New Generation Corporate Financial Statements : A Model For Old Format's Conversion And Comparative Value Analysis

*** Ambrish Gupta**

ABSTRACT

This paper attempts to identify the far reaching revolutionary changes brought about in the reporting of corporate financial statements and the requirements of more comprehensive disclosure of information on the face of the Balance Sheet and the Statement of Profit and Loss itself with effect from 2011-12 reporting. The paper offers a model framework for converting and restating the old schedule VI format financial statements of a company into new-generation schedule VI format, through the case of Reliance Industries Ltd., with a view to provide help and guidance to analysts, academicians and researchers in carrying out a historical comparative study thereof involving both the periods, the period prior to March 31, 2011 and the period from March 31, 2012 onwards. A comparative analysis of the two formats has also been attempted, which reveals that the new format statements enable portrayal of real financial position/revenue/ equity holders' funds, actual liquidity and solvency position, checks the rampant practice of window dressing of the top line, leads to disclosure of net worth straight on the face of the balance sheet, and ultimately, redefines the performance and financial position of a company.

Keywords: Financial Statements, IFRS, Ind AS 1, New /Old/ Revised Schedule VI, Statement of Profit and Loss
JEL Classification : M41

INTRODUCTION

Preparation and presentation of corporate financial statements are governed by the requirements of Schedule VI of the Companies Act, 1956. In view of the ongoing efforts towards convergence of accounting standards in India with International Financial Reporting Standards (IFRS), the Ministry of Corporate Affairs (MCA), Government of India had been working on the revision of Schedule VI (Old) (Srinivasan and Anand, 2011), which prescribes the format of the balance sheet and provides guidance towards preparing the financial statements, keeping in view the radical changes prescribed by the IFRS Converged Indian Accounting Standard 1(Ind AS 1: 'Presentation of Financial Statements'). In this background, MCA replaced the old schedule VI with the new one and prescribed a new generation vertical format of Balance Sheet and introduced the format of the vertical 'Statement of Profit & Loss' (Notification no. S.O. 447 (E) dated 28-02-2011). The new format is applicable to those companies whose accounting period started from April 1, 2011 onwards. Thus, first corporate financial statements in the new format were available after March 31, 2012. Interestingly, the implementation of IFRS converged Indian Accounting Standards, of which the Ind AS 1 is the very source of the genesis of the new schedule VI, itself was deferred by the MCA vide press release dated February 25, 2011 (Gupta, Kumar and Gupta, 2012) while implementing the new schedule VI within three days on February 28, 2011.To date, Ind ASs have not been implemented.

KEY DISTINCTIVE FEATURES OF THE NEW FORMAT

The Revised Schedule VI, heavily drawing from Ind AS 1 'Presentation of Financial Statements', has totally revamped the architecture of corporate financial statements. The whole approach and most of the disclosure and reporting requirements of the new schedule, as enumerated here under, are path-breaking in themselves.

1) Balance Sheet

a) Instead of financing structure (Sources of Funds) and its deployment structure (Application of Funds), it is based on the concept of total liabilities (Equity and Liabilities) and total assets (Assets). Current liabilities have not been netted out of current assets, thereby leading to the portrayal of the real financial position.

b)Current / Non-current classification of the following items:

* *Senior Professor - Finance and Accounting*, FORE School of Management, "Adhitam Kendra", B - 18 , Qutub Institutional Area, New Delhi - 110016. E-mail: ambrish@fsm.ac.in

❖ Secured and unsecured loans. Further identification of short-term maturities out of non-current borrowings and their classification as other current liabilities.

❖ Trade payables, Provisions, Investments, Loans and advances and Trade receivables. The classification was done with the objective of disclosing the real picture of solvency and liquidity. Measurement criterion of liquidity and solvency ratios will now change, leading to a change in the financing norms of the banks and financial institutions.

c) Deferred Tax Liabilities (Net) and Deferred Tax Assets (Net) specifically were classified as non-current liabilities/non-current assets.

d) Details, of the following items, on the face of the balance sheet itself:

❖ Money received against share warrants. Not to be clubbed with share capital.

❖ Share application money pending allotment. Not to be clubbed with share capital, nor to be shown as part of shareholders' funds.

❖ Current liabilities and provisions, instead of the total figure without break-up as in the old format. More comprehensive and comparative than earlier.

❖ Division of fixed assets into tangible and intangible (net of depreciation and amortization) in place of 'Gross block minus accumulated depreciation and amortization' as in the old format. Though more logical than earlier, yet short of showing the actual investment in fixed assets. The balance sheets of old plants will become weaker due to this change.

❖ Intangible assets under development. Shows the growing importance of these assets in the present knowledge era.

e) Capital Advances hitherto included in Capital Work-in-progress (i.e., part of fixed assets) now more logically classified as long term loans and advances under the head, Non- Current Assets.

f) Changes in terminology of heads and sub-heads. More contemporary terms used. For example:

❖ 'Trade Payables' in place of 'Sundry Creditors'.

❖ 'Trade Receivables' in place of 'Sundry Debtors'.

❖ 'Cash and Cash Equivalents' in place of 'Cash and Bank Balances'.

g) The new format does not talk about 'Miscellaneous Expenditure Not W/O'. Logically, it means that this will now be shown as a deduction from the 'Balance in the Statement of Profit and Loss' under the head 'Reserves and Surplus' on the 'Equity and Liabilities' side of the balance sheet.

h) Debit balance of Statement of Profit and Loss has to 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.

