FINANCIAL STATEMENTS

SCHEDULE-III

What are provisions relating to financial statements under the New companies act 2013	☐ Section 129 of companies act 2013, provides for preparation of financial statements. ☐ 2(40) to include balance sheet, profit and loss account/income and expenditure account, cash flow statement, statement of changes in equity and any explanatory note annexed to the above. ☐ New section 129 corresponds to existing section 210. It provides that the financial statements shall give a true and fair view of the state of affairs of the company and shall comply with the accounting standards notified under new section 133. ☐ It is also provided that the financial statements shall be prepared in the form provided in new schedule III. ☐ It may be noted that in the new schedule III the provisions for preparation of balance sheet and statement of profit and loss have been given which are on the same lines as in the existing schedule VI. ☐ Further, in the new Schedule III detailed instructions have been given for preparation of consolidated financial statements as consolidation of accounts of subsidiary companies is now made mandatory in section 129. ☐ It may be noted that for the first time a provision has been made in the new section 129(3)that if a company has one or more subsidiaries it will have to prepare a consolidated financial statement of the company and of all the subsidiaries in the form provided in the new schedule III. ☐ The company has also to attack along with its financial statement, a separate statement containing the salient features of the financials of the subsidiary companies in such form as may prescribed by the rules. ☐ It is also provided that if the company has interest in any associate company or a joint venture the accounts of that company as well as joint venture shall be consolidated. ☐ For this purpose associate company has been definedinnewsection2(6) company has significant influence i.e. it has. 20% of the total share capital of the company or has control on the business decision under an agreement. ☐ The Central Government has power to exempt any companies from complying with any of the requirements made under the section.
Schedule III (See section 129) GENERAL INSTRUCTION FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A COMPANY	

GENERAL INSTRUCTIONS

(1) Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.

(2) The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.

(3) (I) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required

a) narrative descriptions or disaggregation's of items recognised in those statements; and

b) Information about items that do not qualify for recognition in those statements.

(ii) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notesto accounts. In preparing the Financial Statements including the notes to accounts, a balance shall 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) (I) Depending upon the turnover of the company, the figures appearing in the Financial Statements maybe rounded off as given below:—

Turnover	Rounding off
(a) less than one hundred' crore rupees	To the nearest hundreds, thousands, lakhsormillions, or decimals thereof
(b) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

(ii) Once a unit of measurement is used, it shall be used uniformly in the Financial Statements.

(5) Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

(6) For the purpose of this Schedule, the terms used herein shall be as per the applicable

Accounting Standards.	Note: —this part of Schedule sets out the minimum requirements for on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as —Financial Statements || for the purpose of this Schedule) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

PART I-BALANCE SHEET

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

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I. EQUITY AND LIABILITIES			
1) Shareholder's Funds (a) Share Capital (b) Reserves and Surplus (c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-Current Liabilities (a) Long-term borrowings (b) Deferred tax liabilities (Net) (c) Other Long term liabilities (d) Long term provisions			
(4) Current Liabilities (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions			
Total			
II.Assets			
(1) Non-current assets (a) Fixed assets (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			
(2) Current assets (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets			
Total			

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

	PARTICULARS		
1.	**When an asset shall be classified as current?**	If it satisfies any of the given criteria	(a) it is expected to be realised, or is intended for sale or consumption, in the company's normal operating cycle; or (b) it is held primarily for the purpose of being traded; or (c) it is expected to be realised 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.
2.	**When an asset shall be classified as Non Current ?**		Asset other than Current Asset shall be classified as non current
	Operating Cycle	Time between The acquisition of assets for processing And Their realisation in cash or cash equivalents	Where the normal operating cycle cannot be identified: It is assumed to have a duration of 12 months
	When liability shall be classified as current ?	If it satisfies any of the given criteria	(a) It is expected to be settled in the company normal operating cycle; or (b) It is held primarily for the purpose of being traded; or (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 least twelve months

			after the reporting cm Terms of a liability that could, at the option the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
	When an liability shall be classified as Non Current ?		liability other than Current liability shall be classified as Non-Current.
	When receivable shall be classified as a "trade receivable" ?	If it is in respect of the amount due on account of goods sold or services rendered	In The Normal Course Of Business
	When payable shall be classified as a "trade payable" ?	If it is in respect of the amount due on account of goods purchased or services received	In The Normal Course Of Business

