

ANNEXURE

[See PARA (89)]

ACCOUNTS

The Institute of Chartered Accountants of India furnished us a detailed memorandum containing the results of their examination of the requirements of the balance-sheet and profit and loss account as set out in Schedule VI. We have generally accepted their suggestions, as we found there was considerable weight of opinion for adhering to the pattern of a prescribed form of balance-sheet adopted in the Companies Act. It has been brought to our notice, however, that there are some technical accounting defects in the present classification and, besides rectifying these, there would also be advantage in stream-lining to some extent the headings of the balance sheet. We are setting out here the nature of the changes which we suggest be made in Part I of Schedule VI for this purpose and at the same time to help the draftsman we have attached a copy of the balance-sheet form as proposed to be revised by us. We appreciate that section 211 gives the administration considerable flexibility in the matter of meeting difficulties encountered by particular companies or classes of companies in complying with the statutory form. Inasmuch as the Schedule can be altered by notification of Government, any further difficulties that might arise, even after companies have begun to adopt the slightly revised form that we have suggested, can be met by making such changes as would be found necessary in the light of subsequent practical experience.

A suggestion has been made that the present headings "Assets" and "Liabilities" shown in the form of the balance sheet as prescribed by Schedule VI are inappropriate and unnecessary and had better be omitted. Though this criticism is in accord with current accounting thought, it has to be admitted that a layman is not normally interested in the technical intricacies of accounting and it is doubtful whether the present headings have caused any confusion. On the other hand, the average shareholder has been used to such headings and we do not feel that the time has yet come for omitting them altogether.

The following are the changes to be made in the form of the balance sheet:—

- (1) Numbering of the major headings may be dropped, but they will continue to be shown distinctly in capitals.

2. *Share Capital* :

- (a) The words "of the above shares shares are allotted as fully paid up by way of bonus shares" be replaced by the words "of the above shares shares are allotted as fully paid up by way of bonus or other shares by way of capitalisation of profits or reserves or/and from share premium account."
- (b) "Issued Capital" be also shown separately in similar manner as Subscribed Capital.
- (c) A note be given in the margin requiring the showing of different classes of Preference Capital separately.
- (d) In the heading "Add Forefeited shares," delete the words and brackets "(amount paid up)".
3. The heading "Share Premium Account" may be transferred from "Share Capital" to "Reserves and Surplus" as item (3).
4. *Reserves and Surplus* : Item (2).—The word "Fund" should be deleted and the word "Account" substituted.

Item (3).—As suggested above, this should read "Share Premium Account" and the present item (3) changed to item (4).

Item (4).—The word "fund" should be changed to "Reserve" and the numbering be changed to (5).

Item (5) should be changed to item (6).

Item (6) should be changed to item (7).

Item (7) should be transferred to "Current Liabilities and Provisions" as item "(14) other provisions" under the proposed sub-major head "B. Provisions".

Item (8) remains as item (8).

Item (9) should be transferred under "Current Liabilities and Provisions" as item "(13) For Insurance, Pension, and similar Staff Benefit Schemes" under the proposed sub-major head "B. Provisions".

A marginal note should be inserted against the heading "Reserves and Surplus" to the effect that the word "Fund" in relation to any reserve should be used only where such reserve is specifically represented by readily realizable and earmarked assets.

5. *Secured Loans*.—A note should be added in the margin requiring disclosure of similar information as under Redeemable Preference Shares so far as Debentures are concerned.

6. *Unsecured Loans*.—A note similar to the existing note against Secured Loans should be added.

7. *Current Liabilities and Provisions.*—This should be split up in to—

- (A) Current Liabilities; and
- (B) Provisions.

Under “Current Liabilities,” items (1), (2), (5), (6), (8), (9), (10) and (11) should be re-numbered as items (1) to (8) and items (3) and (4) as (9) and (10).

