International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 3, Issue 2, pp: (365-374), Month: October 2015 - March 2016, Available at: www.researchpublish.com

Financial Statements as per Revised Schedule VI- An overall view

Ms. Snigdha

Assistant Professor,Bhagini Nivedita College, University of Delhi.

Abstract: **With the numerous scandals that have been in the limelight and various manipulations that have been taking a round in the corporate sector, there arose an urge to bring transparency in financial statements. This has been brought up by a much-awaited attempt made by the Ministry of Corporate Affairs by bringing changes in the format of the Balance Sheet and Statement of Profit and Loss so as to maintain consistency with international standards which would further benefit the end users of the financial statements thereby bringing more transparency and understanding. The revised schedule is compulsory to be adopted uniformly by all firms except certain categories of industries which are regulated through their own acts.The Balance sheet and now termed as Statement of Profit and Loss have been prescribed with a specific vertical format. The format changes have been brought up for better clarity and categorization of the same. The most important of all is the introduction of operating cycle for every industry thereby leading the map towards realism. Many of the concepts or the basic details that were kept under wraps have been made explicit in the revised schedule VI.**

Keywords: **Financial statements, Companies Act 2013, Balance Sheet, Profit and Loss Statement. JEL Classification: G34, G38, M48, K20.**

1. INTRODUCTION

The Ministry of Corporate Affair revised the Schedule VI of Companies Act, 1956 and notified the same on 1st March 2011.The refreshed Schedule VI has brought up many new concepts(not incorporated in the previous schedule). The Revised Schedule VI explicitly states that if the Act or Accounting Standards require a change in the treatment or disclosure in the Financial Statements as compared to that provided in the Revised Schedule VI, then the requirements as per the Act and/ Accounting Standards will override the Schedule.

Revised schedule VI to be applied to all companies uniformly for financial statements to be prepared for the financial year commencing on or after 1st April 2011.Revised schedule VI, however not applicable to banking and insurance companies and any company engaged in the generation or supply of electricity and any other company which is regulated under any other Act governing such class of company

With the new amendments made in the companies Act, the Balance Sheet and the Statement of Profit& Loss now come under the Schedule III of the Companies Act, 2013. However, this Schedule has not been brought into force yet. So, the companies are still entitled to follow the Revised Schedule VI under The Companies Act, 1956.The Revised Schedule VI has eliminated the concept of „Schedule‟ and such information is now to be furnished in the Notes to Accounts.

The Companies Act, 1956

Background of the (old) Schedule VI

The prominent features of the Schedule VI are mentioned as follows:

- The format of Balance Sheet could be both Horizontal and Vertical form.
- No Specified format of Profit& Loss A/c for given under the Schedule VI.

International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 3, Issue 2, pp: (365-374), Month: October 2015 - March 2016, Available at: www.researchpublish.com

- The Schedule did not state the superiority of the AS over the Schedule VI.

The Horizontal and Vertical formats of the Balance sheet as mentioned in (Old) Schedule VI of the Companies Act are given below:

SCHEDULE VI, PART I

(Horizontal form)

BALANCE SHEET OF...(Name of the Co.) as on..

Liabilities	**Figures for the Current year(rs.)**	**Figures for the Current year(rs.)**	**Assets**	**Figures for the Current year(rs.)**	**Figures for the Current year(rs.)**
Share capital			Fixed assets		
Reserves & surplus			Investments		
Secured loans			Currents assets, loans & advances		
Unsecured loans			Miscellaneous expenditure		
Current liabilities& provisions			Profit & loss a/c		

Note: Contingent Liabilities, if any

The vertical format of the Balance Sheet of the (old) Schedule VI stands out to be as follows:

SCHEDULE VI, PART-1

(VERTICAL FORM)

BALANCE SHEET OF…(Name of the Co.)