1	**Share Capital**	**For each Class of Share Capital (Different classes of preference shares to be treated separately)**	a. The number and amount of shares authorized. b. The number of shares issued, subscribed and fully paid, and subscribed but not fully paid. c. Par value per share. d. A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period. e. The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital. f. Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate. g. Shares in the company held by each shareholder holding more than 5 per cent, shares specifying the number of shares held. h. Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts. i. For the period of five years immediately preceding the date as at which the Balance Sheet is prepared. i. Aggregate number and class of shares allotted as fully paid-up pursuant to contract(s) without payment being received in cash. ii. Aggregate number and class of shares allotted as fully paid-up by way of bonus shares. iii. Aggregate number and class of shares bought back. j. Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date. k. Calls unpaid (showing aggregate value of calls unpaid by directors and officers). l. Forfeited shares (amount originally paid-up).
2	**Reserves and Surplus**	**shall be classified as**	1) Capital Reserves; 2) Capital Redemption Reserve; 3) Securities Premium Reserve;

			4) Debenture Redemption Reserve; 5) Revaluation Reserve; 6) Share Options Outstanding Account; 7) Other Reserves(specify the nature and purpose of each reserve and the amount in respect thereof); 8) Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus snares and transfer to/from reserves, etc.; (Additions and deductions since last balance sheet to be shown under each of the specified heads);
		Reserve specifically represented	by earmarked investments shall be termed as a "fund".
		Debit balance of statement of profit and loss	Shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.
3.	**Long-Term Borrowings**	**shall be classified as**	1) Bonds/debentures; 2) Term loans: (i) from banks. (ii) from other parties 3) Deferred payment liabilities; 4) Deposits; 5) Loans and advances from related parties; 6) Long term maturities of finance lease obligations; 7) Other loans and advances (specify nature)
		shall be further sub-classified as	**SECURED AND UNSECURED** (Natureof security shall be specified separately in each case)
		Where loans have been guaranteed by directors or others	The aggregate amount of such loans under each head shall be disclosed.
		Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case maybe)	shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.
		Particulars of any redeemed bonds/debentures	which the company has power to reissue shall be disclosed
		Shall state	Terms of repayment of term loans and other loans

		Shall specify	Period and amount of continuing default as on the balance sheet date in repayment of loans and interest (separately in each case)
4.	**Other Long-term Liabilities**	**shall be classified as**	(1) Trade payables; (2) Others.
5.	**Long-term provisions**	**shall be classified as**	1) Provision for employee benefits; 2) Others (specify nature).
6.	**Short-term borrowings**	**shall be classified as**	1) Loans repayable on demand; (i) from banks. (ii) from other parties. (iii) Loans and advances from related parties; (iv) Deposits; (v) Other loans and advances (specify nature).
		Borrowings shall further be sub-classified as	secured and unsecured (Nature of security shall be specified separately in each case)
		Where loans have been guaranteed by directors or others	The aggregate amount of such loans under each head shall be disclosed.
		Shall specify	Period and amount of continuing default as on the balance sheet date in repayment of loans and interest (separately in each case)
7.	**Other current liabilities**	**shall be classified as**	1) Current maturities of long-term debt; 2) Current maturities of finance lease obligations; 3) Interest accrued but not due on borrowings; 4) Interest accrued and due on borrowings; 5) Income received in advance; 6) Unpaid Jividends; 7) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorised capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has

