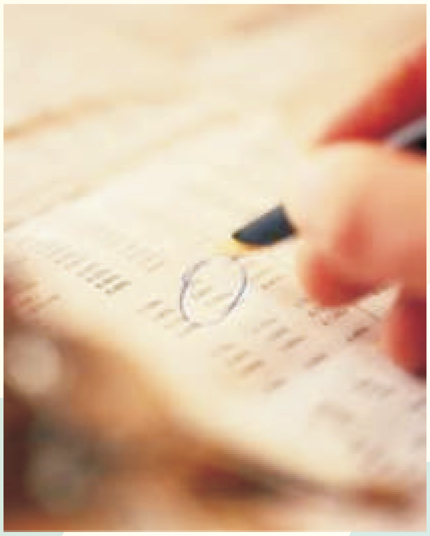
CLASS
XII

Outline Guidance Notes regarding adoption of
Revised Schedule VI to the
Companies Act 1956 in the subject of

Accountancy

(Effective for Board Examination 2013)

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Schedule VI to the Companies Act, 1956 deals with the form of Balance Sheet and Profit and Loss Account and classified disclosure to be made therein and it applies uniformly to all the companies registered under the Companies Act, 1956, for the preparation of financial statements of an accounting year. The original schedule VI, with minor amendments from time to time, has been in force for more than fifty years. To keep pace with the changes in the economic philosophy leading to privatization and globalization and consequent desired changes/reforms in the corporate financial reporting practices, the Ministry of Corporate Affairs, Government of India, has revised the above mentioned schedule and through its notification No. F. No. 2/6/2008-C.L-V has notified that the text of the Revised Schedule VI to the Companies Act, 1956 shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1/4/2011. The primary focus of the revision has been to bring the disclosures in financial statements at par, or at least very close, to the international corporate reporting practices.

Salient features of the Revised Schedule VI include:

- A vertical format for presentation of balance sheet with classification of Balance Sheet items into current and non-current categories.
- A vertical format of Statement of Profit and Loss with classification of expenses based on nature.
- Deletion of part IV of the original schedule requiring presentation of balance sheet abstract and general business profile.
- The revised schedule VI has eliminated the concept of 'Schedules' and such information is now to be furnished in terms of 'Notes to Accounts'.
- While preparing the Balance-Sheet. 'Cash and Cash Equivalents' will be shown under 'Current Assets', and include the following:
  (a) Balances with banks
  (b) Cheques, drafts on hand;
  (c) Cash on hand;

(d) Others

- Earmarked balances with banks (For examples, for unpaid dividend) shall be separately stated.
- Balances with banks held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

- Revised Schedule VI does not contain any specific disclosure for items included in Old Schedule VI under the head, "Miscellaneous Expenditure". As per AS-16 borrowing cost and discount or premium relating to borrowing could be amortized over loan period. Further, share issue expenses, discount on shares, discount/ premium on borrowing, etc. are excluded from As-26. These items be amortized over period of benefit i.e., normally 3-5 years. The draft guidance note issued by ICAI suggests that unamortized portion of such expenses be shown under the head "Other Current/Non-current Assets" depending on whether the amount will be amortized in the next 12 months or there after.
- Now the 'Dr. Balance of Statement of Profit & Loss A/c' will be disclosed under the head, Reserves & Surplus as the negative figure.
- No change in the format of cash flow statement as per revised schedule and therefore its preparation continue to be as per AS-3 on cash flow statement.

The vertical format of financial statements as per SCHEDULE VI (REVISED) and the major structural changes in the classification and disclosure of information in the financial statements are discussed below in detail.

Proforma of Balance Sheet

Name of the Company ……………………………………….

Balance Sheet as at……………………………………….

(₹ in ………..)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(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			
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**			

I. Items appearing under the head EQUITY AND LIABILITIES

(1) Shareholders' Funds

(a) Share capital:- Under the head 'Share Capital', some of the important items to be shown are as under:

- (i) Number and amount of shares authorised.
- (ii) Number of shares issued, subscribed and fully paid up and subscribed but not fully paid up.
- (iii) Par value per share.
- (iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
- (v) Shares in the company held by each share holder holding more than 5% shares specifying the number of shares held.
- (vi) Aggregate number and class of shares allotted or fully paid up for consideration other than cash.
- (vii) Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- (viii) Calls unpaid showing aggregate value of calls unpaid by directors and officers.
- (ix) Share forfeited amount.

(b) Reserves and Surplus:- Under this head the following items are shown;

- (i) Capital Reserve
- (ii) Securities Premium (Reserve)
- (iii) Capital Redemption Reserve.
- (iv) Debenture Redemption Reserve
- (v) Revaluation Reserve
- (vi) Share Options Outstanding Account

(vii) Other reserves (a) General Reserve (b) Tax Reserve (c) Subsidy Reserve (d)Amalgamation Reserve

(viii) Surplus i.e., balance in Statement of Profit and Loss.

