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Revised Schedule VI: Analysis of the major changes

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The revised Schedule VI was notified by the Ministry of Company Affairs vide notification dated 28th February, 2011**

The striking feature of the revised Schedule is that disclosure requirements of the erstwhile Schedule, which were considered to be redundant, have been omitted and certain further disclosure requirements have been added. It is notable that accounting standards do not lay down any statutory format of the financial statements - IAS 1 simply lays down the broad presentational principles. In addition, there are disclosure requirements arising out of various accounting standards. Hence, the disclosure requirements of Schedule VI are only in addition to those required by the standards.

It is also worth noting that the amended Schedule is not in accordance with the IFRS convergence project. Hence, the revised format will be applicable to such companies as are not moving to IFRSs.

It is important to note that the Schedule has been made applicable effective for financial year ending on 2011 and onwards.

Note: The disclosure requirements specified in Part I and Part II of the Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956.

Changes in the format of Balance Sheet

The Schedule to automatically stand amended with reference to the requirements in the accounting standards and the Act, if any change in treatment or disclosure is made. The treatment or disclosure shall be forming part of the Financial Statements and the requirements of the Schedule shall stand modified accordingly. Hence, this provides flexibility for amendments.

Minimum disclosure requirements on the face of the Balance Sheet and Profit and Loss Account (Financial Statements), subject to the specific ones as per the Act or Accounting Standards. Thus, all the other disclosure requirements are to form a part of the Notes to the Financial Statements.

Other disclosures as required under the Companies Act are to be made in the notes to Accounts in addition to the requirements set out in Schedule. However, as stated, the other disclosures are not specified, hence, the list of the same can go endless.

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Rounding off has however been made more logical by relating it to the scale of operations of the Company:

- a. Turnover < 100 Crore, to the nearest hundreds, thousands, lakhs or millions, or decimal thereof
- b. Turnover > 100 Crore, to the nearest lakhs, millions or crores or decimal thereof

However, once a unit of measurement is used, it should be used uniformly in the Financial Statements. This shall thus bring in the uniformity in the presentation of the Financial Statements and shall also become investor friendly. Companies with huge turnover always had a problem in presenting the figures, to make it understandable to the investors. However, the rounding off requirement as above would now make it simpler.

It is to note that though the disclosure requirements have been limited on the face of the Financial Statements, but have considerably increased under the Notes. However, with all the above requirements, the Financial Statements are to give more transparent picture of the performance and functioning of the Company. Thus, an investor can have a better understanding about the company and its management exercises. Thus we can expect to have a reliable, comparable and understandable Financial Reporting System.

Items on the Liability Side:

I. EQUITY AND LIABILITIES

- (1) Shareholder's fund
 - a. Share Capital
 - b. Reserves and Surplus
 - c. Money received against share warrants
- (2) Share Application Money pending Allotment
- (3) Non Current Liabilities
 - a. Long Term Borrowings
 - b. Deferred Tax Liabilities (Net)
 - c. Other Long Term Liabilities
 - d. Long Term Provisions
- (4) Current Liabilities
 - a. Short Term Borrowings
 - b. Trade Payables
 - c. Other Current Liabilities
 - d. Short Term Provisions

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Items on the Asset Side:

II. ASSETS

Non-Current Assets

- (1) (a) Fixed Assets
 - (i) Tangible Assets
 - (ii) Intangible Assets
 - (iii) Capital Work in Progress
 - (iv) Intangible Assets under Development
- (b) Non-Current Investments
- (c) Deferred Tax Assets (Net)
- (d) Long Term loans and advances
- (e) Other non-current assets

(2) Current Assets

- (a) Current Investments
- (b) Inventories
- (c) Trade Receivables
- (d) Cash and Cash equivalents
- (e) Short term loans and advances
- (f) Other Current Assets

See accompanying Notes to the Financial Statements

The classification of loans has been made into long-term and short term in addition to secured and unsecured, which now forms a sub-heading. Previously loans were classified only as secured and unsecured, hence it was easy to distinguish and also know the stake of the Company. However, with the requirement of loans being classified as long-term and short-term the presentation and computation shall surely become more tedious a job. Also an addition has been made in the disclosure of loans which relates to loans payable on demand. This shall help to determine the liquidity status of the Company.