			been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable, i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under "Other current liabilities"; 8) Unpaid matured deposits and interest accrued thereon; 9) Unpaid matured debentures and interest accrued thereon; 10) Other payables (specify nature).
8	**Short-term provisions**	**shall be classified as**	1) Provision for employee benefits 2) Others (specify nature).
9.	**Tangible assets**	**Classification shall be given as**	1) Land; 2) Buildings; 3) Plant and Equipment; 4) Furniture and Fixtures; 5) Vehicles; 6) Office equipment; 7) Others (specify nature).
		Under lease shall be separately specified	under each class of asset
		A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period	showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
		Where sums have been written-off on a eduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every	shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

		balance sheet subsequent to date of such write-off, or addition	
10	**Intangible assets**	**Classification shall be given as**	1) Goodwill; 2) Brands /trademarks; 3) Computer software; 4) Mastheads and publishing titles; 5) Mining rights; 6) Copyrights, and patents and other intellectual property rights, services and operating rights; 7) Recipes, formulae, models, designs and prototypes; 8) Licences and franchise; 9) Others (specify nature).
		A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period	showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
		Where sums have been written-off on a eduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition	shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.
11.	**Non-current investments**	**shall be classified as trade investments and other investments and further classified as**	1) Investment property; 2) Investments in Equity Instruments; 3) Investments in preference shares; 4) Investments in Government or trust securities; 5) Investments in debentures or bonds; 6) Investments in Mutual Funds; 7) Investments in partnership firms; 8) Other non-current investments (specify nature). Under each classification, details shall be given of names of the bodies corporate indicating separately whether such bodies are

			(i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
		Investments carried at other than at cost	should be separately stated specifying the basis for valuation thereof;
		The following shall also be disclosed	1) Aggregate amount of quoted investments and market value thereof; 2) Aggregate amount of unquoted investments; 3) Aggregate provision for diminution in value of investments.
12.	**Long-term loans and advances**	**loans and advances shall be classified as:**	1) Capital Advances; 2) Security Deposits; 3) Loans and advances to related parties (giving details thereof); 4) Other loans and advances (specify nature).
		The above shall also be separately sub-classified as:	1) Secured, considered good; 2) Unsecured, considered good; 3) Doubtful.
		Allowance for bad and doubtful loans and advances	shall be disclosed under the relevant heads separately.
		Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member	should be separately stated.

13.	**Other non-current assets**	**shall be classified as**	1) Long-term Trade Receivables (including trade receivables on deferred credit terms); 2) Others (specify nature); 3) Long term Trade Receivables, shall be sub-classified as:
			(i) Secured, considered good; (ii) Unsecured, considered good; (iii) Doubtful Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
14.	**Current Investments**	**shall be classified as**	1) Investments in Equity Instruments; 2) Investment in Preference Shares; 3) Investments in Government or trust securities: 4) Investments in debentures or bonds; 5) Investments in Mutual Funds; 6) Investments in partnership firms; 7) Other investments (specify nature).
		Under each classification	details shall be given of names of the bodies corporate indicating separately whether such bodies are: (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
		following shall also be disclosed:	1) The basis of valuation of individual investments 2) Aggregate amount of quoted investments and market value thereof; 3) Aggregate amount of unquoted investments; 4) Aggregate provision made for diminution in value of investments
15.	**Inventories**	**Inventories shall be classified as:**	1) Raw materials; 2) Work-in-progress; 3) Finished goods; 4) Stock-in-trade (in respect of goods acquired for

