

Revised Schedule – Practical Issues

-Anand Banka

Applicability

- Applicable to all the Companies
- for financial year commencing on or after April 1, 2011 (not applicable to December 2011 YE financials)
- Not applicable to Insurance companies, Banking companies, Supply or generation of Electricity

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Structure of Revised Schedule VI

- General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company
- Form of Balance Sheet (only vertical format) with General Instructions for preparation of Balance Sheet (PART-I)
- Form of Statement of Profit and Loss with General Instructions for preparation of Statement of Profit and Loss (PART-II)



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Changes in structures as per Revised Schedule VI

- Balance Sheet Abstract and Company's General Business Profile as provided in **Part-IV** has been removed
- **Horizontal format** of Balance Sheet has been **deleted**. Accordingly, now onwards only vertical format is to be used.
- Form of Profit and Loss has been provided in Part II, which was not prescribed in old Schedule VI.
- Further **Part III** on Interpretation, which contained explanation of provision, reserve, etc. has been **scrapped** as these terms are already covered in the Accounting Standards.

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Part I – Form of Balance Sheet

- EQUITY AND LIABILITIES
 - Shareholders' funds
 - Share capital
 - Reserves and surplus
 - Money received against share warrants
 - Share application money pending allotment
 - Non-current liabilities
 - Long-term borrowings
 - Deferred tax liabilities (Net)
 - Other Long term liabilities
 - Long-term provisions
 - Current liabilities
 - Short-term borrowings
 - Trade payables
 - Other current liabilities
 - Short-term provisions



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- ASSETS
 - Non-current assets
 - Fixed assets
 - Tangible assets
 - Intangible assets
 - Capital work-in-progress
 - Intangible assets under development
 - Non-current investments
 - Deferred tax assets (net)
 - Long-term loans and advances
 - Other non-current assets
 - Current assets
 - Current Investments
 - Inventories
 - Trade Receivables
 - Cash and cash equivalents
 - Short-term loans and advances
 - Other current assets



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Current assets

- An asset shall be classified as current when it satisfies any of the following criteria:
 - It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
 - It is held primarily for the purpose of being traded;
 - It is expected to be realized within 12 months *after the reporting date*; or
 - It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date
- *All other assets shall be classified as non-current*
- 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 duration of 12 months

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Operating Cycle



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Practical Application

- Only 4 items covered
 - Trade Payables
 - Inventories
 - Trade Receivables
 - Cash/ Bank

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Case Study

- Average operating cycle is 18 months, based on the length of time it takes to build a ship
 - Trade receivable that it expects to realize in 18 months
 - Investment expected to realize in 18 months
 - Slow moving inventory, not expected to be realized within 18 months

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Case Study

- Average operating cycle is 5 months
 - Trade receivable that it expects to realize in 5 months
 - Trade receivable that it expects to realize in 8 months
 - Trade receivable that it expects to realize in 15 months

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Other issues in Current/ Non-current classification

- Loans given to staff, deducted per month
- Loans from Bank with fixed EMI
- Investments classification as per AS 13
- Capital Advances

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Current assets contd...

- Current Investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short term loans and advances
- Other current assets

- Current Investments
 - No requirement to classify current investments into trade and non-trade

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Current assets contd...

- Current Investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short term loans and advances
- Other current assets

- Inventories
 - Goods-in-transit shall be disclosed under the relevant sub-head of inventories
 - Raw materials;
 - Work-in-progress;
 - **Finished goods;**
 - **Stock-in-trade;**
 - Stores and spares;
 - Loose tools;
 - Others (specify nature)

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Current assets contd...

- > Current Investments
- > Inventories
- > Trade receivables
- > Cash and cash equivalents
- > Short term loans and advances
- > Other current assets

- Trade receivables
 - A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business
 - Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated
 - Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately

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Current assets contd...

