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Financial Statements (New Schedule VI) – **A step towards Globalisation**

There has been a change in the way financial reports are prepared in India. Financial reports include balance sheet, Profit and Loss account, Cash Flow statements, Schedules, accounting policies and notes to accounts. From this year i.e. financial year ending 31st March 2012 onwards, financial reports will be prepared according to the new norms, as prescribed in as new schedule VI of the Companies Act. That will mean that in India, now financial reports will be prepared in the new format. We will briefly analyse these changes and impact thereof.

Will it simplify – is it as per Global Standards?

New norms require financial reports to be presented the way it is being done across the globe – at least where International Financial Reporting Standards (IFRS) have been implemented. This new schedule VI is following the pattern which is given in IFRS (as mentioned in International Accounting Standard, IAS - 1). Besides prescribing format, name of “Profit & Loss account” has been changed to “Statement of Profit and Loss” which is near to the name “Statement of Comprehensive Income” as given in IAS-1. There is emphasis on rounding off the figures and in consistent manner, i.e. all the figures throughout the financial statement will be in the same format. Previous period information will also be given alongside. This will simplify the presentation of financial position and performance of the company and will make it more user friendly.

Can I have a better view of financial health of company?

All assets and liabilities of entities will henceforth be divided into current and non-current. Broadly assets convertible in cash or recoverable in next one year will be treated as current and same principle will be applicable for liabilities. There is an option to take operating cycle as basis for classification of current and non-current. Though this particular change will throw challenges due to subjectivity involved, this classification will provide liquid health position of the company on the face of balance sheet.

What will be impact on tax?

This change is just to have a better presentation and will have no impact on direct or indirect tax application, though some cordons have a feeling that increased disclosure may give rise to more questions from tax authorities. Since this is not touching revenue or expenses recognition matters hence no impact is expected on share market as well.

What about subjectivity?

This change has come after so many years and naturally there might be interpretational issues. Institute of Chartered Accountants of India has published a

What is detailed disclosures?

Schedules are done away with and descriptive detail of all items mentioned in balance sheet and Statement of profit and loss will be given in the notes to accounts. Previous period information will also be required alongside. It will be interesting to see how companies will disclose their defaults in loans and what will be the implications of disclosure related to guarantee given by other than directors for loans taken by the company.

Will it increase Transparency?

Disclosure related to reconciliation of opening and closing shares is a welcome change. There will be requirement of disclosure of details related to all kind of shares and shareholders, specifically those holding more than 5 per cent. Share application money due for refund will also be disclosed separately. Share issued for consideration other than cash in last 5 years will also be disclosed.

What are Exceptional and Extra ordinary items?

Revenue items which are exceptional in nature or occurred in other than ordinary activities of the company will be shown separately on the face of Statement of Profit and Loss account, though such bifurcation is not required in IAS. Though in Schedule VI these terms have not been defined, guidance note of ICAI provides direction towards accounting standard (AS-5 in this case) to have understanding of these terms. This is welcome gesture as items which are not in the course of ordinary business or exceptional in nature will be disclosed separately.

Is it true that it has brought in a Paradigm shift?

There is a paradigm shift from earlier concept on how to prepare financial statements. Now requirement of accounting standards will be a priority and disclosure requirement of an accounting standard can't be ignored. This will require an in depth understanding of accounting standards

guidance note followed by suggested answers to frequently asked questions (FAQ). These documents will be handy while getting answers to queries arising in the mind of preparers / users of the financials.

Final Word

Overall, this is a welcome change. Your financial statements will appear to be similar in format of international standards and more disclosures will have better transparency. Subjectivities related to classification or current and non-current might be a challenge, but not a reason to reject the idea. This is surely a step forward in the direction of globalisation.