			trading); 5) Stores and spares; 6) Loose tools; 7) Others (specify nature)
		Goods-in-transit	shall be disclosed under the relevant sub-head of inventories
		Mode of valuation	shall be stated
16.	**Trade Receivables**	**Shall separately state shall be sub-classified as**	Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment
			1) Secured, considered good; 2) Unsecured, considered good; 3) Doubtful. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
17.	**Cash and cash equivalents**	**shall be classified as**	1) Balances with banks; 2) Cheques, drafts on hand; 3) Cash on hand; 4) Others (specify nature)
		Earmarked balances with banks (for example, for unpaid dividend)	shall be separately stated
		Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments	shall be disclosed separately.
		Repatriation restrictions, if any, in respect of cash and bank balances	shall be disclosed separately.
		Bank deposits with more than twelve months maturity	shall be disclosed separately.
18.	**Short-term**	**shall be classified as:**	1) Loans and advances to related parties (giving details thereof);

	loans and advances		2) Others (specify nature).
		above shall also be sub-classified as	1) Secured, considered good; 2) Unsecured, considered good; 3) Doubtful.
		Allowance for bad and doubtful loans and advances	shall be disclosed under the relevant heads separately
		oans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member	shall be separately stated
19.	**Other current assets (specify nature)**	**an all-inclusive heading**	which incorporates current assets that do not fit into any other asset categories
20.	**Contingent liabilities (to the extent not**	**shall be classified as**	1) Claims against the company not acknowledged as debt;
	provided for) commitments (to the extent not provided for)	**shall be classified as**	2) Guarantees; 3) Other money for which the company is contingently liable. 1) Estimated amount of contracts remaining to be executed on capital account and not provided for; 2) Uncalled liability on shares and other investments partly paid; 3) Other commitments (specify nature).

PART-II - PROFIT & LOSS STATEMENT

Name of the Company..........................
Profit and Loss statement for the year ended…………

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	CONTINUING OPERATIONS**(1)**			
I	Revenue from operations (gross)			
II	Other income			
III	**Total revenue (1+2)**			
VI	**Expenses** (a) Cost of materials consumed (b) Purchases of stockin-trade (c) Changes in inventories of finished goods, work-in progress and stock-in-trade (d) Employee benefits expense (e) Finance costs (f) Depreciation and amortisation expense (g) Other expenses			
	Total expenses			
V	**Profit before exceptional and extraordinary items and tax (III-IV)**			
VI	Extraordinary items			
VII	**Profit / (Loss) before extraordinary items and tax (V+VI)**			
VIII	Extraordinary items			
IX	**Profit before tax (Vl(-/+)VIII)**			
X	Tax expense: (I) Current tax expense for current year (II) Deferred tax			
XI	**Profit / (Loss) from continuing operations (IX+X)**			
XII	Profit V(loss) from discontinuing operations			
XIII	Tax expense of discontinuing operations			

XIV	**Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)**			
XV	**Profit (Loss) for the period (XI + XIV)**			
XVI	Earnings per equity share: (1) Basic (2) Diluted			

EXAM QUESTIONS

AUDIT-MAY-14

Q.1 KAY Ltd. is in the process of finalizing its accounts for year ended 31st March,2014andfurnishes the following information:

(I) Finished goods normally are held for 30 days before sale.
(ii) Sales realization from Debtors usually takes 60 days from date of credit invoice.
(iii) Raw materials are held in stock to cover one month's production requirements.
(iv) Packing materials, being specifically made for the company and having lead time of 90 days is held in stock for 90 days.
(v) The holding period in respect of unfinished goods is 30 days.
(vi) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.
You are required to compute the operating cycle of KAY Ltd. as per revised Schedule III of Companies Act, 1956. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the creditors are settled in 330 days?
Answer

(a) Operating cycle of Kay Ltd. will be computed as under: Raw material stock holding period + Work-in-progress holding period + Packing Materials holding period+ finished goods holding period + Debtors collection period = 1 + 1 + 3 + 1 + 2 = 8 months
Classification of liability to suppliers: Schedule III provides that: ―A liability shall be classified as current when it satisfies any of the following criteria:

i. It is expected to be settled in the company's normal operating cycle;
ii. It is held primarily for the purpose of being traded;
iii. It is due to be settled within twelve months after the reporting date; or'
iv. 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 counter party, result in its settlement by the issue of equity instruments and do not affect its classification.

