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# Comparative Study of Revised And Old Schedule VI of Companies Act 1956

KEYWORDS: Indian Companies Act, Revised Schedule VI, Ministry of Corporate Affairs

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**ABSTRACT** *The corporate laws of an economy are a sine qua non for economic growth. In today's global economic scenario, entrepreneurs are looking forward to economies that have the best, compact and easy laws and procedures that facilitate quick establishment of companies. The Indian Company Law, which had its legislative origin after independence, had gone through a number of amendments since 1956. The Ministry of Corporate Affairs has been taking timely and pro-active initiatives by making the existing law simple, compact with less cumbersome procedures. Apart from the large number of sections contained in the Act, there are a number of Schedules to the Companies Act, 1956 which the Ministry has been re-looking at from time to time. With its total makeover at this juncture, it is almost at par with the laws elsewhere in the globe and making the country as a platform for inviting off-shore investments.*

*As 'Accounting Standards' have become mandatory and more so the road map towards convergence of IFRS has been drawn up, Schedule VI to the Companies Act, 1956 became an important piece of document, which necessitated the Ministry very recently to revise in terms of contents, format and to align itself with that of existing Accounting Standards.*

**INTRODUCTION**

The form and contents of Balance Sheet and Profit and Loss Account of companies are regulated under Section 211 of the Companies Act, 1956. Sub-section (1) of Section 211 of the Companies Act, 1956 requires that every balance-sheet of a company must comply with the following three requirements:

1) It must give a true and fair view of the state of affairs of the company as at the end of the financial year.
2) It must, subject to the revisions of this section, be in the form set out in Part-I of Schedule-VI or as near thereto as circumstances admit or in such other form as may be approved by the Central Government either generally or in any particular case.
3) Due regard must be had, as far as may be, in preparing the balance sheet to the general instructions for preparation of Balance Sheet under the heading 'Notes" at the end of that part.

The latest amendment in the Schedule VI has been made by Ministry of Corporate Affairs (MCA), Government of India vide Notification No S.O. 447(E) dated 28th February, 2011 wherein in exercise of the powers conferred by subsection (1) of Section 641 of the Companies Act, 1956, the Central Government has replaced the existing Schedule VI by a revised Schedule VI. In the said notification reference has been made to the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.

**1.1 APPLICABILITY**

As per notification [F. NO. 2/6/2008-C.L-V], dated 30-3-2011, the Schedule applies to all companies for the Financial Statements to be prepared for the financial year commencing on or after April 1, 2011. The schedule does not apply to:

**Insurance or banking company**

company engaged in the generation or supply of electricity (no format prescribed-hence may follow revised Schedule VI till such time a format is prescribed) any other class of company for which a form of Balance Sheet and Profit and Loss account has been specified in or under any other Act governing such class of company.

Interim Financial Statements ( complete set) (as required by *AS-25, Interim Financial reporting*) to be prepared by companies as per revised Schedule VI.For presentation of Condensed interim Financial Statements, its format should conform to that used in the company's most recent annual Financial Statements, i.e., the Old Schedule VI. However, if it presents a Complete set of Financial Statements, it should use the Revised Schedule VI.

For balance sheet to be submitted to stock exchanges as prescribed under Clause 41 to the Listing Agreement of the Securities and Exchange Board of India.

For half yearly results: Clause 41 of the listing agreement prescribes separate format for presentation of half yearly results, Guidance note of ICAI mentioned that till the time a new format is prescribed by the Securities and Exchange Board of India (SEBI) under Clause 41, companies will have to continue to present their half-yearly Balance Sheets based on the format currently specified by the SEBI. However, SEBI vide its circular CIR/CFD/DIL/4/2012 dated 16th April 2012 have made changes in the format and therefore the companies should accordingly present their balance sheet in the new format.

For Annual audited yearly results: Format of Revised Schedule VI should be used.

Balance Sheet and Statement of Profit and Loss prescribed under the SEBI (Issue of Capital & Disclosure Requirements) Regulations 2009 ('ICDR Regulations')

The formats of Balance Sheet and Statement of Profit and Loss under ICDR Regulations are "illustrative formats". Accordingly, to make the data comparable and meaningful for users, companies should use the Revised Schedule VI format to present the restated financial information for inclusion in the offer document.

Further also as per circular no. 62/2011 dated 5th September 20111, issued by Ministry of companies affairs, 'the

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presentation of Financial Statements for the limited purpose of IPO/FPO during the financial year 2011-12 may be made in the format of the pre-revised Schedule VI under the Companies Act, 1956. However, for period beyond 31st March 2012, they would prepare only in the new format as prescribed by the present Schedule VI.

