

6

CHAPTER

FINANCIAL STATEMENTS OF COMPANIES

LEARNING OBJECTIVES

After studying this chapter, the students will be able to understand :

- *Format of Statement of Profit and Loss and Balance Sheet*
- *Accounts related to current tax, advance tax, tax payable, etc.*
- *Deferred tax*
- *Provisions relating to disposal of profits, particularly dividends*
- *Preparation of Statement of Profit and Loss and Balance Sheet.*

FINANCIAL STATEMENT

Meaning of Financial Statement

“According to S. 2(40) financial statement in relation to a company, includes—

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year; and
- (iv) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv).

However, the financial statement, with respect to One Person Company, small company and dormant company (S. 455) may not include cash flow statement.

Meaning of Financial Year

According to S. 2(41), financial year, in relation to any company or body corporate, means the period ending on the 31st day of March every year. Where a company has been

incorporated on or after 1st day of January of a year, the first financial year will end on 31st day of March of the following year.

If a company or body corporate which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year.

Types of Financial statements on the Basis of Period

The following are the two types of financial statements:

1. Annual financial statements: These are prepared once in a financial year
2. Quarterly financial statements: These are prepared by listed companies on quarterly basis as per SEBI requirements.

Legal Requirements related to Financial Statements as provided in S. 129

Sections 128 to 138 deal with financial requirements. The following are the legal requirements as provided in section 129:

Section 129(1) of the Companies Act, 2013 provides that the financial statements *(i)* shall give a true and fair view of the state of affairs of the company or companies, *(ii)* comply with the accounting standards notified under S. 133, *(iii)* shall be in the form or forms as may be provided for different class or classes of companies in Schedule III and *(iv)* the items contained in such financial statements shall be in accordance with the accounting standards.

However, the aforesaid provisions of S. 129(1) shall not 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 form of financial statement has been specified in or under the Act governing such class of company.

Section 129(2) provides that at every general meeting of a company, the Board of Directors of the Company shall lay before such meeting financial statements for the financial year.

Section 129(3) provides that where a company has one or subsidiaries or associate companies, it shall, in addition to standalone financial statement prepared under section 129(2), prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies. The consolidated financial statement shall be prepared by the company in the same form and manner as that of its own and in accordance with applicable standards. The consolidated financial statement shall also be laid before the annual general meeting of the company along with the laying of the standalone financial statement.

Section 129(4) states that the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis*, apply to the consolidated financial statements referred in S. 129(3).

Section 129(5) provides that where the financial statements of a company do not comply with the accounting standards referred to in S. 129(1), the company shall disclose in its

financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

Section 129(6) empowers the Central Government to exempt any class or classes of companies from complying with any of the requirements of S. 129 or rules made thereunder, if it is considered necessary to grant such exemption in the public interest.

The Central Government may, by notification, constitute a *National Financial Reporting Authority* to provide for matters relating to accounting and auditing standards under the Companies Act, 2013 [S. 132].

The Central Government may prescribe the **standards of accounting** or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority [S. 133].

SCHEDULE III TO THE COMPANIES ACT, 2013

Schedule III of the Companies Act, 2013 provides the manner in which every company registered under the Act shall prepare its Statement of Profit and Loss, Balance Sheet and Notes to the financial statements. There was a need of enhancing the disclosure requirements under the Old Schedule VI to the Companies Act, 1956 to harmonise them with the notified accounting standards. Therefore, the Ministry of Corporate Affairs issued a revised form of Schedule VI, *vide* Notification No. S.O. 447(E), dated February 28, 2011. *The Revised Schedule VI to the Companies Act, 1956 was applicable to the companies for the Financial Statements to be prepared for the financial year commencing on or after April 1, 2011. As per the new Companies Act, 2013 this has been numbered as Schedule III.*

General Instructions for Preparation of Financial Statements

1. Overriding status to other requirements of the Companies Act and to the Accounting Standards: Schedule III of the Companies Act, 2013 Act provides that where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/sub-head or any changes *inter se*, in the Financial Statements or statements forming part thereof, the same shall be made and the requirements of the Schedule III shall stand modified accordingly. **Thus, the Schedule III of the Companies Act, 2013 gives overriding status to the other requirements of the Companies Act, 2013 and the Accounting Standards as applicable to the companies. In other words, the requirements of the Accounting Standards and other provisions of the Companies Act would prevail over the Schedule.**

2. Disclosure requirements of the Schedule III are in addition to and not in substitution of disclosure requirements of the Accounting Standards : *Disclosure requirements specified in Part I (Form of Balance Sheet) and Part II (Form of Statement of Profit and Loss Account) of the Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the Notes to Accounts or by way of additional statement unless required to be disclosed on*

the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the Notes to Accounts in addition to the requirements set out in the Schedule.

3. Notes to Accounts shall contain information in addition to that presented in Financial Statements: The Notes to Accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required (a) narrative descriptions or disaggregations of items recognized in those statements and (b) information about items that do not qualify for recognition in those statements. These items normally include contingent liabilities and commitments which are not shown on the face of the Balance Sheet.

It further provides that each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes to Accounts. In preparing the Financial Statements including the Notes to Accounts, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

The manner of cross reference has been changed to “Note No.” as compared to “Schedule No.”

4. New norms of rounding off: New norms of rounding off have been introduced depending upon the turnover of the company. The figures appearing in the Financial Statements may be rounded off as below :

<i>Turnover</i>	<i>Rounding off</i>
(i) less than one hundred crores rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(ii) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

However, it is not compulsory to round off the figures.

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

6. Terms used in the Schedule: The terms used in the Schedule shall be as per the applicable Accounting Standards.

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