- > Current Investments
- > Inventories
- > Trade receivables
- > Cash and cash equivalents
- > Short term loans and advances
- > Other current assets

- Cash and cash equivalents
 - Balances with Banks
 - Unpaid Dividend
 - Margin Money
 - Bank deposits with more than 12 months initial maturity
 - Cheque, Drafts on hand
 - Cash-on-hand
 - Others (specify nature)
- **Non-Current portion** under each of the above balances will have to be classified under the head 'Other Non-Current Assets' with separate disclosure thereof

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Current assets contd...

- Current Investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short term loans and advances
- Other current assets

- Short term loans and advances
 - Loans and advances to related parties (giving details thereof)
 - Others (specify nature)

Further sub-classified as

- Secured considered good
- Unsecured considered good
- Doubtful

Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately

- Other current assets

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Non current assets

- Tangible Assets
- Intangible Assets
- Capital Work-in-Progress
- Intangible Assets under development

- Fixed Assets
 - Assets under lease shall be separately specified under each class of asset
 - **Office Equipment** disclosed as a separate line item
 - Acquisitions through 'Business Combinations' needs to be shown separately
 - **New heads introduced** under Intangible Assets like Mastheads & Publishing Titles, Mining Rights, Recipes, Formulae, Licenses & Franchise
 - Capital Advances to be disclosed under 'Loans and advances' and not to be clubbed with CWIP
 - Investment properties

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	Land	Buildings	Plant and equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Total
Cost or valuation							
At 1 April 2010	2,318	1,944	4,690	614	71	175	9,812
Additions	80	280	564	86	-	27	1,037
Disposals	-	-	-	-	(50)	-	(50)
Transfer to assets held for sale (discontinuing operation)	-	-	(534)	(75)	-	-	(609)
Other adjustments							
- Exchange differences	-	-	4	-	-	-	4
- Borrowing costs	-	40	33	-	-	-	73
At 31 March 2011	2,398	2,264	4,757	625	21	202	10,267
Additions	-	-	550	20	45	2	617
Acquisitions through amalgamation (note35)	42	28	58	5	-	-	133
Disposals	-	-	(36)	-	-	-	(36)
Other adjustments							
- Exchange differences	-	-	6	-	-	-	6
- Borrowing costs	-	-	60	-	-	-	60
At 31 March 2012	2,440	2,292	5,395	650	66	204	11,047

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Depreciation							
At 1 April 2010	20	434	1,819	100	37	42	2,452
Charge for the year	1	53	242	79	14	47	436
Disposals	-	-	-	-	(40)	-	(40)
Transfer to assets held for sale (discontinuing operation)	-	-	(214)	(42)	-	-	(256)
At 31 March 2011	21	487	1,847	137	11	89	2,592
Charge for the year	1	57	271	81	13	51	474
Disposals	-	-	(30)	-	-	-	(30)
At 31 March 2012	22	544	2,088	218	24	140	3,036
Impairment loss							
At 1 April 2010	-	-	-	-	-	-	-
At 31 March 2011	-	-	-	-	-	-	-
Charge for the year	-	-	350	-	-	-	350
At 31 March 2012	-	-	350	-	-	-	350
Net Block							
At 31 March 2011	2,377	1,777	2,910	488	10	113	7,675
At 31 March 2012	2,418	1,748	2,957	432	42	64	7,661

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Case Study

- Do we have to bifurcate Capital Advances under Current or Non-Current?



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Non current assets

- Non current investments
 - Investments are further classified as trade investments and other investments
 - Aggregate provision for diminution of Investments to be disclosed separately in the notes
 - No requirement for disclosure for Investments purchased and sold within the reporting period

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Non current assets

- Non current loans and advances
 - **Capital advances**
 - Security Deposits
 - Loans and Advances to related parties (giving details thereof)
 - Other loans and advances (specify nature)

Further sub-classified as

- Secured, considered good;
- Unsecured, considered good;
- Doubtful

Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

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Non current assets (Contd...)

- Following disclosure requirements have been dropped
 - Loans and Advances due from other companies under the same management within the meaning of sub-section (1-B) of section 370, to be disclosed with the names of the Companies
 - The maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note

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Non current assets (Contd...)