2) Statement of Profit and Loss

a) Introduced vertical format for the first time to bring uniformity in presentation like in the case of balance sheet across corporates.

b) Profit and Loss Account has been retermed as 'Statement of Profit and Loss'.

c) Changes in terminology of heads and sub-heads. More contemporary terms used. For example:

❖ 'Revenue from Operations' in place of 'Turnover'.

❖ 'Employee Benefit Expense' in place of 'Salaries, Wages and Other (related) Expenses'.

❖ 'Depreciation and Amortization Expense' in place of 'Depreciation'.

d) Revenue from operations to be shown net of excise duty/service tax recovered on the face itself to beat window dressing of top line.

e) Depreciation on amount of revaluation of fixed assets transferred from revaluation reserve to be shown as a line item to beat window dressing.

f) Separate disclosure of exceptional and extraordinary items to show recurring and non-recurring PBT for meaningful comparison and forecast of sustainable profits. However, the new schedule VI has not defined these items.

g) Separate disclosure of profit/loss from discontinuing operations (those business lines/units which the management has decided to discontinue) until they are discontinued, for meaningful comparison and forecast of sustainable profits from continuing operations.

h)Allocations and appropriations, out of PAT, such as interim dividend, bonus shares and transfer to/from reserves etc. have not to be shown in the Statement of Profit and Loss. These details will be shown in notes to 'Reserves and Surplus' now.

i) Further, no provision has to be made for the proposed dividend and tax thereon in the financial statements. This information has to be provided by way of a note only.

3) Details Accompanying The Financial Statements : For such details, 'Note No.' has replaced the term 'Schedule'. It means that the information contained earlier about a financial statement element at two places - first in the 'Related Schedule' and then in the general 'Schedule of Notes to the Accounts' - will now be available at one place. For example, for fixed assets, the practice of providing quantitative details in the schedule of 'Fixed Assets' and qualitative notes regarding retirement of assets from active use, impairment loss and revision of useful life etc. in the schedule of 'Notes to the Accounts' will now be dispensed with. The readers and analysts will be able to have a synchronized understanding now.

4) Overall, far reaching revolutionary changes have been brought about and now, a more comprehensive disclosure of information is required on the face of the Balance Sheet and the Statement of Profit and Loss itself.

OBJECTIVES OF THE STUDY

Since the financial statements of yesteryears will be available in the public domain in the old format only, the analysts, researchers and academicians will find themselves at a loss carrying out a historical comparative study thereof involving both the periods, period prior to March 31, 2011 and the period from March 31, 2012 onwards. They will first have to align the older statements with the new generation statements before starting their research. It is going to be a daunting task. It is in this background, and otherwise also in the pursuit of academic research, that this paper had been conceived and written to meet the following objectives:

1) To apprise the readers about the key distinctive features of the new generation corporate financial statements.

2) To develop a model framework for converting and restating the old format financial statements of a company into the new format.

3) To make a comparative assessment of the two formats to examine the relative informational value and utility of the new format towards more informed understanding of financial statements and financial decision making.

COMPANY CHOICE AND DATA SOURCE

For the purpose of the analysis, the financial statements of Reliance Industries Ltd. (RIL) of the years 2010- 2011, as available on pp. 101-102 of that year's annual report of the company titled *'New Businesses. New Technologies. New Partnerships'.* have been converted and restated in the new format, and then studied and analyzed in comparison with the old format. RIL is prompt in disseminating financial information to the public. The company is known to be the first listed enterprise in India to make public its year ending March 31 financial statements in the succeeding month of April itself, year after year. This choice of company (for the present study) was governed by the following factors (the information presented below was retrieved from 'Highlights' appearing on p. 2 of the 2011-12 Annual Report of RIL titled *'Partnering India's new future. Sustainably.'*) :

1) RIL is the largest Indian corporate enterprise in the private sector.

2) RIL's contribution to India's economic growth. RIL accounts for:

❖ 14 % of India's total exports.

❖ 5.5 % of the Government of India's indirect tax revenues.

❖ 4 % of the total market capitalization in India.

❖ Weightage of 9.3 % in the BSE Sensex.
❖ Weightage of 7.8 % in the S&P CNX Nifty Index.

3) RIL is one of the Fortune Global 500 companies from India.

4) RIL's importance is growing across the globe, as reflected in the following benchmarks of its operations :
❖ Largest refining capacity at any single location.
❖ Largest producer of Polyester Fibre and Yarn.
❖ 5th largest producer of Paraxylene (PX).