Under “Provisions”, will stand included the following detailed headings:—

- (11) For contingencies.
- (12) For Provident Fund Scheme.
- (13) For Insurance, Pension and similar Staff Benefit Schemes.
- (14) Other provisions.

8. A foot-note to the balance sheet should be added to show separately the following, and the major heading “Contingent Liabilities Not Provided for” deleted:—

- (1) Claims against the company not acknowledged as debts.
- (2) Uncalled liability on shares partly paid.
- (3) Arrears of fixed cumulative dividends.
- (4) Estimated amount of contracts remaining to be executed on capital account and not provided for.
- (5) Other money for which the company is contingently liable.

9. *Investments.*—Item (3) should be deleted and at the end of the words in brackets in item (2) the following should be added:—
and showing in similar detail separately investments in shares, debentures and bonds of subsidiary companies”.

Item (4) Immovable Property should be re-numbered as (3).

10. The existing main heads III and IV should be grouped as a major head “Current Assets and Loans and Advances” with sub-major heads—

- (A) Current Assets ; and
- (B) Loans and Advances

11. The existing major head “Interest Accrued on Investments” should be transferred as a detailed head—item (1)—under “Current Assets”, the existing items (1) to (5) being re-numbered as (2) to

(6). The major head "V. Cash and Bank Balances" should also be added instead as a detailed head—item (7)—under "Current Assets". The detailed head re-numbered as item (6). "Sundry Debtors" should be split up into the following sub-detailed heads:—

- (a) Debts outstanding for a period exceeding six months.
- (b) Other debts.

A marginal note may be added against "Sundry Debtors" as follows:—

"The reserves to be shown under this head should not exceed the amount of debts stated to be considered doubtful or bad and any surplus of such reserves, if already created, should be shown at every closing under "Reserves and Surplus" under a separate head "Reserve for Doubtful or Bad Debts".

13. Under "Loans and Advances", a new item (8) "Advances and Loans to Subsidiaries" may be added and the existing items (1) to (4) should be re-numbered as (9) to (12).

13. The group heading "Miscellaneous Expenditure and Losses" should be split up into the following major headings:—

- "Miscellaneous Expenditure" ; and
- "Profit and Loss Account."

Under the former, the existing detailed items (1) to (4) should be included along with two new items, namely, items "(5) Development expenditure not adjusted", and "(6) Other items (specifying nature)."

The existing item (5) should be omitted in view of the inclusion of the new major head "Profit and Loss Account—Loss brought forward/*Less* Reserves set off."

14. In Note (c) to the form of the balance sheet, the cross reference should be to the heading "Share Capital" instead of to "Investments" as at present.

A further addition should be made at the end of this Note as follows:—

"The auditor is not required to certify the correctness of such share holdings as certified by the management."

15. A Note (cc) should be added after the present Note (c) as follows:—

"(cc) The item 'Share Premium Account' shall include full details of its utilization in the manner provided in section 78."

16. Note (g):—The words "to the extent" should be added between the word "contracts" and the words "not executed".

17. Note (h) :—After] the words “General Reserve” the words “if any,” should be added and the rest of the note should be deleted.

18. Note (l) :—The following should be added at the end:—

“A trade investment means an investment by a company in the shares or debentures of another company, not being its subsidiary for the purpose of promoting the trade or business of the first company”.

19. Note (o):—The concluding sentence should be deleted.

20. A new note should be added as follows:—

“(p) Advances by directors, managing agent, secretaries and treasurers, manager as also balances on current account with them, whether they are in credit or in debit, shall be shown separately.”

