GUIDANCE NOTE
ON
THE SCHEDULE III
TO THE COMPANIES ACT, 2013

The Institute of Chartered Accountants of India
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Foreword

The Companies Act 2013 was enacted to improve corporate governance and better transparency in the corporate sector which is imperative to imbue 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. The Ministry of Corporate Affairs in 2011 revised the formats for preparation and presentation of financial statements and released the Revised Schedule VI to the Companies Act 1956.

The formats for financial statements were revised taking cognizance of imperative situation and need that the financial statements of Indian corporates should be comparable with international format as most of the Indian accounting standards have been made at par with the international accounting standards due to applicability of Ind AS.

The Institute through its Corporate Laws & Corporate Governance Committee issued the Guidance Note on Revised Schedule VI to the Companies Act, 1956 in January, 2012. Further, the Schedule III to the Companies Act 2013 was notified on 26th March, 2014 with some amendments related to disclosure on expenditure of Corporate Social Responsibility and Consolidated Financial Statements. Therefore, there was a need to revise the Guidance Note on Revised Schedule VI to the Companies Act, 1956 to the extent of amendments in the Schedule III to the Companies Act, 2013. So, the Corporate Laws & Corporate Governance Committee took this initiative to bring this Guidance Note on Schedule III to the Companies Act 2013.

I wish to thank Vice President of ICAI CA. Deveraja Reddy M for his encouragement and support in publishing this Guidance Note.

I commend the Corporate Laws & Corporate Governance Committee in bringing out this useful publication. I place on record my appreciation for CA S. Santhanakrishnan, Chairman, CA. Tarun Jamnadas Ghia, Vice Chairman and the entire team of CL&CGC.

I sincerely hope that this publication would be of immense use to the members in carrying out their professional assignment.

9th February 2016

CA. Manoj Fadnis
President, ICAI

Preface

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 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 piece of document with a format aligned with that of Accounting Standards.

The Schedule III to the Companies Act, 2013 became applicable to all companies for the preparation of Financial Statements beginning on or from 1.4.2014. It is a major step and members of the profession have a greater role and responsibility in its preparation. To facilitate the preparation of Financial Statements in compliance with the Schedule III, the ICAI has brought out this Guidance Note for the benefit of its members.

In this connection, I take this opportunity in thanking the President of ICAI, CA. Manoj Fadnis and the Vice President of ICAI CA. Deveraja Reddy M for their moral support and encouragement in bringing out the publication. I place on record my appreciation to CA. Tarun Jamnadas Ghia, the Vice-Chairman of the Corporate Laws & Corporate Governance Committee and the other committee members for their help and guidance in shaping this Guidance Note. I also thank CA. Nilesh Vikamsey, CA. Dhinal Shah and my esteemed colleagues in the Accounting Standards Board and the Auditing and Assurance Standards Board for their invaluable comments and suggestions in the process of discussion. My thanks to also CA. T. V. Balasubramanian for undertaking the preparation of this Guidance Note.

The Secretariat to the Committee (comprising CA Sarika Singhal and Ms. S. Rita) also deserves appreciation for having participated and contributed to the technical deliberations at various committee meetings.

I sincerely believe that the members of the profession, industries, companies, Chambers of Commerce and other bodies will find the publication immensely useful.

9th February 2016

CA S. Santhanakrishnan
Chairman
Corporate Laws & Corporate Governance Committee, ICAI

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1. Introduction

1.1 Schedule III to the Companies Act, 2013 ('the Act') provides the manner in which every company registered under the Act shall 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 ('AS'/'Accounting Standard(s)'). Accordingly, the Ministry of Corporate Affairs (MCA) had 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.The relevant Schedule III to the Act is given in Annexure A (Pg. 102). As per the Act and rules / notifications thereunder, the Schedule applies to all companies for the Financial Statements to be prepared for the financial year commencing on or after April 1, 2014.

1.2 The requirements of the Schedule III however, do not apply to companies as referred to in the proviso to Section 129(1) 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 Statement of Profit and Loss has been specified in or under any other Act governing such class of company.

1.3 It may be clarified that for companies engaged in the generation and supply of electricity, however, neither the Electricity Act, 2003, nor the rules framed thereunder, prescribe any specific format for presentation of Financial Statements by an electricity company. Section 1 (4) of the Companies Act states that the Companies Act will apply to electricity companies, to the extent it is not inconsistent with the provisions of the Electricity Act. Keeping this in view, Schedule III may be followed by such companies till the time any other format is prescribed by the relevant statute.

