

Ministry of Corporate Affairs

EXPLANATORY MEMORANDUM

REVIEW OF SCHEDULE VI TO THE COMPANIES ACT, 1956

1. Schedule VI to the Companies Act, 1956 provides for the manner in which every company shall prepare its balance sheet and profit and loss account.

2. Various changes have taken place in the economic and regulatory environment for companies across the world and in India. Internationally, the observance of universally accepted reporting norms in respect of financial information of companies is perceived as an important measure for good corporate governance, enabling transparency with regard to financial position of the company and proper disclosure to shareholders. In pursuance of the policy adopted by the Government to enable convergence with International Financial Reporting Standards (IFRS), the Government of India notified Companies (Accounting Standards) Rules, 2006 under the Companies Act, 1956. It is felt necessary not only to enable proper and adequate disclosures but also to resolve any ambiguity in application of various Rules etc. to be observed by companies in this regard. Therefore, it is essential to harmonize and synchronize the general disclosure requirements under Schedule VI with those prescribed in the Accounting Standards.

3. This Ministry has also received suggestions for revision of this Schedule for removing the requirements of disclosures no longer considered relevant in view of the changed economic and commercial environment for operation of companies in India and for enabling a simplified format for reporting of financial information by small and medium companies. The other concepts taken into account in revision of

the Schedule VI are annexed at “Part A” and the method adopted in determining the form of balance sheet, profit and loss account and cash flow statement is annexed at “Part B” to this Memorandum (enclosed).

4. The Institute of Chartered Accountants of India (ICAI) and National Advisory Committee on Accounting Standards (NACAS) were consulted in the matter. Based on such consultation, a draft revised Schedule VI (for companies other than Small and Medium Companies) is annexed at “Part C” and a draft new Saral Schedule VI (for Small and Medium Companies) along with the concepts and the methodology applied is annexed at “Part D” to this Memorandum. This Memorandum alongwith its annexures is available at the Ministry’s website at www.mca.gov.in.

5. Suggestions/Comments on the these Schedules alongwith justification in brief may be addressed/sent latest by 22nd December, 2008 to Shri B.N. Harish, Joint Director (Inspection) or Shri N.K. Dua, Assistant Director, M/o Corporate Affairs, 5th Floor, A Wing, Shastri Bhavan, New Delhi. The suggestions/comments may also be sent through email at bn.harish@mca.gov.in or narendra.dua@mca.gov.in. It will be appreciated if the name and address of the sender is also indicated clearly at the time of sending suggestions/comments.

CONCEPTS FOR REVISION OF THE SCHEDULE VI

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

- (a) To have a '**readable, useful, transparent and user friendly**' form of Schedule VI.
- (b) To set out **minimum disclosure requirements** which are considered essential to ensure true and fair presentation of the financial position and financial performance of the company and comparability both with the company's previous periods and with other companies.
- (c) The Balance Sheet and the Statement of Profit and Loss should **not be burdened with too many disclosure requirements**.
- (d) To remove the requirements of disclosures no longer considered relevant in view of the changed socio-economic structure and level of development of the economy.
- (e) To remove disclosure requirements which are meant for statistical purposes only e.g. Part IV of Schedule VI.
- (f) To have inherent flexibility for amendments and industry/sector specific improvements from time to time and to cater to industry/sector specific disclosure requirements.
- (g) To harmonize and synchronize the general disclosure requirements with those prescribed in the Accounting Standards by removing the existing inherent anomalies.
- (h) The specific disclosure requirements prescribed in the Accounting Standards are not incorporated here so that amendment in the Accounting Standard does not necessitate an amendment in the form of Schedule VI.
- (i) To attain **compatibility and convergence** with the International Accounting Standards and practices.

"PART B"

METHOD ADOPTED IN DETERMINING THE FORM OF BALANCE SHEET, STATEMENT OF PROFIT AND LOSS AND CASH FLOW STATEMENT

I. BALANCE SHEET

- 1) **Presentation** is based upon :
 - (a) The **balanced format** in which the sum of the amounts for liabilities and equity are added together to illustrate that assets equal liabilities plus equity.
 - (b) The **report form** i.e. top to bottom or the vertical form.
- 2) **Classification** of assets and liabilities:
 - (a) Classification is based upon **current and non-current assets/liabilities method**.
 - (b) Similar nature of assets/liabilities are **grouped into line items**.