Particulars	**Schedule No.**	**Figures for the current year**	**Figures for the previous year**
I. Sources of Funds			
(1) Shareholders' Funds			
(a) Capital (b) Reserves & Surplus			
(2) Loan Funds			
(a) Secured loans (b) Unsecured loans			
TOTAL			
II.Applications of Funds			
(1) Fixed Assets			
(a) Gross block (b) Less: Depreciation (c) Net block			

(d) Capital Work-in-progress			
(2) Investments			
(3) Current Assets, Loans			
(a) Inventories (b) Sundry Debtors (c) Cash &Bank (d) Loans & Advances (e) Other Current Assets (f) Less: Current Liabilities and Provisions (g) Net Current Assets			
(4) (a) Miscellaneous Expenditure (b)Profit & Loss A/c			
TOTAL			

Note: Contingent Liabilities, if any

Profit & Loss A/c

Shows the net result of business operations during an accounting period and it broadly covers the following:

- Manufacturing /Trading items of revenue and expenses
- Profit & Loss A/c items indicating Net Profit/loss
- Appropriations items- Proposed dividend, transfer to reserve etc.

Need for Revised Schedule VI

The lack of a specified format of profit and loss made it difficult to make inter-company comparisons. There was a need for more clarity about the nature of assets and liabilities. There arose a requirement for categorization of revenues and expenses. And so there was need for adoption of international format for preparing financial statement to maintain compatibility with needs of all stakeholders. Many such loopholes have proved to be a cause a worry for the corporate sector.

Revised Schedule VI

The Revised Schedule VI has come up with some key changes. It came into force on 1st April, 2011. The accounting period to be followed by companies stands out to be from 1st April- 31st March. The P&L A/c is to be now known as Statement of Profit& Loss for which the format is specified. Also it makes it compulsory for the companies to follow the vertical form of the Balance Sheet now.

Balance Sheet as per Revised Schedule VI

There are certain fundamentals on which the format of the balance sheet has been revised.

The basic accounting Equation that is the core of accounting is given by:

Assets= Capital + Liabilities

The balance sheet is categorized into the same.

The Liabilities side is now termed as „Equity and Liabilities" making it more explicit as Equity(Capital/ Owners" funds) and Liabilities(Outside/External liabilities). This is followed by asset side depicted by total of all the assets.

The assets and liabilities are categorized as current and non-current on the basis of their nature that is determined by the operating cycle.

As per its meaning, „Operating cycle" means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It is the time period in which raw material gets converted into cash. The same concept can be put to use in case of an asset as well as a liability. Any asset/Liability that gets converted into cash or be paid off in cash in less than operating cycle, then that asset/ liability shall be treated as current. And if the conversion period exceeds the operating cycle, it would be of a non-current nature.

If the operating cycle of a company cannot be identified, then it shall be assumed to have duration of 12 months.

For example, if the debentures are going to be redeemed within one year(assuming that the operating cycle of the company is of one year), then they would be treated as „Current Liabilities‟ in the Balance Sheet as per the Revised Schedule VI.

However, if the operating cycle of the company is of 9 months, then the same debentures (having maturity period of more than 12 months) would be treated as Non-current debentures in the balance sheet for the Current year. The same concept is used to bifurcate assets into current and non-current.

Where the normal operating cycle cannot be identified, it is assumed to have duration of 12 months.

Apart from the above mentioned highlights, the **key features** of the balance sheet as per Revised Schedule VI are that the Shareholders‟ funds shall be shown after deduction of debit balance of profit and loss account. As a result, shareholders‟ funds can be negative. Also, it provides for a separate head for "Miscellaneous Expenditure to the extent not written off or adjusted" discontinued. Another very important changes brought in the balance sheet were providing a separate head for Money received against share warrants, Deferred tax asset and Deferred tax liability, Intangible assets, Intangible assets under development, Cash and cash equivalents

The format of the balance sheet as per the revised schedule is given as below:

FORMOF BALANCE SHEET

(Revised Scheduled VI)

Particulars	**Note No.**	**Figures as at the end of the current reporting period**	**Figures as at the end of the previous reporting year**
1. EQUITY & LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital			
(b) Reserves & 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			
(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			
2. ASSETS			
(1) Non- Current Assets:			
(a) Fixed Assets:			
• Tangible Assets			
• Intangible Assets			
• Capital work in progress			
• Intangible assets under development			
(b) Non- current Investments			

(c) Deferred Tax Assets			
(d) Long term loans & 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			

The separate heads of the liability side are as discussed below:

SHAREHOLDERS' FUND

A company is required to disclose the following in the notes to accounts:

- **Share Capital**: for each class of share capital (different classes of preference shares to be treated separately)
- **Reserves and Surplus: It shall be classified as:** Capital reserves, Capital Redemption Reserve, Securities Premium Reserve; Debenture Redemption Reserve, Surplus etc.

