PREPARATION OF FINAL ACCOUNTS OF A COMPANY

B.COM-Part-I

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1. **OBJECTIVE**

After reading this lesson, you will be conversant with

(a) Requirements of the Companies Act for presentation of Profit and Loss Account and Balance Sheet

(b) Profit and Loss Appropriation Account

(c) Accounting Treatment of Special Items while preparing Final Accounts of a company.

2. **INTRODUCTION**

Final accounts, as we know, are prepared to show business profit over a period of time and to reveal the business position (financial) at a point of time. A company, like any other forms of business organisation, has also to prepare its final accounts every year. Preparation of final accounts is compulsory for a company. The Companies Act has made it obligatory for every limited company to prepare, present and publish its final accounts every year, in order to protect and safeguard the interest of the owners. Section 209 and Section 210 deal with the provisions of preparation of final accounts for a company. Section 209 makes it compulsory for a company to keep certain books of account and Section 210 governs the preparation of the final accounts.

3. PREPARATION OF FINAL ACCOUNTS

The principles and methods of preparing the final accounts of joint stock companies are the same as in the case of the sole proprietorship or partnership firms. However, in addition to these principles, a joint stock company must conform to certain legal provisions as given in the Companies Act, in respect of form and content of the final accounts.

The final accounts of a company consists of :

(i) Profit and Loss Account (Inclusive of Manufacturing & Trading A/c)

(ii) Profit and Loss Appropriation Account

(iii) Balance Sheet

4. PROFIT AND LOSS ACCOUNT

The Companies Act does not give any fixed form of Profit and Loss Account but 'Requirement as to Profit and Loss Account' are given in Part-II of Schedule VI. Generally, it consists of Manufacturing and/or Trading Account.

Form and contents of Profit and Loss Account

Sub-section (2) of Section 211 of the Companies Act, 1956 requires "Every Profit and Loss Account of a company shall give true and fair view of the profit or loss of the company for the financial year and comply with the requirements of Part II of Schedule VI so far as they are applicable thereto.

Provided that nothing contained in this sub-section shall apply to 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 Profit and Loss Account has been specified in or under the Act governing such class of company".

It is also given in sub-section (3) of Section 211 that the Central Government may, by notification in the Official Gazette exempt any class of companies from the compliance with any of the requirements in Schedule VI if, in its opinion, it is necessary to grant exemption in the public interest. Any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

Requirements of companies act with respect to Profit and Loss Account

Part II of Schedule VI of the Companies Act does not prescribe any format for the Profit and Loss Account but only outlines the information to be included. In general, the Profit and Loss Account should be so made out as to clearly disclose the result of the working of the company during the period covered by the account. The Profit and Loss Account should also disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature. The various items of receipts and expenses should be arranged under the most convenient heads.

Revenues

With respect to revenues received by a company, the following are required to be shown as per Part II of Schedule VI:

a) The turnover or the aggregate amount of sales effected by the company. If more than one class of goods have been sold by the company, then the amount of sales in respect of each class of goods sold along with details of quantities sold should be disclosed.

b) In the case of companies rendering or supplying services, the gross income derived from services rendered or supplied.

c) Amount of income from investment distinguishing between trade investments and other investments.

d) Other income by way of interest, specifying the nature of income.

e) Profits on investments.

f) Profits (which are material in amount) in respect of transaction which are of a kind not usually undertaken by the company or undertaken in circumstances of an exceptional or non-recurring nature.

g) Miscellaneous income.

h) Dividends from subsidiary companies.

Expenses

The following are the expenses which must be disclosed in the Profit and Loss Account :

a) In the case of manufacturing companies, the value of the raw materials consumed, giving item-wise break up and the quantities consumed. While giving this break up, as far as possible, all important basic raw materials should be shown as separate items. In the case of intermediates or components procured from other manufacturers and consumed, if the number of items are too many to be included in the break up, then such items should be grouped under suitable headings without mentioning the quantities. However, all those items which in value individually account for 10 per cent or more of the total value of the raw material consumed should be shown distinctly in the break up with details of quantities consumed.

b) In the case of manufacturing companies, the opening and closing stock of good produced, giving break up in respect of each class of goods indicating the quantities of each class of goods produced.

c) In the case of trading companies, the value of purchases made and of the opening and closing stocks. This information should be provided in respect of each class of goods traded by the company. The quantity details should also be provided.

d) If a company is both a manufacturing and a trading company, it is sufficient if the total amounts are shown in respect of the opening and closing stocks, purchases, sales and consumption of raw material with value and quantity details.

e) In the case of companies having works in progress, the opening and closing values of the works in progress.