Table 1: Reliance Industries Ltd., Old Format Balance Sheet As On March 31, 2011

	Schedule				(₹ In Crore)
		As at 31st March, 2011		As at 31st March, 2010	
SOURCES OF FUNDS					
Shareholders' Funds					
Capital	A	3,273.37		3,270.37	
Reserves and surplus	B	1,48,266.95	1,51,540.32	1,33,900.24	1,37,170.61
Loan Funds					
Secured loans	C	10,571.21		11,670.50	
Unsecured loans	D	56,825.47	67,396.68	50,824.19	62,494.69
Deferred Tax Liability			11,561.80		10,926.30
TOTAL....			**2,30,498.80**		**2,10,591.60**
APPLICATION OF FUNDS					
Fixed Assets	E				
Gross block		2,21,251.97		2,15,864.71	
Less: Depreciation		78,545.50		62,604.82	
Net block		1,42,706.47		1,53,259.89	
Capital work-in-progress		12,819.56	1,55,526.03	12,138.82	1,65,398.71
Investments	F		37,651.54		23,228.62
Current Assets, Loans and Advances					
Current Assets	G				
Inventories		29,825.38		26,981.62	
Sundry debtors		17,441.94		11,660.21	
Cash and bank balances		27,134.86		13,462.65	
Other current assets		199.32		91.40	
		74,601.50		52,195.88	
Loans and advances	H	16,940.33		10,183.22	
		91,541.83		62,379.10	
Less: Current Liabilities and Provisions	I				
Current liabilities		49,657.12		36,849.40	
Provisions		4,563.48		3,565.43	
		54,220.60		40,414.83	
Net Current Assets			37,321.23		21,964.27
TOTAL....			**2,30,498.80**		**2,10,591.60**
Significant Accounting Policies	N				
Notes on Accounts	O				

Source: Annual Report of RIL for the year 2010-11 titled 'New Businesses. New Technologies. New Partnerships'. p. 100.

Table 2: Reliance Industries Ltd., Old Format Profit and Loss Account For The Year Ended March 31, 2011					
	Schedule				(₹ In Crore)
			2010-11		2009-10
INCOME					
Turnover		2,58,651.15		2,00,399.79	
Less: Excise Duty/Service Tax Recovered		10,481.15		7,938.77	
Net Turnover			2,48,170.00		1,92,461.02
Other Income	J		3,051.71		2,460.32
Variation in Stocks	K		3,243.05		3,947.89
			2,54,464.76		**1.98,869.23**
EXPENDITURE					
Purchases			1,464.31		2,995.82
Manufacturing and Other Expenses	L		2,11,823.01		1,62,832.23
Interest and Finance Charges	M		2,327.62		1,997.21
Depreciation		16,241.33		13,477.01	
Less: Transferred from Revaluation Reserve					
(Refer Note 4, Schedule O)		2,633.75	13,607.58	2,980.48	10,496.53
			2,29,222.52		**1,78,321.79**
Profit before Tax			**25,242.24**		**20,547.44**
Provision for Current Tax			4,320.44		3,111.77
Provision for Deferred Tax			635.50		1,200.00
Profit after Tax			**20,286.30**		**16,235.67**
Add: Balance brought forward from Previous Year			4,999.45		5,384.19
Amount Available for Appropriations			**25,285.75**		**21,619.86**
APPROPRIATIONS					
General Reserve		16,000.00		14,000.00	
Debenture Redemption Reserve		----		189.50	
Proposed Dividend on Equity Shares		2,384.99		2,084.67	
Tax on Dividend		386.90	**18,771.89**	346.24	**16,620.41**
Balance Carried to Balance Sheet			**6,513.86**		**4,999.45**
Basic and Diluted Earnings per Share of face value of ₹ 10 each (in Rupees) (Refer Note 14, Schedule O)			62.00		49.65
Significant Accounting Policies	N				
Notes on Accounts	O				
Source: Annual Report of RIL for the year 2010-11 titled 'New Businesses. New Technologies. New Partnerships'. p. 101.					

❖ 5th largest producer of Polypropylene (PP).

❖ 8th largest producer of Purified Terephthalic Acid (PTA) and Mono Ethelen Glycol (MEG).

OLD FORMAT VERTICAL FINANCIAL STATEMENTS OF RIL

Illustrated in Tables 1 and 2 are the old format financial statements of RIL from its Annual Report for the year 2010-11.

1) Balance Sheet: The Table 1 exhibits the old vertical format balance sheet of RIL for the year ended 31-03-2011.

Table 3: Reserves and Surplus				
Details		2010-11 (₹ In crore)	2009-10 (₹ In crore)	Taken in the 'NFt BS' to...
Reserves and Surplus as per Schedule B of 'OFt BS':		1,48,266.95	1,33,900.24	
A.	Total of Reserves other than Surplus, i.e., Balance in Profit and Loss Account	1,41,753.09	1,28,900.79	
B.	Surplus, i.e., Balance in Profit and Loss Account	6,513.86	4,999.45	
	Add: Proposed Dividend	2,384.99	2,084.67	
	Add: Tax on proposed dividend	386.90	346.24	
	Sub-total	9,285.75	7,430.36	
	TOTAL A+B......	**1,51,038.84**	**1,36,331.15**	**I.1.b**
Source: Author's research.				

2) Profit and Loss Account: The Table 2 exhibits the profit and loss account of RIL for the year ended March 31, 2011 in compliance with the requirements of the old schedule VI.

METHODOLOGY

The old format balance sheet and profit and loss account (Refer to Tables 1 and 2) have been restated in the new format and presented hereunder. The methodology followed in the process of restatement has been explained simultaneously.

1) Terms Used:

❖ 'OFt BS' for the old format of balance sheet.
❖ 'NFt BS' for the new format of balance sheet.
❖ 'OFt PL' for the old format of profit and loss account.
❖ 'NFt PL' for the new format of statement of profit and loss.

2) All the heads and sub-heads of the financial statements have been represented as it is from the new schedule VI, whether applicable or not in the case of RIL. Those not applicable appear without amount.