II. STATEMENT OF PROFIT AND LOSS

- 1) **Presentation** is based upon:

Multiple step format i.e. Revenues from operations less cost of sales less operating expenses add other incomes less non operating expense less tax expense.
- 2) **Classification of** expenses is based upon:

Function of expense method-expenses are classified according to their function as part of cost of sales, selling and marketing expenses or administrative expenses. Expenses are reallocated among various functions within the company.

III. CASH FLOW STATEMENT

- 1) **Presentation** is based upon:

Cash inflow and outflow format i.e. cash inflows from various activities are grouped together and similarly cash outflows from various activities are grouped together.
- 2) **Classification of cash flows** is based upon:

The indirect method, whereby net profit or loss is adjusted for the effects of **a)** transactions of a non-cash nature; **b)** any deferrals or accruals of past or future operating cash receipts or payments; and **c)** items of income or expense associated with investing or financing cash flows.

SCHEDULE VI

***GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET,
STATEMENT OF PROFIT AND LOSS AND CASH FLOW STATEMENT***

I. GENERAL INSTRUCTIONS

1. This Schedule shall apply to companies other than 'Small and Medium Sized Company' (SMC) as defined in Rule 2 (f) of Companies (Accounting Standards) Rules, 2006.
2. This Schedule sets out the minimum requirements for disclosure on the face of the Balance Sheet, the Statement of Profit and Loss including Cash Flow Statement (hereinafter referred to as "Financial Statements") and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.
3. Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change, including addition, amendment, substitution or deletion in the head/sub-head or any changes interse, in the financial statements or statements forming part thereof, the same shall be made and the requirements of the Schedule VI shall stand modified accordingly.
4. The disclosure requirements specified in Part I, Part II and Part III of this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
5. Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide (a) narrative descriptions or disaggregations of items recognized in those statements and (b) information about items that do not qualify for recognition in those statements. Each item on the face of Balance Sheet, Statement of Profit and Loss and Cash Flow Statement shall be cross-referenced to any related information in the notes to accounts. In preparing the financial statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation.

6. Depending upon the turnover of the company, the figures appearing in the financial statements shall be rounded off as below:

Turnover

Rounding off

- | | |
|--|---|
| (i) less than one hundred crore rupees | To the nearest hundreds, thousands, lakhs or millions, or decimals thereof. |
| (ii) one hundred crore rupees or more | To the nearest, lakhs, millions or crores, or decimals thereof. |
7. Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes shall also be given.
8. An existing company, which was previously a non-SMC and, subsequently becomes an SMC, shall continue to follow Schedule VI and shall qualify for Saral Schedule VI only if the company remains an SMC for two consecutive reporting periods.
9. (i) For the year in which the existing SMC company becomes a non SMC company the previous period figures of the Financial Statements shall be reclassified according to the requirements of the Schedule VI unless the reclassification is impracticable.
- (ii) When it is impracticable to reclassify comparative amounts, the company shall disclose:
- | | |
|-----|---|
| (a) | the reason for not reclassifying the amounts; and |
| (b) | the nature of the adjustments that would have been made if the amounts had been reclassified. |
10. Cash Flow Statement as per proforma contained herein shall form part of the Balance Sheet and Statement of Profit and Loss.

II. GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

11. For the purpose of Part I - Balance Sheet:

11.1 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;
- (c) it is expected to be realized within twelve months after the reporting date;
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

11.2 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 12 months.

11.3 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;
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities shall be classified as non-current.

11.4 A company shall disclose the following in the notes to accounts:

A. Share Capital

for each class of 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 period;

- (e) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
- (f) shares in respect of each class in the company held by its holding company or its ultimate holding company or by its subsidiaries or associates in aggregate;
- (g) shares in the company held by any shareholder holding more than 5 percent shares;
- (h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;
- (i) Separate particulars for a period of five years following the year in which the shares have been allotted/bought back, in respect of:
 - 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.
- (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.

