

**A discussion on Format of Financial Statements  
prescribed by “Schedule III of the Companies Act, 2013”**



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**Introduction:**

We, in our life of accountants, have a very important role in the preparation and presentation of Financial Statements. These financial statements must show a true and fair working of the organisation and therefore it is important to draw them as per guidelines provided by the Schedule III of the Companies Act, 2013. I have, therefore, prepared this article to help understand the various instructions provided by Schedule III along with the its Guidance Note to guide in the preparation of Financial Statements.

The extent of this article includes the following:

1. Accounting viewpoint of Schedule III
2. Presentation of Financial Statements as per Schedule III
3. Audit of various items of Financial Statements.

## **From the view point of Accounting as well as Presentation of financial Statements**

### **Schedule III of the Companies Act, 2013**

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. Schedule III to the Companies Act, 2013 provides the manner in which every company registered under the Act, *except 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*, shall prepare its Balance Sheet, Statement of Profit and Loss and notes thereto. It also provides compliance to be made w.r.t accounting standards, disclosures to be made, notes to accounts, rounding off and form of Balance Sheet and Profit and Loss Account. It provides the following divisions:

1. **Division I** – Applicable for Financial Statements of a company drawn up in compliance of the Companies (Accounting Standards) Rules, 2006.
2. **Division II** – Applicable for Financial Statements of a company drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015
3. **Division III (Introduced from 11.10.2018)** – Applicable for Financial Statements of a Non-Banking Financial Company (NBFC) drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

### **DIVISION I**

This is applicable to Companies preparing its Financial Statements in accordance with Accounting Standards. The structure of Division I of Schedule III is as under:

1. Form of Balance Sheet of the Company
2. Form of Statement of Profit and Loss of the Company
3. Notes to Accounts

**Form of BALANCE SHEET**

Name \_\_\_\_\_ of \_\_\_\_\_ the \_\_\_\_\_ Company.....  
 Balance Sheet as at .....

(Rupees in.....)

<b>Particulars</b>	<b>Note no</b>	<b>Figures as at the end of current reporting period</b>	<b>Figures as at the end of the previous reporting period</b>
1	2	3	4
<b>I. EQUITY AND LIABILITIES</b>			
<b>(1) Shareholders' funds</b>			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
<b>(2) Share application money pending allotment</b>			
<b>(3) Non-current liabilities</b>			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
<b>(4) Current liabilities</b>			
(a) Short-term borrowings			
(b) Trade Payables:-			

(A) total outstanding dues of micro enterprises and small enterprises; and			
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.			
(c) Other current liabilities			
(d) Short-term provisions			
<b>TOTAL</b>			
<b>II. ASSETS</b>			
<b>Non-current assets</b>			
(1) (a) Property, Plant and Equipment			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
<b>(2) Current assets</b>			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			

(e) Short-term loans and advances			
(f) Other current assets			
<b>TOTAL</b>			

### **Form of STATEMENT OF PROFIT AND LOSS**

Name \_\_\_\_\_ of \_\_\_\_\_ the \_\_\_\_\_ Company.....

Profit and loss statement for the year ended .....

(Rupees in.....)

Particulars	Note no	Figures as at the end	Figures as at the end
		of current reporting	of the previous
1	2	3	4
<b>I. Revenue from operations</b>			
<b>II. Other income</b>			
<b>III. Total Revenue (I + II)</b>			
<b>IV. Expenses:</b>			
Cost of materials consumed			
Purchases of Stock-in-Trade			
Changes in inventories of finished goods			
Work-in-Progress and Stock-in-Trade			
Employee benefits expense Finance costs			
Depreciation and amortisation expense			
Other expenses			
<b>Total expenses</b>			
<b>V. Profit before exceptional and</b>			

<b>extraordinary items and tax (III - IV)</b>			
VI. Exceptional items			
<b>VII. Profit before extraordinary items and tax (V - VI)</b>			
VIII. Extraordinary items			
<b>IX. Profit before tax (VII- VIII)</b>			
<b>X. Tax expense:</b>			
(1) Current tax			
(2) Deferred tax			
<b>XI. Profit (Loss) for the period from continuing operations (VII-VIII)</b>			
<b>XII. Profit/(loss) from discontinuing operations</b>			
XIII. Tax expense of discontinuing operations			
<b>XIV. Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)</b>			
<b>XV. Profit (Loss) for the period (XI + XIV)</b>			
XVI. Earnings per equity share:			
(1) Basic			
(2) Diluted			

## **Instructions for Consolidated Financial Statements (CFS)**

Where a company is required to prepare Consolidated Financial Statements, *i.e.*, consolidated balance sheet and consolidated statement of profit and loss, the company shall *mutatis mutandis* follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:

- (i) Profit or loss attributable to “minority interest” and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.
- (ii) “Minority interests” in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

## **DIVISION II**

This is applicable to Companies preparing its Financial Statements in accordance with Accounting Standards. The structure of Division II of Schedule III is as under:

1. Form of Balance Sheet of the Company
2. Form of Statement of Profit and Loss of the Company
3. Form of Statement of Changes in Equity
4. Notes to Accounts

## Form of Balance Sheet

Name of the Company.....