3) The heads and sub-heads have been taken either directly from the old format, as applicable, or further reclassified/ restated as per the new requirements. *Those further reclassified / restated have been illustrated in the following section.*

RECLASSIFICATION/ RESTATEMENT OF BALANCE SHEET HEADS AND SUB-HEADS

Towards this purpose, specific methodology adopted for each head has been explained by way of notes.

a) Reserves and Surplus (Table 3)

1) 'NFt BS' requires that no provision be made for proposed dividend and tax thereon. Rather, these items have to be shown by way of notes only. This is a far reaching change brought about by 'NFt BS'. Hence, added here back as if no provision were made.

2) Correspondingly, the balance in the Table 9 (Provisions) given later (Sl. No. 8) has been decreased as if no provision was made.

b) Loan Funds (Table 4)

1) Reclassification is based on the information available in schedules C and D, and notes on accounts in schedule O of 'OFt BS'.

2) NCDs: For details of current maturities of long term debt, see note no. 2 of schedule C of 'OFt BS'.

3) No details available about current maturities of other long term debts of 2010-11.

Table 4: Loan Funds									
Details				Amount (₹ in crore)					
				Reclassified, as per the requirements of 'NFt BS', into :					
		2010-11	2009-10	Long Term Borrowings		Short-Term Borrowings		Current Maturities of Long Term Debt	
				2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
A	**Secured loans as per Schedule C of 'OFt BS':**								
	1. NCDs	10,007.82	9,682.82	9,352.82	9,507.82	….	….	655.00	175.00
	2. Term loans	……	570.00	…..	…	…..	….	…..	570.00
	3. Working capital loans	563.39	1,417.68	……	….	563.39	1,417.68	…..	…
	Sub-total A...	10,571.21	11,670.50	9,352.82	9,507.82	563.39	1,417.68	655.00	745.00
B	**Unsecured loans as per Schedule D of 'OFt BS':**								
	1. Long term	45,069.30	46,273.27	45,069.30	46,273.27	…..	….	…..	….
	2. Short term	11,740.95	4,532.61	…..	….	11,740.95	4,532.61	…..	….
	3. Deferred sales tax liability	15.22	18.31	15.22	15.22	…….	….	……	3.09
	Sub-total B...	56,825.47	50,824.19	45,084.52	46,288.49	11,740.95	4,532.61	……	3.09
	Total…	**67,396.68**	**62,494.69**	**54,437.34**	**55,796.31**	**12,304.34**	**5,950.29**	**655.00**	**748.09**
Taken in the 'NFt BS' to…….				I.3.a		I.4.a			
Source: Author's research.									

Table 5: Fixed Assets				
Details		**2010-11**	**2009-10**	**Taken in the 'NFt BS' to…**
		(₹ In crore)	**(₹ In crore)**	
A.	**Net Block of Fixed Assets as per Schedule E of 'OFt BS':**	1,42,706.47	1,53,259.89	
	Reclassified, as per the requirements of 'NFt BS', into...			
	1. Tangible assets	**93,083.77**	**98,796.02**	**II.1.a.i**
	2. Intangible assets	**49,622.70**	**54,463.87**	**II.1.a.ii**
	3. Intangible assets under development	…………	………….	**II.1.a.iv**
B.	**Capital work-in-progress as per Schedule E of 'OFt BS':**	12,819.56	12,138.82	
	Reclassified, as per the requirements of 'NFt BS', into….			
	1. Capital work-in-progress	**12,228.26**	**11,685.75**	**II.1.a.iii**
	2. Capital advances	**591.30**	**453.07**	
Source: Author's research.				

Table 6: Investments				
Details		**2010-11**	**2009-10**	**Taken in the 'NFt BS' to…**
		(₹ In crore)	**(₹ In crore)**	
Investments as per Schedule F of 'OFt BS':		37,651.54	23,228.62	
Reclassified, as per the requirements of 'NFt BS', into…..				
1.	Non-current investments	**28,290.56**	**14,801.06**	**II. 1. b**
2.	Current investments	**9,360.98**	**8,427.56**	**II. 2. a**
Source: Author's research.				

4) No details available about current maturities of other long term loans, even in 2009-10 balance sheet. However, secured long term loan of ₹ 570.00 crore had been paid in 2010-11. Hence, it is classified as current maturities of long term debt.

5) Likewise, deferred sales tax liability of ₹ 18.31 crore in 2009-10 stood reduced to ₹ 15.22 crore in the 2010-11 balance sheet. This reduction of ₹ 3.09 crore has been treated as current maturities of long term debt.

6) Current maturities of total long term debts are clubbed together and disclosed under the sub-head 'Other Current

Table 7: Loans and Advances

Details		Amount (₹ in crore)					
		Reclassified, as per the requirements of 'NFt BS', into…..					
				Long Term Loans and Advances		Short-Term Loans and Advances	
		2010-11	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**
Loans and Advances as per Schedule H of 'OFt BS':							
1	Loans to subsidiary companies	7,088.73	2,936.02	…	…	7,088.73	2,936.02
2	Advance Income Tax (Net of Provision)	1,228.56	1,267.49	…	…	1,228.56	1,267.49
3	Advances recoverable in cash or in kind or for value to be received	5,307.00	2,506.33	…	…	5,307.00	2,506.33
4	Deposits	2,092.74	2,240.53	2,092.74	2,240.53	…	…
5	Balance with Customs, Central Excise Authorities, etc.	1,223.30	1,232.85	1,223.30	1,232.85	…	…
Total….		**16,940.33**	**10,183.22**	**3,316.04**	**3,473.38**	**13,624.29**	**6,709.84**
Capital advances brought from the table 5: Fixed Assets		591.30	453.07	591.30	453.07	…	…
Grand Total….		**17,531.63**	**10,636.29**	**3,907.34**	**3,926.45**	**13,624.29**	**6,709.84**
Taken in the 'NFt BS' to…….				II.1.d		II.2.e	
Source: Author's research.							

