Schedule III of Companies Act 2013- Journey Beyond Revised Schedule VI(Companies Act 1956)

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Abstract:

Today's economic environment poses many challenges in the financial and accounting world. Country's economic growth is to an extent dependent on the Corporate Laws.The Companies Act 2013 was enacted to improve corporate governance and better transparency in the corporate sector which is imperative to inculcate confidence amongst investors in Indian market and to further strengthen regulations for the companies, keeping in view the changing economic environment as well as the growth of our economy. As per the Government Notification no. S.O. 902 (E) dated 26th March, 2014, the Schedule III became applicable for the Balance Sheet and Statement of Profit and Loss to be prepared for the financial year commencing on or after April 1, 2014. Schedule III comprises of two Divisions (presently three). Division I is applicable for Financial Statements for a company whose Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006 while Division II is applicable for the Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. If we go back to the recent past the Ministry of Corporate Affairs (MCA), had replaced the earlier Schedule VI by a Revised Schedule VI wherein several changes in the presentation and disclosure requirements vis-à-vis the old Schedule VI were made. This paper is an effort to identify and study the changes made in Revised Schedule VI that have been retained in Schedule III with certain additional disclosures.

Introduction:

Schedule III of the Companies Act, 2013 was notified along with the Act itself on 29 August, 2013. thereby providing the manner in which every company registered under the Act shall prepare its Financial Statements.

As per the Government Notification no. F.No.1 I 15/2013-CL.V dated 26th March, 2014 inter alia the Section 129 and Schedule –III of Companies Act, 2013 were notified w.e.f 01.04.2014. Accordingly the Schedule III is applicable to the financial statements prepared for the financial year commencing on or after April 1, 2014.

MCA notified amendments to Schedule III of the Act on 6thApril 2016, renamed the then existing Schedule III as Division I (Non-Ind AS Schedule III) and inserted Division II (Ind AS Schedule III). Division II - (Ind AS Schedule III) was inserted in Schedule III to prescribe a format of Financial Statements for companies that are required to comply with the Companies (Indian Accounting Standards) Rules, 2015 Companies, and general instructions for preparing its first and subsequent Ind AS Financial Statements.

The Ministry of Corporate Affairs (MCA), in 2015, had notified the Companies (Indian Accounting Standards (IND AS)) Rules 2015, which stipulated the adoption and applicability of IND AS in a phased manner beginning from the Accounting period 2016-17. The MCA has since issued three Amendment Rules, one each in the year 2016, 2017, and 2018 to amend the 2015 rules.

The IND AS are basically standards that have been harmonized with the International Financial Reporting Standards (IFRS) to make reporting by Indian companies, more globally accessible. Since Indian companies have a far wider global reach now as compared to the past, the need to converge reporting standards with international standards was felt, which has led to the introduction of IND AS.

The Schedule III is applicable to the financial statements to be prepared for the financial year commencing on or after April 1, 2014.

Financial Statement Format	**Date of Applicability**		Type of Companies
Revised Schedule VI	On or after April 1, 2011.	From FY 11-12	All Except any insurance or banking company, or any company engaged in the generation or supply of electricity
Schedule III	On or after April 1, 2014.	From FY 14-15	All Except any insurance or banking company
Schedule III Division II	from 1st April 2016	From FY 16-17	Listed Companies or Companies in the process of Listing and having a net worth of Rs.500 Crores or more. All other unlisted Companies having net worth of Rs.500 Crores or more Holding, Subsidiary, Joint Venture or Associates of companies covered above.
	from 1st April 2017	From FY 17-18	Listed Companies or Companies in the process of Listing and having a net worth of less than Rs.500 Crores. All other unlisted Companies having net worth of Rs.250 Crores or more but less than 500 Crores. Holding, Subsidiary, Joint Venture or Associates of companies covered above

As per Section 2(40) of the Companies Act,2013

Financial Statement in relation to a company, includes-
(i) a balance sheet as at the end of the financial year;
(ii) a profit and loss account, or in case of company carrying out activity not for profit, an income and expenditure account for the financial year;
(iii) cash flow statement for the financial year;
(iv) Statement of changes in equity, if applicable; and
(v) Any explanatory note annexed to, or forming part of, any document referred to sub-clause (i) to (iv) stated above.

Need of the study:

Schedule III to the Companies Act, 2013 gives the manner in which every company registered under the Act must prepare its Balance Sheet, Statement of Profit and Loss and notes thereto. In the light of various economic and regulatory reforms that have taken place for companies over the last several years, there was a need for enhancing the disclosure requirements under the Old Schedule VI to the Act and harmonizing and synchronizing them with the notified Accounting Standards as applicable. Accordingly, the Ministry of Corporate Affairs (MCA) issued a revised form of Schedule VI on February 28, 2011 and this has formed the basis for the Schedule III of Companies Act, 2013. Schedule III brings in a lot of changes in financial reporting. As a student of Finance and accounting, one must be well read and aware of the presentation and disclosure norms applicable to date. This change in presentation norms will take a substantial time to percolate down to the actual users of financial statements.