Balance Sheet as at .....

(Rupees in.....)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
<p><b>ASSETS</b></p> <p><b>Non-current assets</b></p> <p>(a) Property, Plant and Equipment</p> <p>(b) Capital work-in-progress</p> <p>(c) Investment Property</p> <p>(d) Goodwill</p> <p>(e) Other Intangible assets</p> <p>(f) Intangible assets under development</p> <p>(g) Biological Assets other than bearer plants</p> <p>(h) Financial Assets</p> <p>(i) Investments</p> <p>(ii) Trade receivables</p> <p>(iii) Loans</p> <p>(i) Deferred tax assets (net)</p> <p>(j) Other non-current assets</p> <p><b>Current assets</b></p> <p>(a) Inventories</p> <p>(b) Financial Assets</p> <p>(i) Investments</p> <p>(ii) Trade receivables</p> <p>(iii) Cash and cash equivalents</p> <p>(iv) Bank balances other than (iii) above</p> <p>(v) Loans</p>			



(vi) Others (to be specified) (c) Current Tax Assets (Net) (d) Other current assets			
<b>Total Assets</b>			
<b>EQUITY AND LIABILITIES</b>  <b>Equity</b> (a) Equity Share capital (b) Other Equity  <b>LIABILITIES</b>  <b>Non-current liabilities</b> (a) Financial Liabilities (i) Borrowings (ii) Trade Payables:- (A) Total outstanding dues of micro enterprises and small enterprises; and (B) Total outstanding dues of creditors other than micro enterprises and small enterprises.] (iii) Other financial liabilities (other than those specified in item (b), to be specified) (b) Provisions (c) Deferred tax liabilities (Net) (d) Other non-current liabilities  <b>Current liabilities</b> (a) Financial Liabilities (i) Borrowings (ii) Trade Payables:- (A) Total outstanding dues of micro enterprises and small enterprises; and (B) Total outstanding dues of creditors other than micro enterprises and small enterprises.] (iii) Other financial liabilities (other than those specified in item (c)			

(b) Other current liabilities			
(c) Provisions			
(d) Current Tax Liabilities (Net)			
<b>Total Equity and Liabilities</b>			

### ***Form of Statement of Profit and Loss***

Name of the Company.....

Statement of Profit and Loss for the period ended.....

	<b>Particulars</b>	<b>Note No.</b>	<b>Figures as at the end of current reporting period</b>	<b>Figures for the previous reporting period</b>
I	<b>Revenue From operations</b>			
II	<b>Other Income</b>			
III	<b>Total Income (I+II)</b>			
	<b>EXPENSES</b>			
IV	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in -Trade and workin-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expenses			
	Other expenses			
	<b>Total expenses (IV)</b>			
V	<b>Profit/(loss) before exceptional items and tax (I-IV)</b>			
VI	Exceptional Items			
VII	<b>Profit/ (loss) after exceptions items and tax(V-VI)</b>			
VIII	Tax expense: (1) Current tax (2) Deferred tax			
IX	<b>Profit (Loss) for the period from continung operations (VII-VIII)</b>			
X	Profit/(loss) from discontinued operations			
XI	Tax expenses of discontinued operations			

XII	<b>Profit/(loss) from Discontinued operations (after tax) (X-XI)</b>			
XIII	<b>Profit/(loss) for the period (IX+XII)</b>			
XIV	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			
XV	Total Comprehensive Income for the period (XIII+XIV) Comprising Profit (Loss) and Other comprehensive Income for the period )			
XVI	Earnings per equity share (for continuing operation): (1) Basic  (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic  (2) Diluted			
XVIII	Earning per equity share (for discontinued & continuing operation) (1)Basic  (2) Diluted			



- ii. **Capital WIP:** Always disclose reconciliation statement. The following table must be disclosed for Capital WIP.