B. Reserves and Surplus

- (i) Reserves and Surplus shall be classified as:
 - (a) Capital Reserves;
 - (b) Capital Redemption Reserves;
 - (c) Securities Premium Reserve;
 - (d) Debenture Redemption Reserve;
 - (e) Revaluation Reserve;
 - (f) Revenue Reserves – (specify the nature of each reserve and the amount in respect thereof);
 - (g) Surplus i.e. balance in statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves.

(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 profit and loss account 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) Other loans and advances (specify nature).
- (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, a mention thereof shall be made and also the aggregate amount of such loans under each head.
- (iv) Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) 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.
- (v) Particulars of any redeemed bonds/ debentures which the company has power to reissue.
- (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 dues, providing break-up of principal and interest shall be specified separately in each case.

D. Long-term provisions

The amounts shall be classified as:

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

E. 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).
- (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, a mention thereof shall be made and also the aggregate amount of loans under each head.
- (iv) Period and amount of continuing default as on the balance sheet date in repayment of dues, providing break-up of principal and interest shall be specified separately in each case.

F. Trade payables

The amounts shown under 'Trade Payables' shall include the amounts due in respect of goods purchased or services received in the normal course of business.

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) The following amounts shall be shown separately including the interest accrued thereon:
 - Unpaid dividends
 - Unpaid application money received for allotment of securities and due for refund
 - Unpaid matured deposits
 - Unpaid matured debentures
- (g) 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).

(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.

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).

(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.

K. Non-current investments

(i) Non-current investments shall be 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 partnerships
- (h) Other non-current investments (specify nature)

(ii) Investments carried at cost should be presented separately from those carried at other than cost and 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 amount of partly paid-up investments;
- (

(iv) The names of bodies corporate or other entities indicating separately the names of:

- (a) subsidiaries,
- (b) associates,
- (c) joint ventures, and
- (d) controlled special purpose entities

in whose securities, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate; provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock, debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which balance sheet has been made out. In regard to the investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of the company in the capital and profits) shall be given in the statement.

L. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

- (a) Capital Advances;
- (b) Security Deposits;

- (c) To related parties: loans and advances to specify separately;
 - (d) Other (specify nature) loans and advances to specify separately.
- (ii) The above shall also be separately 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.

M. Other non-current assets

This is an all inclusive heading which incorporates assets that do not fit neatly into any of the other asset categories.

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) Investment in Partnership
 - (g) Other investments (specify nature).
- (ii) The following shall also be disclosed:
- (a) Aggregate amount of quoted investments and market value thereof;
 - (b) Aggregate amount of unquoted investments;
 - (c) Aggregate amount of partly paid-up investments.
- (iii) The names of bodies corporate or other entities indicating separately the names of:
- (a) subsidiaries,
 - (b) associates,
 - (c) joint ventures, and
 - (d) Controlled special purpose entities
- in whose securities, investments have been made including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out and the nature and extent of the investments so made in each such

body corporate. In regard to the investments in the capital of partnership firms, the names of the firm (with the names of all their partners, total capital and the shares of the company in the capital and profits) shall be given in the statement.

O. Inventories

- (i) Classification shall be made as:
 - (a) Raw material;
 - (b) Work-in-progress;
 - (c) Finished goods;
 - (d) Stock-in-trade;
 - (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.

P. Trade Receivables

- (i) The amounts shown under 'Trade Receivables' shall include the amounts due in respect of goods sold or services rendered in the normal course of business.
- (ii) Trade receivables shall also be 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.

Q. Cash and cash equivalents

- (i) Classification shall be made as:
 - (a) Bank balances;
 - (b) Cheques, drafts on hand;
 - (c) Cash balance;
 - (d) Cash equivalents – short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value (specify details);
 - (e) Others (specify nature).

- (ii) Earmarked bank balances (e.g. unpaid dividend) shall be separately stated.
- (iii) Balance with banks to the extent held as 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) Loans and advances shall be classified separately as:
 - (a) To subsidiaries/associates/business ventures;
 - (b) To others (specify nature).
- (ii) The above shall also be sub-classified as:
 - (a) To the extent secured, considered good;
 - (b) Others, considered good;
 - (c) Doubtful.
- (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

S. Other current assets (specify nature).

T. Contingencies and commitments
(to the extent not provided for)

- (i) Contingencies 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. The amount of dividends proposed to be distributed to equity and preference shares holders 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.