Revised form of Balance Sheet as recommended by the Committee

See Annexure
SCHEDULE VI
 [See section 211]

PART I
 Form of balance sheet

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

Instructions in accordance with which liabilities should be made out	Liabilities		Assets		Instructions in accordance with which assets should be made out
	Figures for the previous year	Figures for the current year	Figures for the previous year	Figures for the current year	
<p>*Terms of redemption or conversion (if any) of any Redeemable Preference Capital to be stated, together with earliest date of redemption or conversion.</p> <p>Particulars of any operation on unissued share capital to be specified.</p> <p>Particulars of the different classes of preference shares to be given.</p>	Rs. (b)	Rs. (b)	Rs. (b)	Rs. (b)	<p>*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 to be stated.</p> <p>In case where original cost cannot be ascertained, the valuation shown by the books shall be given and where any of the assets are sold and the original cost in respect thereof is not ascertainable, the amount of the sale proceeds shall be shown as deduction.</p>
	<p>*SHARE CAPITAL: Authorised..... shares of Rs..... each. †Issued (distinguishing 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.) (c) shares of Rs..... each.</p>	<p>*FIXED ASSETS : Distinguishing as far 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) live-stock and (k) vehicles etc.</p>			

Rs. called up.
 Of the above shares,
 shares are allotted as
 fully paid up pursuant
 to a contract without
 payments being re-
 ceived in cash.
 Of the above shares,
 shares are allotted as
 fully paid up by
 way of bonus shares
 or other shares by way
 of capitalisation of pro-
 fits or reserves or /and
 from share premium
 account.

Less : Calls unpaid :

(i) By managing agents
 or Secretaries and
 treasurers and where
 the managing agent
 or secretaries and
 treasurers are a firm,
 by the partners there-
 of, and where the
 managing agent or
 secretaries and trea-
 surers are a private
 company, by the
 directors or members
 of that company.

(ii) By directors.

(iii) By others.

Add Forfeited shares

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
 and with the date of the re-
 duction in place of the ori-
 ginal cost.

Each Balance Sheet for the
 first five 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

Instructions in accordance with which liabilities should be made out	Liabilities	Assets	Instructions in accordance with which assets should be made out
Figures for the previous year.	Figures for the current year.	Figures for the previous year.	Figures for the current year.
Rs. (b)	Rs. (b)	Rs. (b)	Rs. (b)
<p>Additions and deductions since last Balance Sheet to be shown, under each of the specified heads.</p> <p>The word "fund" in relation to any "Reserve" should be used only where such Reserve is specifically represented by readily reliable and earmarked assets.</p>	<p>RESERVES AND SURPLUS :</p> <p>(1) Capital Reserves not available for Dividend.</p> <p>(2) Capital Redemption Reserve.</p> <p>(3) Share Premium Account (cc)</p> <p>(4) Other Reserves specifying the nature of each reserve and the amount in respect thereof.</p> <p>Less : Debit balance in Profit and Loss Account (if any).</p> <p>(5) Any other Reserve created out of Net Profit.</p> <p>(6) Surplus that is balance in Profit and Loss Account after providing for proposed allocations, viz., Di-</p>	<p>INVESTMENTS :</p> <p>Showing nature of investments and mode of valuation, for example cost or market value and distinguishing between—</p> <p>* (1) Investments in Government or Trust Securities.</p> <p>(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</p>	<p>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 writing up shall also show the amount of increase made.</p> <p>* 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.</p>

vidend, Bonus or Reserves.
 (7) Proposed additions to reserves.
 (8) Sinking Funds.

SECURED LOANS
 *(1) Debentures from Banks.
 *(3) Loans and Advances from subsidiaries.
 *(4) Other Loans and Advances.

*The nature of the security to be specified in each case.

Where loans have been guaranteed by managing agents, secretaries and treasurers managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head.
 †Terms of redemption or conversion (if any) of debentures issued to be stated together with earliest date of redemption or conversion.

and showing also in similar details investments in shares, debentures or bonds of subsidiary companies.
 (3) Immovable properties.

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) Works in Progress.
 †(6) Sundry Debtors.
 (a) Debts outstanding for a period exceeding six months.
 (b) Other debts.
 Less: Reserve.
 †(7) Cash and bank balances.

††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 works-in-progress shall be stated.

†In regard to Sundry Debtors particulars to be given separately of—(a) debts considered good and in respect of which the company is fully secured; and (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.