f) The amount provided for depreciation, renewals or diminution in value of fixed assets. If no provision has been made for depreciation, this fact should be stated and the quantum of arrears of depreciation should be disclosed by way of a note.

g) Consumption of stores and spare parts.

h) Power and fuel.

i) Rent.

j) Repairs to buildings.

k) Repairs to machinery.

l) Salaries, wages and bonus.

m) Contribution to provident fund and other funds.

n) Workmen and staff welfare expenses.

o) Insurance.

p) Rates and taxes, excluding taxes on income.

q) Miscellaneous expenses. Any item under which expenses exceed one per cent of the total revenue of the company or Rs.5,000 whichever is higher must be shown as a separate and distinct item against an appropriate account head in the Profit and Loss Account and should not be combined with any other item and shown under this head of 'Miscellaneous Expenses'.

r) Losses on investments.

s) Losses on transaction which are of a kind, not usually undertaken by the company or undertaken in circumstances of an exceptional or non-recurring nature, if material in amount.

t) The amount of interest on the company's debentures and other fixed loans stating separately the amount of interest if any, paid or payable.

u) The amount of income tax payable.

v) The aggregate amount of the dividends paid, and proposed, and stating whether such amounts are subjected to deduction of income tax or not.

w) Provisions for losses of subsidiary companies.

x) Amounts reserved for repayment of share capital and repayment of loans.

y) Any material amounts set aside to reserves, but not including provisions made to meet any specific liability, contingency or commitment. Any material amounts withdrawn from such reserves.

z) Any material amounts set aside to provisions made for meeting specified liabilities, contingencies or commitments. Any material amounts withdrawn from such provisions, as no longer required.

In addition to the above expenses, expenses relating to sales such as commission paid to sole selling agents and other selling agents, brokerage and discount on sales, other than the usual trade discount should also be shown separately.

The amount by which any items shown the Profit and Loss Account are affected by any change in the basis of accounting if material should be disclosed separately.

In respect of all items shown in the Profit and Loss Account, the corresponding amounts for the immediately proceeding financial year should also be given.

Notes to Profit and Loss Account

Accounting to Part II of Schedule VI, certain information has to be provided by way of notes to Profit and Loss Account. The information to be so provided is outline below :

1. The following payments provided or made during the financial year to the directors (including managing directors or manager, if any, of the company, the subsidiaries of the company and any other person):

- i) Managerial remuneration paid or payable under Section 198 of the Companies Act
- ii) Other allowances and commission including guarantee commission
- iii) Any other perquisites or benefits in cash or in kind (stating approximate money value where practicable)
- iv) Pensions
- v) Gratuities
- vi) Payments form provident funds, in excess of subscriptions and interest thereon

vii) Compensation for loss of office

viii) Consideration in connection with retirement from office

If commission is payable to the directors including managing director or manager as a percentage of profits, then the notes should give a statement showing the computation of net profit in accordance with the provisions of the Companies Act and also give details of the calculation of such commission.

2. The notes should contain detailed information with regard to amounts paid to the auditor, whether as fees, expenses or otherwise for services rendered. These payments should be classified into payments received by the auditor as,

a) auditor

b) as advisor, or in any other capacity, in respect of

  i) taxation matters

  ii) company law matters

  iii) managements services and

c) in any other manner.

3. In the case of manufacturing companies, the notes should give detailed quantitative information in respect of each class of goods manufactured with regard to the following:

a) the licensed capacity (where license is in force)

b) the installed capacity and

c) the actual production

4. The notes to the Profit and Loss Account should also contain the following information:

a) Value of imports calculated on C.I.F. basis by the company during the financial in respect of :

i) raw materials

ii) components and spare parts

iii) capital goods

b) expenditure in foreign currency during the financial year on account of royalty, know-how, professional, consultation fees, interest and other matters.

c) value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to total consumption.

d) the amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the non-resident shareholders and the number of shares held by them on which dividends were paid.

e) earnings in foreign exchange classified under the following heads, namely:

i) export of goods calculated in F.O.B. basis.

ii) royalty, know-how, professional and consultation fees

iii) interest and dividend

iv) other income, indicating the nature thereof.

5. The notes to the Profit and Loss Account should also contain break up of the expenditure incurred on employees who

i) if employed throughout the financial year were in receipt of remuneration for that year which in the aggregate was not less than Rs.300,000 or

ii) if employed for part of the financial year were in receipt of remuneration for any part of that year at a rate which in the aggregate was not less than Rs.25,000 per month.

This note should also indicate the number of employees falling in each of the above two categories. Usually the remuneration paid is broken up into

a) Salaries, Perquisites etc. and

b) Contribution to Provident and other funds.