**III. GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF
PROFIT AND LOSS**

12. For the purpose of Part II – Statement of Profit and Loss:

12.1 A company shall disclose the following in the notes to accounts to the extent applicable:

A. Revenues from operations

(i) Revenue from operations shall be classified as:

- (a) Sale of products;
- (b) Sale of Services;
- (c) Other operating revenues (specify nature);
- Less:
- (d) Excise duty.

(ii) These shall include sales or service charges to customers for the goods and/or services provided during the period net of discounts, allowances and returns.

B. Other income

This shall include (to be disclosed separately):

- (a) Interest income;
- (b) Dividend income;
- (c) Rental on investment properties;
- (d) Increase (decrease) in carrying amounts of investments;
- (e) Gains and losses on trading derivatives;
- (f) Amounts withdrawn, as no longer required, from provisions created previously for meeting specific liabilities;
- (g) Other miscellaneous income.

C. Finance Costs

Finance costs shall include interest expenses (to be disclosed separately).

D. Tax Expense- Others

Others shall be specified separately.

E. The Company shall disclose additional information on the nature of expenses as follows:

- (i) Change in inventories - Opening (less closing) inventories of finished goods and work-in-process;

- (ii) Cost of direct materials consumed arrived at by adding net purchases (purchases less discounts, returns and allowances plus freight-in) to beginning inventory to obtain direct materials available. From the cost of direct materials available, the ending inventory is deducted;
- (iii) Employees Benefits expenses;
- (iv) Depreciation and Amortization expenses;(v) Any item for which the expense exceeds one percent of the revenues from operations of the Company or Rs.10,00,000 whichever is higher, shall be shown as a separate and distinct item and shall not be combined with any other item.

F. Results from discontinued operations included in the statement of profit and loss i.e. income (loss) from activities and gain (loss) from disposal of assets/settlement of liabilities shall be disclosed separately in the notes to accounts.

12.2 Expenses classified as Cost of Sales/Services, Selling and Marketing expenses, Administrative expenses and other expenses shall include:

A. Cost of sales/services:

- (i) These are costs directly associated with generating revenues and shall include:
 - (i) Change in inventories - Opening (less closing) inventories of finished goods and work-in-process;
 - (ii) Cost of direct materials consumed arrived at by adding net purchases (purchases less discounts, returns and allowances plus freight-in) to beginning inventory to obtain direct materials available. From the cost of direct materials available, the ending inventory is deducted;
 - (iii) Other external charges (such as the hire of plant and machinery or the cost of casual labour used in the productive process);
 - (iv) Direct labour (ESOP and ESPP expenses to be disclosed separately);
 - (v) All direct production overheads;
 - (vi) Depreciation and amortization that can reasonably be allocated to the production function;
 - (vii) Indirect overheads that can reasonably be allocated to the production function;
 - (viii) Product development expenditure not qualifying for recognition as an intangible asset and amortization of development expenditure recognized as an intangible asset;
 - (ix) Inventory write downs/reversals;
 - (x) All direct overheads in providing services;

- (xi) All allocable indirect overheads in providing services;
- (xii) Cost of goods traded-in arrived at by adding net purchases (purchases less discounts, returns, and allowances plus freight-in) to beginning inventory to obtain the cost of goods available for sale. From the cost of goods available for sale amount, the ending inventory is deducted;
- (xiii) Other cost of sales.

B. Selling and marketing expenses are those expenses that are directly related to the company's efforts to generate sales. These items shall include:

- (a) Payroll costs of sales, marketing and distribution functions (ESOP and ESPP expenses to be disclosed separately);
- (b) Advertising;
- (c) Sales persons' travel and entertaining;
- (d) Warehouse costs for finished goods;
- (e) Transport costs arising on the distribution of finished goods;
- (f) All costs of maintaining sales out-lets;
- (g) Agents commission payable;
- (h) Other selling and marketing expenses.