- Other non-current assets
 - Long term Trade Receivables
 - Secured, considered good
 - Unsecured, considered good
 - Doubtful
 - **Others** (specify nature)
 - Amounts due in respect of Insurance Claims, Sale of Fixed Assets, contractually reimbursable expenses, interest accrued on Trade Receivables, unamortized expenses.

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Equity and liabilities

- Shareholder's funds (significant changes)
 - Reconciliation of number of shares issued at the beginning and at the end of reporting period
 - Disclosure of shares held by each shareholder holding more than 5% shares specifying the number of shares held
 - Disclosure of following details required for five years immediately preceding the Balance sheet date:
 - Aggregate number and class of shares allotted as fully paid up pursuant to contracts 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

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Equity and liabilities

- Reserves and Surplus (significant changes)
 - Debit balance of Profit and Loss account shall be shown as a negative figure under the head surplus. Further the aggregate amount of the balance of 'Reserves and Surplus', is to be shown after adjusting negative balance of surplus, if any. If the net result is negative, the negative figure is to be shown under the head 'Reserves and Surplus'
 - Appropriations from the profit for the year (including carried forward balance) is to be presented under the 'Reserves and Surplus' and not below Profit for Tax as earlier

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Equity and liabilities

- Share application money pending allotment
 - Share Application Money to the extent not exceeding the capital offered for issuance and to the extent not refundable shall be shown under head Equity
 - Various disclosure requirements pertaining to Share Application Money are:
 - Number of shares proposed to be issued, premium, if any, and the period before which shares shall be allotted
 - Whether the company has sufficient authorised capital to cover the share application amount; and
 - The period for which the share application money has been pending beyond the period for allotment

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Current liabilities

- A liability shall be classified as current when it satisfies any of the following criteria:
 - It is expected to be settled in the company's normal operating cycle;
 - It is held primarily for the purpose of being traded;
 - It is due to be settled within 12 months after the reporting date;
 - The company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date
- All other liabilities shall be classified as non-current



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Current liabilities (Contd...)

- Short-term borrowings
- Trade payables
- Other current liabilities
- Short-term provisions

- Short term Borrowings
 - Short-term borrowings shall be classified as:
 - Loans repayable on demand from banks and from other parties
 - Loans and advances from related parties
 - Deposits
 - Other loans and advances (specify nature)
 - Sub classification into Secured and Unsecured
 - Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed
 - **Period and amount of default as on the balance sheet date in repayment of loans along with interest needs to be disclosed**

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Current liabilities (Contd...)

- Short-term borrowings
- Trade payables
- Other current liabilities
- Short-term provisions

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

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Case Study

- Does Trade Payable include creditors for purchase of fixed asset?



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Current liabilities (Contd...)

- Short-term borrowings
- Trade payables
- Other current liabilities
- Short-term provisions

- Other current liabilities
 - Current maturities of long-term debt
 - Current maturities of finance lease obligations
 - Interest accrued but not due on borrowings
 - Interest accrued and due on borrowings
 - Income received in advance
 - Unpaid dividends
 - Application money received for allotment of securities and due for refund and interest accrued thereon etc.
- Short term provisions
 - Provision for employee benefits
 - Others (specify nature)

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Case Study

- A company has taken a loan which is repayable on demand. However, based on the past experience, it is not expected that the lender will demand the repayment within next 12 months. Should the loan be classified as current or non current liability.



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Case Study

- A primary school requires a deposit to be paid upon enrolment into the school. Whenever the student leave the school, this deposit is refundable within three months. However, based on historical evidence the majority of students enrolling to primary school continue with school and receive the deposit back at the end of six year period. How should the deposits be classified?



