PREFACE

Dear Students,

As you are aware, the MCA has revised the existing Schedule VI to the companies act,1956 and make it applicable to all companies for Financial Statements to be prepared on or after April 1,2011.

This necessitates understanding the requirements of the revised schedule VI, as you are expected to present the Balance Sheet and Statement of Profit and Loss Account in Revised Schedule VI Format in your exams.

In line with the philosophy of Global Professional Studies of ***'Concept Teaching'****, this booklet aims to provide important concepts one needs to know to understand Revised Schedule VI. This book incorporates tenets of both "The Guidance Note on Revised Schedule VI" & the "Published FAQ", issued by ICAI.*

Unlike various books available in the market, wherein one has to derive the implied meaning of how and where to classify certain items under revised Schedule VI, this booklet is to the point, concise and easy to read.

Last but not the least, I have designed this book as a "Students Handbook" on revised Schedule VI with ***more than 50 illustrations*** *for testing your concepts which would help each one of you to migrate to the Revised Schedule VI effortlessly.*

I thank Almighty who partners us in all our endeavors….

Cheers..!!
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(Any criticism or suggestions are most welcomed.)

BASIC PRINCIPLES OF REVISED SCHEDULE VI

1. Old Schedule VI had 4 parts whereas RS VI has only 2 Parts.
   Part I: Balance Sheet
   Part II: Statement of Profit and Loss~~(Account)~~

2. Only Vertical Form of B/S and P&L is permitted. (earlier there used to be an option to prepare horizontally or vertically)

3. Note that RS VI is PRESENTATION Format~~(ACCOUNTING Format)~~
   RS VI has no connection whatsoever with accounting principles or formats. Infact companies accounting system will still hold the P/L account in Horizontal Format. **RS VI Only changes the presentation to users.**
   Eg: **P/L Appropriation a/c is still prepared but for presentation same is not presented as such in P/L but its effect are presented in Notes to Accounts.**

4. RS VI is minimum requirement and where there is conflict with AS, such AS will prevail.
   Though Blanket rule is AS will prevail, there are certain areas where RS VI overrides AS(as preferred by guidance note).
   Eg: Interest on Customer Overdue is treated as Operating income for Segment Reporting under AS 17 but for Statement of P/L it will be other income as per ICAI FAQ.

5. Concept of Schedules and notes done away with.
   Earlier Schedules would only give numerical disclosure whereas as notes use to give subjective disclosures. The shareholders readability was cumbersome. No more schedules for every item of B/S and statement of P/L. **A Note number for referencing is given. Note will give both numeric as well as subjective disclosure SPECIFIC to item.**
   "other significant notes" later on will give generic narrative disclosures.
   Eg: Accural System is followed.

6. Significant Notes to Accounts for narrative disclosure to continue:
   However RSVI require balance to be maintained between excessive detail and too much aggregation.

Where RS VI specifies disclosure in **aggregate** the same must be followed. Eg: Bonus shares/ Buy Back of shares.
Where RS VI requires disclosure in **Detail** (year to year) the same must be followed. Eg: Shareholders holding more than 5% of shares.

7. Concept of Classified B/S and Classified P/L introduced.
   B/S: Liability and Asset are subject to current and non-current classification whereas equity is not subject to classification.
   P/L: Presentation based on nature ~~(FUNCTIONAL BASIS).~~
   Eg: earlier salary paid to S & D employee goes to Selling expense now it will go to **"Employee Benefit Expense."**

8. Concept of Materiality used for rounding off.
   Any Item of income or expenditure exceeding Rs 1 lakh or 1% from revenue from operations (earlier Rs 5000 or 1% of total revenue) will need to be separately disclosed in the notes to the statement of profit and loss .

Turnover in any FY is	**Round of Permissible**
Less than 100 Crores	To the nearest of Hundreds, Thousands, Lakhs or Millions or ~~Crores.~~
100 Crores or more	To the nearest of ~~Hundreds,~~ Thousands, Lakhs or Millions or Crores.

9. Comparatives to be presented even if amount is NIL.
   So that users understand the change.
   The concept here is to attach as much importance to previous year as you would attach to current year figures as both constitute financial statements.