C. Administrative expenses are expenses related to the general administration of the company's operations. These items shall include:

- (a) Payroll costs of office and administrative staff (ESOP and ESPP expenses to be disclosed separately);
- (b) All costs of maintaining the administration buildings;
- (c) Bad debts;
- (d) Professional costs;
- (e) Amount paid to the auditor, whether as fees, expenses or otherwise for services rendered:
 - i) as auditor;
 - ii) as advisor or in any other capacity in respect of:
 - taxation matters;
 - company law matters;
 - in any other manner.
- (f) Directors remuneration;
- (g) Insurance expense;
- (h) Utilities expense;
- (i) Other administrative expenses.
- (j) Depreciation and amortization of assets other than used in the production process and included in cost of sales.

D. Other Expenses:
Other expenses shall include costs related to other income.

IV. GENERAL INSTRUCTION FOR THE PREPARATION OF CASH FLOW STATEMENT

13. For the purpose of Part III – Cash Flow Statement

A. Operating activities

Operating activities are the principal revenue-producing activities of the company and other activities that are not investing or financing activities.

B. Investing activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

C. Financing activities

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital) and borrowings of the company.

D. Profit from Operating Activities

The amount of profit from operating activities shall be profit before tax and before non operating income and non-operating expenses.

E. Cash and Cash equivalents

- (i) Cash shall include cash on hand and demand deposits with banks.
- (ii) Cash equivalents shall include short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

F. Foreign Exchange Gains and Losses

- (i) Unrealised gains and losses arising from changes in foreign exchange rates are to be disclosed separately.
- (ii) The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency shall be disclosed as a separate part of the reconciliation of the changes in cash and cash equivalents during the period.

- G. Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.
When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid shall be disclosed.
- H. Decrease or increase in various types of current assets and current liabilities under working capital changes shall be 'net' increase or decrease of the concerned items.

PART I –BALANCE SHEET

Name of the Company.....

Balance Sheet as at

(Rupees in.....)

	Particulars	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3
I.	CAPITAL AND LIABILITIES		
(1)	Shareholders' funds		
	(a) Share capital		
	(b) Reserves and surplus		
(2)	Share application money		
(3)	Non-current liabilities		
	(a) Long-term borrowings		
	(b) Deferred tax liabilities (Net)		
	(c) Long-term provisions		
(4)	Current liabilities		
	(a) Short-term borrowings		
	(b) Trade payables		
	(c) Other current liabilities		
	(d) Short-term provisions		
	TOTAL		
II.	ASSETS		
(1)	Non-current assets		
	(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		

See accompanying notes to the financial statements

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended

(Rupees in.....)

	Particulars		Figures for the current reporting period		Figures for the previous reportin g period
I.	Revenues from operations		xxx		xxx
II.	Cost of sales/services		xxx		xxx
III.	Gross profit (I – II)		xxx		xxx
IV	Operating expenses: (1) Selling and marketing expenses (2) Administrative expenses		xxx xxx		xxx xxx
	Total operating expense		xxx		xxx
V.	Results from operating activities (III – IV)		xxx		xxx
VI.	Non operating Income/expenses: (1) Gains/(Losses) on sale of long-term investments (2) Foreign currency exchange gains/(losses), net (3) Finance Cost (4) Other income (5) Other expenses		xxx xxx (xxx) xxx (xxx)		xxx xxx (xxx) xxx (xxx)
	Total Non Operating Income/expenses:		xxx		xxx
VII.	Income before income tax (V + VI)		xxx		xxx
VIII	Tax expense: (1) Current income tax (2) Deferred income tax (3) Others	xxx xxx xxx		xxx xxx xxx	
IX.	Profit for the period (VI – VII)		xxx		xxx
X.	Earnings per equity share: (1) Basic (2) Diluted		xxx xxx		xxx xxx

See accompanying notes to the financial statements

PART III – CASH FLOW STATEMENT

Name of the Company.....

Cash flow statement for the year ended

(Rupees in.....)