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 res-

Instructions in accordance with which liabilities should be made out	Liabilities		Assets		Instructions in accordance with which assets should be made out
	Figures for the previous year	Figures for the current year	Figures for the previous year	Figures for the current year	
	Rs. (b)	Rs. (b)	Rs. (b)	Rs. (b)	<p>pectively in which any director or a member or a separately stated. Debts due from other companies under the same management to be disclosed with the names of the companies (<i>vide</i> section 370).</p> <p>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.</p>
					<p>The Reserves to be shown under this head should not exceed the amount of debts stated to be considered doubtful or bad and any surplus of such Reserves, 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".</p>

†The balances lying with bankers on current accounts, call accounts and deposit accounts shall be shown separately.

†The above instructions regarding "Sundry Debtors" apply to "Loans and Advances" also. In addition, Loans and Advances to subsidiary companies shall be separately stated.

UNSECURED LOANS:

- (1) Fixed Deposits.
- †(2) Loans and Advances from subsidiaries.
- †*(3) Short Term Loans and Advances:
 - (a) From Banks.
 - (b) From others.
- †(4) Other Loans and Advances:
 - (a) From Banks.
 - (b) From others.

†Where loans have been guaranteed by managing agents, secretaries and treasurers, managers, and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head.

*See note (d) at foot of form.

CURRENT LIABILITIES AND PROVISIONS:

- A. Current Liabilities
- (1) Acceptances.
- (2) Sundry Creditors.
- (3) Subsidiary Companies.
- (4) Provision for Taxation.
- (5) Proposed Dividends.
- (6) Advance Payments and Un-expired Discounts for the portion for which value has still to be given e.g., in the case of the following classes of companies:
 - (Newspaper, Fire Insurance, Theatre, Clubs, Banking, Steamship Companies etc.)

†(B). Loans and Advances.

- (8) Advances and Loans to Subsidiaries.
- (9) Bills of Exchange.
- (10) Advances recoverable in cash or in kind or for value to be received, e.g., Rates, Taxes, Insurance, etc.
- (11) Balances on current account with Managing Agents or Secretaries & Treasurers.
- (12) Balances with Port Trust, etc. (where payable on demand).

Instructions in accordance with which liabilities should be made out	Liabilities		Assets		Instructions in accordance with which assets should be made out
Figures for the previous year	Figures for the current year	Figures for the previous year	Figures for the current year		
Rs. (b)	Rs. (b)	Rs. (b)	Rs. (b)		
	(7) Unclaimed Dividends. (8) Other Liabilities (if any). (9) Interest accrued and accruing on secured loans. (10) Interest accrued and accruing on unsecured loans. B. Provisions. (11) For contingencies. (12) For Provident Fund schemes. (13) For insurance, pension and similar staff benefit schemes. (14) Other provisions.				
††The period for which the dividends are in arrear or if there is more than one class of shares, the dividends on each such class are in arrear, shall be stated.	[A footnote 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 amount shall be stated 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.

††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 of each such contingent liability, if material, shall also be specified.

(4) Estimated amount of contracts remaining to be executed on capital account and not provided for.

††(5) Other money for which the company is contingently liable.]

MISCELLANEOUS EXPENDITURE (to the extent not written off):

- (1) Preliminary expenses.
- (2) Expenses including commission or brokerage on 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 items (specifying nature).

PROFIT AND LOSS ACCOUNT.

Loss brought forward
Less Reserves set off.

NOTES

General instructions for preparation of balance sheet.—(a) The information required to be given under any of the items or sub-items in this 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 to form part of the Balance Sheet. This is recommended when items are numerous.

(b) Annas and pies can also be given in addition to Rupees, if desired.

(c) In the case of subsidiary companies etc., the number of shares held by the ultimate holding company and its subsidiaries must be separately stated.

The auditor is not required to certify the correctness of such share-holdings as certified by the management.