Right	
12-13	13-14
NIL	xxx

Right	
12-13	13-14
xxx	NIL

Wrong	
12-13	13-14
NIL	NIL

BALANCE SHEET:

A	**EQUITY AND LIABILITIES**
	Shareholders' funds (a) Share capital (b) Reserves and surplus (c) Money received against share warrants
	Share application money pending allotment
	Non-current liabilities (a) Long-term borrowings (b) Deferred tax liabilities (net) (c) Other long-term liabilities (d) Long-term provisions
	Current liabilities (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions
	TOTAL
B	**ASSETS**
	Non-current assets (a) Fixed assets (i) Tangible assets (ii) Intangible assets (iii) Capital work-in-progress (iv) Intangible assets under development (v) Fixed assets held for sale
	(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

General Principles:

1. Concept of classified B/S(Current and Non- Current) unless specifically stated. Eg: Shareholders Fund, DTA, DTL.

2. Concept of Trade Payable/ receivable including aging analysis (for trade receivable-current only) made more logical from due dates instead of invoice dates.
   Trade Payable(TP) inclues debtors, bills recievables.
   Some TP may be classified as current whereas some are classified as non-current.
   Aging analysis is done only for current TP.

3. What if invoice does not specify due date?
   Ascertain the **average normal credit period** in the language of business….

4. Concept of rotating items is introduced.
   Items which are non current may be current tomorrow and vice versa.

5. Specific Disclosure for default in repayment of loans and advances.
   If there is any default in repayment **AND** such default exist on B/S date than only it will be disclosed.

6. Current liability cannot be presented as deduction from current Asset.
   Only exception is net off advance tax and provision for tax.
   If net balance is:
   Provision for Tax >> Current Liability
   Advance Tax>> Non-Current Asset unless refund order received.

Presentation, Classification and Disclosure requirements as per Revised Schedule VI- SIGNIFICANT ISSUES

EQUITY AND LIABILITIES

1. Shareholders' fund

(a) Share Capital

❖ Numbers of shares held by each shareholder holding more than 5% of shares on balance sheet date to be disclosed. **(Disclosure in Detail)**

- **Calls unpaid on shares** are to be disclosed separately as per the Revised Schedule VI, as against shown as a deduction from called up capital in the case of old schedule VI.
- Calls unpaid by directors **and officers** of the company, needs to be disclosed as against only directors in old schedule VI.
- Disclosures regarding preference shares

  AS-30, 31 and 32 regarding financial instruments recognition and measurement, disclosures are yet to be notified and section 85 of the companies act describes preference shares as capital. Therefore, Preference Shares would be classified as Share Capital. **Preference shares of which redemption is overdue should continue to be disclosed under the head 'Share Capital'.**
- **(Mock Paper Nov: 2013)**Details of shares allotted for consideration other than cash, Bonus shares and shares Bought Back, to be disclosed only for 5 years period immediately preceding the B/S date including current year.

Situation 1:

Year	**1**	**2**	**3**	**4**	**5**	**6**
Bonus	**-**	**-**	**100**	**50**	**10**	**30**

For reporting at year 6, aggregate bonus = 190
Comparable previous year = 160
User readability will directly show 30 as bonus for current year.

Situation 2:

Year	**1**	**2**	**3**	**4**	**5**	**6**
Bonus	**20**	**50**	**100**	**50**	**10**	**30**

For reporting at year 6, aggregate bonus = 240
Comparable previous year = 230

Here user readability will require further explanatory disclosure stating that in current year 30 has been issued as bonus and 20 of year 1 is no longer reportable.

2. Reserves and Surplus

- The terminology used under revised schedule VI for excess of issue price of shares over their face value is "Securities Premium Reserve" as against "Securities Premium Account" referred to in the act. The terminology of the Act should be used.
- The Revised Schedule VI requires **Share Options outstanding account**(Eg: ESOP outstanding scheme account) to be shown as a part of 'Reserve and Surplus' instead of a separate line item.

  It may be noted that the disclosure of share option outstanding under reserves and surplus would also impact the balance of reserves and surplus to be considered for compliance with various provisions of law.

  Thus the balance of 'share options outstanding account' would now be considered as part of the reserves to determine the applicability of Companies (Auditor's Report) Order, 2003 (CARO).

(b) Money received against share warrants

- 'Share warrants' are financial instruments which give the holder the right to acquire equity shares. Since shares are yet to be allotted these are not reflected as part of Share Capital but as a separate line-item –'Money received against share warrants.'