In case the final balance of the Statement of profit and loss shows a debit balance the same should be shown as deduction from the totals of reserves.

(c) Money received against share warrants: A share warrant is a financial instrument which gives the holder the right to acquire equity shares. A disclosure of the money received against share warrants is to be made since shares are yet to be allotted against the share warrants. These are not shown as part of share capital but to be shown as a separate line items.

(2) Share application money pending allotment: If company has issued shares but date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

(i) Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line-item.

(ii) Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under the other current liabilities.

(3) Noncurrent liabilities: A non-current Liability is a liability which is not classified as current-liability. A liability is classified as current when it satisfies any one of the following conditions:

(i) It is expected to be settled in the company's normal operating cycle. Operating cycle means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It may vary from few days to few years. Where the operating cycle cannot be identified, it is assumed to have a duration of 12 months.

(ii) It is held for the purpose of being traded.

(iii) It is due to be settled within 12 months after the reporting date.

(iv) The company does not have an unconditional right to offer settlement of the liability for at least 12 months after the reporting date

Hence, the liabilities which are not classified as current shall be classified as non – current.

(a) Long Terms borrowings (Debentures, Long Term Loans etc.)

(b) Deferred Tax Liabilities (Net).

(c) Other Long Term Liabilities (Trade payables on account of purchase of Fixed Assets and interest accrued there on, Provisional Fund contribution)

(d) Long Term provisions: All provisions for which the related claims are expected to be settled beyond 12 months after the reporting date are classified as non-current provisions. (Provision for employee benefits, Provision for Warranties).

(4) Current Liabilities:

(a) Short term borrowings (Loans repayable on demand from banks and other parties, Deposits, Loans and advances from related parties)

(b) Trade Payables: A trade payable refers to the amount due on account of goods purchased or services received in the normal course of business.

(c) Other Current Liabilities (Unpaid dividends, Interest accrued and due/ not due on borrowings, income received in advance, Calls in advance and interest thereon.)

(d) Short Term Provisions: All Provisions for which the related claim is expected to be settled within 12 months after the reporting period are classified as short term provisions & shown under the head 'Current Liabilities'(Provision for doubtful debts, Provision for tax, Proposed dividend.)

II **Items appearing on Assets side of Balance Sheet.** There are mainly two types of assets.

(i) Current Assets and

(ii) Non-current Assets

Current Asset defined:

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; (**An operating cycle is the time between the acquisition of assets for processing and their realization in cash and cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

(b) It is held primarily for the purpose of being traded;

(c) It is expected to be realised within twelve months after the reporting date; or

(d) It is cash or cash equivalents 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

(a) Fixed Assets

(i) Tangible Assets: Tangible assets are assets which can be physically seen and touched. (Land, Building, Plant and Equipment, Furniture & Fixture, Vehicles, Office Equipments, Others)

(ii) Intangible Assets: Intangible assets are assets which are not tangible classified as given below: (Goodwill, Brands/ trademarks, Computer Software, Mastheads and Publishing Titles, Mining Right, Copyrights and patents and other intellectual property rights, Recipes, formulae, models, designs, Licenses and franchise, Others.)

(iii) Capital Work in Progress.

(iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company

(b) Non Current Investments – Investments which are not held for purpose of resale (Investment property, Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc).

(c) Deferred Tax Assets (Net) –

(d) Long-term Loans and Advances – Capital Advances, Security Deposits, etc.

2. Current Assets

(a) Current Investments – Investment which are held to be converted into cash within a short period i.e., within 12 months (Investments in Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc.)

(b) Inventories: Inventories include the following:

(i) Raw material

(ii) Work-in-progress

(iii) Finished goods

(iv) Goods acquired for trading

(v) Stores and spares

(vi) Loose tools.

(c) Trade Receivable: Trade receivables refer to the amount due on account of goods held or services rendered in the normal course of business.

(d) Cash and Cash Equivalents – As discussed in the sailent features of revised Schedule in General Instructions.

(e) Short-term Loans and Advances

(f) Other Current Assets (Prepaid expenses, and advance taxes)

3. Contingent Liabilities and Capital Commitments

(a) Contingent Liabilities- Those liabilities which may or may not arise because they are dependent on a happening in future. It is not recorded in the books of accounts but is disclosed in the Notes to Accounts for the information of the users. (Claims against the company not acknowledged as debts, Guarantees, Other money for which the company is contingently liable.)

(b) Capital Commitments – Financial commitments due to activities agreed by the company to be undertaken by it in future. (Uncalled Liability)

Illustration 1:

List the major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a Company as per Schedule VI (Revised) Part I to the Companies Act 1956.