5. PROFIT AND LOSS APPROPRIATION ACCOUNT

The account showing the disposal of profits is known s Profit and Loss Appropriation Account. The balance on Profit and Loss Account is transferred to this Profit and Loss Appropriation Account. Profits available for dividend to shareholders are known as divisible profits. The Directors may decide to retain a certain amount to strengthen the companies finances. The amount retained may take the form of transfer to various reserves and funds. It is a wise policy to keep aside certain portion of divisible profit in the form of reserves and funds before distributing entire divisible profits among the shareholders as dividend. Therefore, the account which shows how the divisible profits of the company have been dealt with is known as Profit and Loss Appropriation Account, as appropriation means to keep aside.

The amount brought forward from the previous year is put on the credit side together with current year's profit. On the debit side of this account, the following items are usually found :

i) Transfer to General Reserve.

ii) Transfer to Divided Equalisation Fund - (Dividend Equalisation Fund means a fund created out of profits available for dividend for the purpose of stable dividend policy i.e. making the rate of dividend uniform from year to year).

iii) Transfer to Sinking Fund for Redemption to Debentures.

iv) Dividend (Interim/Final, paid or proposed).

v) Balance if any, carried to B/Sheet. Therefore, this Account, generally appears as under :

Profit and Loss Appropriation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bal. b/d (Dr. bal. from last year if any , as per Trial Balance)		By Balance b/d from last year (As per Trial Balance)	
To Net Loss during the year, if any		By Savings in the provision for Taxation	
To General Reserve (transfer)		By Net Profit during the year (as per P & L A/c)	
To Dividend Equalisation Fund (transfer)		By Transfer from Reserves, if any	
To Sinking Fund for Redemption of Debentures		By Bal. c/d to Balance Sheet	
To Transfer to other Reserves & Funds			
To Dividend (Interim or Final; Paid/or proposed)			
To Balance c/d to Balance Sheet			

Profit and Loss Appropriation Account is a part and parcel of Profit and Loss Account showing the disposal of divisible profits. The balance on this account is shown as a separate item in the Balance Sheet.

6. BALANCE SHEET

According to Section 210 of the Companies Act, a company is required to prepare a Balance Sheet at the end of each trading period. Section 211 requires the Balance Sheet to be set up in the prescribed form. This provision is not applicable to banking, insurance, electricity and the other companies governed by special Acts. The Central Government has also the power to exempt any class of companies from compliance with the requirement of the prescribed form if it deems to be in public interest. The object of prescribing the form is to elicit proper information from the company so as to give a 'true and fair' view of the state of the company's affairs. As a matter of fact both window dressing and creating secret reserves will be considered against the provisions of Section 211.

Section VI, Part I gives the prescribed form of a company's Balance Sheet. Notes and instructions regarding various items have been given in brackets below each item. It may be noted that if information required to be given under any of the items or sub-items in the prescribed form cannot be conveniently given on account of lack of space, it may be given in a separate schedule or schedules. Such schedules will be annexed to and form part of the Balance Sheet.

Schedule VI, Part I permits presentation of Balance Sheet both in horizontal as well as vertical forms. The forms with necessary notes, explanations, etc., are given below:

(A) HORIZONTAL FORM OF BALANCE SHEET

SCHEDULE VI PART I

(See Section 211)

Balance Sheet of ....(Here enter the name of the company) as on ....(Here enter the date as which the balance sheet is made out)

Figures for the previous year Rs.	Liabilities	Figures for the current year Rs.	Figures for the previous year Rs.	Assets	Figures for the current year Rs.
(1)	(2)	(3)	(4)	(5)	(6)
	Share Capital : Authorised......Shares of Rs........each Issued : (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class)....shares of Rs........each. Subscribed : (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class).......shares of Rs............each ....Rs.called up. (Of the above shares.........shares are allotted as fully paid up pursuant to a contract without payments being received in cash . Of the above shares......shares are allotted as fully paid up by way of bonus shares)			*Fixed Assets:* Distinguishing as for as possible between expenditure upon (a) goodwill (b) land (c) buildings (d) leaseholds (e) railway sidings (f) plant and machinery (g) furniture and fittings (h) development of property (i) patents, trade marks and designs (j) livestock, and (k) vehicles, etc. (Under each head the original cost and the additions thereto and deductions therefrom during the year, and the total depreciation written off or provided up to the end of the year is to be stated.	