Table 8: Current Liabilities

Details		Amount (₹ in crore)					
		Reclassified, as per the requirements of 'NFt BS', into…..					
				Trade Payables		Other Current Liabilities	
		2010-11	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**
Current Liabilities as per Schedule I of 'OFt BS':		49,657.12	36,849.40	…	…	…	…
1	**Sundry Creditors :**						
	Micro, Small and Medium Enterprises	8.17	8.25	8.17	8.25	…	…
	Others	48,837.95	36,047.35	48,837.95	36,047.35	…	…
	Sub Total….	48,846.12	36,055.60	48,846.12	36,055.60	…	…
2	**Other Current Liabilities:**						
	All others as per schedule I minus sundry creditors	811.00	793.80	…	…	811.00	793.80
	Short term maturities of long term debt brought from the table 4: Loan Funds	655.00	748.09	…	…	655.00	748.09
	Sub Total….	1,466.00	1,541.89	…	…	1,466.00	1,541.89
Grand Total….		50,312.12	37,597.49	**48,846.12**	**36,055.60**	**1,466.00**	**1,541.89**
Taken in the 'NFt B/S' to…….				I.4. b		I.4. c	
Source: Author's research.							

Liabilities' in the 'NFt BS'. Taken from here to the Table 8 (Current Liabilities) given at serial no. 7.

c) Fixed Assets (Table 5)

1) Reclassification is based on the information available in schedules E of 'OFt BS'.

2) 'NFt BS' does not require disclosure of gross block and accumulated depreciation on the face of the balance sheet.

3) Tangible assets include both owned and leased.

4)Capital advances segregated from capital work-in-progress are to be included under the sub-head 'Long-term loans and advances' in the 'NFt BS'. Taken from here to the Table 7 (Loans and Advances) given at serial no. 6.

d) Investments (Table 6)

1) Reclassification is based on the information available in schedules F of 'OFt BS'.

2) Non-current investments: Same as long term investments in the 'OFt BS'.

e) Sundry Debtors: 'NFt BS' has used the nomenclature 'Trade Receivables' in place of 'Sundry Debtors'. 'NFt BS' requires segregation of long term part of trade receivables and its disclosure under the sub-head 'Other Non-current Assets'. No information is available in the 'OFt BS' of RIL to give effect to this.

f) Loans and Advances (Table 7)

1) Break-up of loans and advances as per schedule H.

2) Reclassification of item 1 is based on the information available in note no. 17A.a (schedule O on notes to accounts) of 'OFt BS'. These loans are repayable on demand.

3) No information available about long term part of item 3.

4) Item 4 & 5 are classified as required by 'NFt BS'.

Table 9: Provisions

Details		**Amount (₹ in crore)**					
		Reclassified, as per the requirements of 'NFt BS', into.....					
				Long Term Provisions		**Short-Term Provisions**	
		2010-11	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**
Provisions as per Schedule I of 'OFt BS'::		4,563.48	3,565.43	**...**	**...**	**...**	**...**
1	Provision for Wealth Tax	64.08	50.88	...	...	64.08	50.88
2	Provision for Leave encashment/ Superannuation / Gratuity	245.55	329.21	245.55	329.21		
	...	...					
3	Other Provisions	1,481.96	754.43	...	...	1,481.96	754.43
4	Proposed Dividend	2,384.99	2,084.67	...	...	2,384.99	2,084.67
5	Tax on Dividend	386.90	346.24	...	...	386.90	346.24
	Less: Proposed Dividend	(2,384.99)	(2,084.67)	...	...	(2,384.99)	(2,084.67)
	Less: Tax on Dividend	(386.90)	(346.24)	...	...	(386.90)	(346.24)
	Total....	1,791.59	1,134.52	**245.55**	**329.21**	**1,546.04**	**805.31**
	Taken in the 'NFt BS' to…….			I.3.d		I.4.d	

Source: Author's research.

Table 10: Manufacturing and Other Expenses										
Details		Amount (₹in crore)								
				Reclassified, as per the requirements of 'NFt BS', into.....						
				Cost Of Materials Consumed		Employee Benefit Expense		Other Expenses		
		2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	
Manufacturing and Other Expenses as per schedule L of 'OFt PL':										
1.	Raw material consumed	1,93,233.88	1,47,919.21	1,93,233.88	1,47,919.21	....	....	....	....	
2.	Manufacturing expenses	8,244.92	7,355.05	....	....	....	....	8,244.92	7,355.05	
3.	Payments to and provisions for employees	2,624.17	2,350.38	....	....	2,624.17	2,350.38	....	....	
4.	Sales and distribution expenses	5,353.10	4,123.77	....	....	....	....	5,353.10	4,123.77	
5.	Establishment expenses	2,397.20	2,301.74	....	....	....	....	2,397.20	2,301.74	
Total....		2,11,853.27	1,64,050.15	1,93,233.88	1,47,919.21	2,624.17	2,350.38	15,995.22	13,780.56	
Less: Transferred. to project development expenditure		(30.26)	(1,217.92)	....	....	....	....	(30.26)	(1,217.92)	
Net total...		2,11,823.01	1,62,832.23	**1,93,233.88**	**1,47,919.21**	**2,624.17**	**2,350.38**	**15,964.96**	**12,562.64**	
Taken in the 'NFt PL' to...				IV.1		IV.4		IV.7		
Source: Author's research.										

g) Current Liabilities (Table 8)

1) Break-up of current liabilities as per schedule I.

