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Current and Non Current Classification in Revised Schedule VI: A Changing Horizon for Accounting Practices

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Abstract

"Be the change that you wish to see in the world." Indian accounting regulators are active enough to bring the changes in the accounting practices to make the Indian financial reporting at par with the global reporting. As a result, revisions are made in the existing statutes like new Companies Amendment Bill, 2011, Cost Accounting Record Rules, 2011, Cost Audit Report Rules,2011, Extensible Business Reporting Language (eXBRL), Tax Accounting Standards (TAS). Similar changes are also made in the schedule-VI (forming part of section 211) of the Companies Act, 1956. The new format for presentation and disclosure of financial statement is popularly known as the 'Revised Schedule VI'. The paper focuses on the changes that were brought in the existing accounting practices due to the implementation of revised schedule VI and exhibits a distinct comparison of both old and revised schedule VI as regards to the changes in the accounting practices. An attempt is made to explore the current and non-current classification of the assets and liabilities as laid down by the revised schedule VI of the Companies Act, 1956 in this paper as a dynamic part.

Key words:

Schedule VI, Current, Non-Current , Financial Statements.

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"Be the change that you wish to see in the world", Mahatma Gandhi

INTRODUCTION

"Accounting is the language of business", its changes are always at par with the changes taking place in the contemporary business world. The concept of uniformity in global financial reporting brings significant changes to the world business scenario. India, which is in the process of being convergence to IFRS (International Financial Reporting Standards), is also moving towards the significant changes to financial reporting practices. Indian accounting regulators are active enough to bring the changes in the accounting practices to make the Indian financial reporting at par with the global reporting. The reason of which, revisions are made in the existing statutes like new Companies Amendment Bill, 2011, Cost Accounting Record Rules, 2011, Cost Audit Report Rules, 2011, Extensible Business Reporting Language,2011 (XBRL), Tax Accounting Standards (TAS). Similar changes are also made in the schedule-VI (forming part of section 211) of the Companies Act, 1956.

The new schedule VI popularly known as revised schedule VI came into existence to harmonies the disclosure requirements with the Accounting Standards and to converge with the new reforms, by the Ministry of Corporate Affairs vide Notification No. S.O. 447(E), dated 28th February 2011 and replaced the existing Schedule VI of the Companies Act, 1956. Government vide Notification No. F.N. 2/6/2008 – C.L-V dated 30th March 2011 made the revised Schedule VI applicable to all companies for the financial year commencing from 1st April 2011. Revised Schedule VI however, do not apply to companies as referred to the proviso of Section 211 (1) and Section 211 (2) of the Act, i.e., any insurance or banking company, or any company engaged in the generation or supply of electricity or to 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 (ICSI, 2011).

The revised schedule-VI is mandatory since 01.04.2011. Companies in India prepared their financial statements for the financial year 2011-12 in accordance with the provisions of the revised schedule VI first time. This paper is a study to evaluate the changes that have been made in the existing accounting practices due to the revised schedule VI and to examine the current and non-current classification made in the revised schedule VI.

LITERATURE REVIEW

Accounting is becoming a "knowledge services" profession. Instead of placing focus solely on the historical reporting of financial data, accountants are being asked to provide a forward-looking and giving a predictive interpretation of that information (Messmer, 2001).

Certified public accountants, internal auditors, corporate and governmental accountants no longer sit alone behind a desk doing traditional accounting work-auditing, bookkeeping and taxation-but instead, must be part of a business team. Therefore, a new model of accountants are needed to help economic and business development (Eleni, Redcliffe and Campbell n.d.). Today professional accounting bodies in development countries seek to expand the domain of accounting practice, even if such exceeds the limits of their technical competency (Fogarty, 2004). Accounting professional leaders suggest that every aspect of our profession must change (AICPA, 2000).

The need of corporate houses from mere book keeping to accounts and/or financial management has created the demand of a change in the existing financial reporting concepts. 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. (Salim 2011).

The Revised Schedule VI is based on existing 'Accounting Standards' and not on 'Ind AS' and is, therefore, applicable to all companies. As and when date of implementation of Ind AS will be notified, a separate set of Schedule VI would be issued in respect of companies preparing their financial statements as per Ind AS. Additional formats like statement of changes in equity, other comprehensive income would be required to be prepared apart from several other changes (Salim, 2011).