	Particulars	Figures for the current reporting period	Figures for the previous reporting period
	1	2	3
I.	CASH INFLOWS		
(1)	From Operating activities		
	(a) Profit/Loss from operating activities		
	Adjustments:		
	Depreciation and amortization		
	Shares Compensation expenses		
	(Gain)/Loss on sale of fixed assets		
	Assets written off		
	Provision/ (Reversal) for doubtful debts and advances		
	Other Provisions		
	(b) Working capital changes:		
	Decrease in inventories		
	Decrease in trade receivables		
	Decrease in short-term loans and advances		
	Decrease in other current assets		
	Increase in trade payables		
	Increase in other current liabilities		
	Increase in short term provisions		
	Total of (1)		
(2)	From Investing activities		
	(a) Proceeds from sale of fixed assets		
	(b) Proceeds from sale of investments		
	(c) Realisation of long-term loans and advances from subsidiaries/ associates/ business ventures		
	(d) Decrease in other long-term loans and advances		
	(e) Decrease in other non-current assets		
	(f) Dividend received		
	(g) Interest received		
	(h) Other income		
	Total of (2)		

(3)	From Financing activities		
	(a) Proceeds from issue of share capital		
	(b) Share application money pending allotment		
	(c) Proceeds from long-term borrowings		
	(d) Proceeds from short-term borrowings		
	Total of (3)		
	Total cash inflows(1+2+3)		
II.	CASH OUTFLOWS		
(1)	From Operating activities		
	(a) Profit/Loss from operating activities		
	Adjustments:		
	Depreciation and amortization		
	Share Compensation expenses		
	(Loss)/Gain on sale of fixed assets		
	Assets written off		
	(Provision)/Reversal for doubtful debts and advances		
	Other Provisions		
	(b) Working capital changes:		
	Increase in inventories		
	Increase in trade receivables		
	Increase in short-term loans and advances		
	Increase in other current assets		
	Decrease in trade payables		
	Decrease in other current liabilities		
	Decrease in short term provisions		
	(c) Direct taxes paid (Net of refunds)		
	Total of (1)		
(2)	From Investing activities		
	(a) Purchase of tangible assets/capital work-in-progress		
	(b) Purchase of intangible assets/assets under development		
	(c) Purchase of investments		
	(d) Investment in subsidiaries/ associates/ business ventures		
	(e) Payment of long-term loans and advances to subsidiaries/associates/ business ventures		
	(f) Increase in other long-term loans and advances		
	(g) Increase in other non-current assets		

(3)	Total of (2)		
	From Financing activities		
	(a) Repayment of long-term borrowings		
	(b) Repayment of short-term borrowings		
	(c) Dividends paid (including distribution tax)		
	(d) Interest and other finance costs		
	(e) Share issue expenses		
	Total of (3)		
	Total cash outflows (1+2+3)		
III.	Net (decrease)/increase in cash and cash equivalents		
	a) From Operating activities		
	b) From Investing activities		
	c) From Financing activities		
	Total (A)		
	Add: Cash and cash equivalents at the beginning of the period (B)		
IV.	Cash and cash equivalents at the end of the period (A+B)		

CONCEPTS FOR PREPARATION OF SARAL SCHEDULE VI

The 'Saral Schedule VI' to the Companies Act, 1956 has been prepared on the following concept:

- (a) To have a '**simple and user friendly**' form of Schedule VI for Small and Medium Sized Companies (SMC).
- (b) The Balance Sheet and the Statement of Profit and Loss of SMC's should **not be burdened with too many disclosure requirements**.
- (c) To set out **minimum disclosure requirements** which are considered essential to ensure true and fair presentation of the financial position and financial performance of the company and comparability both with the company's previous periods and with other companies.
- (d) To attain **compatibility and convergence** with the International Accounting Standards and practices.
- (e) It is **generally assumed** that SMC's
 - (i) will not have particularly complex transactions;
 - (ii) do not have public accountability;
 - (iii) do not hold assets in a fiduciary capacity for a broad group of outsiders;
 - (iv) accountability is limited to owners and government authorities/agencies.
- (f) The '**Users**' and 'information **needs**' of the Users of financial statements of SMCs **are limited**.

***METHOD ADOPTED IN DETERMINING THE FORM OF BALANCE SHEET AND
STATEMENT OF PROFIT AND LOSS***

I. BALANCE SHEET

- 1) **Presentation** is based upon :
 - (a) The **balanced format** in which the sum of the amounts for liabilities and equity are added together to illustrate that assets equal liabilities plus equity.
 - (b) The **report form** i.e. top to bottom or the vertical form.
- 2) **Classification** of assets and liabilities:
 - (c) Classification is based upon **current and non-current assets/liabilities method**.
 - (d) Similar nature of assets/liabilities are **grouped into line items**.