(1)	(2)	(3)	(4)	(5)	(6)
	Specify the source from which bonus shares are issued, e.g.....capitalisation of profits or Reserves or from Shares Premium Account. *Less* : Calls unpaid (i) By Directors (ii) By Others *Add* : Forfeited shares (amount originally paid up) (Any capital profit on reissue of forfeited shares should be transferred to Capital Reserves). Notes : 1. Terms of redemption or conversion (if any) of any redeemable preference capital are to be stated together with earliest date of redemption or conversion. 2. Particulars of any option on unissued Share Capital are to be specified. 3. Particulars of the different classes of preference shares are to be given.			Depreciation written off or provided shall be allotted under the different asset heads and deducted in arriving at the value of Fixed Assets. In every case where the original cost can not be ascertained, without unreasonable expense or delay, the valuation shown by the books is to be given. For the purpose of this paragraph, such valuation shall be the net amount at which on asset stood in the company's books at the commencement of this Act after deduction of the amounts previously provided or written off for depreciation or diminution in value, and where any such asset is sold, the amount of sale proceeds shall be shown as deduction. Where sums have been written off on a reduction of capital or a revaluation of assets, every Balance Sheet, (after the first Balance Sheet) subsequent to the reduction or revaluation shall show the reduced figures with the date of the reduction in place of the original cost. Each Balance Sheet for the first five	

(1)	(2)	(3)	(4)	(5)	(6)
	These particulars are to be given alongwith Share Capital. In the case of subsidiary companies, the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries shall be separately stated in respect of Subscribed Share Capital. The auditor is not required to certify the correctness of such share-holdings as certified by the management). (1) Capital Reserves (2) Capital Redemption Reserves (3) Share Premium Account (showing details of its utilisation in the manner provided in Section 78 in the year of utilisation). (4) Other Reserves specifying the nature of each Reserve and the amount in respect thereof. *Less*: Debit balance in Profit and Loss Account (if any). (The debit balance in the Profit and Loss Account shall be shown as a deduction from the uncommitted			years subsequent to the date of the reduction, shall show also the amount of the reduction made. Similarly, where sums have been added by writing up the assets, every Balance Sheet subsequent to such writing up shall show the increased figures with the date of the increase in place of the original cost. Each Balance Sheet for the first five years subsequent to the date of the writing up shall also show the amount of increase made. Showing nature of investments and mode of valuation, for example, cost or market value, and distinguishing between: (1) Investments in Government or Trust Securities. (2) Investments in shares, debentures or bonds. (Showing separately shares fully paid up and partly paid up and also distinguishing the different classes of shares and showing also in similar details investments in shares, debentures or bonds of subsidiary companies). (3) Immovable properties.	

(1)	(2)	(3)	(4)	(5)	(6)
	reserves, if any). (5) Surplus, i.e., balance in Profit and Loss Account after providing for proposed allocations, namely: Dividend, Bonus or Reserves. (6) Proposed additions to Reserves. (7) Sinking Funds. Additions and deductions since last Balance Sheet to be shown, under each of the specified heads. The word "fund" in relation to any "Reserve" should be used only where such under Reserve is specifically represented by earmarked investments). *Secured Loans*: (1) Debentures. (2) Loans and Advances from Banks. (3) Loans and Advances from subsidiaries. (4) Other Loans and Advances. (Loans from directors and/or manager should be shown separately). Interest accrued and due on Secured Loans should be included under the appropriate sub-heads under the head			(4) Investments in the capital of partnership firms. (Aggregate amount of company's quoted Investments and also the market value thereof shall be shown). (Aggregate amount of company's unquoted investments shall also be shown). *Current Assets, Loans and Advances*: (A) CURRENT ASSETS : (1) Interest accrued on Investments. (2) Stores and spare parts. (3) Loose Tools. (4) Stock-in-trade. (5) Work-in-Progress. (In respect of (2) and (4), mode of valuation of stock shall be stated and the amount in respect of raw materials shall also be stated separately where practicable. Mode of valuation of work-in-progress shall be stated). (6) Sundry Debtors. (a) Debts outstanding for a period exceeding six months. (b) Other debts *Less* Provisions:	

(1)	(2)	(3)	(4)	(5)	(6)
	"Secured Loans."			(The amounts to be shown under Sundry Debtors shall include the amounts due in respect of goods sold or services rendered or in respect of other contractual obligations but shall not include the amounts which are in the nature of loans or advances).	
	The nature of security to be specified in each case.			In regard to Sundry Debtors particulars to be given separately of :	
	Where loans have been guaranteed by managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head.			(a) debts considered goods and in respect of which the company is fully secured; (b) debts considered good for which the company holds no security other than the debtor's personal security; and (c) debts considered doubtful or bad.	
	In case of Debentures, terms of redemption or conversion (if any) are to be stated together with earliest date of redemption or conversion.				
	Unsecured Loans : (1) Fixed Deposits. (2) Loans and Advances from subsidiaries. (3) Short Term Loan and Advances: (a) From Banks. (b) From Others. (Short term loans include those which are due for repayment not later than one year as at the date of the Balance Sheet. (4) Other Loans and Advances : (a) From Banks			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 directors is a partner or a director or a member to be separately stated. Debts due from other companies under the same management within the meaning of	