2. Objective and Scope

2.1. The objective of this Guidance Note is to provide guidance in the preparation and presentation of Financial Statements of companies in accordance with various aspects of the Schedule III. However, it does not provide guidance on disclosure requirements under Accounting Standards, other pronouncements of the Institute of Chartered Accountants of India(ICAI), other statutes, etc.

2.2. In preparing this Guidance Note, reference has been made to the Accounting standards notified under Section 133 of the Companies Act, 2013 read together with Paragraph 7 of the Companies (Accounts) Rules, 2014 given in Annexure E (Pg. 131) and various other pronouncements of the ICAI. The primary focus of the Guidance Note has been to lay down broad guidelines to deal with practical issues that may arise in the implementation of the Schedule III.

2.3. As per the clarification issued by ICAI regarding the authority attached to the Documents Issued by ICAI, "'*Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.*"

3. Applicability

3.1. As per the Government Notification no. S.O. 902 (E) dated 26th March, 2014, the Schedule III is 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.

3.2. Early adoption of the Schedule III is not permitted since Schedule VI is a statutory format.

3.3. The Schedule III requires that except in the case of the first Financial Statements laid before the company after incorporation, the corresponding amounts for the immediately preceding period are to be disclosed in the Financial Statements including the Notes to Accounts. Accordingly, corresponding information will have to be presented starting from the first year of application of the Schedule III. Thus for the Financial Statements prepared for the year 2014-15 (1stApril 2014to 31st March 2015), corresponding amounts need to be given for the financial year 2013-14.

3.4. *ICAI had earlier issued the Statement on the Amendments to Schedule VI to the Companies Act, 1956 in March 1976 (as amended). Wherever* *guidance provided in this publication is different from the guidance in the aforesaid Statement, this Guidance Note will prevail.*

3.5. Applicability of the Schedule III format to interim Financial Statements prepared by companies in the first year of application of the Schedule:

Relevant paragraphs of *AS-25 Interim Financial Reporting* are quoted below:

"10. If an enterprise prepares and presents a complete set of Financial Statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of Financial Statements.

11. If an enterprise prepares and presents a set of condensed Financial Statements in its interim financial report, those condensed statements should include, at a minimum, each of the headings and sub-headings that were included in its most recent annual Financial Statements and the selected explanatory notes as required by this Statement. Additional line items or notes should be included if their omission would make the condensed interim Financial Statements misleading."

3.6. Accordingly, if a company is presenting condensed interim Financial Statements, its format should also going forward conform to that used in the company's most recent annual Financial Statements, i.e., the Schedule III of Companies Act, 2013.

3.7. The format of Balance Sheet currently prescribed under Clause 41 to the Listing Agreement is also based the format of Balance Sheet in the Schedule III.

3.8. The formats of the Balance Sheet and Statement of Profit and Loss prescribed under the SEBI (Issue of Capital & Disclosure Requirements) Regulations 2009 ('ICDR Regulations') is inconsistent with the format of the Balance Sheet/ Statement of Profit and Loss in the Schedule III. However, the formats of Balance Sheet and Statement of Profit and Loss under ICDR Regulations are "illustrative formats". Accordingly, to make the data comparable and meaningful for users, companies should use the Schedule III format to present the restated financial information for inclusion in the offer document. Consequently, among other things, this will involve classification of assets and liabilities into current and non-current for earlier years presented as well.

Attention is also invited to the General Circular no 62/2011 dated 5thSeptember 2011 issued by the Ministry of Company Affairs which clarifies that 'the presentation of Financial Statements for the limited purpose of IPO/FPO during the financial year 2011-12 may be made in the format of the pre-Revised Schedule VI under the Companies Act, 1956. However, for period beyond 31st March 2012, they would prepare only in the new format as prescribed by the Schedule VI of the Companies Act, 1956'. [Refer Annexure B (Pg. 127) for Circular]. In the absence of similar clarification with regard to use of Revised Schedule VI vis-à-vis, for the periods after 31st March 2012, the Schedule III format will have to be adhered to, which is anyway, similar to the Revised Schedule VI format under Companies Act 1956 for standalone financials except for an additional disclosure requirement with respect to Corporate Social Responsibility Expenditure.

4. Summary of Schedule III

4.1. Main principles

4.1.1. The Schedule III requires that if compliance with the requirements of the Act and/ or the notified Accounting Standards requires a change in the treatment or disclosure in the Financial Statements as compared to that provided in the Schedule III, the requirements of the Act and/ or the notified Accounting Standards will prevail over the Schedule.

4.1.2. The Schedule III clarifies that the requirements mentioned therein for disclosure on the face of the Financial Statements or in the notes are minimum requirements. Line items, sub-line items and sub-totals can be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant for understanding of the company's financial position and/or performance.