3. Share application money pending allotment

- Share application money not exceeding the issued capital and to the extent not refundable is to be disclosed under this line item. The amount of share application money received over and above the issued capital or where minimum subscription requirement is not met should be shown under the head "Other Current Liabilities"
- Calls in advance is not part of the share capital and need to be reflected under 'other current liabilities'.
- Where as Call in arrears is shown as deduction from EQUITY.
- Share suspense account

  In a scheme of amalgamation company may agrees to issue shares to discharge purchase consideration. If the assets have been purchased but the shares against the same have not been issued till the balance sheet date, the same should be reflected as 'share suspense account' as separate heading reflecting only the face value of such shares. The amount of premium should be reflected under 'reserves and surplus' as 'share premium suspense account'.

  As per revised schedule VI 'share suspense account and share premium suspense account' should be classified under share application money pending allotment. The reason for the same being that consideration for the same has been received in kind but shares have not been issued.

Case Study:

X Ltd prepared its accounts for the financial year ended 31-03-2012. X ltd has disclosed in its accounts for the year ended 31-03-2012, the shares held in its holding company. The statutory auditor does not verify the disclosures

but merely obtains certificate from management as regards these disclosures. Comment.

RS VI requires auditor to verify the authenticity of the disclosure and not merely rely on the management certificate.

As at the beginning of the year company has a capital of Rs. 2.50 Crores, free reserves of Rs 0.50 Crores and revaluation reserve of Rs. 4.50 Crores. In the relevant year company incurred a loss of Rs. 4 Crores. Can it adjust the same against revaluation reserve. What if it had a share premium account, could it adjust the same there.?

No accounting adjustment can be passed.

Presentation is as under: (No Journal Entry will be passed.)

	Note	Current Year	Previous Year
Share Capital	1	2.5 Cr	
Reserves and Surplus	2	1 Cr	

Note 2:

Revaluation Reserve	4.5 Cr
Surplus	(3.5 Cr)
	(1 Cr)

Even if there was a securities premium no accounting adjustment can be passed.

The company has share application money pending allotment to the tune of Rs. 125 crores on the balance sheet date i.e. 31/03/2013. The BOD allotted shares against said 125 crores by passing resolution on 02/04/2014. The said amount of Rs. 125 Crores has been shown as a part of share capital by citing AS 4. Comment.

Under RS VI only in the year in which actual allotment is done will be amount rotate from share application pending allotment to share capital. Therefore only in year 2013-14 will it be shown under share capital and as in 2012-13 it will be shown under share application pending allotment.

Classification into current and non current

"An **ASSET** shall be classified as current when it satisfies **ANY** of the following criteria:

(a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle

(b) it is held primarily for the purpose of being traded *(Inventories- always current as per ICAI FAQ)*

(c) it is expected to be realized within twelve months **after the reporting date** (For all items including working capital items) or

(d) it is Cash or cash equivalent.

All other assets shall be classified as non-current." – Refer Pg 17

"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."

- Operating cycle refers to Gross operating cycle. Payment period of trade payables is not deducted.

Example for calculation of operating cycle:

Holding period of raw material	5 months
Holding period of finished goods	4 months
Production cycle	½ month
Collection period of trade receivables	3 months
Payment period of trade payables	3 months
Calculation of operating cycle	

Gross operating cycle would be 12 ½ months (sum of all the above) –trade payables are not to be deducted.

Practical Issues on Current and Non Current classification

Inventories

How to determine inventories as current/non-current?

- ✓ Firstly, apply the operating cycle criteria using age analysis from the date of acquisition.

  Date of acquisition is as under:

Particulars	Date of acquisition
Raw material inventories	Date of purchase
Work in progress	Date of commencement of process
Finished stock	Date on which production completed
Stock in trade	Date of purchase
Spares and consumables	Date of purchase

  If the inventory holding period falls within the operating cycle, then the inventory is current. For inventory having holding period beyond op. cycle, go to the second test as mentioned here.

- ✓ Secondly, inventories which by age analysis are classified as non current are tested for consumption/realisability within 12 months after reporting date. If it is realized within 12 months, it is current. Otherwise, we go to the third stage test.

- ✓ Thirdly, assets held primarily for the purpose of being traded are to be classified as current assets.