(1)	(2)	(3)	(4)	(5)	(6)
	(b) From Others (Loans from directors and/or manager should be shown separately). Interest accrued and due on Unsecured Loans should be included under the appropriate sub-heads under the head "Unsecured Loans." (Where Loans have been guaranteed by manager, and/or directors, a mention thereof shall also be made together with the aggregate amount of such loans under each head. This does not apply to Fixed Deposits). *Current Liabilities and Provisions:* A Current Liabilities: (1) Acceptance. (2) Sundry Creditors. (3) Subsidiary Companies. (4) Advance payments and unexpired discounts for the portion for which value has still to be given, e.g. in the case of the following companies: Newspaper, Fire Insurance, Theatres, Clubs, Banking, Steamship companies, etc.			sub-section (IB) of Section 370 to be disclosed with the names of the companies. The maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note. The Provision to be shown under this head should not exceed the amounrt of debts stated to be considered doubtful or bad and any surplus of such Provision, if already created, should be shown at every closing under "Reserves and Surplus" (in the Liabilities side) under a separate sub-head "Reserve for Doubtful or Bad Debts.") (7A) Cash balance on hand. (7B) Bank Balances: (a) with Scheduled Banks. (b) with others. (In regard to bank balances particulars to be given separately of - (a) the balance lying with Scheduled Banks on current accounts, call accounts and deposit accounts. (b) the names of the bankers other than Scheudled Banks and the balances	

(1)	(2)	(3)	(4)	(5)	(6)
	(5) Unclaimed Dividends. (6) Other Liabilites (if any), (7) Interest accrued but not due on loans. B. *Provisions* (8) Provision for Taxation. (9) Proposed Dividends. (10) For contingencies. (11) For Provident Fund Scheme (12) For insurance, pension and similar staff benefit schemes.amounts (13) Other provisions. A foot-note to the Balance Sheet may be added to show separately (1) Claims against the company not acknowledged as debts. (2) Uncalled liability on shares partly paid. (3) Arrears of fixed cumulative dividends. (The period for which the dividends are in arrears or if there is more than one class of shares, the dividends on each such class that are in arrear, shall be stated. The amount shall be stated			lying with each such banker on current account, call account and deposit account and the maximum amount outstanding at any time during the year with each such banker; and (c) the nature of the interest, if any, of any director or his relative in each of the bankers (other than Scheduled Banks referred to in (b) above] B) *Loans and Advances :* (8) (a) Advances and loans to subsidiaries. (b) Advances and loans to partnership firms in which the company or any of its subsidiaries is a partner. (9) Bill of Exchange. (10) Advances recoverable in cash or in kind or for value to be received,e . g. , Rates, Taxes, Insurance, etc. (11) Balances with Customs, Port Trust, etc. (where payable on demand). The instructions regarding Sundry Debtors apply to "Loans and Advances"	

(1)	(2)	(3)	(4)	(5)	(6)
	before deduction of income-tax, except that in the case of tax-free dividends the amount shall be shown free of income-tax and the fact that it is so shown shall be stated). (4) Estimated amount of contracts remaining to be executed on capital account and not provided for. (5) Other moneys for which the company is contingently liable. (The amount of any guarantees given by the company on behalf of directors or other officers of the company shall be stated and where practicable, the general nature and amount or each such contingent liability, if material, shall also be specified).			also . The amounts due from other companies under the same management within the meaning of sub-section (IB) of Section 370 should also be given with the name of the companies; the maximum amount due from every one of these at any time during the year must be shown). *Miscellaneous Expenditure :* (to the extent not written off or adjusted). (1) Preliminary expenses. (2) Expenses including commission or brokerage or underwriting or subscription of shares or debentures. (3) Discount allowed on the issue of shares or debentures. (4) Interest paid out of capital during construction (also stating the rate of Interest). (5) Development expenditure not adjusted. (6) Other sums (specifying nature). *Profit and Loss Account* (Show here the debit Balance of Profit and loss Account carried forward after deduction of the uncommitted reserves, if any).	

Notes :

(1) Paise can also be given in addition to Rupees, if desired.

(2) Dividends declared by subsidiary companies after the date of the Balance Sheet should not be included unless they are in respect of a period which closed on or before the date of the Balance Sheet.

(3) Any reference to benefits expected from contracts to the extent not executed shall not be made in the Balance Sheet but shall be made in the Board's report.

(4) Particulars of any redeemed debentures which the company has power to issues should be given.

