Chapter 1: GENERAL INTRODUCTION

General Introduction to Schedule VI to the Companies Act-1956

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 01.04.2011. 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.

Note:

As you proceed reading further, you may find that there are certain items against which in bracket the clause 'Not to be Evaluated ' is written. It means that for such items, no Accounting treatment will be asked in the Board Examination.

Salient features of Schedule VI include the following:

- 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 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:

I.

(a) Balance with banks

(b) Cheques, drafts on hand.

(c) Cash on hand

(d) Others **(specify nature)**

II. Earmarked balances with banks (For example, for unpaid dividend) shall be separately stated **(Not to be Evaluated).**

III. Balances with banks held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately **(Not to be Evaluated)** .

IV. Bank deposits with more than 12 months maturity **(Not to be Evaluated).**

- 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 thereafter**. (Note: Treatment of unamoritized expenses shall not be evaluated.)**
- Now the Dr. Balance of Statement of Profit & Loss will be disclosed under the head. 'Reserve & Surplus' as the negative figure.
- No change in the format of Cash Flow Statement as per schedule VI. Therefore its preparation continues to be as per AS-3 on Cash Flow Statement.

1. <u>Format of Balance Sheet as per Schedule VI to the Companies Act-1956</u>

The vertical format of Financial Statement as per **SCHEDULE VI** and the major structural changes in the classification and disclosure of information in the Financial Statements are discussed below in details:

PART-1 Form of Balance Sheet

Name of the Company ……………………….
Balance Sheet as at ………………………….

(Rupees in ………………)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1.	2.	3.	4
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			

Note: The Accounting treatment of the following items will not be examined:

1. Money received against share warrants
2. Share application money pending allotment
3. Deferred tax liabilities (Net)
4. Other Long term liabilities
5. Capital work-in-progress

6. Intangible assets under development
7. Deferred tax assets (net)

I. ITEMS APPEARING UNDER THE HEAD EQUITY AND LIABILITIES IN THE BALANCE SHEET

(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 authorized.

(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 as 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) Forfeited shares (amount originally paid up).

The disclosure of Share Capital in the Balance Sheet is limited to the following:

Name of the Company ……………………….
Balance Sheet (An Extract) as on………………………….

(Rupees in ………………)

Particulars	Note No.	Figures as at the end of current reporting period ₹	Figures as a the end of the previous reporting period ₹

1.	2.	3.	4
I. **EQUITY AND LIABILITIES** 1. **Shareholders funds** (a) Share capital	I	x x x	xxx

Notes to Accounts (1)

Particulars		**Amount (₹)**
(a) Share Capital Authorised Capital ……Shares of ₹. ….. each		x x x
Issued Capital ……Shares of ₹…....each		x x x x x x
Subscribed Capital Subscribed and fully paid up ….Shares of ₹ …….. each		x x x
Subscribed but not fully paid up …Shares of ₹ …… each…… Called up Less-calls-in-Arrear (If/any) Add-shares forfeited A/c	 x x x (x x)	x x x x x x
TOTAL		x x x

Note: Equity share capital and Preference share capital to be shown separately.

(b) **Reserves and Surplus:** The following items are shown under this head:

(i) Capital Reserves;

(ii) Capital Redemption Reserve;

(iii) Securities Premium Reserve;

(iv) Debenture Redemption Reserve;

(v) Revaluation Reserve **(Accounting Treatment Not to be Evaluated);**

(vi) Share options Outstanding Account **(Accounting Treatment Not to be evaluated);**

(vii) Other reserve **(restricted to General Reserve only);**

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

Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head ' Reserves and Surplus' even if the resulting figure is in negative.

(c) **Money received against share warrants (Accounting Treatment Not to be evaluated):** A share warrant is a financial instrument which gives 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 (Accounting Treatment Not to be evaluated):** 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 'Other Current liabilities'

(3) **Non-current liabilities:** A non-current Liability is a liability which is not classified as current-liability.

(a) Long Term borrowing (Debentures / Bonds, Long Term Loans etc.)

(b) Deferred Tax Liabilities (Net). **(Accounting Treatment Not to be Evaluated).**

(c) Other Long Term Liabilities **(Accounting Treatment Not to be Evaluated).**

(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 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 defer settlement of the liability for at least 12 months after the reporting date.

(a) **Short-term Borrowings**: Loans repayable on demand from banks and other parties; Deposits.

(b) **Trade Payables**: A trade payable refers to the amount due on account of goods purchased or services rendered in the normal course of business. It includes both creditors and bills payable.

(c) **Other Current Liabilities**: Unpaid dividends, interest accrues 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 and shown under the head 'Current Liabilities' (Provision for tax and Proposed dividend).

II. ITEMS APPEARING UNDER THE HEAD ASSETS IN THE BALANCE SHEET.

DEFINITION AND PRESENTATION

An asset shall be classified as current when it satisfies any of the following:

(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 realized 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'

1. **Non-Current Assets:**

(a) **Fixed Assets: Assets which are required for purpose of reuse in the business but not for purpose of resale.**

(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 those which are not tangible.