Particulars	Opening Balance	Addition	Closing Balance

- iii. **Investment Property:** Always disclose with reconciliation statement.
- iv. **Goodwill:** Reconciliation statement should be given (with amortization details)
- v. **Other Assets:** Disclose Assets (Software, Brand) along with reconciliation statement with amortization details.
- vi. **Intangible Assets under development:** Give reconciliation statement without amortization.
- vii. **Biological Asset:** Give reconciliation statement with amortization.
- viii. **Investment in Financial Assets:** It includes both Non Current Assets as well as Current Assets.
  - Always disclose class of investment.
  - Name of investee (not required until the investment is in joint venture, subsidiary or associate)
  - Investment in joint venture, subsidiary or associate is generally Non Current Assets.
  - Disclose market data (Quoted, unquoted, secured, unsecured, risk factor)
- ix. **Trade Receivable in Financial Assets:** It includes both Non Current Assets as well as Current Assets.
  - Classes of trade receivables should be disclosed.
  - Provision for doubtful debts should be disclosed.
  - Information if debtors are due from related parties (director).
- x. Loan Receivable should be disclosed as follows:
  - Loan Secured – good
  - Loan unsecured – good
  - Loan with significant increase in credit risk.
  - Loan with credit impairment

- If loans are receivable from related parties facts should be disclosed.
  - Provisions for doubtful debts.
- xi.** Other Financial assets include both Non Current Assets as well as Current Assets.
- Bank FD due for period more than 12 months is OFA (NCA).
  - Receivable interest is OFA (CA).
- xii.** Other Current and Non Current Assets like Capital advance, Prepaid Advance and security deposits.
- xiii.** Deferred Tax Asset will be set off with Deferred Tax Liability if created under same tax laws.
- xiv.** Cash and Cash equivalents are cash in hand, bank balance and bank deposits (realisable within 3 months).
- xv.** Other Bank Balance
- Bank Deposits (realise within 3-12 months).
  - Margin money.
  - Earmarked funds (Escrow).
- xvi. Equity Share Capital:** Always disclose authorised share capital, issued, subscribed and paid up share capital, classes of share capital, No. of shares, face value, shareholders holding more than 5% shares should be disclosed.
- xvii. Borrowings:** It includes both Non Current Liabilities as well as Current Liabilities.
- Always disclose type of Borrowing.
  - Always disclose secured/unsecured.
  - Principal terms of borrowings (repayment, interest rate).
- xviii. Trade payables:** It includes both Non Current Liabilities as well as Current Liabilities.
- Trade Payables should be disaggregated as follows (from 11.10.2018)
    - Outstanding amount for creditor under Micro SME development Act, 2006
    - Other Trade Payable
- xix. Other Financial Liabilities:** It includes Current as well as Non Current liabilities.

- Dividend Payable
- Accrued Interest
- Unclaimed Dividend
- Current Maturity of Borrowings

**xx.** **Provisions:** It includes Current as well as Non Current liabilities.

- Provision for retirement benefits (NCL).
- Provision for Tax (CL)

**xxi.** Other Current and Non Current Liabilities (Advance received for goods and services).

**xxii.** Contingent Liabilities are disclosed in Notes to Accounts.

**xxiii. Revenue from operations:** It represents revenue from principal revenue generating items. In multiple operations, these all would be considered as revenue from operations. Revenue from operations does not include GST but will include excise duty.

**xxiv.** Other incomes include revenue other than from operations. E.g. Interest earned, dividend Income and Reclassification adjustments.

**xxv.** Consumption of material is of raw material.

**xxvi.** Purchase of inventory is purchase of finished goods.

**xxvii.** Change in stock is stock of finished goods and WIP.

**xxviii.** Employee benefit expenses include director's remuneration, sitting fees.

**xxix.** Finance expenses are interest expended calculated based on effective interest method.

**xxx.** Depreciation and amortization are for all Tangible and Intangible assets.

**xxxi.** Other expenses include auditor remuneration and its details. All other residual expenses are shown here.

**xxxii.** Concept of extraordinary items is not relevant.

**xxxiii.** Exceptional items are not defined by Ind-AS/AS still guidance notes given by ICAI on Schedule III specifies following as exceptional items:

- Profit/Loss on sale of PPE.
- Profit/Loss on sale of Long Term Investment.
- Litigation Expenses
- Litigation Settlement Expenses

**xxxiv.** EPS should be Basic and Diluted for Continuing as well as Discontinuing operations.

**xxxv.** Disclosure about CSR expenses should be given in note.

### **Guidance Note on Schedule III**

The following guidelines are provided by the *Guidance Note on Preparation of Financial Statements* under S-III of the Companies Act, 2013.

i. The disclosure requirements specified in this Schedule are in addition to and not in substitution to the requirements of AS/ Ind AS.

**ii. Classification of Current Assets:**

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

(a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realized within twelve months after the reporting date; or

(d) 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.