II. STATEMENT OF PROFIT AND LOSS

- 1) **Presentation** is based upon:

Single step format i.e. Aggregate revenues less aggregate expenses method.
- 2) **Classification of expenses** is based upon:

Nature of expense method-expenses are aggregated according to their nature and are not reallocated among various functions within the company.

SARAL SCHEDULE VI

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

I. GENERAL INSTRUCTIONS

1. This Schedule shall apply to 'Small and Medium Sized Companies' (SMC) as defined in Rule 2 (f) of Companies (Accounting Standards) Rules, 2006 i.e. which fulfill and satisfy the conditions mentioned hereunder as at the end of the relevant reporting period :
 - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;
 - (iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding reporting period;
 - (iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding reporting period; and
 - (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.
2. This Schedule sets out the minimum requirements for disclosure on the face of the balance sheet and the statement of profit and loss (hereinafter referred to as "Financial Statements") and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.
3. Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change, including addition, amendment, substitution or deletion in the head/sub-head or any changes interse, in the financial statements or statements forming part thereof, the same shall be made and the requirements of the Schedule VI shall stand modified accordingly.
4. The disclosure requirements specified in Part I and Part II of this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956. Additional disclosures specified in the Accounting Standards shall be made in the Notes to Accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.

5. Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide
 - (a) narrative descriptions or disaggregations of items recognized in those statements and
 - (b) information about items that do not qualify for recognition in those statements. Each item on face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the financial statements including notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation.
6. Rounding off is permissible to the nearest hundreds or thousands, or decimals thereof.
7. Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes shall also be given.
8. For the first year in which the Balance Financial Statements are drawn in accordance with the Saral Schedule VI, the previous period figures shall be reclassified according to the requirements of the Saral Schedule VI unless the reclassification is impracticable. When it is impracticable to reclassify comparative amounts, a company shall disclose:
 - (a) the reason for not reclassifying the amounts; and
 - (b) the nature of the adjustments that would have been made if the amounts had been reclassified.
9. An existing company, which was previously a non-SMC and, subsequently becomes an SMC, shall continue to follow Schedule VI and shall qualify for Saral Schedule VI only if the company remains an SMC for two consecutive reporting periods.
10. An SMC may voluntarily elect to prepare and present disclosures as per the Main Schedule VI instead of the Saral Schedule VI by disclosing the same in the Notes to accounts.

II. GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

11. For the purpose of Part I - Balance Sheet:

11.1 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;
- (c) it is expected to be realized within twelve months after the reporting date;
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

11.2 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 12 months.

11.3 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;
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- (e) All other liabilities shall be classified as non-current.

11.4 A company shall disclose the following in the notes to accounts:

A. Share Capital

Share Capital shall be classified as:

- (a) Equity paid-up capital;
- (b) Preference paid-up capital;
- (c) Shares in respect of each class in the company held by its holding company or the ultimate holding company or by its subsidiaries or associates in aggregate shall be disclosed under each class of shares separately.

B. Reserves and Surplus

- (i) Reserves and Surplus shall be classified as:
 - (a) Capital Reserves;
 - (b) Revenue Reserves;
 - (c) Revaluation Reserve;
 - (d) Surplus i.e. balance in statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves.
- (ii) Reserves and Surplus shall be shown after deducting debit balance of profit and loss account even if the resulting figure is in the negative.

C. Long-term borrowings

- (i) These shall be classified as from banks, deposits, debentures and others;
- (ii) These shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

D. Long-term provisions

Long-term provisions shall include provision for employee benefits and others.

E. Short-term borrowings

- (i) These shall be classified as from banks, deposits and others;
- (ii) These shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

F. Trade payables

The amounts shown under 'Trade Payables' shall include the amounts due in respect of goods purchased or services received in the normal course of business.

G. Other current liabilities

Other current liabilities shall include current maturities of long-term debt and finance lease obligations, interest accrued but not due on borrowings, Interest accrued and due on borrowings, income received in advance and others.