2) Sundry creditors: Termed as trade payables in 'NFt BS'.

3)No information available about long term part of sundry creditors in the 'OFt BS'.

h) Provisions (Table 9)

1) Break-up of Provisions as per schedule I.

2) Item 2: As per the description, these employee benefits are in the nature of long term. Hence, classified as such.

3) Reclassification of item 3 is based on the information available in the last note ($) to schedule I of 'OFt BS'.

4) Items 4 & 5 are deleted as 'NFt BS' requires that no provision be made for these items. Rather, the proposed dividend and tax thereon has to be shown by way of notes only. This is a far reaching change brought about by 'NFt BS'. Correspondingly, the Balance in Profit and Loss Account in the Table 3 (Reserves and Surplus) given in the beginning at Sl. No. 1 has been increased as if no provisions were made.

RECLASSIFICATION/ RESTATEMENT OF PROFIT AND LOSS ACCOUNT HEADS AND SUB-HEADS

Towards this purpose, the specific methodology adopted for each head has been explained by way of notes as in the case of balance sheet items.

a) Net Turnover: Taken to 'Revenue from Operations' (item I), being the new term, in the 'NFt PL'.

b) Variation in Stocks: Taken to 'Changes in Inventories of Finished Goods, Work-in-progress and Stock-In-Trade' (item IV. 3), being the new term, under the head 'Expenses' in the 'NFt PL'.

c) Purchases: Taken to 'Purchases of Stock-In-Trade' (item IV. 2), being the new term, in the 'NFt PL'.

d) Manufacturing and Other Expenses (Table 10)

1) Break-up of manufacturing and other expenses as per details available in schedule L of 'OFt PL'.

Table 11: Reliance Industries Ltd., New Format Balance Sheet As On March 31, 2011							
						(₹ in Crore)	
					Note No.	As at 31-03- 2011	As at 31-03- 2010
I.	EQUITY AND LIABILITIES						
	1	Shareholders' Funds					
		a	Share capital			3,273.37	3,270.37
		b	Reserves and Surplus			1,51,038.84	1,36,331.15
		c	Money received against share warrants			-----	-----
			Sub-total....			**1,54,312.21**	**1,39,601.52**
	2	**Share Application Money Pending Allotment**				-----	-----
	3	**Non-current Liabilities**					
		a	Long-term borrowings			54,437.34	55,796.31
		b	Deferred tax liabilities (Net)			11,561.80	10,926.30
		c	Other Long term liabilities			-----	-----
		d	Long-term provisions			245.55	329.21
			Sub-total....			**66,244.69**	**67,051.82**
	4	Current Liabilities					
		a	Short-term borrowings			12,304.34	5,950.29
		b	Trade payables			48,846.12	36,055.60
		c	Other current liabilities			1,466.00	1,541.89
		d	Short-term provisions			1,546.04	805.31
			Sub-total....			**64,162.50**	**44,353.09**
			TOTAL.....			**2,84,719.40**	**2,51,006.43**
II.	ASSETS						
	1.	**Non-current Assets**					
		a	Fixed assets				
			i	Tangible assets		93,083.77	98,796.02
			ii	Intangible assets		49,622.70	54,463.87
			iii	Capital work-in-progress		12,228.26	11,685.75
			iv	Intangible assets under development		.....	.....
			Sub-total....			**1,54,934.73**	**1,64,945.64**
		b	Non-current investments			28,290.56	14,801.06
		c	Deferred tax assets (net)			....	.....
		d	Long-term loans and advances			3,907.34	3,926.45
		e	Other non-current assets			....	.....
			Sub-total....			**32,197.90**	**18,727.51**
	2.	**Current Assets**					
		a	Current investments			9,360.98	8,427.56
		b	Inventories			29,825.38	26,981.62
		c	Trade receivables			17,441.94	11,660.21
		d	Cash and cash equivalents			27,134.86	13,462.65
		e	Short-term loans and advances			13,624.29	6,709.84
		f	Other current assets			199.32	91.40
			Sub-total....			97,586.77	67,333.28
TOTAL.........						**2,84,719.40**	**2,51,006.43**
See notes to the financial statements.							
Source: Author's research.							

