

4. Accounts of the Company

Location of Books of account (Section 209)

- Books of account must keep at the registered office only.
- If company want to keep his account other than registered office than company must file the notice in writing with full address of that place, about such decision to registrar within 7 days in form no. 23AA.
- Where a company has a branch office inside India or Outside India. They can keep their account at branch office but they have to send summarized form if it after interval of 3 months to registered office. Interval between two summarized balance sheets not exceeds 3 months.

Meaning and content of Books of Account (Section 209)

- Proper books of account shall not be deemed to be kept unless following conditions satisfied.
 1. Condition prescribed under Section 209(3)
 - a. True and Fair view
 - b. Accrual basis of accounting
 - c. Double entry System
 2. Condition prescribed under section 541(2)
 - a. Financial Position
 - b. Disclosure relating to cash
 - c. Disclosure relating to goods.
 3. Other conditions
 - a. Maintained in edible ink not by pencil
 - b. Prudence
- The company shall preserve its books of account for last 8 years.

Responsibility for maintenance of Books of Account (Section 209)

- The person responsible are as follows according to section 209(6)
 1. If Company has Managing director or manager than such managing director or manager
 2. If neither MD nor Manager than Every director of the company.
 3. Whether or not a MD or manager than all the officers and employees of the company.
 4. A person to whom such responsibility of compliance of section 209 is entrusted by the MD or manager or the board of directors.
- If any person fails to secure provision of section 209 than he shall be punishable-
 1. With imprisonment for a term which may extend to 6 months (no person sentenced to imprisonment for any offence unless it was committed willfully)
 2. With the fine which may extend to Rs. 10,000 or;
 3. With fine and imprisonment both.

Annual Accounts – legal requirements (Section 210 and 211)

- Meaning of Financial Year: a financial year may be more than calendar year, but does not exceed 15 months. A FY may extend to 18 months of the registrar grants special permission in this regard.
- Time limits for laying annual accounts at an AGM:
 - a. For First AGM: within 18 months of incorporation or within 9 months after close of the first Financial year.

- b. At Subsequent AGM: AGM shall be held in calendar year, wither held within 15 months from the date of previous AGM or shall be held within 6 months of the close of the previous FY.
- Form of Balance sheet and Profit and loss account: must be in Schedule IV of the act
- Person responsible for preparation of balance sheet and Profit and loss account: as per section 209 who responsible for maintain of books of account.
- Penalty for default: same as per section 209.

Non Compliance of AS – Duties of Directors and Auditor (Section 211, 217 and 227)

- **According to Section 211** - Every P & L account and balance sheet must be comply with the accounting standards and if the company do not comply with same than the company shall make the following disclosures namely;
 - a. The deviation form the accounting standards
 - b. The reason for such deviation
 - c. The financial effect, if any, due to such deviation.
- **According to Section 217** – the Director’s responsibility statement must disclose fact about the accounting standard followed or not if any material departure from such than proper explanation therefore shall be given.
- **According to Section 227** – the auditor are also responsible to state whether P & L or Balance sheet of the company comply with accounting standard and if not than they required to qualify such report.

Accounts of holding company required to include particulars relating to subsidiaries (Section 212)

- A holding company shall attach to its balance sheet the following documents relating to subsidiary
 1. A copy of the profit and loss account with balance sheet
 2. A copy of report of BOD of the subsidiary
 3. A copy of report of auditors of the subsidiary
 4. A statement of holding company’s interest in the subsidiary
 5. A statement showing the changes in holding company’s interest and other material changes where the financial year of the subsidiary company and holding company do not coincide.
 6. A report as to inability of the BOD of the holding company to obtain certain information.
- **Exemption by Central government**
 1. The BOD of the company has by resolution given consent for not attaching the balance sheet of the subsidiary concerned.
 2. The company shall present in the annual report, the consolidated financial statements of holding company and all subsidiaries audited by its statutory auditor.
 3. The CFS are prescribed under strict compliance with applicable laws
 4. The company shall disclose in the consolidated balance sheet the following information in aggregate for each subsidiary including subsidiaries of subsidiaries:- capital, reserves, total assets and liabilities, detail of investment, turnover, PBT, PFT, PAT, proposed dividend.

Modification of Financial year of Subsidiary (Section 213)

- The financial year of the subsidiary must coincide with the financial year of holding company.