Classification has been made between Current and Non-Current Liabilities and Current and Non-Current Assets.

Current liabilities are:

- Expected to be realized in Company's normal operating cycle
- Held primarily for the purpose of trading
- Due to be settled within 12 months after the reporting date

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- Company does not have an unconditional right to defer settlement for atleast 12months after the reporting date

All other shall be non-current liabilities.

Current Assets are:

- Expected to be realized in Company's normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12months after the reporting date
- It is cash/cash equivalent unless restricted from being exchanged or used to settle

All other shall be non-current assets

For the above purpose Operating Cycle has been defined as:

- Time between acquisition of assets and their realization in cash/cash equivalents. The operating cycle has been assumed to have duration of 12 months.

Thus the above classifications of Assets and Liabilities are liquidity based classifications.

Receivables are now to be classified as Trade Receivable instead of Debtors:

- If on account of goods sold or services rendered in the normal course of business

Payable to be classified as Trade Payable instead of Creditors:

- If on account of goods purchased or services received in the normal course of business

In addition to the share capital details (authorised, issued, paid up, no. and amount of shares) additional disclosure is to be made regarding Shares in the company held by shareholders holding more than 5%. Thus, in addition to the shareholders list already attached, an additional list has to be attached.

A significant disclosure about outstanding options- Shares reserved for issue under options and contract/commitments for the sale of shares/disinvestment, including terms and amounts, has to be made.

Further, a crucial disclosure has to be made is in respect of period and amount of continuing default, in repayment of loans and interest. This might be a difficult task for the auditors to determine which a case of default is.

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An addition to Reserve and surplus heading-

- Share Option Outstanding Account

A Separate head for intangible assets – items like patents, trademarks, copyrights have been shifted under intangible assets

Classification of loans and advances as long term and short term

The other disclosures in the Balance Sheet are –

- earmarked balance with banks be stated separately;
- Repatriation restrictions;
- Bank deposits with more than 12months maturity to be shown separately

However, few redundancies like details of loans and advances due from companies under the same managements still exist.

Changes in the format of the Profit and Loss Account

The Ministry had currently issued a notification in respect of general exemption under the requirement of Section 211 of the Act. It is noted that in the revised schedule the same has been taken into consideration and the specified class of companies are no more required to give the item wise break up of the raw materials consumed. Also to note construction companies are not specified in the above exemption.

Further, the draft of Schedule VI laid earlier the classification of costs on Functional basis. The revised Schedule however, does not lay any such cost classification.

It is to note that in case of Finance Companies, revenue from operations has to be disclosed. The revenue shall include revenue from interest and other financial services.

An important disclosure regarding the detailed information citing the payments by way of managerial remuneration, reimbursement expenses etc. made to directors, managing agents, managers etc have been excluded. This seems to be an inadvertent omission. It is a very significant disclosure but this seems to be missing in the current schedule. Also, the statement showing computation of net profits in accordance with section 349 is missing in the disclosure requirements under the notes.

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Similarly, the disclosure in case of manufacturing companies regarding detailed quantitative information with regard to the:

- Licensed capacity
- Installed capacity; and
- Actual production

has also been omitted. Not sure if such an omission is inadvertent or has been done away with purposely. What is the exact purpose of removal of such disclosures is still inexplicable.

On one hand where the disclosure requirements have been substantially increased, but on the other hand there are several significant requirements which have been omitted in the revised Schedule. Though, the new requirements shall provide a much clear and transparent picture of the affairs of the company in relation to the liquidity risk and increases the accountability of the Company, but on the other hand several disclosures omitted shall lead to arbitrary action of the Company. The role and responsibilities of the Auditors has also been increased significantly. Thus, the concept behind the revision is to have a more readable, useful, transparent form of Schedule. The Financial Statements are not burdened with too much disclosure requirements including requirements meant for statistical purposes only.