- ✓ **Illustrations: Stock taking and age analysis carried out for a company reflects the following.**

S.No.	Item	Amount (Rs in millions)	Age analysis upto reporting date (in months)	Planned sales/ consumption
1.a	Spares	100	39	1.07.12
1.b		100		1.02.13
2.a	Finished goods	100	15	1.11.12
2.b		200		1.07.13

2.c 2.d	Raw materials	200 100	9	1.05.12 1.03.12

Operating cycle of the company -6 months
Reporting date-31.03.12
Analyse the same for current/non-current classification

Solution:

- ✓ On the basis of **first step** for checking operating cycle criteria – all the above are non current (it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle)

- ✓ On the basis of **second step** for checking the realisabilty/consumption within 12 months of operating cycle- Items under 2.b i.e finished goods are not expected to be realized by 31.3.13 and hence classiy as non-current (it is expected to be realized within twelve months after the reporting date)

- ✓ On the basis of **third step** for checking the condition of primarily held for trading- Since the inventories are held for trading, they are classified as Current. (assets held primarily for the purpose of being traded are to be classified as current assets.)

Hence all the inventories are considered as current.

Trade payables and Trade Receivables
How to classify trade receivable/payable as current/non-current?
They are classified as current if:

- ✓ they are expected to be settled within the companies operating cycle
- ✓ expected to be realized /due to be settled within 12 months after the reporting period.

Date of acquisition is as under:

Particulars	**Date of acquisition**
Trade receivables	Date of sale
Trade payables	Date of purchase

Illustrations:

Trade payables

- ✓ **Reporting date- 31.3.12**

Trade payable expected to be settled -01.05.13
Operating cycle of company- 8 months
Classification -Non Current
Basis of classification-Not expected to be settled within operating cycle or upto 12 months from reporting date i.e 31.03.13.

Trade Receivables

- ✓ **Trade receivable recognized on 01.07.2010**

Operating cycle- 12 months
Reporting date- 31.03.2011
Contract date of realization-30.06.12
Classification- Non Current
Basis for classification-Not expected to be settled within the company's operating cycle i.e 30.06.11 and not expected to be realized within 12 months of reporting period i.e 31.03.12

Analysis of other assets/liabilities into current and non current

How to determine the classification into current/non-current?

- ✓ To check the expected realisability and settlement within 12 months after reporting date.
  The concept of operating cycle is not applied to assets and liabilities other than inventories, trade receivables and payables.

Illustrations:
Investments

- ✓ **A ltd invested in equity shares of a company. It intends to sell the shares within 12 months of Reporting Date. Operating cycle of the company is 14 months.**
  Classification:

Current, since it is expected to be sold within 12 months from the reporting date. Operating cycle period irrelevant.

- ✓ **A ltd invested in GOI bonds of Rs 500 lacs maturing on 30.09.10 and Rs 1000 lacs maturing on 30.06.11. The reporting date of the company is 31.03.10. The original maturities of the bonds was 10 yrs.**
  Classification:
  Bonds worth Rs 500 lacs maturing on 30.09.10 would be considered as current.
  Bonds worth Rs 1000 lacs maturing on 30.06.11 would be considered as non-current.
  It is important to note here that the original maturity has nothing to do with the classification. ***It is only the remaining maturity that matters.***

- ✓ **Mat credit /service tax credit available**
  To the extent MAT credit is expected to reverse within 12 months – It is current.
  Professional judgment is to be applied for service tax credit receivable

<u>NO TOLERANCE ZONE:</u>

1. **X Limited purchased a lot of raw materials inventories on 1st octomber 2012. This lot of inventory remained in the godown as on 31.03.2013. The Operating cycle of the company is 6 months. How should this inventories be classified?**
   As per ICAI FAQ inventories are always classified as current.

2.

Date of Sales	**01.07.2012**
Reporting Date	**31.03.2013**
Operating Cycle	**12 Months**
Contractual date of Realization	**30.06.2014**

Trade Recievable are classified as current if:

- ✓ they are expected to be realised within the companies operating cycle
- ✓ expected to be realized within 12 months after the reporting period.
- ✓ So here it will be classified as **NON-CURRENT.**

3. **Say if in above example date of realization is not given. Would your answer differ?**
   Than it is assumed to be realized within 12 months and hence satisfied criteria 2 for classifying as **CURRENT.**

4.

Date of Sales	**01.07.2012**
Reporting Date	**31.03.2013**
Operating Cycle	**9 Months**
Expected date of Realization	**31.06.2013**

CURRENT.

5. **A limited invested in equity shares of other companies. It intends to sell those shares within 12 months. Should the investment in equity shares be classified as current asset? The entity's operating cycle is 14 months.**
   Investment in shares is not an operating working capital item. So Operating cycle criteria Is not relevant only 12 months criteria will apply.
   Since there is intention to sell it within 12 months it will be classified as **CURRENT** investments.

