (b) a "disclaimer of opinion", or
 - (c) an "adverse opinion"

Nature of matter giving rise to modification	Auditor's judgment about the Materiality and Pervasiveness of the Effects or Possible Effects on the financial statements	
	Material but Not Pervasive	Material and Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

SA 706 Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report



- An emphasis of matter is not a part of the audit opinion at all. It is a separate, independent paragraph designed to provide “additional communication” to the users.
- Until now there was no concept of an Other Matter Paragraph and thus, no distinction between the Emphasis of Matter Paragraph *vis a vis* Other Matters Paragraph. SA 706 draws a distinction between the two.

International Scenario on Financial Reporting



- Initiatives taken by International Organisation Securities Commission (IOSCO) towards propagating International Financial Reporting Standards (IFRSs)/International Accounting Standards (IASs), issued by the International Accounting Standards Committee, as the uniform language of business to protect the interests of international investors have brought into focus the FRSs/IASs
- Recognizing the need for international harmonisation of accounting standards, in 1973, the International Accounting Standards Committee (IASC) was established. The IASC has been restructured as International Accounting Standards Board (IASB).
- The Institute of Chartered Accountants of India (ICAI) being a member body of the then IASC, constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonise the diverse accounting policies and practices in use in India.

Issues & Clarifications in Schedule VI



- Cash & Cash Equivalents
 - The sub-heading includes balances with bank held as margin money etc and bank deposits with maturity more than 12 months
 - Contradiction with definition under AS-3 [as per AS-3 cash & cash equivalent are short term highly liquid investments that are readily convertible - generally 3 months]
- Hence deposits with maturity more than 3 months do not meet the definition of cash and cash equivalent
 - The draft guidance note suggests that the caption 'Cash and Cash Equivalent' to be changed to 'Cash & Bank Balances' which would have two sub-headings
 - Cash & Cash equivalents
 - Other Bank Balances

Issues & Clarifications in Schedule VI



- Mandatory disclosure by other Law / Act like MSMED will have to be made
 - Even though not specifically mentioned by the schedule
- Above principal would also apply to disclosure required by other legal requirements
 - SEBI listing agreement
 - Regulatory Bodies like ICAI [e.g. – disclosure of unhedged derivatives etc]

Issues & Clarifications in Schedule VI



- Revised schedule VI requires different classes of preference shares to be dealt with separately
 - Question arises as to whether preference shares should be disclosed as a share capital or it needs to decide whether it is a debt or a capital as per AS-31 based on economic substance
 - The revised schedule VI only deals with disclosure and presentation and hence it will be disclosed as a part of share capital unless
 - The company has early adopted AS-31 than it has to comply with the requirements of that standard

Issues & Clarifications in Schedule VI



- Revised schedule VI requires disclosure of the basis of valuation of long term investments which are carried at other than cost
 - One view is that basis of valuation would mean market value, valuation by independent valuer, etc
 - The second view is that disclosure should be At Cost
- At cost less provision for other than temporary diminution Lower of cost or fair market value
 - As per draft guidance note disclosure as per second view would be sufficient compliance

Issues & Clarifications in Schedule VI



- Controlled Special Purpose Entity
 - Not defined in revised schedule VI or in the accounting standards
 - Definition under AS-21 on consolidated financial statements to be referred
- Loans & Advances to related parties
 - The term 'details' should be interpreted to understand the disclosure requirements as per AS-18
 - Accordingly disclosure beyond AS-18 would not be necessary
- Classification of long term loan which on account of default become payable on demand as current
 - However Indian practice and past experience to be taken into account
- Disclosure relating to partnership firm not applicable to Limited Liability Partnership [LLP] as LLP is a body corporate

Issues & Clarifications in Schedule VI



- No requirement to classify current investment into Trade and Non-trade
- Other commitments
 - The term has not been defined
 - As per draft guidance note – this would include future liability for contractual expenditure
 - Should include only non-cancelable commitments / contracts
 - Examples : long term contracts for purchase of raw material, lease commitments, employee contracts, buy back arrangements etc
 - Judgment to be exercised to balance between excessive detail and non disclosure based relevance, materiality and financial impact

Issues & Clarifications in Schedule VI



- Other operating income & Other income
 - Sale of scrap arising from operations should be treated as other operating income
 - Sale of fixed asset should be classified as other income and not as other operating income
 - Net foreign exchange gain to be classified as Other Income
 - Other income disclosure should be net of expenses [expense details to be given in notes]
- Finance Companies
 - Not defined in revised schedule VI
 - Hence to include all NBFC Companies as per section 45(1)(f) of RBI Act
 - Revenue from operations shall include
 - Interest
 - Other financial services