Consolidated Financial Statements as per the requirements of AS-21

AS 21, *Consolidated Financial Statements,* requires that consolidated financial statements should be presented, to the extent possible, in the same format as adopted for the parent's standalone financial statements and therefore Revised schedule VI to apply equally on consolidated financial statements of parent company.

**2. CONFORMITY OF SCHEDULE VI WITH IFRS**

Although the applicability of the Ind AS converged with IFRS, which was earlier slated to be implemented in a phased manner starting from 1st April, 2011 has been deferred; however, the instant revision of Sub-section (2) of above section requires that every Profit and Loss account of a company must:

1) give a true and fair view of the profit or loss of the company for the financial year, and 2) comply, subject to the provisions of the section, with the requirements of Part II of Schedule VI so far as they are applicable thereto.

The Part II of Schedule VI does not prescribe form of Profit and Loss account and mandates only the requirements to be complied with while preparing and presenting the same, whereas in Part I pro forma of Balance Sheet has been set out along with general instructions for its preparation. However, the above requirements are not applicable to any insurance or banking company or other class of company where form of balance-sheet, Profit and Loss account has been specified in or under the Act governing such class of company.

The existing Schedule VI was substituted by the Companies (Amendment) Act, 1960 and since then has been amended several times. Schedule VI can be considered as a step towards convergence to IFRS to some extent with regard to presentation of financial statements as many features/disclosures have been taken from these international standards, some of which are stated below:-

1) Accounting Standards have been given supremacy over Schedule VI. This is in line with IFRS which mandates that no statute can override the Standards.
2) Bifurcation of assets and liabilities amongst current and non-current is required
3) Proposed dividend is not recognized and only disclosed in consonance with the IFRS. 4) Cross referencing of each item of the financial statements to related information in the notes which is also as per IAS 1.

**3. MAJOR DIFFERENCE BETWEEN OLD SCHEDULE VI VS. REVISED SCHEDULE VI**

| S.No. | Particulars | Old Schedule VI | Revised Schedule VI |
|---|---|---|---|
| 1 | Rounding off of Figures appearing in financial statement | Turnover of less than Rs. 100 Crs - R/off to the nearest Hundreds, thousands or decimal thereof<br><br>Turnover of Rs. 100 Crs or more but less than Rs. 500 Crs - R/off to the nearest Hundreds, thousands, lakhs or millions or decimal thereof<br><br>Turnover of Rs. 500 Crs or more - R/off to the nearest Hundreds, thousands, lakhs, millions or crores, or decimal thereof | Turnover of less than Rs. 100 Crs - R/off to the nearest Hundreds, thousands, lakhs or millions or decimal thereof<br><br>Turnover of Rs. 100 Crs or more - R/off to the nearest lakhs, millions or crores, or decimal thereof |
| 2 | Net Working Capital | Current assets & Liabilities are shown together under application of funds. The net working capital appears on balance sheet. | Assets & Liabilities are to be bifurcated in to current & Non-current and to be shown separately. Hence, net working capital will not be appearing in Balance sheet. |
| 3 | Fixed Assets | There was no bifurcation required in to tangible & intangible assets. | Fixed assets to be shown under non-current assets and it has to be bifurcated in to Tangible & intangible assets. |
| 4 | Borrowings | Short term & long term borrowings are grouped together under the head Loan funds sub-head Secured / Unsecured | Long term borrowings to be shown under non-current liabilities and short term borrowings to be shown under current liabilities with separate disclosure of secured / unsecured loans.<br><br>Period and amount of continuing default as on the balance sheet date in repayment of loans and interest to be separately specified |
| 5 | Finance lease obligation | Finance lease obligations are included in current liabilities | Finance lease obligations are to be grouped under the head non-current liabilities |
| 6 | Deposits | Lease deposits are part of loans & advances | Lease deposits to be disclosed as long term loans & advances under the head non-current assets |
| 7 | Investments | Both current & non-current investments to be disclosed under the head investments | Current and non-current investments are to be disclosed separately under current assets & non-current assets respectively. |
| 8 | Loans & Advances | Loans & Advance are disclosed along with current assets | Loans & Advances to be broken up in long term & short term and to be disclosed under non-current & current assets respectively. |