There are two situations:

a. When credit period given by supplier is 12.5 months: The nature of classification of liability is to be seen with reference to the reporting date. Hence all liabilities except those that arise in the last fortnight of the accounting period will be—Current as this will have to be settled within 12 months of the reporting date. Thus, all liabilities that do not arise in the last fortnight of the accounting period will be —Non - Current.

b. When credit period given by suppliers is 330 days (i.e. 11 months approx.): If the

Creditors are settled in 330 days i.e. within 11 months. This satisfies the third condition i.e. it is due to be settled within twelve months after the reporting date and there is no option to defer it. Hence, in the case it will be treated as current liability.

AUDIT-May-13

Q.2 The Balance Sheet of G Ltd as at 31st March 13 is as under. Comment on the presentation in terms of revised Schedule III and Accounting Standards issued by NFRA.

Answer-

Heading	Note No.	31st March, 13	31st March, 12
Equity & Liabilities			
Share Capital	1	xxx	xxx
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	xxx	xxx
Share application money	4	xxx	xxx
Non-Current Liabilities	5	xxx	xxx
Deferred tax liability((Arising from Indian Income Tax)			
Current Liabilities	6	xxx	xxx
Trade Payables		xxx	xxx
Total		xxxx	xxxx
Assets			
Non-Current Assets			
Fixed Assets-Tangible	7	xxx	xxx
CWIP (including capital advances)	8	xxx	xxx
Trade Receivables	9	xxx	xxx
Deferred Tax Asset((Arising from Indian Income Tax)	10	xxx	xxx
P&l Debit balance			

Total		**xxxx**	**xxxx**

Following Errors are noticed in presentation as per Schedule III:
(I) Share Capital & Reserve & Surplus are to be reflected under the heading Shareholders'funds, which is not shown while preparing the balance sheet. Although it is a part of Equity and Liabilities yet it must be shown under head Shareholders 'funds. The heading Shareholders 'funds is given in the question missing in the balance sheet.
(ii) Reserve & Surplus is showing zero balance, which is not correct in the given case. Debit balance of statement of profit & Loss should be shown as a negative figure under the head Surplus'. The balance of Reserves and Surplus', after adjusting negative balance of surplus shall be shown under the head Reserves and Surplus 'even if the resulting figure in negative.
(iii) Schedule III requires that Employee Stock Option outstanding should be disclosed under the heading Reserves and Surplus
(iv) Share application money refundable shall be shown under the sub-heading Other Current Liabilities. As this is refundable and not pending for allotment, hence it is not a part of equity.
(v) Deferred Tax Liability has been correctly shown under Non-Current Liabilities. But Deferred tax assets and deferred tax liabilities, both, cannot be shown in balance sheet because only the net Balance of Deferred Tax Liability or Asset is to be shown.
(vi) Under the main heading of Non-Current Assets, Fixed Assets are further classified as under:
I. Tangible assets II. Intangible assets
III. Capital work in Progress IV. Intangible assets under development.
Keeping in view the above, the CWIP shall be shown under Fixed Assets as Capital Work in Progress. The amount of Capital advances included in CWIP shall be disclosed under the sub heading Long term loans and advances under the heading Non-CurrentAssets.
(vii) Deferred Tax Asset shall be shown under Non-Current Asset. It should be the net balance of Deferred Tax Asset after adjusting the balance of deferred tax liability.

<u>AUDIT-NOV-12</u>

Q.3 H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset.

Comment on the accuracy of the decision and the treatment of asset by H Ltd. As per Schedule III.

Answer

- As per Schedule III, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company's operating cycle or is intended for sale or consumption in the company's normal operating cycle.
- Further, Schedule III defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.
- However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months. As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months.
- This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and notl2 months is correct. H. Ltd. will classify the raw material purchased 8cheld in stock as current asset in its Balance Sheet.