Issues & Clarifications in Schedule VI



- Cost of Material Consumed
 - Would include raw material, packing material (where classified by the company as raw material & other material consumed in manufacturing activities)
 - Consumption of packing material which are not classified as raw material should be disclosed separately
 - Materials like stores, spares, fuel which do not physically enter the finished goods should be excluded from definition of raw materials
 - Material consumption should be based on actual consumption and not derived consumption
 - In case actual consumption is not possible and derived consumption is used, a foot note should be given
 - Cost of sale of material to be excluded from material consumed

Issues & Clarifications in Schedule VI



- Clarity as regards additional information in notes relating to raw material consumed, gross revenue from services , trading etc
 - No need to disclose quantitative details
 - Guidance note suggested disclosure of opening and closing stock however it is not mandatory
 - In case of a service company and a company having both trading and manufacturing
 - Disclosure of sale of finished goods should also be made
 - Suggested disclosure formats given in the guidance note

Issues & Clarifications in Schedule VI



- Share of profit / Loss in LLP
 - LLP is body corporate and share in profit / loss does not accrue till it is declared
 - Depending upon agreement, LLP may be Subsidiary under AS-21, Associate under AS-23 and Jointly Controlled Entity under AS-27
- Guidance note specifically mentions that any interest payment on account shortfall in payment of advance tax is in nature of finance cost and should not included in tax expense
- Proposed dividend to be disclosed in notes
 - However as per AS-4 provision is required and hence the disclosure would be over and above the provision



Examples

Situation	Whether current or non current
Provision for Warranty	• Will depend on the term / period of warranty • If the warranty is a period less than 12 months than it would classified current otherwise non current
Provision for Leave Encashment	• To the extent of unconditional right of the employee to utilize the leave with next 12 months - it should be classified as current • Even though they may be measured as other long term benefit under AS-15 • Where the right to defer the leave unconditionally is available with the company - it needs to be evaluated based on leave policy, terms of Employment etc • Will require support / help from actuary
Provision for Bonus	• To the extent payable within one year from the balance sheet date would be classified as current

Situation	Whether current or non current
Provision for gratuity	• In case of funded post Employment plan – amount due to the fund within next 12 months is treated as current liability • In case on unfunded post employment plan – settlement obligations on account of resignations, expected retirements, expected resignations would be classified as current liability and balance would be non-current liability • The actuaries should be requested to provide break-up
Tax Provision	• Tax provision in excess of advance paid will be classified as current
Settlement of a liability by issuing of equity	• The terms of settlement of liability do not affect its classification • The timing of the settlement would decide the current / non current classification
Deferred Tax Liability	• Non Current
Deposits Received	• The classification would depend on the terms of the agreement and time / period after which the deposit is refundable

Situation	Whether current or non current
Sales Tax refund receivable	• This should be considered as non-current unless the refund order has been approved
Deposit Given	• The classification would depend on the terms of the agreement and time / period after which the deposit is refundable • For example if the company has rent deposit for a 11 months period and it expects to renew the agreement for further period, the deposit amount paid should be classified as non-current
Capital Work in Progress	• This would be classified under Non-Current loans and advances

Situation	Whether current or non current
Debtors which are not expected to realized within next 12 months [operating cycle -12 months]	• This would be classified as non current
Excess finished goods which are expected to be sold in 12 months	• As per guidance note this has to be shown as current as it is held for the purpose of trade
Deferred Tax Asset	• Non Current

Practical Difficulties in Execution



- Reclassification of previous year / previous period figures
- Impact on ratios
 - Computation of Net working capital for banking & finance purpose.
- Software support for easing out of the groupings (ageing) and disclosure requirements
 - Ageing of Debtors by due date as against invoice date
 - Modifications in Chart of Accounts to facilitate the preparation of financial statements
- Practical difficulties in bifurcating items between current and non current
 - Sales tax or income tax refund receivable , Provision for warranty

About the Author



- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labour Laws and IPR.*
- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*
- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

About the Author



- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
- *The author can be reached at rajcumarradukia@caaa.in
Mob – 09820061049 / 09323061049*
- *For more details log on to www.caaa.in*



THANK YOU