| S.No. | Particulars | Old Schedule VI | Revised Schedule VI |
|---|---|---|---|
| 9 | Deferred Tax Assets / Liabilities | Deferred Tax assets / liabilities to be disclosed separately | Deferred Tax assets / liabilities to be disclosed under non-current assets / liabilities as the case may be. |
| 10 | Cash & Bank Balances | Bank balance to be bifurcated in scheduled banks & others | Bank balances in relation to earmarked balances, held as margin money against borrowings, deposits with more than 12 months maturity, each of these to be shown separately. |
| 11 | Profit & Loss (Dr Balance) | P&L debit balance to be shown under the head Miscellaneous expenditure & losses. | Debit balance of Profit and Loss Account to be shown as negative figure under the head Surplus. Therefore, reserve & surplus balance can be negative. |
| 12 | Sundry Creditors | Creditors to be broken up in to micro & small suppliers and other creditors. | It is named as Trade payables and there is no mention of micro & small enterprise disclosure. |
| 13 | Other current liabilities | No specific mention for separate disclosure of Current maturities of long term debt<br>No specific mention for separate disclosure of Current maturities of finance lease obligation | Current maturities of long term debt to be disclosed under other current liabilities.<br>Current maturities of finance lease obligation to be disclosed. |
| **14** | Separate line item Disclosure criteria | any item under which expense exceeds one per cent of the total revenue of the company or Rs. 5,000 whichever is higher; shall be disclosed separately | any item of income / expense which exceeds one per cent of the revenue from operations or Rs. 1,00,000, whichever is higher; to be disclosed separately |
| 15 | Expense classification | Function wise & nature wise | Expenses in Statement of Profit and Loss to be classified based on nature of expenses |
| 16 | Finance Cost | Finance cost to be classified in fixed loans & other loans | Finance cost shall be classified as interest expense, other borrowing costs & Gain / Loss on foreign currency transaction & translaton. |
| 17 | Foreign exchange gain / loss | Gain / Loss on foreign currency transaction to be shown under finance cost | Gain / Loss on foreign currency transaction to be separated into finance costs and other expenses |
| 18 | Purchases | The purchase made and the opening & closing stock, giving break up in respect of each class of goods traded in by the company and indicating the quantities thereof. | Goods traded in by the company to be disclosed in broad heads in notes. Disclosure of quantitative details of goods is diluted |

## 4. DISCLOSURE REQUIREMENTS

The disclosure requirements as specified in Part I and Part II of Revised Schedule VI are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956. Due to this, the Schedule VI is not bulky as several disclosure requirements already covered in Accounting Standards have not been reiterated. Further it has been stated that 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 and as required by Companies Act, 1956 shall be made in the notes to accounts. As per revised Schedule VI each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross referenced to any related information in the notes to accounts. Accordingly, there is a column for stating the Note number in pro forma for Balance Sheet as well as Statement of Profit and Loss. It is pertinent to mention here that in the old schedule VI there was a Column for indicating Schedule No. in the Balance Sheet, accordingly the concept of schedules has been eliminated. This approach is inspired from the para 113 of Ind AS 1 (IAS 1) *"Presentation of Financial Statements"* which enunciates that each item in the primary statements should be cross referenced to any related information in the notes

## 5. CONFLICT BETWEEN REVISED SCHEDULE VI AND AS 3

a. Definition of 'cash and cash equivalents' as per AS 3:

Cash comprises cash on hand and demand deposits with banks and cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value

b. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition

c. Classification of 'balances with banks':

(Accounting Standards prevail over the Revised Schedule VI)

Under 'Cash and cash equivalents' if they are demand deposits or have original maturity of three months or less.

Under a separate sub-heading 'Other bank balances' if they are due for realization within 12 months of the reporting date and do not qualify for classification under cash and cash equivalents

As a separate heading under 'other non-current investments'/ 'other non-current assets', if they are not due for realization within 12 months of the reporting date

## 6. CONCLUSION

The Revised Schedule VI is a step in right direction as supremacy has been provided to the Accounting Standards and the Companies Act, 1956, which would avoid disputes as well as save time of legislature in making time to time amendments in Schedule VI. It can also be considered as a step towards convergence to IFRS to some extent with regard to presentation of financial statements as many features as discussed have been taken from these International Financial Reporting Standards. As the Revised Schedule VI is applicable from Financial Year2011-2012 onwards and as previous year figures would be required, the companies are suggested to prepare parallel financial statements for the FY 2010-2011 on the basis of revised Schedule VI, which would save a lot of time next year as these figures can be used as comparables in the financial statements for FY 2011-2012 prepared as per Revised Schedule VI. Further, the exercise for presentation of financial statements as per Revised Schedule VI would be helpful to entity migrating to Indian Accounting Standards converged with IFRS whenever the same are applicable.

**REFERENCE** [1] Kumar, M. P Vijay (2011), IFRS, Snow White publication, Mumbai. | [2] Jasmine Kaur (2011), IFRS- A Practical Approach, Tata Mcgrawhill publication, New Delhi. | [3] Kumar, M P Vijay (2010), Accounting Standards, Snow White Publications, Mumbai. | [4] www.icai.org | [5] www.mca.gov.in | [6] The Chartered Accountant Journal- August 2011. | |