NON-CURRENT LIABILITIES	CURRENT LIABILITIES
a) Long term borrowings	a) Short term borrowings
b) DTL(net)	*b) Trade Payable*
c) Other Long Term Liabilities	*c) Other current liabilities*
d) Long term Provisions	d) Short term provisions

- <u>Exam Question asked in Audit twice:</u>

RS VI makes a fine distinction between a liability and a provision. Eg: proposed dividend will come under short term provisions but unclaimed dividend is shown under other current liabilities.

- **<u>Current and Non Current liability</u>**

"A **<u>LIABILITY</u>** shall be classified as current when it satisfies **ANY** 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 or

(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.

- Similar to what we have discussed for asset, Operating cycle criteria will be applied **ONLY to** operating items of liability such as creditors, bills payable, o/s expenses, specific borrowings for working capital etc. *(Please note that even if operating cycle criteria fails, liability can still be classified as current as per 12 months criteria)*

- Bills payable and creditors are now called Trade Payable.

- **Most important:**
  Liability classified as non-current are shown under heading:
  NON-CURRENT LIABILITY > LONG TERM BORROWINGS
  When above are rotated to short term(i.e when it become payable within 12 months) than it will be shown under:
  CURRENT LIABILITY > OTHER CURRENT LIABILITY~~(SHORT TERM BORROWINGS)~~

- In notes, further sub-classify borrowings into secured/ unsecured and specify nature of security. **Secured are those backed by entity's assets.** (Eg: if X ltd takes a loan and director of X guarantees it by mortgaging his personal assets than for X ltd the loan is **UNSECURED**.)

- Period and amount of continuing default needs to be stated. Please note default must exist on balance sheet date to warrant disclosure. So is default is made good on 30th march than also no disclosure on 31st march.

- Unpaid matured debentures will be shown under current liability- other current liability instead of non-current liability.

- **Term Loans** are reckoned as those having repayment period **beyond 36 months.** Between **12 months to 36 months** will be **loans and advances**.
  Less than 12 months would be **short term borrowings**.

- **DTL(net) is always non-current**, notwithstanding that the timing difference may reverse within next 12 months.

<u>Case Studies and Illustrations:</u>
A company has classified loan as non-current liability in the previous year. The loan becomes a current liability in the current year's financial statements. Does the company need to reclassify in balance sheet?
Yes

A company is preparing its financial statements in accordance with revised schedule VI for the first time. When identifying current/non-current at the end of previous year, can company apply hindsight based on the developments happened in the current year?
Generally no hindsight view is allowed except in case of major breach and where loan has been recalled before authorization of financial statements.

Can a company include in trade payable the liability towards employees, leases or other contractual liabilities? What is the treatment for amounts due towards capital goods purchased?
A trade payable must satisfy **BOTH** the following conditions:

i. It should be on account of goods purchased/services rendered.
ii. It should be in normal course of entity's business.

O/s salary *to employees, wheather or not trade payable depends upon facts and circumstances of the case. (Eg: For Infosys O/s salary to employees whose services have been received would be in normal course of business)*

O/s Lease rent *is not treated as trade payable as it not for services received but it is the asset taken on lease for use.*

Creditors for capital goods *though goods have been purchased in ordinary course of business but these goods is not for purchase and sale and hence* ***not*** *trade payable.*

<u>REMAINING PAGES(20 pages) WILL BE SHARED VERY SOON.</u>

<u>Additional Energy Supplements:</u>

<u>RTP May 2013</u>

Astha Ltd. has FCCBs worth ` 100 crore which are due to mature on 31st December 2013. While preparing the financial statements for the year ending 31st March 2013, it is expected that the FCCB holders will not exercise the option of converting the same to equity shares. How should the company classify the FCCBs on 31st March 2013? Will your answer be different if the company expects that FCCB holders will convert their holdings into equity shares of Astha Ltd.?

Revised Schedule VI provides that:

"A liability shall be classified as current when it satisfies any 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; or

(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 and do not affect its classification."

In the present situation, Astha Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The position will be same even when the FCCB holders are expected to convert their holdings into equity shares of Astha Ltd. Expectations cannot be called as unconditional rights. Thus, in both the situations, Astha Ltd. should classify the FCCBs as current liabilities as on 31 March 2013.