(cc) The item "Share Premium Account" shall include full details of its utilization in the manner provided in section 78.

(d) Short Term Loans will include those which are due for not more than one year as at the date of the Balance Sheet.

(e) Depreciation written off or provided shall be allocated under the different asset heads and deducted in arriving at the value of Fixed Assets.

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

(g) 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.

(h) The debit balance in the Profit and Loss Account shall be set off against the General Reserve, if any.

(i) As regards Loans and Advances, amounts due by the Managing Agents or Secretaries and Treasurers, either severally or jointly with any other persons, to be separately stated; the amounts due from other companies under the same management should also be given with the names of the companies *vide* section 370; the maximum amount due from every one of these at any time during the year must be shown.

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

(k) Where any of the company's debentures are held 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.

(l) A list of Investments separately classifying Trade Investments and Other Investments should be attached to the Balance Sheet stating the names of the bodies corporate (with the names of their managing agents or secretaries and treasurers, if any) in whose shares, debentures or

bonds, investments have been made and also stating the amounts in respect of each item ; provided however that it shall not be necessary to give such particulars (a) in respect of Investments made by Managing Agency companies in managed companies' shares, debentures or bonds, or (b) in respect of Investments made by Investment companies, provided that particulars in respect of Investments in shares of Private Companies shall be given. The amount in respect of the holdings by Investment Companies in unquoted share or shares of private limited companies shall be separately stated, specifying the name of each such company and the amount invested therein.

A "Trade Investment" means an investment by a company in the shares or debentures of another company, not being its subsidiary, for the purpose of promoting the trade or business of the first company.

(#) If, in the opinion of the Board, any of the current assets 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.

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

(o) 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.

(p) Advances by Directors, Managing Agents, Secretaries and Treasurers, Managers as also balances on current account with them whether they are in credit or debit shall be shown separately.

PART II

Profit and Loss Account

1. 3(iii) : For the words "works remained to be executed" the words "such works have been completed" should be substituted.
2. 3(v) : The words "paid or payable" should be substituted for the word "payable".
3. 3(x)(d) and (e) : The following may be added as an Explanation:—"Expenditure under various heads such as Salaries and Wages, Stores, etc. should be allocated Repairs Accounts and the aggregate figures allocated under each such head should also be indicated by way of note".
(f) (3) : The item should be modified by adding "to the extent not provided from any previous provision or reserve" and require the information to be given in the Balance Sheet under the relevant provision or reserve account.
4. 3(xii) (a) : The item should be modified by adding "to the extent not provided from any previous provision or reserve" and require the information to be given in the Balance Sheet under the relevant provision or reserve account.
5. A note should be added requiring the Board of Directors to furnish to the auditors statements in writing which are to be required to be supplied to the Board by all persons who receive remuneration required to be disclosed to the company in the form prescribed for the purpose (draft form appended).

Schedule VI, Part II, Clause (4)

The opening sentence should be revised as follows :—

"To comply with the requirements of section 362 (A), the profit and loss account shall also contain or give by way of note detailed information in regard to the following matters

(inclusive of payments to Managerial personnel as per form hereto annexed).

Proforma

Name of the Company

Period ended

From the company	From the company's subsidiaries	From any other person
------------------	------------------------------------	-----------------------

1. REMUNERATION

- (a) As Director.
- (b) As Managing Agent.
- (c) As Secretaries and Treasurers.
- (d) As Managers.
- (e) As Managing Director.
- (f) Otherwise in connection with the company's management.

2. OTHER EMOLUMENTS

- (a) Expense allowances.
- (b) Other allowances (give details)
- (c) Any other perquisites or benefits in cash or in kind (stating approximate money value where practicable).

3. PENSIONS, ETC.

- (a) Pensions.
- (b) Gratuities.
- (c) Payments from Provident Funds, in excess of own subscriptions, and interest thereon.
- (d) Compensation for loss of office.
- (e) Consideration in connection with retirement from office.

Date.....

Signature.....