(5) Where any of the company's debentures are hold by a nominee or a trustee for the company the nominal amount of the debentures and the amount at which they are stated in the books of the company shall be stated.

(6) A statement of investments (whether shown under "investment" or under "Current Assets " as Stock-in-Trade) separately classifying trade investments and other investments should be annexed to the Balance Sheet, showing the names of the bodies corporate (including separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments whether existing or not, made subsequent to the date as at which the previous Balance Sheet was made out) and the nature and extent of the investments so made in each such body corporate; provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock , debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which the Balance Sheet has been made out. In regard

to the 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 in the statement.

(7) If, in the opinion of the Board, any of the current assets, loans and advances have not a value on realisation in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion shall be stated.

(8) Except in the case of the first Balance Sheet laid before the company after the commencement of the Act, the corresponding amounts of the immediately preceding financial year for all items shown in the Balance Sheet shall be also given in the Balance Sheet. The requirements in this behalf shall, in case of companies preparing quarterly or half-yearly accounts, etc., relate to the Balance Sheet for the corresponding date in the previous year.

(9) Current accounts with Directors and Manager, whether they are credit or debit, shall be shown separately.

(10) The information required to be given under any of the items or sub-items in the Form, if it cannot be conveniently included in the Balance Sheet itself, shall be furnished in a separate Schedule or Schedules to be annexed to and forming part of the Balance Sheet. This is recommended when items are numerous.

(11) Where the original cost (of fixed assets) and additions and deductions thereto, relate to any fixed asset which has been acquired from a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such assets, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset, or for repayment of the whole or a

part of monies borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the assets (being in either cases the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed assets.

Explanation :1. This paragraph shall apply in relation to all Balance Sheet that may be made out as at the 6th day of June 1966, or any day thereafter and where, at the date of issue of the notification of the Government of India, in the Ministry of Industrial Development and Company Affairs (Department of Company Affairs), G.S.R.No.129, dated the 3rd day of January, 1968, any Balance Sheet in relation to which the paragraph applied, has already been made out and laid before the company in annual general meeting, the adjustment referred to in this paragraph may be made in the first Balance Sheet made out after the issue of the said notification.

Explanation 2: In this paragraph, unless the context otherwise requires, the expression "rate of exchange", "Foreign currency" and "Indian currency" shall have the meanings respectively assigned to them Under Subsection (1) of Section 43A of the Income-tax Act, 1961 (43 of 1961), and Explanation 2 and Explanation 3 of the said sub-section shall as far as may apply in relation to the said paragraph as they apply to the said sub-section (1).

B) VERTICAL FORM OF BALANCE SHEET

Vertical form of Balance Sheet inserted as Part B of Part I of Schedule VI to the Companies Act 1956 by G.S.R. No.220(E) dated 12.3.1979 is as follows :

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

1	Schedule No. 2	Figures as at all the end of current financial year 3	Figures as the end of previous financial year 4
1. *Source of Funds*			
(1) Shareholder's funds:			
(a) Capital			
(b) Reserves and surplus			
(2) Loans funds :			
(a) Secured loans			
(b) Unsecured loans			
Total			
II. *Application of Funds*			
(1) Fixed assets :			
(a) Gross block			
(b) *Less* : depreciation			
(c) Net block			
(d) Capital work-in-progress			
(2) Investments			
(3) Current assets, loans and advances :			
(a) Inventories			
(b) Sundry debtors			
(c) Cash and Bank balance			
(d) Other current assets			
(e) Loans and advances			
Less:			
Current liabilities & provisions			
(a) Liabilities			
(b) Provisions			
Net current assets.			
(4) (a) Miscellaneous Expenditure to the extent not written off or adjusted			
(b) Profit and Loss Account			
Total			

Notes :

1. Details under each of the items in Vertical Balance Sheet be given in separate Schedules.
2. The Schedules referred to above, accounting policies and explanatory notes that may be attached shall form an integral part of the Balance Sheet.
3. The figures in the Balance Sheet may be rounded off to the nearest '000 or '00 as may be convenient or may be expressed in terms of decimals of thousands.
4. A foot note to the Balance Sheet may be added to show separately contingent liabilities.

In India, a joint stock company can prepare its Balance Sheet either in horizontal or vertical form. Of the two forms of the Balance Sheet, vertical form is a better form because it speaks out the correlation of every item with the other items and conveys more meaning to the layman.

6. SOME SPECIAL POINTS TO BE NOTED WHILE PREPARING FINAL ACCOUNTS

(1) Interest on Debentures

Debentures carry a fixed rate of interest. Profit or no profit, interest on debentures must be paid and debited to Profit and Loss A/c. If the Trial Balance does not indicate the payment of interest at all or in full the unpaid amount is to be shown in the Balance Sheet alongwith Debentures, if it is outstanding or under 'Current Liabilities', if it is accrued.

