

# Differences between 4th and 5th companies ordinance schedules essay sample

[Finance](#)



The Companies Ordinance 1984 is a broad piece of Pakistani legislation that, according to its own preamble, is “ An Ordinance to consolidate and amend the law relating to companies and certain other associations”. It includes all legal rules and regulations for businesses registered with Security and Exchange Commission of Pakistan (SECP) and are enforced by that agency. The Ordinance also provides legal protection to the business community of Pakistan, with the SECP keeping a close check on financial and corporate entities to insure stakeholder’s interest.

The purpose of this Ordinance is to ensure the viability and growth of corporate enterprises, protection of investors and creditors, promotion of investment and development of the economy and matters arising out of or in connection with enterprises that render it necessary to take immediate action. This law conferred the powers to be enforced by the SEC of Pakistan formerly known as the Corporate Law Authority (CLA). The company ordinance consists of eight schedules. The fourth schedule is regarding the Listed Companies and is required to comply with International Accounting Standards (IAS) and the fifth schedule deals with unlisted companies, the accounts are required to be compiled in accordance with the this schedule to the Companies Ordinance, 1984. **FOURTH SCHEDULE:**

As briefed above, in the case of a listed company, the accounts are required to be compiled in accordance with the Fourth Schedule to the Companies Ordinance, 1984. The major disclosure features are as follows: \* All material information necessary to make the financial statements clear and understandable. \* If a fundamental accounting assumption, namely, going concern, consistency and accrual is not followed in preparation of financial

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statements, that fact together with the reasons therefore. \* Significant accounting policies preferably in one place. \* Change in an accounting policy that has a material effect in the current year or may have a material effect in the subsequent years together with reasons for the change and the financial effect of the change, if material. \* The basis of conversion or translation into rupees of assets and liabilities in foreign currencies and the accounting policy followed in respect of exchange gains or losses. \*

Particulars of any charge on the assets of the company to secure the liabilities of any other person including, where practicable, the amount so secured. \* The general nature of any credit facilities available to the company under any contract, other than trade credit available in the ordinary course of business, and not availed of at the date of the balance sheet. Schedule Four also outlines comprehensive details of the requirements of the Balance Sheet including matters relating to Fixed Assets, Long Term Investments, Long-Term Loans and Advances, Current Assets, Share Capital and Reserves, Surplus on Revaluation of Fixed Assets, Redeemable Capital, Debentures and Long-Term Loans, Lease Financing, Deferred Liabilities, Long-Term Deposits, Current Liabilities and Contingencies and Commitments. Comprehensive details of the requirements of Profit and Loss Accounts are also included. Section 234 subsection (3) states that in the case of a listed company: \* International Accounting Standards and other standards will be followed in regard to the accounts and preparation of the balance sheet and profit and loss account as are notified for the purpose in the Official Gazette by the SEC; \* A statement of changes in financial position or statement of sources and application of

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funds (Cash Flow Statement) will form part of the balance sheet and profit and loss account; and \* Accounting policies will be stated and, where there is any change in such policies, the auditor will report whether he agrees with the change. FIFTH SCHEDULE:

In the case of unlisted companies, the accounts are required to be compiled in accordance with the Fifth Schedule to the Companies Ordinance, 1984.

The main disclosure features are as follows: \* All material information necessary to make the financial statements clear and understandable. \* If a fundamental accounting assumption, namely, going concern, consistency and accrual is not followed in preparation of financial statements, that fact together with the reasons therefore. \* Change in an accounting policy that has a material effect in the current year or may have a material effect in the subsequent years together with reasons for the change and the financial effect of the change if material. \* The basis of conversion or translation into rupees of assets and liabilities in foreign currencies. Schedule Five also gives comprehensive details of the requirements of Balance Sheets and Profit and Loss Accounts.

#### COMPARISON BETWEEN FOURTH AND FIFTH SCHEDULE:

Following definitions were not in the Fifth Schedule:

- \* Capital Reserve
- \* Economically Significant Company
- \* Medium-sized Company
- \* Related party

- \* Revenue reserves
- \* Small-sized Company

Following definitions were not in the Fifth Schedule:

- \* Accounting Policies
- \* Finance Lease
- \* Financial Statements
- \* Fund
- \* Liability
- \* Operating Lease
- \* Prior Period Items
- \* Provision
- \* Reserve
- \* Unusual Items

Previously, expressions not defined in the Ordinance were to be assigned the meaning under Generally Accepted Accounting Principles (GAAP). Now, users are directed to refer to the ordinance, schedule, IFRS and standards for MSEs and SSEs and if not defined therein the expression shall be assigned the meaning in GAAP.