Every company registered under the Act shall prepare its 'Balance Sheet', 'Statement of Profit and Loss' and notes thereto in accordance with the manner prescribed in Schedule VI of the Companies Act, 1956. Current and non-current classification is a vivacious feature in the revised Schedule VI as regards to the presentation of Balance Sheet. Current and non-current classification provides useful information if an entity supplies goods or services within a clearly identifiable operating cycle. This classification highlights assets those are expected to be realized within the current operating cycle, and liabilities those are due for settlement within the same period (Ghosh, 2012). The firms have to report about the assets and liabilities existing in each reporting period in current and non-current distinction (Karak and Khamurai, 2013).

It is inferred from the above literatures that, the current and non-current classification is a vital organ of the revised Schedule VI, which is implemented to acquaint the Indian accounting practices at par with the Ind AS or IFRS.

So in this paper an analysis has been made to explore the changes in the existing accounting practices that have been made by the revised schedule VI. Again, the paper examines the current and non-current classifications of asset and liabilities made in the revised schedule VI.

OBJECTIVES OF THE STUDY

This paper has the following two specific objectives-

- To study the changes that has been made by the revised schedule VI in the existing accounting practices.
- To examine the current and non-current classification made in the revised schedule VI.

SCHEDULE-VI VS. REVISED SCHEDULE-VI

Change in accounting practices are always followed by the changes in the statute. Thus the revised schedule VI brought significant changes in the presentation of financial statements. The revised schedule VI has been structured as (a) General Instructions (b) Form of Balance Sheet (c) General Instructions for Preparation of Balance Sheet (d) Form of Statement of Profit and Loss (e) General Instructions for Preparation of Statement of Profit and Loss. The changes that have been made in the Revised Schedule VI with respect to the financial statements are enumerated below in Table-I & II.

Table- I, Comparative Presentation of Balance Sheet (broader heads)

Old Schedule VI	Revised Schedule VI
Sources of Funds	Equities & Liabilities
• Shareholders' Funds	• Shareholders' Funds • Share Application Money pending allotment.
• Loan Fund • Deferred Tax Liabilities (Net) • Current Liabilities & Provisions	• Non-Current Liabilities. • Current Liabilities
Application of Funds	Assets
• Fixed Assets • Investment (long term and current) • Deferred tax assets (net) • Current Assets, Loans and Advances. • Profit & Loss account (Debit Balance)	• Non- Current Assets. • Current Assets.

Source: ICAI, 2011

Changes in Balance Sheets :- It is an important note here that the option to use horizontal form of financial statements is discontinued by the revised schedule VI and vertical form is now mandatory. The Current and non-current classification has been introduced for presentation of assets and liabilities in the Balance Sheet. The application of this classification will require assets and liabilities to be segregated into their current and non-current portions. For instance, current maturities of a long term borrowing will have to be classified under the head 'Other Current Liabilities'. Debtors and Creditors are renamed as 'Trade Receivables' and Trade Payables'.

Number of shares held by each shareholder holding more than five percent shares in the company now needs to be disclosed. In the absence of any specific indication of the date of holding, such information should be based on shares held as on the Balance Sheet date. Details pertaining to aggregate number and class of shares allotted for consideration other than cash, bonus shares and shares bought back will need to be disclosed only for a period of five years immediately preceding the Balance Sheet date including the current year.

Any debit balance in the Statement of Profit and Loss will be disclosed under the head 'Reserves and Surplus'. Earlier, any debit balance in Profit and Loss Account carried forward after deduction from uncommitted reserves was required to be shown as the last item on the assets side of the Balance Sheet.

The amount in excess of subscription or if the requirements of minimum subscription are not met in case of share allotment will be shown under "Other current liabilities." In the Old Schedule VI, details of only capital commitments were required to be disclosed. Under the Revised Schedule VI, other commitments also need to be disclosed.

Table- II, Comparative Presentation of Profit & Loss Account (broader heads)

Income	**Income**
Turn Over Other Income	Revenue From Operations Other Income
Expenditure	**Expenditure**
Raw Material Consumption Work in Progress Payment to & Provision for employees Other Selling & Administrative exp Depreciation / Amortisation Other Expenses	Cost of Materials consumed Changes in Inventories of Finished goods Employees' Benefits Depreciation and Amortisation Expenses Other Expenses