Table 12: Reliance Industries Ltd., Statement of Profit & Loss For The Year Ended March 31, 2011				
			(₹ in Crore)	
		Note No.	2010-11	2009-10
I	Revenue from Operations		2,48,170.00	1,92,461.02
II	Other Income		3,051.71	2,460.32
III	**Total Revenue (I+II)**		**2,51,221.71**	**1,94,921.34**
IV	Expenses:			
	1 Cost of materials consumed		1,93,233.88	1,47,919.21
	2 Purchases of Stock-In-Trade		1,464.31	2,995.82
	3 Changes in inventories of finished goods, work-in-progress and stock-In-Trade		(3,243.05)	(3,947.89)
	4 Employee benefit expense		2,624.17	2,350.38
	5 Finance costs		**2,327.62**	**1,997.21**
	6 Depreciation and amortization expense		16,241.33	13,477.01
	Less: Transferred from Revaluation Reserve		(2,633.75)	(2,980.48)
	Net expense		13,607.58	10,496.53
	7 Other expenses		15,964.96	12,562.64
	8 **Total Expenses**		**2,25,979.47**	**1,74,373.90**
V	Profit before exceptional and extraordinary items and tax (III - IV)		**25,242.24**	**20,547.44**
VI	Exceptional items		...	...
VII	Profit before extraordinary items and tax (V - VI)		**25,242.24**	**20,547.44**
VIII	**Extraordinary items**		...	...
IX	**Profit before tax (VII - VIII)**		25,242.24	20,547.44
X	Tax expenses:			
	1. Current tax		4,320.44	3,111.77
	2. Deferred tax		635.50	1,200.00
	3. Total tax		4,955.94	4,311.77
XI	**Profit (Loss) for the period from continuing operations after tax (IX-X)**		**20,286.30**	**16,235.67**
XII	**Profit/(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 after tax (XI + XIV)**		**20,286.30**	**16,235.67**
XVI	**Earnings per equity share (of the face value of ₹ 10 each) (in Rupees):**			
	1. Basic		62.00	49.65
	2. Diluted		62.00	49.65
See accompanying notes to the financial statements.				
Source: Author's research.				

Table 13: Proposed Dividend on Equity Shares		
	(₹ in Crore)	
	2010-11	2009-10
Proposed dividend	2,384.99	2,084.67
Tax on proposed dividend	386.90	346.24
Proposed dividend per share of ₹ 10 each (Rupees)	**8.00**	7.00
Source: Author's research.		

2) In the absence of information, 'transfer to project development expenditure' adjusted against other expenses.

e) Interest and Finance Charges: Taken to 'Finance Costs' (item IV. 5), being the new term, in the 'NFt PL'.

f) Depreciation: Taken to 'Depreciation and Amortization Expense' (item IV. 6) being the new term in the 'NFt PL'.

RESULTS: FINAL OUTPUT- NEW FORMAT FINANCIAL STATEMENTS OF RIL

The restatement process explained above leads to the preparation of the new format financial statements of RIL as exhibited in the Tables 11 and 12.

a) Balance Sheet (Table 11): It may be noted that the new generation format of balance sheet is based on further current-non current classification of current assets, current liabilities and investments in line with the global practices. The new format is much more analytical as well.

b) Statement of Profit & Loss (Table 12) : The format of profit and loss account has been introduced for the first time in schedule VI, and is termed as Statement of Profit and Loss. It may be noted that the new generation format of statement of profit and loss is highly informative and analytical, seeking to stop the practice of inflating the top line and disclosing line items under more elaborate expense heads, income/loss from discontinuing operations and exceptional and extraordinary income/expenses. Various stakeholders associated with the business of a company can now better assess the long term sustainability of its earning capacity.

c) Notes To The Financial Statements (Table 13) : Proposed Dividend on Equity Shares - Details of dividend proposed and recommended by the Board of Directors, and other related details are presented in the Table 13. This is a far reaching change, not allowing the proposed dividend to pass through the statement of profit and loss.

Table 14: Disclosure of Shareholders' Funds. New Schedule VI Company Ltd., Extracts From the 'OFt BS' and Their Disclosure as per the 'NFt BS'			
OFt BS	**NFt BS**		
SOURCES OF FUNDS	₹	**EQUITY AND LIABILITIES**	₹
Shareholders' Funds:		**Shareholders' Funds:**	
Capital	25,50,00,000	Share capital	25,50,00,000
Reserves and surplus	3,25,00,000	**Reserves and Surplus**	**(-) 2,90,00,000**
Total....	**28,75,00,000**	Money received against share warrants	.....
		Total...	22,60,00,000
APPLICATION OF FUNDS			
Misc. expenditure to the extent not written off or adjusted	4,00,00,000		
Profit and loss account	2,15,00,000		
Total....	**6,15,00,000**		
Source: Author's research.			

COMPARATIVE ANALYSIS OF THE TWO REPORTING STRUCTURES

The researcher now makes an attempt to assess the relative informational value and utility of the new generation format towards better understanding of financial statements and financial decision making. The Figures mentioned are related to the year 2010-11.

1) Portrayal of real financial position. Total assets of RIL were ₹ 2, 84,719.40 crores as against ₹ 2, 30,498.80 crores as per the old format. *Impact on Total Assets Turnover ratio.*

2) Portrayal of real total revenue. Total revenue of RIL was ₹ 2, 51,221.71 crores as against ₹ 2, 54,464.76 crores as per the old format.