Solution:

The major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a Company as per schedule VI (Revised) Part I to the Companies Act 1956, are listed below:

1. Shareholders' Funds
2. Share Application money pending allotment
3. Non-current liabilities
4. Current liabilities.

Illustration 2:

List the major heads under which the assets are presented in the Balance Sheet of a company as per schedule VI (Revised) part I of the Companies Act 1956.

Solution:

The Major heads under which the 'Assets' are presented in the Balance Sheet of company as per schedule VI (Revised) Part I of the Companies Act 1956, are listed below:

1. Non-current Assets
2. Current Assets

Illustration 3:

List the different items which are presented under the major head. 'Non-current Assets' as per revised Schedule VI Part I of the Companies Act 1956.

Solution:

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.

Illustration 4:

List the items which are presented under the major head 'Current Assets' as per Revised Schedule VI Part I of the Companies Act 1956.

Solution:

The items which are presented under the major head 'Current Assets' as per Revised Schedule VI Part I of the Companies Act 1956, are given below:

(a) Current investments

(b) Inventories

(c) Trade receivables

(d) Cash and cash equivalents

(e) Short-term loans and advances.

(f) Other current assets.

Illustration 5:

From the following information extracted from the books of XY Ltd., prepare a Balance Sheet of the company as at 31st March, 2012 as per Schedule VI of the Companies Act. 1956:

	(₹ in ‘000)
Long term borrowings	500
Trade payables	30
Share capital	400
Reserve and surplus	90
Fixed assets (tangible)	800
Inventories	20
Trade receivables	80
Cash and cash equivalents	120

Solution:

XY Ltd.
Balance Sheet as at 31st March, 2012

(₹ in ‘1000)

Particulars	Note No.	2011 - 2012	2010-2011
I EQUITY AND LIABILITIES			
(1) Shareholders’ Funds			
(a) Share capital		400	
(b) Reserves and surplus		90	
(c) Money received against share warrants		-	
(2) Share application money pending allotment			
(3) Non – current liabilities			
(a) Long term borrowings		500	
(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		30	
(d) Short term provisions		-	
Total		-	
II ASSETS		1020	
1. Non-Current Assets			
(a) Fixed assets		800	
(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		20	
(b) Inventories		80	
(c) Trade receivables			

(d) Cash and cash equivalents (e) Short term loans and advances (f) Other current assets **Total**		120 - -	
		1020	

Illustration 6:

Prepare Balance Sheet of AB Ltd. as at 31st March, 2012 from the details given below:

	(₹ in '000)
Reserves and surplus	200
Application money pending allotment	40
Other long term liabilities	100
Trade payables	75
Long term borrowings	120
Other current liabilities	50
Short term provisions	20
Long term provisions	30
Share capital	500

Cash & cash equivalents	200
Other current assets	200
Inventories	50
Trade receivables	120
Intangible fixed assets	110
Capital work-in-progress	115
Intangible assets under development	20
Tangible fixed assets	320

Solution:

AB Ltd.
Balance Sheet as at 31st March, 2012

(₹ in '000)

Particulars	Note No.	2011-12	2010-11
EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share capital		500	
(b) Reserves and surplus		200	
(c) Money received against share warrants		-	
(2) Share application money pending allotment		40	
(3) Non – current liabilities			
(a) Long term borrowings			
(b) Deferred tax liabilities (net)		120	
(c) Other long term liabilities		-	
(d) Long term provisions		100	
		30	

(4) Current liabilities			
(a) Short term borrowings		-	
(b) Trade payables		75	
(c) Other current liabilities		50	
(d) Short term provisions		20	
Total		**1135**	
II ASSETS			
(1) Non-Current Assets			
(a) Fixed assets			
(i) Tangible assets		320	
(ii) Intangible assets		110	
(iii) Capital work in progress		115	
(iv) Intangible assets under development		20	
(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		50	
(c) Trade receivables		120	
(d) Cash and cash equivalents		200	
(e) Short term loans and advances		-	
(f) Other current assets		200	
Total		**1135**	

Illustration 7:

On 1st April, 2011, Ashok Ltd. was formed with an authorized capital of ₹ 1,00,00,000 divided into 2,00,000 equity shares of ₹ 50 each. The company issued prospectus inviting applications for 1,50,000 shares. The issue price was payable as under:

	₹
On application	15
On allotment	20
On call	Balance

The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year.

The company also issued 5,000 share of ₹ 50 each fully paid up to the vendor for purchase of office premises.