A reserve specifically represented by earmarked investments shall be termed as „fund".

- **Money received against share warrant:** A share warrant is a bearer document of title to shares and can be issued only by public limited companies and that to against fully paid up shares only. A share warrant cannot be issued by a private company, because the share warrant states that its bearer is entitled to a number of shares mentioned there in. It is a negotiable document and is easily transferable by mere delivery to another person. The holder of the share warrant is entitled to receive dividend as decided by the company.

Share Application Money Pending Allotment

Share application money pending allotment consists of the amount received on the application of shares but not allotted on the date of the balance sheet (i.e., due for allotment on the date of balance sheet). This is not to be presented within Shareholders" funds as a separate line item. Only the amount not due for refund be shown under Share application money pending allotment. Any amount due for refund should be shown under "Other Current Liabilities" along with interest accrued thereon.

NON-CURRENT LIABILITY

A liability shall be classified as current when it satisfies any of the following criteria:

(a) Settled in the companys' 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 reportingdate; 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 shall be classified as non- current liabilities and needs to be presented within the following broad heads on the face of balance sheet:

(a) Long- term borrowings

(b) Deferred tax liabilities (Net)

(c) Other Long term liabilities

(d) Long- term provisions

CURRENT LIABILITIES

The current liabilities can be categorized into the following:

(a) Short term borrowings:

- Loans repayable on demand
  - From banks
  - From other parties
- Loans and advances from related parties
- Deposits, other loans and advances
- It shall be both secured and unsecured.

(b) Trade payables- This includes Bills Receivable and Trade creditors. It shall be sub-classified as secured, considered good; unsecured considered good; doubtful. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(c) Other current liabilities- This includes all the current liabilities not covered above such as debentures interest outstanding etc.

(d) Short- term provisions-This includes short term provisions such as provision of taxation, provisions for employee benefits etc.

As above discussed, liabilities side deal with the Sources of funds. Let us now have a look at the Application of Funds i.e., the Asset Side

Fixed Assets

The fixed assets are classified as Tangible assets and Intangible assets.

Tangible Assets: Revised Schedule VI requires that assets Fixed Assets tangible be classified as under:

Land, Buildings, Plant and Equipment, Furniture and Fixtures, Vehicles, Office equipment, others

Intangible assets: Revised Schedule VIrequires that intangible assets be classified asunder:

Goodwill, Brands/trademarks, Non- Computer ,And current Assets software, Mastheads publishing titles, Mining rights, Copyrights, patents and other IPR services and operating rights, Recipes, formulae, models, designs and prototypes, Licenses and franchise, Others.

Non-Current Investments

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

Investment property; Investments in Equity Instruments; Investments in preference shares; Investments in Government or trust securities; Investments in debentures or bonds; Investments in Mutual Funds; Investments in partnership firms; Other non- current investments(specify nature).

Deferred Tax Assets (net)

The revised Schedule VI has introduced the concept of deferred tax asset. It requires that deferred tax assets and liabilities presented as non- current i.e., separately from current assets and current liabilities. The old Schedule VI was silent on this aspect. This concept has been brought into being mainly because of the different treatments of disallowed expenses or incomes as per the books of accounts under the Companies Act and the Income Tax Act

Long term Loans & Advances

Long term loans and advances should be classified as under: Capital Advances; Security Deposits; Loans and advances to related parties (giving details thereof);other loans and advances (specify nature).

The above shall also be separately sub classified as: Secured, considered good; Unsecured, considered good; Doubtful.

