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Schedule III – Format for Ind AS Financial Statements

With the notification of Companies (Indian Accounting Standard rules), 2015 (Ind AS) in February 2015, to converge Indian financial reporting with IFRS, came many changes in the accounting practices of certain classes of Indian companies. However, the format for the preparation of financial statements under Ind AS was awaited.

Schedule VI of the Companies Act, 1956 provided guidelines for the preparation of financial statements. With the advent of Companies Act, 2013, Schedule VI was replaced by Schedule III. The guidelines for the preparation of financial statements under Schedule III were based on the premise of Companies (Accounting Standards) Rules, 2006 (Indian GAAP). There were no guidelines in any statute or otherwise prescribing the format for companies which were covered under the Ind AS roadmap.

On 6 April 2016, the Ministry of Corporate Affairs (MCA) issued a notification which addressed this concern by amending Schedule III.

Since Ind AS does not apply to all companies, the recent notification retains the instructions for companies following Indian GAAP as 'Division I' and, in addition, gives a set of general instructions for the preparation of financial statements of a company required to comply with the Companies (Indian Accounting Standard) Rules, 2015 as 'Division II'.

In this month's issue, we highlight some key changes in the transformation from Division I to Division II:

- Balance sheet
- Statement of changes in equity
- Statement of profit and loss
- Consolidated financial statement
- Annexure comparing formats under Division I vs Division II

Balance sheet

Division II prescribes the presentation of the balance sheet according to globally accepted practices, sequencing the presentation of assets first followed by equity and liabilities.

Furthermore, it emphasises on the presentation of financial assets and liabilities separately from other balance sheet items. Financial assets and financial liabilities are defined in detail in Ind AS 32: Financial Instruments. A few examples of financial and non-financial assets/liabilities are given below:

Financial assets	**Non-financial assets**
Investments	Advances for raw materials
Trade receivables	Capital advances

Financial liabilities	**Non-financial liabilities**
Security deposits	Statutory dues
Trade payables	Advance from customers

Also, many line items like goodwill, trade receivables (non-current), current tax assets, current tax liabilities, etc. are now to be presented on the face of the balance sheet.

Some of the key areas where Division II differs from Division I are:

Assets

Tangible assets

Division I: All tangible assets are to be clubbed under this head and the net amount of the assets is reflected on the face of the balance sheet. There is no concept of investment property.

Division II: Tangible assets in Division I are now termed property, plant and equipment as per Ind AS 16; the nature remaining the same. However, **Investment property** and **Biological assets other than the bearer plant** will now be presented on the face of the balance sheet.

The detailed guidelines for such assets are prescribed in Ind AS 40: Investment Property and Ind AS 41: Agriculture.

Non-current investments
Division I: Investments valued at other than cost are to be stated separately along with the basis of valuation.

Division II: Since Ind AS 109: Financial Instruments requires investments to be classified as fair value through other comprehensive income, fair value through profit and loss or amortised cost, the disclosure as prescribed in Division I is not required.

Bank deposit
Division I: Bank deposits with a maturity of more than 12 months are to be disclosed under 'other non-current assets'.

Division II: Bank deposits fall in the definition of financial assets and hence, such deposits with a maturity of more than 12 months will now be classified as 'other financial assets' under non-current assets.

Trade receivables (current)
Division I: The aggregate amount of trade receivables outstanding for a period exceeding six months from the date they are due for payment must be disclosed separately from other trade receivables.

Division II: Such disclosures are not prescribed for companies adopting Ind AS.

Cash and other bank balances
Division I: Only mentions cash and cash equivalents. However, due to a conflict with AS 3, companies used to present 'cash and bank balances' on the face of the balance sheet which is further bifurcated into 'cash and cash equivalents' and 'other bank balances' in the notes.

Division II: 'Cash and cash equivalents' and 'other bank balances' will now be disclosed on the face of the balance sheet individually and not under a common head.

Prepaid expenses, advances recoverable in cash or kind, capital advances, etc.
Division I: Such advances are to be classified under 'short-term loans and advances' or 'long-term loans and advances' depending upon the current/non-current classification.