**iii. Classification of Current Liabilities:**

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

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities shall be classified as non-current.

iv. An operating cycle is the time between the acquisition of assets for processing and their realization in Cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of twelve months.



- v. Profit or loss from Discontinuing Operations needs to be separately disclosed on the face of Statement of Profit and Loss.
- vi. The following additional information to be given by way of notes:

<b><i>Nature of Company</i></b>	<b><i>Disclosures Required</i></b>
Manufacturing companies	Raw materials under broad heads Goods purchased under broad heads
Trading companies	Purchases of goods traded under broad heads
Companies rendering or supplying services	Gross income derived from services rendered under broad heads
Company that falls under more than one category	It will be sufficient compliance with the requirements, if purchases, sales and consumption of raw material and the gross income from services rendered are shown under broad heads.

- vii. Schedule III states that except for the first financial statements prepared by a company after incorporation, presentation of comparative amounts is mandatory.
- viii. Financial Statements shall disclose all 'material' items i.e. the items that can influence the economic decisions of the user of these F.S.
- ix. Any item of income or expenditure exceeding one percent of the revenue from operation of Rs. 10,00,000/- whichever is higher, shall be disclosed by way of notes.
- x. Depending upon the turnover of the company, the figures appearing in Financial Statements must be rounded off as below:

<b><i>Turnover</i></b>	<b><i>Rounding off</i></b>
Less than one hundred crore	To the nearest hundreds, thousands, lakhs or millions or decimals thereof.
One hundred Crore rupees or more	To the nearest lakhs, millions or Crores or decimals thereof.

## **Audit of Financial Statements of a Company**

A financial statement audit comprises the examination of an entity's financial statements and accompanying disclosures by an independent auditor. The result of this examination is a report by the auditor, attesting to the truth and fairness of presentation of the financial statements and related disclosures.

### **A. Audit of Items of Profit & Loss Account**

<b>Assertions</b>	<b>Explanation</b>	<b>Example: Employee benefit expenses</b>
Occurrence	Transactions recognized in the financial statements have occurred and relate to the entity.	Employee benefit expense has been incurred during the period in respect of the personnel employed by the entity.
Completeness	All transactions that were supposed to be recorded have been recognized in the financial statements and further, transactions have been recognized in the correct accounting periods.	Employee benefit expense in respect of all personnel has been fully accounted for including any accrual or prepaid expenses.
Measurement	Transactions have been recorded accurately at their appropriate amounts and further, transactions have been classified and presented fairly in the financial statements.	Employee benefit cost has been measured/ calculated accurately

### **B. Presentation of items of Financial Statements.**

<b>Assertions</b>	<b>Explanation</b>	<b>Example- Related Party Transactions</b>
Occurrence and Existence	Transactions and events disclosed in the financial statements have occurred and relate to the entity and further, the closing balance does exist	Transactions with related parties disclosed in the notes of financial statements have occurred during the period and relate to the audit entity.

	as at the period- end	
Completeness	All transactions, balances, events and other matters that should have been disclosed have been disclosed in the financial statements.	All related parties, related party transactions and balances that should have been disclosed have been disclosed in the notes forming part of financial statements.
Measurement and Valuation	Transactions, events, balances and other financial matters have been measured and disclosed correctly at their appropriate values and in a manner that promotes the understandability of information contained in the financial statements.	Related party transactions, balances and events related thereto have been disclosed accurately at their appropriate valuation.

### ***C. Audit of Items of Balance Sheet***

<b>Assertions</b>	<b>Explanation</b>	<b>Example: Inventory balance</b>
Existence	Assets, liabilities and equity balances exist as at the period end.	Inventory recognized in the balance sheet actually existed as at the period end.
Completeness	All assets, liabilities and equity balances that were supposed to be recorded have been recognized in the financial statements.	All inventory units held by the audit entity and that should have been recorded, has been recognized in the financial statements. Any inventory held by a third party on behalf of the audit entity has been included as part of the inventory balance.
Valuation	Assets, liabilities and equity balances have been valued appropriately.	Inventory has been recognized at the lower of cost and net realizable value in accordance with Ind AS 2- Inventories.

Rights & Obligations	Entity has the right to ownership or use of the recognized assets, and the liabilities recognized in the financial statements represent the obligations of the entity.	Audit entity owns or controls the inventory recorded in the financial statements. Any inventory held by the audit entity on behalf of another entity has not been recognized as part of inventory of the audit entity.
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**Conclusion:**

After going through the above article, it can be understood how the Financial Statements are to be prepared including the treatment of the various items appearing in the financial statements. Financial Statements must be prepared in such a way that even a layman could understand the same. Financial Statements should disclose each and every decision of the company and should conceal nothing for the shareholders or other users of financial statements.