Other Non-Current Assets

Other non- current assets should be classified as: Long Term Trade Receivables (including trade receivables on deferred credit terms); others (specify nature)

In this regard, the following should also be noted: 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 business." Long term Trade Receivables, shall be sub-classified as: Secured, considered good; Unsecured considered good; Doubtful. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately. 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.

CURRENT ASSETS

- **Current Investments**
- **Inventories**
- **Trade Receivables**
- **Cash & Cash Equivalents**
- **Short term Loans & Advances**
- **Other Current Assets**

Current Investments

Current investments should be classified as: Investments in Equity Instruments; Investment in Preference Shares; Investments in government or trust securities; Investments in debentures or bonds; Investments in Mutual Funds; Investments in partnership firms; Other investments (specify nature).

Inventories

Practically there is no significance change in the classification and presentation of inventories under the revised Schedule VI vis- à- vis old Schedule VI.

Trade Receivables

Trade receivables that are classified as current should be separately disclosed on the face of balance sheet. These should be further sub-classified as: Secured, considered good; Unsecured considered good; Doubtful.

Cash & Cash Equivalents

These should be further sub- classified as Cash & Cash equivalent and other bank balances

Short term Loans & Advances

Short- term loans and advances should be classified as: Loans and advances to related parties (giving details thereof); others (specify nature).

The above shall also be sub- classified as: Secured, considered good; Unsecured, considered good; Doubtful.

Other Current Assets

This is a residual heading, which incorporates current assets that do not fit into any other asset categories. This head can contain items such as: Interest accrued on investments, unbilled revenue, Recoverable from government agencies

Other Disclosures in notes to A/c

Contingent Liabilities & Commitments

The revised Schedule VI makes a distinction between contingent liabilities and commitments. It requires Contingent liabilities to be classified as: Claim against the company not acknowledged as debt; Guarantees; Other money for which the company is contingently liable.

Commitments should be classified as: Estimated amount of contracts remaining to be executed on capital account and not provided for uncalled liability on shares and other investments.

Statement of Profit & Loss

Importance of the newly brought up Statement of Profit & Loss under the revised schedule VI cannot be ignored. Where there was no specific format in the (previous) schedule VI, the new format has with itself huge applauds. Now only a vertical form of Statement of Profit & Loss is permitted. Then very importantly, classification of expenses by nature needs to be given be it the co.‟s finance expenses or the employee benefit expenses (like the salaries, wages). Also it distinguishes the operating incomes from those which are not. Also, a new concept is brought into being in the same format that is Profit or loss from discontinuing operations that now needs to be shown separately on the face of the Statement of Profit& Loss.

With such welcome changes, the cumbersome and irrelevant items that were previously incorporated like the Quantitative disclosures relating to raw materials, purchases, details of managerial remuneration are now dispensed with.

The Statement of Profit& loss is here given below:

Statement of Profit& loss

Name of the Co………

Profit and loss statement for the year ended…..

Particulars	**Note No.**	**Figures for the current reporting period**	**Figures for the previous reporting year**
1. Revenue from operations.			
2. Other Income			
3. Total Revenue (1+2)			
4. Expenses			
• Cost of material consumed			
• Purchases of Stock-in-trade			
• Changes in inventories of finished goods, work-in-progress and stock in trade.			
• Employee benefit expense			
• Finance cost			
• Depreciation and amortization expenses			
• Other expenses			
Total Expenses			
5. Profit before exceptional and extraordinary items and tax (3-4)			
6. Exceptional items			
7. Profit before extraordinary items and tax (5-6)			
8. Extraordinary items			
9. Profit before tax (7-8)			
10. Tax expenses: current and deferred tax			
11. Profit/loss for the period from continuing operations			
12. Profit/loss from discontinuing operations			
13. Tax expense from discontinuing operations			
14. Profit/loss from discontinuing operations after tax			
15. Profit/loss for the period (11+14)			
16. Earnings per equity share • Basic • Diluted			

- **Revenue**

- **Other than Finance Companies**

Revenue From Operations	**(a) Sale of Products** **(b) Sale of Services** **(c) Other Operating Revenues** **(d) = (a) + (b) + (c)** **(e) = (d) – Excise Duty**

- **For Finance Companies**

Revenue From Operations =	**(a) Revenue from interest** **(b) Revenue from other financial services**

- **For Service Companies**

Gross income derived from services rendered or supplied under broad heads should be disclosed.