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Non-current liabilities

- Long term borrowings
 - Bonds/debentures
 - Term loans from banks and from other parties
 - Deferred payment liabilities
 - Deposits
 - Loans and advances from related parties
 - Long term maturities of finance lease obligations
 - Other loans and advances (specify nature)
- Sub classification into Secured and Unsecured
- Aggregate of loans guaranteed by directors and others to be disclosed

- Long-term borrowings
- Deferred tax liabilities (Net)
- Other Long term liabilities
- Long-term provisions

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Non-current liabilities

- Long-term borrowings
- Deferred tax liabilities (Net)
- Other Long term liabilities
- Long-term provisions

- Long term borrowings
 - Bonds/ Debentures (along with rate of interest and particulars of redemption or conversion) shall be stated in descending order of maturity or conversion
 - **Period and amount of default as on balance sheet date in repayment of loans along with interest component interest also needs to be disclosed**
 - The current portion of all long-term borrowings need to be disclosed under 'Other Current Liabilities'

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Non-current liabilities

- Long-term borrowings
- Deferred tax liabilities (Net)
- Other Long term liabilities
- Long-term provisions

- Other Long term liabilities
 - Trade Payables
 - Others
- Long-term provisions
 - Provision for employee benefits
 - Others (specify nature)



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Other disclosures

Proposed Dividend

- The Revised Schedule VI requires disclosure of the amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share to be disclosed separately. It also requires separate disclosure of the arrears of fixed cumulative dividends on preference shares
- The Old Schedule VI specifically required proposed dividend to be disclosed under the head “Provisions”
- In the Revised Schedule VI, this needs to be disclosed in the notes
- Keeping in view the fact that the Accounting Standards override the Revised Schedule VI, companies will have to continue to create a provision for dividends in respect of the period covered by the financial statements and disclose the same as a provision in the Balance Sheet, unless AS-4 is revised

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Part II – Form of Statement of Profit and Loss

Particulars	Note No	Current year	Previous year
Revenue from operations	x	xxxxxx	xxxxxx
Other income	x	xxxxxx	xxxxxx
Total revenue		xxxxxx	xxxxxx
Expenses:			
Cost of materials consumed	x	xxxxxx	xxxxxx
Purchase of Stock in trade	x	xxxxxx	xxxxxx
Changes in inventories of FG, WIP and stock in trade	x	xxxxxx	xxxxxx
Employee benefits expenses	x	xxxxxx	xxxxxx
Finance costs	x	xxxxxx	xxxxxx
Depreciation and amortisation expenses	x	xxxxxx	xxxxxx
Other expenses	x	xxxxxx	xxxxxx
Total expenses		xxxxxx	xxxxxx

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Part II – Form of Statement of Profit and Loss

Particulars	Note No	Current year	Previous year
Profit before exceptional, extraordinary items & tax		xxxxxx	xxxxxx
Exceptional items	x	xxxxxx	xxxxxx
Profit before extraordinary items and tax		xxxxxx	xxxxxx
Extraordinary items	x	xxxxxx	xxxxxx
Profit before tax		xxxxxx	xxxxxx
<u>Tax expenses:</u>			
Current tax	x	xxxxxx	xxxxxx
Deferred tax	x	xxxxxx	xxxxxx
Profit / (loss) for period from continuing operations		xxxxxx	xxxxxx
Profit / (loss) from discontinuing operations		xxxxxx	xxxxxx
Tax expenses of discontinuing operations	x	xxxxxx	xxxxxx
Profit/(loss) from discontinuing operations after tax		xxxxxx	xxxxxx
Profit / (loss) for the period		xxxxxx	xxxxxx
Earnings per share – Basic & Diluted		xxxxxx	xxxxxx

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Exceptional vs. Extra-Ordinary

The term 'Exceptional items' is not defined in Revised Schedule VI. However, AS-5 "Net Profit or Loss for the period, Prior period items and changes in Accounting Policies" has a reference to such items in Paras 12, 13 and 14.

"Para 12: When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Para 13: Although the items of income and expense described in paragraph 12 are not extraordinary items, the nature and amount of such items may be relevant to users of Financial Statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is sometimes made in the notes to the Financial Statements.

Para 14: Circumstances which may give rise to the separate disclosure of items of income and expense in accordance with paragraph 12 include: the write-down of inventories to net realisable value as well as the reversal of such write-downs; a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;"

- ◀ disposals of items of fixed assets;
- ◀ disposals of long-term investments;
- ◀ legislative changes having retrospective application;
- ◀ litigation settlements; and
- ◀ other reversals of provisions.