Total Expenditure	**Total Expenditure**
Profit before tax & Prior Period Adjustment. Prior Period Adjustments(Net) • Profit before tax • Less: Provision for Taxation • Profit after Tax	Less: Inter account adjustments-raw material mining cost Net Expenditure Profit for the year before Prior period Items Prior period items Profit after Prior period and Before Exceptional & Extraordinary Items and Tax Exceptional Items Profit Before Extraordinary Items and Tax Extraordinary Items Profit Before Tax
Tax Expenses Current Prior period Deferred Tax Credit	Tax Expenses Current Tax Earlier years adjustments Deferred Tax
Net Profit After Tax	**Profit /(Loss) for the period from Continuing Operations**
Balance brought forward from previous year Profit available for appropriation Appropriations : Proposed Dividend Dividend Tax Transfer to General Reserve Surplus transferred to Balance Sheet Earning per Share (Rs.)- Basic and Diluted	Profit /(Loss) for the period from Discontinuing Operations Tax Expense of discontinuing Operations Profit /(Loss) for the period from Discontinuing Operations (after Tax) Profit/ (Loss) for the Period Earning per Share.

Source: ICAI, 2011

Changes in Profit & Loss Account- The name has been changed to "Statement of Profit and Loss" as against "Profit and Loss Account" as contained in the old Schedule VI. Unlike the old Schedule VI, the Revised Schedule VI lays down a format for the presentation of Statement of Profit and Loss. This format of Statement of Profit and Loss does not mention any appropriation item on its face. Further, the Revised Schedule VI format prescribes such 'below the line' adjustments to be presented under "Reserves and Surplus" in the Balance Sheet.

In addition to specific disclosures prescribed in the Statement of Profit and Loss, any item of income or expense which exceeds one percent of the revenue from operations or Rs. 100,000 (earlier 1 % of total revenue or Rs. 5,000), whichever is higher, needs to be disclosed separately.

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 no longer exists in the Revised Schedule VI. Accordingly, as per AS-9 Revenue

Recognition, dividends should be recognized as income only when the right to receive dividends is established as on the Balance Sheet date.

CURRENT AND NON-CURRENT CLASSIFICATION

The Revised Schedule VI defines 'Current Assets' and 'Current Liabilities' with the non-current category being the residual. It is therefore necessary that the balance pertaining to each item of assets and liabilities contained in the Balance Sheet be split into its current and non-current portions and be classified accordingly as on the reporting date. The segregation of current and non-current is based upon the concept of 'Operating Cycle'. The notes 1 to 3 of the Revised Schedule VI define Operating Cycle, Current Asset and Current Liability as follows:

Operating Cycle

An operating cycle is the time between the acquisition of assets for processing and their realisation in Cash or cash equivalents. An operating cycle is assumed to be a period of twelve months where the normal operating cycle cannot be identified. A company's normal operating cycle may be longer than twelve months, for an example the operating cycle may be 2 to 3 years for the manufacturer of heavy machineries as per the specifications of buyers (Annual Report BEML, 2011). Where a company is engaged in running multiple businesses, the operating cycle may be different for each line of business. Such company will classify all the assets and liabilities of the respective businesses into current and non-current, depending upon the operating cycles for the respective businesses. Let us consider the following few other examples-

Example-I

In case of production companies the operating cycle may be more than twelve months. Let, the holding period of raw materials is five months and holding period of finished products is four months. The production cycle is half a month and the collection period of trade receivables is three months. The gross operating cycle would be twelve and half months.

Example-II

A company having excess finished goods as inventory those are not to be realised within the company's normal operating cycle of fifteen months shall be classified as current asset. Since such finished goods as inventory is held primarily for the purpose of being traded.

Current Assets :-

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

✓ It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;

✓ It is held primarily for the purpose of being traded;

✓ It is expected to be realized within twelve months after the reporting date; or

✓ It is Cash or cash equivalent 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. Based on the definition, current assets include assets such as raw material and stores which are intended for consumption or sale in the course of the company's normal operating cycle. Items of inventory which may be consumed or realised within the company's normal operating cycle should be classified as current even if the same are not expected to be so consumed or realised within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded such as inventory of finished goods. Trade receivables which are expected to be realized within twelve months from the reporting date and cash and cash equivalents which are not under any restriction of use are included in current asset too.

Current Liabilities-

A liability shall be classified as current when it satisfies any of the following criteria.

✓ It is expected to be settled in the company's normal operating cycle;

✓ It is held primarily for the purpose of being traded;

✓ It is due to be settled within twelve months after the reporting date; or

✓ The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current. Current liabilities include items such as trade payables, employee salaries and other operating costs those are expected to be settled in the company's normal operating cycle or due to be settled within twelve months from the reporting date. It is pertinent to note that such operating liabilities are normally part of the working capital of the company used in the company's normal operating cycle and hence, should be classified as current even if those are due to be settled in more than twelve months after the end of the reporting date.