Literature Review:

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 complete overhaul in 2013. The Companies Act, 2013 gives great importance to the compliance of the accounting standards by the Companies. As per section 133 of the Companies Act, 2013 'accounting standards' means such standards as prescribed by the Central Government, as recommended by ICAI in consultation with and after examination of the recommendations made by National Financial Reporting Authority

Objective:

1. To study the implications of Revisions in Financial Statement formats on preparation/construction of Financial Statements

2. To study and relate the Revised Schedule VI of the Companies Act 1956 and Schedule III of Companies Act 2013

Research Methodology:

The research is based on secondary data. Data was collected from various sources, official websites, Government circulars etc.This is explanatory research trying to explain the changes in financial statement formats and disclosure norms.

Research Design: In view of the objectives of the study, exploratory Research Design will be adopted. Exploratory Research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information.

Key points of Financial Reporting under Companies Act, 2013

There will be uniform accounting period i.e. from 1st April to 31st March of next year for Companies.

Accounting Standards have been given supremacy over Schedule III. This is in line with IFRS which mandates that no statute can override the Standards.

For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

The schedule sets out minimum requirements for disclosure

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.

Financial Statements to include cash flow statement and statement of changes in equity. Format of cash flow statement is not prescribed in Schedule III.

Bifurcation of assets and liabilities amongst current and non-current is required.

Proposed dividend is not recognized and only disclosed

Rounding off rule revised.

Uniform unit of measurement to be used across financial statements.

Comparative year figures to be given in financial statements including notes (except in case of new company).

Changes earlier introduced in Revised Schedule VI which have been retained in Schedule III.

1.**Change in presentation:**
Horizontal or T form of balance sheet is deleted and vertical form is laid down.
2.Change in titles of Balance Sheet: Under Revised Schedule VI (now Schedule III) titles used are Equity and Liabilities and Assets whereas in Old Schedule VI the same were referred as Sources of Funds and Application of Funds respectively.
3.**Prominence to accounting standards:**Even in future, if accounting standards change, leaving a conflict between the AS and the Schedule, the AS shall prevail. Schedule III shall stand modified according to changes in accounting standards. Disclosures required by ASs and by the law to be made by way of notes, unless required on the face of the financial statements.
4.Classification of assets, liabilities and provisions is based on liquidity rather than nature: Concept of classified balance sheet was introduced. All assets and liabilities are classified into current and non-current categories applying the definitions of Current / Non-current asset / liability and operating cycle provided in the Schedule.
5.Part III of Schedule VI omitted: Part III of Old Schedule VI, on Interpretation which contained definition of terms like provision, reserve etc has been omitted.
6.New definitions provided: Definitions in respect of Current / Non-Current Asset, Current / Non-CurrentLiability, Operating Cycle, Trade receivables and Trade Payables, which are relevant for Revised Schedule VI (now Schedule III), have been provided.
7.Balance Sheet Abstract and Company's General Business Profile no longer required to be given.

8.Consistent rounding off rules based on turnover: The limit of turnover and the extent of rounding off was revised in Revised Schedule VI. Also, explicit requirement to use the same unit of measurement (i.e. figures in lacs/crores) uniformly throughout the financial statements (including notes to accounts) was introduced.

9.Concept of Schedules eliminated: As per Old Schedule VI disaggregations (i.e. break up) of items recognized in financial statements were disclosed by way of Schedules. Revised Schedule VI as well as Schedule III states that the same should be provided in the Notes to Accounts.

10.Notes to Accounts defined: Revised Schedule VI (now Schedule III) states that Notes to Accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required (a) narrative descriptions or disaggregations of items recognized in those statements and (b) information about items that do not qualify for recognition in those statements.

11. Relief from disclosing more than 5 years old issue of shares for consideration other than cash/ Bonus Shares: Share-based payments for acquisition of goods or services including tangible and intangible assets and issue of Bonus Shares were earlier required to be reported on continuous basis but in Revised Schedule VI (now Schedule III) the same need to be disclosed for transactions of period of five years immediately preceding the relevant Balance Sheet Date.

12.Disclosure of shareholding pattern: Shares in the company held by its holding company,
Shares in the company held by each shareholder holding more than 5% shares (as on Balance Sheet date) specifying the number of shares held to be disclosed for each class of shares.

13.Disclosure of Shares reserved: New requirement for disclosure of Shares reserved for issue under options (e.g ESOPs) and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts, was introduced in Revised Schedule VI which has been maintained in Schedule III.

14.Disclosure of Reserves & Surplus: New line items for Debenture Redemption Reserve, Revaluation Reserve, and Share Option Outstanding Account have been inserted

15.Disclosure of Accumulated Losses: Debit balance of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserve and Surplus' after adjusting negative balance of surplus, if any shall be shown under the head 'Reserve and Surplus' even if the figure is in the negative.

16.Disclosure of Borrowing: The portion of borrowing which is not due within 12 months after the reporting date (i.e. balance Sheet date) is only required to be shown as Long term borrowing.
Other new disclosure requirements in respect of borrowing which were introduced by Revised Schedule VI and which have been retained inSchedule III as well are:-

(i) Long term Loans from Directors and Managers to be shown separately.