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Exceptional vs. Extra-Ordinary

The term 'Extraordinary items' is not defined in Revised Schedule VI. However, AS 5 "Net Profit or Loss for the period, Prior period items and changes in Accounting Policies" at para 4.2 defines 'extraordinary items' as: 'Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Further para 8 of AS-5 discusses about the disclosure of extraordinary items as below:

Extraordinary items should be disclosed in the Statement of Profit and Loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner that its impact on current profit or loss can be perceived."

In case the company has more than one such item of income / expense of the above nature, the aggregate of such items should be disclosed on the face of the Statement of Profit and Loss. Details of the all individual items should be disclosed in the Notes. [Note 5 (i) (k) to the General Instructions for Preparation of the Statement of Profit and Loss].

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Statement of Profit and Loss

Non Finance Company:

- ✓ Sale of products
- ✓ Sale of services
- ✓ Other operating revenue
- ✓ Less: Excise duty

Finance Company:

Revenues from:

- ✓ Interest
- ✓ Other financial services

- Revenue excludes the amount collected on behalf of third parties – VAT, Sales tax, service tax etc
- Classification of other income and other operating revenues – detailed understanding of business of the Company
- It has been further stated that revenue from each of the broad-heads shall be disclosed separately by way of notes to accounts to the extent applicable.

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Statement of Profit and Loss (Contd...)

- Other Income
 - Interest Income (other than a finance company)
 - Dividend from subsidiary companies
 - Dividend Income
 - Net Gain/Loss on sale of investment (net of expenses directly attributable to such income)



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Case Study

- XYZ Ltd. a company engaged in the manufacture and sale of oil has one real estate arm, which gives real estate properties on lease. Whether the Rent income from the leasing of the assets is to be classified as **income from other operating activity** or **other income** ?



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Case Study

- PQR Ltd., a oil manufacture co., owns a 10 Floor building. The Company currently does not need one floor for its own use and has given same on rent. Whether the Rent income from the leasing of the assets is to be classified as **income from other operating activity** or **other income**?



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Statement of Profit and Loss (Contd...)

- Expenses
 - Cost of materials consumed
 - Purchase of Stock-in-Trade
 - Changes in inventories of finished goods, work in progress and stock in trade
 - Employee Benefit Expense
including expense on ESOP and Employee Stock Purchase Plan (ESPP)
 - Finance Costs
 - Gains/Loss on foreign currency transactions and translations to be separated into Finance Costs and Other Expenses.
 - Depreciation and amortization expense
 - Other expenses

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Case Study

- XYZ Ltd has taken a loan of USD 10,000 on April 1, 2009 for specific project; Interest at 5% p.a
- Exchange rate on April 1, 2009: Rs. 45/USD
- Exchange rate on March 31, 2010: Rs. 48/USD
- If loan was taken in Indian currency, interest rate: 11%
- Exchange difference on restating the loan as at March 31, 2010:
 $(Rs\ 48 - Rs.45) * 10,000 = Rs. 30,000$

Can any portion of the Exchange difference be considered as borrowing costs?

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Statement of Profit and Loss (Contd...)

- Expenses
 - Additional information regarding aggregate income or expenditure exceeding 1 per cent of the revenue from operations or Rs.100,000/-whichever is higher, need to be disclosed by way of notes
 - Prior period items are specifically mandated to be disclosed separately in view of AS 5
 - Payment to the auditor for reimbursement of expenses to be separately disclosed
 - For taxation matters
 - For company law matters
 - For management services
 - For other services
 - For reimbursement of expenses

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Comparatives

- Substantial changes
- Auditors to perform procedures
- Notes to disclose fact of reclassification / regrouping
- If certain comparative figures not available: disclose the fact

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Key IT Impacts

- Receivables ageing – invoice date vs. due date
- Exchange differences treated as adjustment to borrowing cost
- Current/ non-current classification



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Thank you



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