Division II: Since such advances are non-financial assets, they are to be classified under 'other current assets' or 'other non-current assets' depending upon the current/non-current classification.

Current tax assets
Division I: Advance taxes (net of provisions) are to be presented under 'long term loans and advances'.

Division II: Current tax assets (net) are to be presented on the face of balance sheet under the head 'current assets'. This is in contradiction to the Institute of Chartered Accountants of India (ICAI) FAQs and general practice of presenting current tax assets as a non-current item.

Liabilities

Equity
Division I: Equity is classified at two levels in Division I, namely, 'Shareholders' fund' and 'Share application money pending allotment'. Shareholders' fund is further classified into share capital, reserves and surplus and money received against share warrants.

Here, share capital includes equity share capital along with preference share capital (convertible or otherwise).

Division II: Equity is classified into 'equity share capital' and 'other equity'.

Equity share capital: This only consists of the equity share capital issued by a company and the disclosures therein, as is the case in Division I.

Other equity: Other equity is a composite head of all the reserves and funds belonging to the owners of the company. Such reserves, in compliance with Ind AS 1: Presentation of Financial Statements, are to be referenced in a matrix format in the statement of changes in equity. This is discussed later in the article.

Liability component of compound financial instruments
Division I: The Indian GAAP does not require compound instruments to be segregated and disclosed separately under equity and liabilities. For example, in the case of convertible preference shares, the amount is fully classified under 'share capital', whereas in the case of convertible debentures, the amount is fully classified as 'long-term borrowings'.

Division II: The liability component of compound financial instruments is required to be disclosed as borrowings under 'non-current liabilities' whereas the equity component will reflect in 'other equity'. This segregation is meant to bring the schedule in line with the requirements of Ind AS 109: Financial Instruments.

Financial liabilities

Division I: There is no segregation of liabilities as financial and non-financial. Hence, items such as current maturities of long-term debt, current maturities of finance lease obligations, interest accrued, unpaid dividend, application money received for allotment to the extent refundable and interest thereon, etc. are shown under 'other current liabilities'.

Division II: Now that financial assets and liabilities are presented separately, the above mentioned liabilities will be grouped with 'other financial liabilities' (current liabilities).

Liabilities associated with a group of assets held for sale

Division I: There are no explicit requirements under this division or under AS 24 to show the liabilities of a disposal group to be classified separately from other liabilities.

Division II: Such liabilities are to be disclosed separately from other liabilities as required under Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations.

Regulatory deferral account balances

Regulatory deferral account balances arise when the entity provides goods or services to customers at a price or rate subject to rate regulation.

Division I: No precise requirement is given.

Division II: The entity must present it in the manner prescribed in Ind AS 114: Regulatory Deferral Accounts.

Statement of change in equity

The statement of changes in equity primarily consists of two parts:

Part A: Equity Share Capital:

As required under Division I, Division II also mandates the presentation of movement of Equity Share Capital during the year.

Part B: Other Equity:

The matrix format (mentioned earlier) is to be presented as a part of other equity. The key items forming a part of this table are given below:

	Share application money pending allotment	Equity component of compund financial instruments	Reserves and surplus				Debt instruments through other comprehensive income	Equity instruments through other comprehensive income	Effective portion of cashflow hedges	Revaluation surplus	Exchange differences on translating the financial statement of foreign operations	Other items of other comprehensive income (specify nature)	Money received against share warrants	Total
			Capital reserve	Securities premium reserve	Other reserves (specify nature)	Retained earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of trhe reporting period														
Total comprehensive income for the year														
Dividends														
Transfer to retained earnings														
Any other changes (to be specified)														
Balance at the end of the reporting period														

A brief description of the key components of other equity is below:

- Equity component of compound financial instruments: The equity component of compound financial instruments like convertible preference shares, convertible debentures, etc. will be presented here as detailed in Ind AS 32: Financial Instruments (Presentation).
- Reserves and surplus: All reserves have to be disclosed under this section. The remeasurement of defined benefit plans or fair value change related to own risk of financial liabilities designated at fair value through profit or loss, if routed through Other Comprehensive Income (OCI) (discussed later), shall be recognised as a part of retained earnings.
- Equity instruments/debt instruments: As detailed in Ind AS 109: Financial Instruments, the company has an option to route the fair value changes on its equity/debt instruments from OCI. Such changes will be given effect to under this line item.
- Effective portion of cash flow hedges: The changes on account of cash flow hedges, in accordance with Ind AS 109: Financial Instruments, that are routed through OCI shall be given effect through this line item.
- Revaluation surplus: As detailed in Ind AS 16: Property, Plant and Equipment, the company has an option to follow the revaluation model. Any impact due to such revaluation model shall be routed through this line item.
- Exchange difference on translating the financial statements of foreign operations: As per Ind AS 21: The Effects of Changes in Foreign Exchange Rate, exchange differences on translation of foreign operations are to be given impact in OCI through this line item.

Statement of profit and loss

The statement of profit and loss, in compliance with Ind AS 1, will now be divided into two parts:

- Profit/loss for the reporting period
- OCI for the reporting period

Profit or loss for the reporting period

This statement of profit or loss has been retained with some minor changes such as:

Extraordinary items

Division I: The presentation of the statement of profit and loss requires a line item stating the extraordinary items for the reporting period.

Division II: The concept of extraordinary items doesn't exist in Ind AS. Accordingly, the same is removed in this division.

Excise duty

Division I: With respect to companies other than finance companies, revenue needs to be initially presented (including excise duty) and further reduced by excise duty in notes to the financial statements. Such amount, after the deduction of excise duty, is reflected on the face of the statement of profit and loss.

Division II: In certain cases, Ind AS 18: Revenue, prescribes the reporting of revenue inclusive of excise duty. To cater to the principles of Ind AS, the requirement to reduce excise duty from gross revenue has been removed.

Prior period items

Prior period items are incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more previous reporting periods.

Division I: The Indian GAAP required prior period items to be prominently disclosed in the financial statements. Accordingly, an amount recognised as a prior period item is generally disclosed on the face of the balance sheet.

Division II: As per Ind AS 5, the impact of prior period items is to be given by restating the amounts of comparative periods. In cases where the error or omission of the prior period items is of the period prior to the earliest comparative period presented, the impact shall be given to the opening balance of the retained earnings of such comparative period. Accordingly, prior period items no longer form a part of the statement of profit and loss.

Disclosures

Division I: Certain disclosures are mandatorily required in the context of the statement of profit and loss, namely:

- Classification under broad heads of
  - Raw material and goods purchased
  - Gross income derived from services rendered under broad heads
  - Work-in-progress
- Amounts set aside or proposed to be set aside or withdrawn to/from reserve to meet any liability, contingency or commitment.
- Mandatory classification of expenditure under heads like consumption of stores and spares, power and fuel, rent, repairs to buildings, repairs to machinery, insurance, rates and taxes, etc.
- Dividend from/provisions of loss of subsidiary companies.

- Value of imports calculated on a CIF basis
- Expenditure in foreign currency
- Value of imported raw material, spare parts and components consumed
- Details of remittance during the reporting period in foreign currency on account of dividend
- Earnings in foreign exchange

Division II: The above disclosures are not specified under Division II.

Earnings per share (EPS)

Division I: Disclosure of EPS (basic and diluted) is not required to be given for continuing and discontinuing operations separately.

Division II: Disclosure of EPS (basic and diluted) is required to be given at three levels of profit or loss–

- continuing operations;
- discontinuing operations; and
- total operations.

OCI for the reporting period

OCI comprises of items of income and expenses (including reclassification adjustments) that are not recognised in the profit or loss as required or permitted in Ind AS. For example, net gain of hedge of a net investment, gain/loss on revaluation of tangible assets, gain/loss on equity securities measured at fair value through OCI remeasurement gain/loss on employee liabilities, etc.