(a) Goodwill

(b) Brand / Trademarks

(c) Computer Software & Mining rights

(d) Masthead and Publishing titles**. (Accounting Treatment Not to be Evaluated)**

(e) Copyrights, and patents and other intellectual property rights, services and operating rights. **(Accounting Treatment Not to be Evaluated).**

(f) Recipes, formulae, models, designs and prototypes (Not to be Evaluated)

(h) Licenses and franchise **(Accounting Treatment Not to be Evaluated)**

(iii) Capital work in Progress. **(Accounting Treatment Not to be Evaluated)**

(iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company. **(Accounting Treatment Not to be Evaluated).**

(b) Non-Current Investments: Non-current Investments are investments which are held not with the purpose to resell but to retain them. Non-current Investments are further classified into ' Trade Investments' and ' Other Investments'.

Trade Investments are investments made by a company in share or debentures of another company, not being its subsidiary, to promote its own trade and business. Other Investments are those investments which are not trade investments.

(c) Deferred Tax Assets (Net). **(Accounting Treatment Not to be Evaluated).**

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

(e) Other non-current assets. **(Accounting Treatment Not to be Evaluated).**

2. **Current Assets**

(a) **Current Investments** – Investments 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) Stock in trade

(v) Stores and Spares

(vi) Loose tools.

(c) **Trade Receivables:** Trade receivables refer to the amount due on account of goods sold or services rendered in the normal course of business. It includes both Debtors and Bills receivables.

(d) **Cash and cash equivalents** – as discussed in the salient features of Schedule-VI in General Instructions.

(e) **Short-term Loans and Advances**

(f) **Other Current Assets** (Restricted to prepaid expenses, accrued incomes and advance tax only)

3. **Contingent Liabilities and Capital Commitments (Not to be Evaluated)**

(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 -** A future liability for capital expenditure in respect of which contacts have been made. (Uncalled liability on shares and other investments partly paid etc.)

3. **<u>Format of Statement of Profit & Loss (In accordance with the requirements for Board Examination 2014)</u>**

PART-II STATEMENT OF PROFIT AND LOSS
IMPORTANT NOTE

'Statement of Profit & Loss' is not a part of current syllabus but to understand the different Tools of Analysis of Financial Statements, its knowledge is required.

The Form specified in Part II of Schedule-VI of the Companies Act, 1956 is as follows: **(Modified as per requirement for Board Examination 2014)**

Name of the Company…………………
Profit and Loss Statement of for the year ended:……………………

(Rupees in ……………..)

Particulars	Note No.	Figures for the Current reporting period	Figures for the previous reporting period
i. Revenue from Operations		---	----
ii. Other Income		---	----
iii. Total Revenue (i+ii)		---	----
iv. Expenses			
Cost of Materials Consumed		---	---
Purchases of Stock-in-Trade		---	---
Changes in inventories of Finished Goods Work-in-Progress and Stock-in-Trade		---	---
Employees Benefits Expenses		---	---
Finance Costs		---	---
Depreciation and Amortization Expenses		---	---
Other Expenses		---	---
Total Expenses		---	---
v. Profit before Tax (iii – iv)		---	---

vi.	Tax		---	---
vii.	Profit after tax (v – vi)		---	---

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 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 Part I to the Companies Act 1956, are listed below:

(i) Shareholders Funds

(ii) Share Application Money pending allotment

(iii) Non-Current liabilities

(iv) 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 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 Part I of the Companies Act 1956, are listed below:

(i) Non-current Assets

(ii) Current Assets

Illustration-3:

Name the sub-heads under the head (a) 'Shareholders Funds' and (b) 'Non-current liabilities as per Schedule VI Part 1 of the Balance Sheet.

Solution:

(a) The sub-heads under 'Shareholders Funds' are
   (i) Share Capital
   (ii) Reserves and surplus
   (iii) Money received against Share Warrants

(b) The sub-heads under ' Non-current liabilities' are
   (i) Long-term Borrowings
   (ii) Deferred Tax Liabilities (Net)
   (iii) Other Long-term Liabilities
   (iv) Long-term Provisions

Illustration-4

Name the sub-heads under the head 'Non-current assets' in the Balance Sheet under Schedule-VI of the Indian Companies Act, 1956.

Solution:

The sub-heads under 'Non-current assets' are

(a) Fixed Assets
(b) Non-Current Investments
(c) Deferred Tax Assets (Net)
(d) Long-term loans and advances
(e) Other Non-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 Indian Companies Act, 1956.

Particulars	**Amount (₹ 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 '000')

Particulars	**Note No.**	**2011-12**	**2010-11**
I. Equity and Liabilities			
1. **Shareholders Funds**			
(a) Share Capital		400	---
(b) Reserves & Surplus		90	---
2. **Non-current liabilities**			
Long-term borrowings		500	---
3. **Current liabilities**			
Trade payables		30	--
Total		**1020**	---
II. **Assets**			
1. **Non-Current Assets**			
(a) Fixed Assets			
Tangible Assets		800	
2. **Current Assets**			---
(a) Inventories			
(b) Trade receivables		20	---
(c) Cash & Cash Equivalents		80	---

		120	---
TOTAL		**1020**	---

Illustration-6

On 1st April, 2012, 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 shares of ₹50 each fully paid up to the vendor for purchase of office premises.