4.1.3. The terms used in the Schedule III will carry the meaning as defined by the applicable Accounting Standards. For example, the terms such as 'associate', 'related parties', etc. will have the same meaning as defined in Accounting Standards notified under Companies (Accounting Standards) Rules, 2006.

4.1.4. In preparing the Financial Statements including the Notes to Accounts, a balance will have to be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

4.1.5. All items of assets and liabilities are to be bifurcated between current and non-current portions and presented separately on the face of the Balance Sheet. Such classification was not required by the Old Schedule VI, but was introduced in the Revised Schedule VI itself.

4.1.6. There is an explicit requirement to use the same unit of measurement uniformly throughout the Financial Statements and notes thereon. Moreover, rounding off requirements (where opted for) have been changed to eliminate the option of presenting figures in terms of hundreds and thousands if turnover exceeds 100 crores.

4.2. Major changes related to the Balance sheet (brought in by Revised Schedule VI onwards)

4.2.1. The Schedule III (and earlier, the Revised Schedule VI) prescribes only the vertical format for presentation of Financial Statements. Thus, a company will now not have an option to use horizontal format for the presentation of Financial Statements as prescribed in Old Schedule VI.

4.2.2. 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.”

4.2.3. Number of shares held by each shareholder holding more than 5 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.

4.2.4. 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.

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

4.2.6. Specific disclosures are prescribed for Share Application money. The application money not exceeding the capital offered for issuance and to the extent not refundable will be shown separately on the face of the Balance Sheet. The amount in excess of subscription or if the requirements of minimum subscription are not met will be shown under “Other current liabilities.”

4.2.7. The term “sundry debtors” has been replaced with the term “trade receivables.” ‘Trade receivables’ are defined as dues arising only from goods sold or services rendered in the normal course of business. Hence, amounts due on account of other contractual obligations can no longer be included in the trade receivables.

4.2.8. The Old Schedule VI required separate presentation of debtors outstanding for a period exceeding six months based on date on which the bill/invoice was raised whereas, the Schedule III (and earlier, the Revised Schedule VI) requires separate disclosure of trade receivables outstanding for a period exceeding six months from the date the bill/invoice is due for payment.

4.2.9. "Capital advances" are specifically required to be presented separately under the head "Loans & advances" rather than including elsewhere.

4.2.10. Tangible assets under lease are required to be separately specified under each class of asset. In the absence of any further clarification, the term "under lease" should be taken to mean assets given on operating lease in the case of lessor and assets held under finance lease in the case of lessee.

4.2.11. In the Old Schedule VI, details of only capital commitments were required to be disclosed. Under the Schedule III (and earlier, the Revised Schedule VI), other commitments also need to be disclosed.

4.2.12. The Schedule III (and earlier, the Revised Schedule VI) requires disclosure of all defaults in repayment of loans and interest to be specified in each case. Earlier, no such disclosure was required in the Financial Statements. However, disclosures pertaining to defaults in repayment of dues to a financial institution, bank and debenture holders continue to be required in the report under Companies (Auditor's Report) Order, 2015 (CARO).

4.2.13. The Schedule III (and earlier, the Revised Schedule VI) introduced a number of other additional disclosures. Some examples are:

(a) Rights, preferences and restrictions attaching to each class of shares, including restrictions on the distribution of dividends and the repayment of capital;

(b) Terms of repayment of long-term loans;

(c) In each class of investment, details regarding names of the bodies corporate in whom investments have been made, indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities, and the nature and extent of the investment made in each such body corporate (showing separately partly-paid investments);

(d) Aggregate provision for diminution in value of investments separately for current and long-term investments;

(e) Stock-in-trade held for trading purposes, separately from other finished goods.

4.3. Main changes related to Statement of Profit and Loss (brought in by Revised Schedule VI and added to by Schedule III)

4.3.1. The name has been changed to "Statement of Profit and Loss" as against 'Profit and Loss Account' as contained in the Old Schedule VI.

4.3.2. Unlike the Old Schedule VI, the Schedule III (and earlier 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 Schedule III (and earlier Revised Schedule VI) format prescribes such 'below the line' adjustments to be presented under "Reserves and Surplus" in the Balance Sheet.

4.3.3. 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.

4.3.4. 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 Schedule III(and earlier 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.

4.3.5. In respect of companies other than finance companies, revenue from operations need to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues.

4.3.6. Net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as finance cost.

4.3.7. Break-up in terms of quantitative disclosures for significant items of Statement of Profit and Loss, such as raw material consumption, stocks, purchases and sales have been simplified and replaced with the disclosure of "broad heads" only. The broad heads need to be decided based on considerations of materiality and presentation of true and fair view of the Financial Statements.