(2) Interest on Investment

Interest for the full period or for the period of investments standing in the books must be provided for and credited to Profit and Loss A/c.

(3) **Discount on Debentures/Shares, Preliminary Expenses, Underwriting Commission, Advertising Suspense A/c etc.**

The amount asked to be written off should be debited to Profit and Loss A/c and remaining balance (i.e. to the extent not written off) should be shown in the Balance Sheet under the heading,"Miscellaneous Expenditure".

(4) **Profit on sale of Fixed Assets**

Profit on sale of asset should be treated as Capital Profits, and shown under the heading "Reserves and Surplus" on the liabilities side.

(5) **Debenture Interest and Dividend Paid - Less Tax X%**

Companies are required to deduct Income-tax at source. The amount deducted from Debenture interest or Dividend (by way of tax deducted at source) is payable to Government. Debit Profit and Loss A/c with the gross amount (100%) and Tax-deducted at source is to be shown under "Current Liabilities".

(6) **Receipts of Interest/dividend - less Tax X%**

Sometimes company receives interest or dividend from other company-less tax, deducted at source. Amount deducted at source is advance payment of tax Credit Profit and Loss A/c with the amount of gross income (100%) and Tax deducted at source to be shown on asset side under the heading "Loans and Advance" or to be adjusted against tax payable by the company.

(7) **Depreciation of Fixed Assets**

According to the requirements of the Companies Act, fixed assets are to be shown in the Balance Sheet at their cost price less depreciation written off the date of purchase of asset to the date of Balance Sheet. If Depreciation Fund is given in he Trial Balance it is to be deducted from the respective assets.

(8) **Interest on Sinking Fund Investments**

Interest received on sinking fund investments is to be credited to Sinking Fund for Redemption of Debentures and not Profit and Loss A/c.

(9) **Calls-in-Advance & Share Forfeited A/c**

Calls in-Advance A/c is shown in the Balance Sheet on the liability side under the heading "Share Capital" or under "Unsecured Loans".

If the forfeited shares are not reissued then the balance on Share Forfeited A/c is to be shown under the heading 'Subscribed Capital' on the liability side as addition thereto.

(10) **Share premium A/c**

This is shown on the liability side of the Balance Sheet under the heading, "Reserves and Surplus".

(11) **Provision for Taxation**

(a) Provision for taxation to be made in the current year (given in the adjustment) is to be debited to Profit and Loss A/c.

(b) If given in the Trial Balance : (Previous Year's)

(i) If no payment of tax is made, then this provision plus current year's provision to be shown under the heading "Provisions" on the liability side of the Balance Sheet.

(ii) If payment of tax is also shown in the Trial Balance, the amount paid is to be deducted from the amount of provision for taxation and if there is any balance of provision for taxation it is to be credited to Profit & Loss Appropriation A/c. If the provision made (last year's) is less than the actual Income-tax paid for the last year, it is adjusted against (i.e. balance) current year's provision to be made).

(12) Dividend

The share in the profits payable to shareholders is known as Dividend. A dividend once declared , becomes a debt. Dividend is paid out of profits on paid-up capital of the company. Calls-in-Advance cannot be treated as part of paid up capital for declaration of dividends.

(a) Proposed Dividend : Unless otherwise stated, the dividend at given rate is calculated on paid-up capital and it is (amount of proposed dividend) is debited to Profit and Loss A/c Appropriation A/c and shown on the liability side of the Balance Sheet under the heading "Provisions".

(b) Interim Dividend : An Interim Dividend is a dividend paid by the directors at any time between two annual general meetings. It is always debited to Profit and Loss Appropriation A/c. The interim dividend is usually paid for a period of six months. Its calculation depends upon the language of the rate of dividend.

The directors may recommend another dividend when the final figures of profits are available. Such dividend is known as final dividend. When final dividend is declared, interim dividend is not adjusted unless the resolution specifies otherwise.

(c) Unclaimed Dividend : Dividend declared but not claimed by some shareholders for some reason, such amount of dividend (not claimed) is known as "Unclaimed Dividend". It is always shown on the liability side of the Balance Sheet under the heading "Current Liabilities ".

(13) Managerial Remuneration

The total managerial remuneration payable by a company to its managerial personnel for any financial year must not exceed eleven per cent of the net profits of the company of that financial year. In any year if profits are inadequate then the company, with the approval of the Central Govt.

may pay by way of minimum remuneration up to Rs.50,000. Net profits of the company for this purpose are to be computed as per Sections 349-351.

ILLUSTRATION I : The following balances appeared in the books of Moon light Co. Ltd. as on 31st March, 1999.