Show the 'Share Capital' in the Balance Sheet of the company as at 31st March, 2012 and also show 'Notes to Accounts'

Solution:

Balance Sheet of Ashok Ltd.
as at 31/3/2012 (extract)

(₹ in '000)

Particulars	Note No.	2011-12	2010-11
(1)	(2)	(3)	(4)
I Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share capital	1	5,500	

Notes to Accounts:

Note No. 1 (₹ in '000)

Authorised capital 2.00.000 equity shares of ₹ 50 each.	-	10,000
Issued Capital: 5000 shares of ₹ 50 each fully paid issued to vendor		250
1,50,000 shares of ₹ 50 each issued to public .		7,500
Subscribed and fully paid. 5000 shares of ₹ 50 each fully paid issued to vendor		250
Subscribed but not fully paid. 1,50,000 shares of ₹ 50 each issued to public, ₹ 35 each paid up		5,250

Illustration 8:

Prepare 'Notes to Accounts' giving details of inventories with imaginary figures.

Solution:

Notes to Accounts

Note No. 4

Inventories:	(₹ in '000)
(a) Raw materials	10
(b) Work-in-progress	5
(c) Finished goods	7
(d) Stock in trade	15

(e) Stores and spares	3
(f) Loose tools	4
Total	**41**

Illustration 9:

Prepare 'Notes to Accounts' giving details of 'Tangible Fixed Assets' with imaginary figures.

Solution:

Notes to Accounts

Note No. 3

Tangible Fixed Assets	(₹ in '000)
(a) Land	1,000
(b) Buildings	800
(c) Plant and equipments	470
(d) Furniture and fixtures	50
(e) Vehicles	210
(f) Office equipment	107
Total	**2,637**

Illustration 10:

Under what heads and sub-heads the following items will appear in the Balance sheet of a company as per revised schedule VI:

(i) Un-called liability on partly paid up shares purchased

(ii) Premium on Redemption of Debentures

(iii) Security deposit for telephones

(iv) Employees Earned leave payable on retirement

(v) Proposed dividend

Solution:

		Head	Sub Head
(i)	Un-called liability on partly paid up shares purchased	**Commitments**	
(ii)	Premium on Redemption of Debentures	**Non-current liabilities**	**Other long term liabilities**
(iii)	Security deposit for telephones	**Non Current Assets**	**Long term loans and Advances**
(iv)	Employees Earned leave payable on retirement	**Non-current liabilities**	**Long term provisions**
(v)	Proposed dividend	**Current liabilities**	**Current provisions**

Note: As per Revised Schedule VI Commitments

As per Accounting standards Current Provisions

As Accounting Standards prevail over Revised Schedule VI, Proposed Dividend will be treated as Current Provisions

EFFECTS OF REVISED SCHEDULE VI ON TOOLS OF ANALYSIS OF FINANCIAL STATEMENTS

As per revised Schedule VI part II the Format of Profit of Loss Statement is as follows:

Name of the company

Profit and loss statement for the year ended…………………

	Particulars	Note No.	Figures for the current reporting period	Figure for the previous reporting period
1.	Revenue from operations			
2.	Other income			
3.	Total Revenue (I + II)			
4.	Expenses:			

	Cost of materials consumed Purchases of Stock-in-Trade Changes in inventories of finished goods work-in-progress and stock-in-Trade Employee benefits expense Finance costs Depreciation and amortization expense Other expenses Total expenses			
5.	Profit before exceptional and extraordinary items and tax (III-IV)			
6.	Exceptional items			
7.	Profit before extraordinary items and tax (V-VI)			
8.	Extraordinary Items			
9.	Profit before tax (VII-VIII)			
10.	Tax expense: (1) Current tax (2) Deferred tax			
11.	Profit /(Loss) for the period from continuing operations (VII-VIII)			
12.	Profit/(Loss) from discontinuing operations			
13.	Tax expense of discontinuing operations			
14.	Profit/(Loss) from Discontinuing operations (after tax) (XII-XIII)			
15.	Profit/(Loss) for the period (XI-XIV)			
16.	Earnings per equity share: (1) Basic (2) Diluted			

Illustration 11:

Prepare Comparative Income Statements from the following:

Particulars	**31-3-2011**	**31-3-2012**
Revenue from operations	10,00,000	15,00,000
Expenses	6,00,000	10,50,000
Other income	2,00,000	1,80,000
Income Tax	50%	50%

Solution:

Comparative Statement of Profit & loss

For the year ended 31st March, 2012

Particulars	**Absolute figures**		**Change (base year 2010-11)**	
	31-3-2011 ₹	**31-3-2012** ₹	**Absolute figures** ₹	**Percentage (%)**
I Revenue from Operations	10,00,000	15,00,000	5,00,000	50%
II *Add:* Other Incomes	2,00,000	1,80,000	(20,000)	10%
Total Revenue(I+II)	12,00,000	16,80,000	4,80,000	40%
III *Less:* Expenses	6,00,000	10,50,000	4,50,000	75%
Profit before Tax	6,00,000	6,30,000	30,000	5%
IV *Less:* Tax (50%)	3,00,000	3,15,000	15,000	5%
PROFIT AFTER TAX	3,00,000	3,15,000	15,000	5%