Calcus Ltd. provides you the following information:

1. **Raw material stock holding period: 3 months**
2. **Work-in-progress holding period: 1 month**
3. **Finished goods holding period: 5 months**
4. **Debtors collection period: 5 months**

You are requested to compute the operating cycle of Calcus Ltd. What would happen if the trade payables of the Company are paid in 12.5 months–whether these should be classified as current or non-current liability?

Operating cycle of Calcus Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period

= 3 + 1 + 5 + 5= 14 months

Since, the operating cycle of Calcus Ltd. is 14 months, trade payables expected to be paid in 12.5 months should be treated as a current liability.

ICAI RTP Nov-2013(Asked in May 2013-5 Marks)

The Balance Sheet of Appropriate Ltd. as at 31st March, 2013 is as follows:.

	Note No.	31st March, 2013	31st March, 2012
Equity & Liabilities			
Share Capital	1	XXX	XXX
Reserves and Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
Non-Current Liabilities			
Deferred tax liability (Arising from Indian Income Tax)	5	XXX	XXX
Current Liabilities			
Trade Payables	6	XXX	XXX
Total		XXXX	XXXX
Assets			
Non-Current Assets			
Fixed Assets -Tangible	7	XXX	XXX
Capital Work in progress (including capital advances)	8	XXX	XXX
Current Assets			
Trade Receivables	9	XXX	XXX
Deferred Tax Asset (Arising from Indian Income Tax)	10	XXX	XXX
Profit and Loss (Debit balance)		XXX	XXX

Comment on the presentation in terms of revised Schedule VI and Accounting Standards notified by the Central Government.

(1) 'Share Capital' and 'Reserves and Surplus' are required to be shown under the heading "Shareholders' funds", which have not been shown in the given balance sheet. Although it is a part of 'Equity and Liabilities' yet it must be shown under the head "Shareholders' Funds". The heading "Shareholders' Funds" is missing in the balance sheet given in the question.

(2) Reserves & Surplus is showing zero balance, which is not correct since there is. Debit balance of Statement of Profit & Loss. This debit balance of Profit and Loss should be shown as a negative figure under the head 'Surplus'. The balance of 'Reserves and Surplus', after adjusting negative balance of surplus shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. It should be noted that Profit and Loss Debit Balance is not a part of current assets rather debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'Surplus' as per requirement of Revised Schedule VI.

(3) As per Revised Schedule VI Employee Stock Option Outstanding A/c is part of Reserves and Surplus and should not be shown separately. Classification of Reserves and Surplus should be reflected is 'Notes to Accounts' for the same.

(4) Share application money refundable shall be shown by way of note under the sub-heading "Other Current Liabilities". As this is refundable and not pending for allotment, hence it is not a part of equity.

(5) Deferred Tax Liabilities has been correctly shown under Non-Current Liabilities. But Deferred tax assets and deferred tax liabilities, both, can not be shown in balance sheet because only the net balance of Deferred Tax Liabilities or Asset is to be shown as per para 29 of AS 22, Appropriate Ltd. should offset Deferred Tax Asset & Deferred Tax Liabilities and the break up of Deferred Tax Asset & Deferred Tax Liabilities into major components of the respective balance should be disclosed in 'Notes to Account'. Deferred Tax Asset shall be shown under Non-Current Asset. It should be the net balance of Deferred Tax Asset after adjusting the balance of deferred tax liability.

(6) Under the main heading of Non-Current Assets, Fixed Assets are further classified as under:

(i) Tangible assets

(ii) Intangible assets

(iii) Capital work in Progress

(iv) Intangible assets under development.

Keeping in view the above, the Capital Work -in Progress shall be shown under Fixed Assets as Capital Work in Progress. The amount of Capital advances included in CWIP shall be disclosed under the sub-heading “Long term loans and advances” under the heading Non-Current Assets.

<u>ICAI Mock Paper November 2013- 4 marks</u>

In the financial statements of the financial year 2012-13, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ` 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Revised Schedule VI to the Companies Act? Comment.

Revised Schedule VI has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2011. As per Part I of the Revised Schedule VI, a company shall, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2013 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Revised Schedule VI does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Revised Schedule VI to the Companies Act, 1956.

<u>Practice manual</u>

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. as per revised Schedule VI.

As per revised Schedule VI, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company’s operating cycle or is intended for sale or consumption in the company’s normal operating cycle. Further, revised Schedule VI defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months.

As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months. This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct. H Ltd. will classify the raw material purchased and held in stock as current asset in its Balance Sheet.