COMPANY AUDIT – 2nd

SECTION *		Provision / Contents
Main	Sub	
209	**Head**	**<u>Maintenance of Books of Accounts by the company</u>**
209		Every company must maintenance proper Books of Accounts at its registered office.
	(1)	**a)** Receipt & Expenditure (i.e. Cash book & Bank Book)
	(1)	**b)** Purchase & Sales of goods by company.
	(1)	**c)** Assets & Liabilities (i.e. Fixed asset register, 301 party register)
	(1)	**d)** Cost records
209	(2)	**Proper books of accounts of branch offices** should also be maintained by the company & returns of those branch offices should be forwarded to the head offices after suitable intervals which should <u>not exceed three months.</u>
209	(3)	**For the purpose of sub-sec.(1) & (2), <u>proper books of accounts shall not be deemed to be kept if</u>:** a) the <u>books doesn't exhibits true and fair view</u> of the state of affairs of the company; b) If such <u>books are not maintained</u> on <u>Accrual Basis</u> and Double Entry Accounting system.
209	(4A)	Books of Accounts and other papers shall be kept open for inspection by any director at business hours.
209	(5)	Books of Accounts & all the relevant vouchers for preceding **eight years** from the current year should be kept safely by the company in good condition. If the person as mentioned in section 209(6) fails to comply with the aforementioned sub sections, then he shall be punishable for each offence with **imprisonment for six months** and **fine** which may extend to **Rs.10,000/-** or with both. (He may be relieved from such liability, if on reasonable grounds he proves that any competent person was appointed for such compliances). Responsibility of the aforementioned compliances vests with: ➢ All the officers & other employees of the company along with Managing Director or Manager, if the company has a Managing Director or Manager. ➢ Every director of the company, if no Managing Director or manager. If the responsibility for compliance of legal requirements with regards to the books of accounts vests with any other person other than as mentioned in section 209(6) and if he fails to comply all legal requirements, then he shall be penalised with the fine which may extend to Rs.10,000/- for each such offence.
<u>209A</u>	**<u>Head</u>**	**<u>Inspection of the Company's Books of Accounts</u>** ➢ Company's books of accounts, other books and papers shall be kept open for inspection by: a. Registrar; b. an officer authorised by Central Government; and c. Any officer authorised by SEBI. (No prior notice or intimation is required to be given by such authorities for such an inspection) ➢ It shall be the duty of every director, other officer or an employee of the company

		to furnish any statement, explanations, information and assistance to such an authority while inspection, as required by them. ➢ The person making inspection is also empowered to make copies of BOAs and other papers and put any mark of identification on the books or papers. ➢ Report by person making inspection to the Central Government.
210	**Head**	**Duty of Board to present the Annual Accounts & Balance Sheet at an AGM** The board should present before AGM, the Balance Sheet and Profit & Loss Account for the period of: ➢ In case of first AGM, period beginning with incorporation and ending with the preceding day of an AGM. ➢ In case of subsequent AGM, period from the beginning of the financial year and ending with the preceding day of an AGM. (An AGM should be held within **six months** of the completion of financial year, extension of **three months** can be taken with the permission of the registrar of companies. Difference between to successive AGM should not exceed **fifteen months** (**Eighteen months** in case of an extension).
210A	**Head**	**Constitution of 'National Advisory Committee on Accounting Standards' (NACAS)** The Companies (Amendment) Act 1999, provides C.G. that it may constitute a 'NACAS' by issuing a notification in an official gazette to advise the C.G. on formulation and laying down of accounting standards for adoption of companies or class of companies under the Companies Act, 1956 (A notification for constitution of 'NACAS' was issued by the Central Government in July 2001)
211	**Head**	**Form and Content of Balance Sheet and Profit & Loss Account** **Balance Sheet** 1) B/S must give a true and fair view of states of affairs of the company. 2) The B/S shall be in the same form as set out in Part I of Schedule VI 3) The B/S must comply with the 'Notes' given at the end of Part I of Schedule VI **Profit & Loss Account** 1) P&L A/c must give a true and fair view of profit/loss of the company for financial year 2) P&L A/c must comply with the requirements of Part II of Schedule VI 3) No form has been prescribed for F&L A/c.
211	**(3A)**	**Every B/S and P&L A/c of the company shall comply with the Accounting Standards.**
	(3B)	**Disclosure in case of Non-compliance of AS in B/S and P&L A/c of the company** 1. Deviation from AS 2. Reason for such deviation 3. Financial effect due to Deviation
	(3C)	**Meaning of Accounting Standards** ➢ AS means the standards of accounting recommended by the ICAI as may be