Show the

(a) Share capital in the Balance Sheet of the company as per Schedule-VI

(b) Also prepare 'Notes to Accounts'

Solution:

Balance Sheet of Ashok Ltd.
as at 31.03.2013 (Extract)

(a)

₹ in '000'

Particulars	Note No.	31.03.2013	
1. Equity and Liabilities			
(i) **Shareholders Funds**			
(a) Share Capital	1	5500	---
Total		**5500**	---

(b) Notes to Accounts (1)

(₹ in '000')

Particulars	31.03.2013
Authorised Capital 2.00.000 equity shares of ₹ 50 each	10,000
Issued capital 5000 shares of ₹ 50 each fully paid up issued to vendors	250
1,50,000 shares of ₹ 50 each issued to public	7,500

Subscribed Capital Subscribed and fully paid 5000 shares of ₹ 50 each issued to vendors	250
Subscribed but not fully paid 1,50,000 shares of ₹ 50 each issued to public. ₹ 35 called up	5250
TOTAL	**5500**

Illustration-7

The authorized capital of XYZ Ltd. is ₹20,00,000 divided into 2,00,000 equity share of ₹10 each. Out of these company issued 1,00,000 equity shares of ₹10 each. The amount is payable as follows:

On application ₹2

On allotment ₹ 5

On Final call ₹ 3

The public applied for 90,000 equity shares and all the money was duly received.

You are required to:

(a) Show share capital in the Balance Sheet of the company as at 31st March 2013, and

(b) Prepare 'Notes to Accounts' for the same

Solution:

Balance Sheet of XYZ Ltd.
as at 31.3.2013 (Extract)

(a)

Particulars	Note No.	31.03.2013 ₹	
1. Equity and Liabilities			
(i) **Shareholders' Funds**			
(a) Share Capital	1	9,00,000	---
TOTAL		**9,00,000**	---

(b) Notes to Accounts (1)

Particulars	31.03.2013 (₹)
Authorized Capital 2.00.000 equity shares of ₹10 each	20,00,000

Issued capital 1,00,000 equity shares of ₹10 each	10,00,000
Subscribed Capital Subscribed and fully paid 90,000 equity shares of ₹10 each	9,00,000
TOTAL	**9,00,000**

Illustration-8

X Ltd. has an Authorized capital of ₹ 15,00,000 divided into 1,00,000 Equity shares of ₹10 each and 50,000 9% preference share of ₹ 10 each .

The company invited applications for all the preference shares but only 90,000 equity shares.

All the preference shares were subscribed, called and paid while subscriptions were received for only 85,000 equity shares.

During the first year ₹ 8 per share were called.

Ram holding 1,000 shares and Shyam holding 2,000 shares did not pay first call of ₹2.

Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at ₹6 per share ₹8 called up.

(a) Show share capital in the Balance Sheet as per revised Schedule VI as at 31st March 2013.

(b) Prepare relevant 'Notes to Accounts'

Solution:

Balance Sheet of X Ltd.
as at 31st March 2013 (Extract)

(a)

Particulars	Note No.	31.03.2013 (₹)	
I. Equity and Liabilities			
1. **Shareholders' Funds**			
(a) Share Capital	1	11,77,000	
(b) Reserves & Surplus	2	6,000	
TOTAL		**11,83,000**	

(b) Notes to Accounts (1)

Particulars	31.03.2013 (₹)
1. SHARE CAPITAL **Authorised Capital**	10,00,000 5,00,000

1.00.000 equity shares of ₹10 each 50,000 9% preference shares of ₹ 10 each		15,00,000
Issued capital 90,000 equity shares of ₹ 10 each 50,000 9% preference shares of ₹ 10 each		9,00,000 5,00,000 14,00,000
Subscribed Capital Subscribed and fully paid 50,000, 9% preference shares of ₹ 10 each		5,00,000
Subscribed but not fully paid 84,500 equity shares of ₹ 10 each ₹8 called up Less Calls in arrears Add shares forfeited	6,76,000 (2,000)	6,74,000 3,000 11,77,000
2. RESERVES AND SURPLUS Capital Reserve		6,000
	TOTAL	**11,83,000**

Chapter 2: TOOLS FOR FINANCIAL STATEMENTS ANALYSIS

1. Comparative Financial Statements

(1)

Format of Comparative Balance Sheet
Comparative Balance Sheet as at …….. 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (Increase/ Decrease)	Percentage (increase/ Decrease
1.		2.	3.	4	5
		A	B	(B-A)=C	$\frac{C}{A}$x100=D
I. **EQUITY AND LIABILITIES**					
1. **Shareholders funds**					
(a) Share capital		--	--	--	--
(b) Reserves and Surplus		--	--	--	--
2. **Non-Current Liabilities**					
(a) Long-term borrowings		--	--	--	--
(b) Long-term provisions		--	--	--	--