H. Short-term provisions

Short-term provisions shall include provision for employee benefits and others.

I. Fixed Assets

Fixed assets shall be disclosed at net carrying amounts i.e. original cost less accumulated depreciation, amortization and impairment.

J. Non-current investments

(i) Non-current investments shall be classified as:

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

(ii) Investment carried at cost should be presented separately from those carried at other than cost and specifying the basis for valuation thereof.

K. Long-term loans and advances

- (i) Long-term Loans and Advances shall include capital advances, security deposits and others.
- (ii) The amounts shall be shown net of allowance for bad and doubtful loans and advances.

L. Current investments

Current investments shall include investments held for trading and others.

M. Inventories

Inventories shall include raw material, work-in-progress, finished goods, stock-in-trade, stores and spares, loose tools, goods-in-transit and others.

N. Trade receivables

- (i) The amounts shown under 'Trade Receivables' shall include the amounts due in respect of goods sold or services rendered in the normal course of business.
- (ii) The amounts shall be shown net of allowance for bad and doubtful debts.

O. Cash and cash equivalents

- (i) Cash shall include cash balance, cheques/drafts in hand and balances with banks in current accounts.
- (ii) Cash equivalents shall include short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value (specify details).

P. Short-term loans and advances

The amounts shall be shown net of allowance for bad and doubtful loans and advances.

Q. Contingencies and commitments
(to the extent not provided for)

- (i) Contingencies 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:
 - (d) Estimated amount of contracts remaining to be executed on capital account and not provided for.
 - (e) Uncalled liability on shares partly paid.
 - (f) Other commitments.

R. The amount of dividends proposed to be distributed to equity and Preference Share holders 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.

**III. GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF
PROFIT AND LOSS**

12. For the purpose of Part II – Statement of Profit and Loss:

12.1 A company shall disclose the following in the notes to accounts:

- (i) The amount of total excise duty/service tax for the year deducted from 'Sales and Services from operations' shall be disclosed separately.
- (ii) Any item for which the expense exceed one percent of the revenues from operations of the Company or Rs.50,000, whichever is higher, shall be shown as a separate and distinct item on the face of statement of profit and loss against an appropriate account head as a sub-line item and shall not be combined with any other item.
- (iii) Results from discontinued operations included in the statement of profit and loss i.e. income (loss) from activities and gain (loss) from disposal of assets/settlement of liabilities shall be disclosed separately in the notes to accounts.

PART I - BALANCE SHEET

Name of the Company.....

Balance Sheet as at

(Rupees in.....)

	Particulars	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3
I.	CAPITAL AND LIABILITIES		
(1)	Shareholders' funds		
	(a) Share capital		
	(b) Reserves and surplus		
(2)	Share application money		
(3)	Non-current liabilities		
	(a) Long-term borrowings		
	(b) Deferred tax liabilities (Net)		
	(c) Long-term provisions		
(4)	Current liabilities		
	(a) Short-term borrowings		
	(b) Trade payables		
	(c) Other current liabilities		
	(d) Short-term provisions		
	TOTAL		
II.	ASSETS		
(1)	Non-current assets		
	(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		

See accompanying notes to the financial statements

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended

(Rupees in.....)

	Particulars	Figures for the current reporting period	Figures for the previous reporting period
	1	2	3
I.	Revenues (1) Sales and services from operations (Net of discounts, returns, duties, taxes and allowances) (2) Other income Total (I)		
II.	Expenses (1) Cost of raw material consumed/goods sold (2) Changes in inventories of finished goods and work-in-progress (3) Consumption of stores and spare parts (4) Energy costs (5) External job work charges (6) Employee benefits expense (7) Repairs & maintenance (8) Royalty/technical know-how/license fee (9) Research and development expenses (10) Commission and brokerage on sales (11) Finance costs (12) Depreciation, amortization & impairment (13) Other expenses Total (II)		
III.	Profit/(Loss) before tax (I - II) Total (III)		
IV.	Tax expense (1) Current income tax (2) Deferred income tax (3) Others Total (IV)		
V.	Net Profit/(Loss) for the year (III-IV)		

See accompanying notes to the financial statements