3) Portrayal of real position of shareholders' funds or net worth. Net worth of RIL was ₹ 1, 54,312.21 crores as against ₹ 1, 51,540.32 crores as per the old format. *Impact on RONW and Net worth Turnover ratios.*

Table 15: Ratio Analysis
Reliance Industries Ltd., 2010-11 Financial Statements

	Ratios	2010-11			
		NFt BS/PL		**OFt BS/PL**	
1	**ROI ratio:**	Profit for the period after tax/ Shareholders' funds		PAT/ Shareholders' funds	
	❖ RONW				
		↓ **13.15%**	20,286.30/	**13.39 %**	20,286.30/
			1,54,312.21		1,51,540.32
2	**Efficiency ratio:**	Revenue from operations/Assets		Net turnover/Application of funds	
	❖ Total Assets Turnover				
		↓ **0.87 times**	2,48,170.00/	**1.08 times**	2,48,170.00/
			2, 84,719.40		2,30,498.80
3	**Liquidity ratios:**	CA/CL		CA & LA+ Short-term investments/	
	❖ Current			CL+ Provisions +Short term debts(secured and unsecured)	
		1.52: 1	97,586.77/	**1.517:1**	91,541.83+ 9,360.98
			64,162.50		(1,00,902.81)/
					49,657.12+4,563.48+ 563.3 +
					11,740.95(66,524.94)
	❖ Non-current	Non-current assets other than fixed assets/			
	(Long Term)	Non-current liabilities minus Long term borrowings		Not Applicable	
		2.73:1	32,197.90/		
			66,244.69minus		
			54,437.34		
			(11,807.35)		
4	**Solvency ratio:**	Long term borrowings/		Long term debt/	
	❖ Debt Equity	Shareholders' funds		Shareholders' funds	
		↑ **0.35:1**	54,437.34/	0.36:1	10,007.82+45,069.30+15.22
			1,54,312.21		(55,092.34)/1,51,540.32

Notes:

1.Somehow current ratio of RIL has not changed much. But the impact will vary from company to company depending upon the level of current/non-current nature of current assets and liabilities as per the requirements of 'NFt BS'.

2.A new ratio-Non-current liquidity ratio- introduced.

Source: Author's research.

4) Assessment of actual liquidity and solvency position through current/non-current classification of all assets and liabilities**.** *Impact on liquidity and solvency ratios. Introduction of a new 'Non-current (long term) Liquidity' ratio possible.*

5) Comprehensive disclosure of information on the face of the balance sheet and statement of profit and loss, themselves making the two documents provide a broad view of the financial affairs at a glance itself.

6) Uniformity of presentation in the case of statement of profit and loss as well enabling logical comparison across corporates.

7) Puts a stop on rampant practice of window dressing of the top line by inflating sales (showing sales inclusive of excise duty and other recoverable taxes) , and then showing the taxes as expense.

8) Separate disclosure of recurring and non-recurring profit/loss and profit/loss from discontinuing operations for meaningful comparison and forecast of sustainable profits.

9) Controversy on the disclosure of Deferred Tax Liabilities and Deferred Tax Assets set at rest by specifically requiring them to be netted against each other and classifying the net amount as non-current liabilities/non-current assets, as the case may be, for the first time. *Impact on Debt Equity ratio.*

10) Capital Advances classified as long term loans and advances under the head non-current assets instead of showing them as part of fixed assets. Fixed assets cannot be inflated now.

11) No provision allowed to be made for proposed dividend, being an event occurring after the balance sheet date, and tax thereon in the financial statements as per the international practices. School of thought behind such practice is that the proposed dividend becomes a liability only when authorized by the shareholders. Hence, it cannot be recognized as a liability on the balance sheet date. At the same time, this being material information has to be provided by way of a note. *This is a far reaching change brought about by 'NFt PL'. Impact on RONW and Liquidity ratios.*

12) Even if the balance under the head 'Reserves and Surplus' results in a negative, it has to be disclosed on the liabilities side instead of showing debit balance in profit and loss on the assets side. *This is a far reaching improvement brought about by 'NFt BS'. This will result in disclosing the net worth straight on the face of the balance sheet.*
The Table 14 provides an example to illustrate this point. As per the 'OFt BS' net worth of the company is ₹ 22,60,00,000, i.e., ₹ 28,75,00,000 *minus* ₹ 6,15,00,000. However, this figure has to be deduced from the 'OFt BS' while it is self evident in the 'NFt BS' (Table 14).

SELECT COMPARATIVE RATIOS

The Table 15 presents a comparative analysis of select financial ratios worked out on the basis of information provided by the two formats. Interestingly, the same data, when reclassified, has changed the results of the analysis as under :

1) ROI down.

2) Efficiency substantially down.

3) Current liquidity more or less the same.

4) Long term liquidity very high.

5) Solvency , a bit improved.

CONCLUSION

The present paper attempted to identify the far reaching revolutionary changes brought about in the reporting of corporate financial statements, and the requirements of more comprehensive disclosure of information on the face of the Balance Sheet and the Statement of Profit and Loss itself. The paper offered a model framework for converting and restating the old schedule VI format financial statements of a company into new-generation schedule VI format through the case of Reliance Industries Ltd. (RIL). This is where the contribution of this paper lies.
It is hoped that the methodology suggested here would be of immense help and guidance to the analysts, academicians and researchers. A comparative analysis of the two formats also revealed that the new format statements enable portrayal of real financial position/revenue/ equity holders' funds, actual liquidity and solvency position, keeps a

check on the rampant practice of window dressing of the top line, results in disclosure of the net worth straight on the face of the balance sheet and ultimately, leads to redefining the performance and financial position of a company.

SCOPE FOR FUTURE RESEARCH

Future researchers may explore the following suggestions for further research on the subject :

1) A comparative *comprehensive* ratio analysis of a company on the basis of its old format and new generation financial statements so as to assess the qualitative changes brought about in the measurement of business performance and financial position by the new format.

2) An inter-company study in an industry sector on the above lines.

3) A sectoral study on the above lines.

4) An inter-sector study on the above lines.

5) A point-to-point comparison of old schedule VI and new schedule VI.

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