	Dr.	Cr.
Issued, Subscribed and Paid up Capital :	Rs.	Rs.
(60,000 Equity shares of Rs.10 each)		6,00,000
General Reserve		2,50,000
Unclaimed dividends		6,526
Trade creditors		36,858
Building	1,00,000	
Purchases	5,00,903	
Sales		9,83,947
Manufacturing expenses	3,59,000	
Establishment	26,814	
General Charges	31,078	
Machinery	2,00,000	
Motor vehicles	15,000	
Furniture	5,000	
Opening Stock	1,72,058	
Book debts	2,23,380	
Investments	2,88,950	
Depreciation reserve		71,000
Cash	72,240	
Director's fees	1,800	
Interim dividend	15,000	
Interest on investments		8,544
Profit & Loss A/c Ist April 1998		16,848
Staff provident fund		37,500
	20,11,223	20,11,223

From these balances and the following information, prepare the company's Balance Sheet as on 31st March, 1999 and its Profit and Loss Account for the year ended on that date.

(a) The stock on 31st March, 1999 was valued at Rs.1,48,680.

(b) Provide Rs.10,000 for depreciation on fixed assets, Rs.6,500 for managing director's commission and Rs.1,500 for the company's contribution to the staff provided fund.

(c) Interest accrued on investments amounted to Rs.2,750.

(d) A provision of Rs.8,000 for taxes in respect of the profit for 1998-99 is considered necessary.

(e) The directors propose a final dividend @ 4%.

(f) A claim of Rs.2,500 for workmen's compensation is being disputed by the company.

Solution

Moonlight Co. Ltd.

Trading and Profit and Loss Account for the year ended 31st March, 1999

Dr. Cr.

	Rs.			Rs.
To Opening stock	1,72,058	By Sales		9,83,947
To Purchases	5,00,903	By Closing Stock		1,48,680
To Manufacturing Exp.	3,59,000			
To Gross profit transferred to Profit & Loss Account	1,00,666			
	11,32,627			11,32,627
To Establishment Exp.	26,814	By Gross profit		1,00,666
To General charges	31,078	By Interest on		
To Directors fees	1,800	Investment	8,544	
To Depreciation reserve	10,000	Add Interest		
To Commission to managing director	6,500	accrued	2,750	11,294
To Staff Provident fund	1,500			
To Provision for taxation	8,000			
To Net profit transferred to Profit & Loss App. A/c	26,268			
	1,11,960			1,11,960

Profit and Loss Appropriation Account

To Interim dividend	15,000	By balance b/d	16,848
To proposed dividend	24,000	By Net Profit for the year	26,268
To balance c/d	4,116		
	43,116		43,116

Moonlight Co. Ltd.

Balance Sheet as on 31st March, 1999

Share Capital	Rs.	*Fixed Assets*		Rs.
Authorised		Buildings	1,00,000	
60,000 Equity shares of		Machinery	2,00,000	
Rs. 10 each	6,00,000	Furniture	5,000	
Issued and Subscribed		Motor vehicles	15,000	
60,000 Equity shares of			3,20,000	
Rs. 10 each	6,00,000	*Less* Depreciation		
Reserve & Surplus	2,50,000	reserve	81,000	2,39,000
Profit and loss account	4,116	*Investments*		2,88,950
Secured loans	Nil	*Current Asses, Loans*		
Unsecured loans	Nil	*and Advances*		
Current liabilities and		(A) *Current Assets*		
Provisions		Interest accrued on		
(A) *Current Liabilities*		Investments		2,750
Trade creditors	36,858	Stock		1,48,680
Unclaimed dividends	6,526	Book debts		2,23,380
Commission to managing		Cash		72,240
director	6,500	(B) *Loans & Advances*		Nil
(B) *Provisions*		Misc. Expenditure		Nil
Staff provident fund	39,000			
Provision for taxation 8,000				
Proposed dividend	24,000			
	9,75,000			9,75,000

Contingent Liabilities : Claim of Rs. 2,500 for workmen's compensation is being disputed by the company.

8. SUMMARY

The procedure of finalisation of accounts of companies is similar to that of a non-corporate entity except for certain legal requirements and certain peculiar items in case of company final accounts. Section 211 of the Companies Act deals with preparation and presentation of final accounts of companies. Part II of Schedule VI deals with the preparation of the Profit and Loss Account of Companies and Provision Contained therein hold good for the Income and Expenditure Account prepared by non-profit organisations. In India, a company can prepare its balance sheet either in horizontal or vertical form. Of the two forms of the balance sheet, vertical form is a better form because it speaks out the correlation of every item with the other item and conveys more meaning to the layman.

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