The following terminologies used were:

- \* Fixed Assets instead of ' Non-current assets
- \* Tangible assets instead of ' Property, Plant & Equipment'. \*

Debentures and Long-term loans, Liabilities against assets subject to Finance Lease, Deferred Liabilities and Long term Deposits were classified under the

head ' Non-current Liabilities'. \* Marketable securities should be to as short term ' financial assets'.

The following requirements were not in the Fifth Schedule:

\* Medium and Small Sized companies directed to follow the Standards for MSEs and SSEs, as applicable. \* Provision specifically stating the Fifth schedule to apply to all unlisted companies. \* General nature of any credit facilities available to the company under contract other than trade credit and not availed of at the balance sheet date to be disclosed. \* Penalties imposed by any law to be disclosed.

The following disclosure requirements were in the Fifth Schedule: \* The fact and reason of non compliance with fundamental accounting assumptions. \* Basis of translation of foreign currency assets or liabilities into rupees. \* Estimated amounts for material items that cannot be accurately quantified together with description of that item. \* Corresponding figures, except for the first financial statements. \* Additional information relevant to financial statements to be included in the notes there to and deemed to be the integral part of the Financial Statements, \* No provision regarding any information that is of no material significance.

The Securities and Exchange Commission of Pakistan vide its S. R. O. 859(1)/2007 dated August 21, 2007 has revised the Fifth Schedule.

Most of the inconsistencies that previously existed between the Fifth Schedule, Fourth Schedule and IFRS have now been removed. The Fifth Schedule has been revised to bring it in line with the requirements of the Fourth Schedule. Consequently, now both the schedules are in line with the

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requirements of IFRS and Accounting Standards for MSEs (MEDIUM SIZED ENTITIES) and SSEs (SMALL SIZED ENTITIES). Key changes in the Revised Fifth Schedule or the differences between the fourth and fifth schedule are listed below. 1. Medium and Small Sized companies directed to follow the Standards for MSEs and SSEs, as applicable.

2. Provision included that specifically states the Fifth schedule is to apply to all unlisted companies unless otherwise specified.

3. Disclosure requirements of small sized companies excluded from some revised Fifth schedule requirements that are applicable to medium sized companies; particularly in terms of disclosure of: i. Long term and short term investment classifications - held to maturity, available for sale, held for trading, and related disclosures -market value / Book Value. ii. Trade debts and short term loans and advances to and short term investments in related parties iii. Classification of non-current liabilities into suitable sub-heads and separate disclosure of loans from related parties, banking companies. iv. Contingencies and commitments

v. Details of remuneration to the directors and CEO

4. Disclosure requirement of ' Redeemable capital' has been withdrawn.

5. Debentures and Long-term loans, Liabilities against assets subject to Finance Lease, Deferred Liabilities and Long term Deposits are now classified under the head ' Noncurrent Liabilities'.

6. In the Revised Fifth Schedule, the clause regarding exchange gain/loss capitalization has been removed to bring it in line with the requirements of IAS 21 and accounting and reporting standard for MSEs.

7. Following terminologies have been changed in the Revised Fifth Schedule:

- i. Fixed Assets with ' Non-current assets'
- ii. Tangible assets with ' Property, Plant & Equipment'

8. Classification of Long Term Investment and Short Term Investment is now in line with MSE and SSE Standards which is as follows for MSE only:

(a) Held to maturity investments, which are not due to mature within next twelve months. (b) Available for sale investments, which are not intended to be sold within next twelve months, and (c) Market value of listed securities and book value of unlisted securities as per their latest available financial statements. 9. The disclosure of ' Deferred cost' has been removed from the balance sheet.

10. In the Revised Fifth Schedule clause regarding valuation of Inventories in ' Current Assets' has been removed.

11. Current and Long term portion has to be classified separately. 12. The disclosure of " Proposed Dividend" has now been removed from the Balance Sheet -Current Liabilities and Profit and Loss account, bringing it in line with the requirements of IAS 10 ' Events after the Balance Sheet Date' and MSE Standard.



13. The following provisions have been included in the fifth schedule: i. Disclosure of amount of interest on borrowings from related parties. ii. Details of remuneration to directors and CEO.

## COMPARISON OF FINANCIAL STATEMENTS

### LINE ITEMS

The term line item refers to a piece of information which has its own weight and should be presented on a separate line on any document. According to IAS and IFRS line items means a category in financial statements and in the notes to the financial statements. The assets and liabilities should be classified under the suitable headings to the company's business characteristic according to 4th and 5th schedule: \* Fixed assets including long-term pre-payment, investments, loans and advances.