All items of OCI are to be further classified into:

- Items to be reclassified into profit and loss in the subsequent period
- Items not to be reclassified into the profit and loss in subsequent period

Consolidated financial statements

In addition to the disclosures that were required by the schedule, as under Division I while complying with Indian GAAP, the companies further need to disclose the attributable 'total comprehensive income' to 'non-controlling interest' (minority interest) and the 'owners of the parent'.

The aforesaid disclosure is also to be made separately in the statement of changes in equity with respect to 'total comprehensive income'

The consolidated financial statements must also present the investments that have been accounted for using the equity method along with its other disclosures.

Annexure

Balance sheet

Division I	Division II
<u>Equity and Liabilities</u>	**<u>Assets</u>**
Shareholders' funds Share capital Reserves and surplus Money received against share warrants **Share application money pending allotment** **Non-current liabilities** Long-term borrowings Deferred tax liabilities (net) Other long-term liabilities Long-term provisions **Current liabilities** Short-term borrowings Trade payables Other current liabilities Short-term provisions	**Non-current assets** a) Property, plant and equipment b) Capital work-in-progress c) Investment property d) Goodwill e) Other intangible assets f) Intangible assets under development g) Biological assets other than bearer plant h) Financial assets (i) Trade receivables (ii) Loans (iii) Investments (iv) Other financial assets i) Deferred tax assets (net) j) Other non-current assets **Current assets** a) Inventories b) Financial assets (i) Investments (ii) Trade receivables (iii) Cash and cash equivalents (iv) Bank balances other than (iii) above (v) Loan (vi) Other financial assets c) Other current assets
<u>Assets</u>	**<u>Equity and Liabilities</u>**
Non-current assets Fixed assets Tangible assets Intangible assets Capital work-in-progress Intangible assets under development Non-current investments Deferred tax assets (net) Long-term loans and advances Other non-current assets **Current assets** Current investments Inventories Trade receivables Cash and bank balances Short-term loans and advances Other current assets	**Equity** a) Equity share capital b) Other equity **Non-current Liabilities** a) Financial liabilities (i) Trade payables (ii) Other financial liabilities b) Long-term provisions c) Deferred tax liabilities (net) **Current liabilities** a) Financial liabilities (i) Trade payables (ii) Borrowings (iii) Other financial liabilities b) Other current liabilities c) Provisions d) Current tax liabilities (net)

Annexure

Statement of Profit and Loss

Division I	Division II
Revenue from operations Other income	Revenue from operations Other income
Total revenue	**Total income**
Cost of materials consumed Purchases of stock-in-trade Changes in inventories of finished goods, stock-in-trade work-in-progress and Employee benefit expenses Finance costs Depreciation and amortisation expense Other expenses	Cost of materials consumed Purchases of stock-in-trade Changes in inventories of finished goods, stock-in-trade and work-in-progress Employee benefit expenses Finance costs Depreciation and amortisation expense Other expenses
Total expenses	**Total expenses**
Profit before exceptional and extraordinary items and tax Exceptional items **Profit before extraordinary items and tax** Extraordinary items **Profit before tax** Tax expense: (1) Current tax (2) Deferred tax **Profit (loss) for the period from continuing operations** Profit/(loss) from discontinuing operations Tax expense of discontinuing operations **Profit/(loss) from Discontinuing operations (after tax)** **Profit (loss) for the period** Earnings per equity share: (1) Basic (2) Diluted	**Profit before exceptional items and tax** Exceptional items **Profit before tax** Tax expense: 1) Current tax 2) Deferred tax **Profit (loss) for the period from continuing operations** Profit/(loss) from discontinuing operations Tax expense of discontinuing operations **Profit/(loss) from discontinuing operations (after tax)** **Profit/(loss) for the period** **Other comprehensive income** A) (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B) (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss **Total comprehensive income for the period (Comprising Profit (Loss) and Other Comprehensive Income for the period)** Earnings per equity share (for continuing operation): (i) Basic (ii) Diluted Earnings per equity share (for discontinued operation): (i) Basic (ii) Diluted Earnings per equity share (for discontinued and continuing operations): (i) Basic (ii) Diluted

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