Further, any liability, pertaining to which the company does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet/reporting date, shall be classified as current.

In case of a loan liability the application of this criterion becomes critical to the Financial Statements of a company and requires careful evaluation of the various terms and conditions of a loan liability. In an instance the Company X has taken a five year loan. The loan contains certain debt covenants, e.g., filing of quarterly information, failing which the bank can recall the loan and demand repayment thereof. The company has not filed such information in the last quarter; as a result of which the bank has the right to recall the loan. In Indian context banks generally do not demand repayment of loans on such minor defaults of debt covenants. Therefore, the companies generally continue to repay the loan as per its original terms and conditions. An entity could continue to classify the loan as 'Non-current' as on the Balance Sheet date since the loan is not actually demanded by the bank at any time prior to the date on which the financial statements are approved. However, in case a bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end, the loan will have to be classified as current (Ghosh 2012).

CHANGES IN EXISTING ACCOUNTING PRACTICES

There is a complete revamping of the presentation of assets and liabilities as discussed above. Current assets may turn out to be non-current and vice versa. This might also change the current asset and quick ratios from what they would have been under earlier version. Borrowings from Banks are based on a host of ratio calculated both actual and projected.

The impact due to Revised Schedule VI is obviously only until Ind-AS comes into force since then things will anyway get aligned. The table- III shows the measure changes in accounting practices due to implementation of revised schedule VI. It is found that substantial changes have been made in the existing accounting practices by the Indian corporate houses due to implementation of the Revised Schedule VI.

Table-III, Changes in Accounting Practices in a Comparative Mode

Particulars	Old Schedule VI	Revised Schedule VI
Parts	Part I (Balance Sheet), Part II (Profit and Loss Account), Part III (Interpretation) and Part IV (Balance sheet Abstract of company's general business profile)	Only two parts- Part I (Balance Sheet) and Part II (Statement of Profit and Loss) Part III (Interpretation) and Part IV (Balance sheet Abstract of company's general business profile) are omitted.
Format of Balance Sheet	Horizontal and Vertical formats are prescribed.	Only vertical format is prescribed.
Rounding off (R/off) of Figures appearing in financial statements	a. Turnover of less than Rs. 100 Crs are R/off to the nearest hundreds, thousands or decimal thereof. b. Turnover of Rs. 100 Crs or more but less than Rs. 500 Crs are R/off to the nearest hundreds, thousands, lakhs or millions or decimal thereof. c. Turnover of Rs. 500 Crs or more are R/off to the nearest hundreds, thousands, lakhs, millions or crores, or decimal thereof.	a. Turnover of less than Rs. 100 Crs are R/off to the nearest hundreds, thousands, lakhs or millions or decimal thereof b. Turnover of Rs. 100 Crs or more are R/off to the nearest lakhs, millions or crores, or decimal thereof.
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 into Current & Non-current and to be shown separately. Hence, net working capital will not be appearing on Balance sheet.
Fixed Assets	There was no bifurcation required into tangible and intangible assets.	Fixed assets to be shown under non-current assets and it has to be bifurcated into tangible and intangible assets.

Source: ICSI, 2011

CONCLUSION

The general instructions to the Revised Schedule VI begins with a conflict resolving clause that wherever the requirements of the Act or the Accounting Standard require any change in disclosures or treatment of any item the same shall be made and the requirements of the Schedule VI shall stand modified accordingly. Thus, the Revised Schedule VI would get subordinated to the applicable Accounting Standards.

Earlier the stand was different under the Companies (Accounting standards) Rules 2006 that wherever the Accounting standard was not in conformity with the

law, the law would prevail and the financial statements will be prepared accordingly. However, this has to be amended, otherwise there will be another controversy. An important and distinguishing aspect of Revised Schedule VI is that it not only gets overridden by AS but also gets modified accordingly.

Earlier, the role of Schedule VI was a mixture of disclosure, presentation as well as the accounting treatment requirement under certain circumstances (for e.g. adjustment of exchange differences to cost of the related asset). This has got changed to being a disclosure requirement over and above the AS disclosures and also mandating a presentation format (including P&L which was missing earlier). Thus, all accounting treatments will be governed only by accounting standards. In one way Revised Schedule VI is a 'Derivative' to the AS (or the Ind AS) in force.

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