(ii) Bonds / Debentures (along with rate of interest and particulars of redemption) shall be stated in descending order of maturity or conversion,

(iii) Terms of repayment of long term terms loans to be stated.

(iv) Period of continuing default in case of long term borrowing / short term borrowing as on Balance Sheet Date in repayment of loans and interest to be specified separately in each case. Earlier, no such disclosure was required in the FinancialStatements.

17.Disclosure of Provisions: Under Old Schedule VI, all the provisions were shown as Current Liabilities,but in Revised Schedule VI provisions for which the related claim is expected to be settled beyond 12 months after the reporting date are classified as noncurrent liabilities and shown under new line item of Long-term provisions.

18.Disclosure of Interest accrued and due on borrowing: Revised Schedule VI (now Schedule III), requires Interest accrued and due on borrowing to be shown under other current liabilities. In Old Schedule VI these were shown as part of Loan Funds.

19.Trade Receivables and Trade payables: The terms Debtors and Creditors were scrapped and replaced with Trade Receivables and Trade payables. 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. 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.

20.Fixed Assets: The amount of tangible, intangible assets and intangible assets under development (new line item) were required to be depicted on face of balance sheet separately under Revised Schedule VI. Further, the net block is required to be disclosed on face of balance sheet whereas under Old Schedule VI the amount of Gross Block and accumulated depreciation were also shown. Schedule III is completely in line with Revised Schedule VI in this respect.

21.Intangible Assets: New line items of Computer Software, mastheads and publishing rights, MiningRights, Recipes, formulae, models, designs and prototypes, Licenses & Franchise as introduced in Revised Schedule VI have been maintained inSchedule III.

22.Cash and cash equivalents: Name changed from cash & bank balances as in Old Schedule VI. The bifurcation of bank deposits amongst scheduled and non-scheduled banks was dispensed with.

23.Inventories:A new line item of Finished Goods was inserted in Revised Schedule VI which has been kept in Schedule III. Earlier such goods were shown as Stock-in-trade, which has now been restricted for goods acquired for trading. Further Goods in Transit are to be separately disclosed under the relevant sub-head of inventories.

24.Format of Statement of Profit and Loss prescribed: The nomenclature of Profit and Loss Account was changed to Statement ofProfit and Loss under Revised Schedule VI. Further Part II of Revised Schedule VI prescribes the format of Statement of Profit and Loss which was not there in Old Schedule VI.

25. As per the format provided in Revised Schedule VI as well asSchedule III the expenses are to be classified by nature. Earlier, even function based classification was permissible.

26.Limit for non-inclusion in miscellaneous expenditure: Additional information regarding aggregate income or expenditure exceeding1% of the revenue from operations or Rs 1,00,000/-, whichever is higher, needs to be disclosed by way of notes under Revised Schedule VI and Schedule III.

27.Recognition of dividend income: The Old Schedule VI required the parent company to recognize dividends declared by subsidiary companies even after the date of the Balance Sheet if they were pertaining to the period ending on or before the Balance Sheet date.Such requirement was abolished in the Revised Schedule VI (now Schedule III).

28. Separate disclosure of Exceptional and Extraordinary items on faceof Statement of Profit and Loss.

29. Requires separate disclosure of profit before tax, tax expense and <u>profit after tax from discontinuing operations.</u>

Changes Introduced in Schedule III vis-à-vis Revised Schedule VI

1.Nomenclature of Part I and II changed: The nomenclature of the Part I and II of Revised Schedule VI was "**Form** of Balance Sheet" and "**Form** of Statement of Profit and Loss", whereas it is "Balance Sheet" and "Statement of Profit and Loss" under Part I and II of Schedule III. This change is made in order to state that Schedule III is not limited to only Form of Financial Statements.

2. Separate disclosure in notes regarding amount of expenditure incurred on corporate social responsibility: Section 135 of the Companies Act, 2013 mandates certain companies to incur expenditure on Corporate Social Responsibility, which was not required under the Companies Act, 1956.

3**.Insertion of new component namely "General Instructions for Preparation of Consolidated Financial Statements".**The striking difference between Schedule III and Revised Schedule VI is insertion of new component namely "General Instructions for Preparation of Consolidated Financial Statements" in the Schedule III.

Conclusion

Revised schedule VI was a first step of India moving towards convergence to IFRS.The formats for financial statements were revised recognising the need that the financial statements of Indian corporates should become comparable with international format, as most of the Indian accounting standards have been made at par with the international accounting standards due to introduction and applicability of Ind AS. The Ministry of Corporate Affairs (MCA) issued a roadmap for the implementation of Ind AS. The roadmap provides a phase wise approach, primarily based on a company's net worth and listing status. MCA Vide notification dated 16-02-2015 issued the Companies (Indian Accounting Standards) Rules 2015.This notification provides the timelines for adoption of Ind AS.

The Ministry of Corporate Affairs has been taking timely and pro-active initiatives by making the existing law simple, compact with less cumbersome procedures. 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' including "Ind AS" as applicable have become mandatory, Schedule III to the Companies Act, 2013 became an important document with a format aligned with that of Accounting Standards.

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