		prescribed by the central government in constitution with the NACAS established u/s 210A. ➢ If no AS are prescribed by the central government then the AS specified by the ICAI shall be AS **<u>Duties of the auditor regarding AS (Sec 227)</u>** → The auditor shall states as to whether the P&L A/c and B/S comply with AS.? → If P&L A/c and B/S donot comply with AS, then the auditor shall qualify the audit report.
217	**Head**	**<u>Board's Report or Directors Report</u>** Section 217 of act specifies the content to be included in the BOD's report and specifies that there shall be attached to every B/S laid before the company in GM, a report by its BOD, with respect to – **<u>Content of Directors Report</u>** a) The state of company's affairs b) The amt, if any, which it proposes to, carry to any reserve in such B/S c) The amt, if any, which it recommends should be paid by way of dividend; d) Material changes, which have occurred b/w the end of financial year of the company to which the B/S relates and the date of report; e) Conservation of energy, technology, absorption, for-ex earning, in such manner as may be prescribed. f) **Directors responsibility statement u/s 217(2AA) indicating their in that–** ➢ In preparation of annual a/c, the AS has been followed ➢ The director had selected such accounting policies & applied them constantly and made estimates that are reasonable & prudent. ➢ The directors had prepared annual accounts on a going concern basis. ➢ The directors had taken proper & sufficient care for 1) Maintenance of adequate accounting records with provisions 2) For safeguarding assets of the company 3) Preventing & detecting fraud and other irregularities g) U/s 217(3) the bound shall also be bound to give the information & explanation in its report on every reservation, qualification or adverse remark in the auditor's report. h) <u>Detail of employees</u> receiving remuneration for yr more than Rs. 24 Lakh or if any employee or his relatives holding more than or equal to 2% of equity share of the company & receiving salary more that that of received by whole time directors. i) <u>Signed by</u> Chairman if authorised by BOD, if not authorised, then by 2 directors

Divisible Profits & Dividend

1. Concept of Dividend, its declaration, & its related procedure –

- Dividend means divide the profit of the company, at the end of year, among shareholder of the company.
- Dividend include interim dividend.
- After completion of the year, BOD will propose a rate of dividend, beyond which no dividend can be declared by shareholder of co' in A.G.M.
- Such dividend will become liability of the company only when it is declared by the shareholder of the company in the A.G.M.
- Once dividend id declared by the company, it become liability for the company& such dividend must be **paid** within 30 Days of its declaration
- If any dividend remains unclaimed after 30 days then such amt will be transferred to unclaimed dividend a/c in a scheduled bank within 7 days, will stay in such a/c for 7 years and even upto 7 years it remains unclaimed, it will be transferred to Investor Education & Protection Fund maintained by CG u/s 205(c).
- Dividend once declared, becomes a debt and should not be **revoked** (but interim dividend may be revoked)
- **Source out of which dividend can be declared –**
    1) Current year's revenue profit
    2) Past year's accumulated profit
    3) Government Subsidy or assistance
    4) Any capital profit (if actually realised and permitted by AOA)

2. Declaration of Dividend – Source

A. Declaration of Dividend Out of Profits (CY Profit + PY accumulated profit)

Calculation of Divisible Profits

Calculation of Divisible Profits	
Profits	**xx**
a) (Less): Current year depreciation (if not provided)	**(xx)**
b) (Less): Loss of PY OR Depreciation of PY – whichever is less	**(xx)**
c) (Less): Amount to be transferred to reserves	**(xx)**
Divisible profits (Such amt can be declared as dividend)	**xx**

Distributable Profit – transfer of profit to reserves

% of Dividend of paid-up capital	**% of C.Y. profit to be transferred to reserves**
Upto 10 %	Nil
More than 10% & upto 12.5%	Minimum 2.5 %
More than 12.5% & upto 15%	Minimum 5 %

More than 15% & upto 20%	Minimum 7.5 %
Above 20%	Maximum 10 %

Note – If company wants to transfer more than 10% of its net profit to reserves, then the co' must satisfy following two Conditions (See table below)

Condition 1st – Dividend is Declared in Current Year
Satisfy following two conditions – 1. $Current\ year\ Dividend\ Rae\ \geq Avg\ Dividend\ rate\ of\ last\ 3\ F.Years$ 2. If Bonus share is declared in any of last 3 years, then • $Dividend\ amt\ in\ current\ F.Y\ \geq\ avg\ dividend\ amount\ of\ last\ 3\ F.Y$ **Provided (i.e. No need to fulfill above 2 condition, if)** Net profit of current year of company falls below 20% or more that of Average net profit of last 2 years.
Condition 2nd – Dividend is Not Declared in C.Y. & co' wants to transfer its profit to reserve
• $Amount\ transfered\ to\ reserve < Avg\ Dividend\ amount\ of\ last\ 3\ years$

B. Declaration of Dividend out of Reserves

- Interim dividend should not be declared out of reserves
- In a year in which the profits of the company is inadequate or there is no profit, the company may declare and pay dividend out of free reserves

Conditions to be satisfied, if co' pay dividend out of reserves –

1. Regarding rate of dividend
   Dividend rate must be lower of –
   a) Average dividend rate of last 5 years; or
   b) 10%
2. Amount drawn from reserves shall not exceed 10% of sum of paid up capital + reserves.
3. The amount so withdrawn (in step 2) should be first utilised to setoff current year losses.
4. Balance of reserves after such withdrawal should not fall below 15% of paid-up capital.

*** Portion related to share capital is under Progress. I will update it soon.**