- **For other Companies**

Gross income de rived under broad head should be disclosed

- **Other Income**: It includes interest Income (in case of a company other than finance company);Dividend Income; Net gain/loss on sale of investment; Other non- operating income (net of expenses directly attributable to such income)

- **Expenses:** It includes items Raw material & work in progress; Finance Costs; Employee benefits expenses; Depreciation& Amortization Expense; Payment to Auditors; Other Expenses; Prior period items etc.

Finance Cost

Finance costs should be classified as: Interest expense; other borrowing costs; Applicable net gain/loss on foreign currency transactions and translation.

Employee benefit Expense

The following amounts in respect of employee benefit should be shown separately- Salaries and wages; Contribution to provident and other funds; Expense on Employee Stock Option (ESOP) and Scheme Employee Stock Purchase Plan (ESPP); Staff welfare expenses

Depreciation & Amortization Expenses

Other Expenses

Expenditure incurred on each of the following items forming part of "Other expenses" as shown on the face of statement of profit or loss should be separately disclosed in the notes to the accounts for each item:—Consumption of stores and spare parts, Power and fuel, Rent, Repairs to buildings, Repairs to machinery, Insurance, Rates and taxes, excluding, taxes on income, Miscellaneous expenses

Prior period items

Separate disclosure by way of notes **o**f additional information regarding aggregate expenditure and income in respect of prior period items. As further guidance given in revised Schedule VI on prior period items, guidance from AS 5 on "Net Profit or Loss for the Period, Prior Period Changes in Items and Accounting Policies" is taken.

Exceptional & extraordinary items

Separate disclosure required onthe face of statement of profit or loss below aggregate expenditure and income guidance income. No further given in revised Schedule VI on Exceptional and extraordinary Items. Thus guidance from AS 5on "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" is taken.

Calculation of Earnings per Equity share

The Statement of profit and loss also require significant disclosures of the Earnings per Equity share. This can be further classified as

Basic earnings per share: It is calculated by dividing the Net Surplus available for equity shareholders by the Number of equity shares (outstanding). This would give the net profit that goes in the pockets of the outstanding shareholders.

Diluted earnings per share:

It is calculated by dividing the Net Surplus available for equity shareholders by the Number of equity shares (potential). Therefore, it means it includes the outstanding shares of the company plus the potential shares that may be by means of conversion, any reserve created for employee stock option plan or any potential distribution of bonus shares etc.

Amounts set aside Reserves, Provision for contingencies

Following information should be disclosed in notes to accounts:

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.

2. CONCLUSION

The changes in the Schedule VI have paved path for greater inclusiveness of policies and regulations by the Ministry of Corporate Affairs as well as the Accounting board. Such a much- awaited move has been welcomed by the Government and industries with open arms. In this era of globalization, there is a need to reconcile the different policies for treatments of items of significance done by industries across the world thereby leaving no scope for loopholes. Such path breaking initiative has only served as an example for furtherance of this object.

REFERENCES

[1] Singhal, Sanjeev, &Sankaraiah, R. (2012). *A Practical Guide to Revised Schedule VI*(second ed.). Gurgaon: CCH a Wolters Kluwer business.

[2] Monga, J.R. (2014). *Fundamentals of Corporate Accounting*(20th ed.).New Delhi: Mayur Paperbacks.

[3] http://www.investopedia.com/terms/w/warrant.asp

[4] http://www.caclubindia.com/experts/share-warrants-14131.asp

[5] http://www.charteredclub.com/changes-in-schedule-vi-old-vs-new-revised/

[6] http://www.mca.gov.in/XBRL/pdf/Guidance_Note_Rev_ScheduleVI.pdf

[7] http://icaiahmedabad.com/Revised-Schedule-VI-21-01-2012-CA-DHINAL-SHAH.pdf

[8] http://www.caclubindia.com/forum/revised-schedule-vi-balance-sheet-detailed-format-248019.asp#.VR7kgvyUf1Y