- Where the FY of the Subsidiary does not coincide with the FY of the holding company than subsidiary company shall end before the financial year of holding company. But keep in mind that it should not exceed 6 months.
- It must be ensured that duration of financial year of subsidiary is not less than that of the holding company. If it shorter than two annual accounts of the subsidiary attached, so that the total period covered not less than holding company's FY.
- According to section 213 central government has empower to extend the financial year of the holding company or its subsidiary company so that-
 - a. The financial year of both the companies coincide or,
 - b. The end of FY of the subsidiary company does not precede the end of the financial year of the holding company by more than 6 months.
- Procedure for seeking Extension
 - a. Application to CG by the company or with the consent of the BOD.
 - b. No form has been prescribed but it shall be made to the CG in plain paper with all detail.
 - c. The company has to pay prescribed fees in accordance with the act.

Board's Report (Section 217)

- The Board's report shall contain the following particulars
 1. Contents specified under section 217(1)
 - a. The state of the company's affairs
 - b. The amount proposed by the board to be transferred to reserve
 - c. The amount recommended by the board for payment of dividend
 - d. Material changes subsequent to close of financial year shall be disclosed
 - e. The conservation of energy, technology absorption, foreign exchange earning and outgo, in such manner as may be prescribed.
 2. Changes during the financial year
 - a. In the nature of business
 - b. In the company's subsidiaries or in the nature of business carried out by them
 - c. Generally in the classes of business in which the company has an interest.
 3. Director's responsibility statement
 4. Comments on auditor's report
 5. Information relating to unpaid deposits
 6. Disclosure relating to audit committee
- The board's report shall be signed by the chairman of the board, if he is authorized in that behalf of the board.
- Where there is no such chairman than it should be signed by the two directors, one of whom shall be the managing director. If one of the, directors is time being outside India than one director sign the report with reason for doing so.
- If anyone fail to secure compliance of provision 217 is punishable with imprisonment for a term which may extend to six months or with fine which may extend to Rs. 20,000 or with both.

Authentication of balance sheet and Profit and Loss Account (Section 215)

- Every balance sheet and profit and loss account of a company shall be signed on behalf of the board of directors by- the manager or secretary of the company, if any and, not less than two directors of the company, one of whom shall be a managing director.

- However, if only one of the directors is for the time being in India, the balance sheet and the profit and loss account shall be signed by such director and there shall be attached to the balance sheet and the profit and loss account a statement signed by him explaining the reason for doing so.
- In the case of a banking company, the balance sheet and the profit and loss account shall be signed by the provision specified in the banking companies act, 1949.

Circulation of annual accounts etc. (Section 219)

- Person entitled to receive annual accounts
 - a. Every member of the company whether or not such member is entitled to receive notices of board meetings.
 - b. Every trustee for the holders of ant debentures issued by the company.
 - c. All persons, who are entitled to receive the notice of general meeting.
- Following person are entitled to receive annual account on demand without paying fees
 - a. A member of the company
 - b. A holder of debenture of the company
 - c. Any person from whom the company has accepted a sum of money by way of deposit.
- Person not entitled to receive the annual account
 - a. In the case of a company having not share capital, than a member or debenture holder who is not entitled to receive notice of general meeting.
 - b. In the case of any company
 - i. A member and debenture holder who is not entitled to receive notices of general meeting and of whose address the company is unaware.
 - ii. Any joint holder except the joint holder name appears first in the register of members.
- Time limit for sending annual accounts
 - a. The aforesaid documents shall be sent at least 21 days before the date of the meeting in which annual accounts are laid
 - b. Such documents may be sent less than 21 days before the date of the meeting if it is so agreed by all the members entitled to vote at the meeting.

Filing of annual accounts to the registrar (Section 220)

- The company shall be file with the registrar 3 copies of balance sheet, profit and loss account, and all the documents which are required to be annexed or attach to balance sheet-
 - a. Within 30 days from the date on which the balance sheet and profit and loss account were laid at the AGM of company or;
 - b. Where the AGM has not been held, within 30 days from the latest day on which the AGM should have been held.
- If the balance sheet of the company is not adopted at the annual general meeting; or the annual general meeting of a company is adjourned without adopting the balance sheet or; the annual general meeting of a company for any year has not been held, a statement of that fact and of the reasons thereof shall be annexed to the balance sheet and to the copies thereof required to be file with the registrar.

Revision of Accounts

- As per the guidance note issued by the ICAI the board is empowered to revise the accounts and resubmit them to the auditor, provided that-

- a. The accounts already approved by the Board have not been circulated to, and placed before, the shareholders at the annual general meeting;
 - b. The auditor's report on the revised accounts is given in substitution of his earlier audit report;
 - c. Adequate disclosure regarding revision of accounts is made in the revised accounts; and
 - d. Adequate disclosure regarding revision of accounts is made by the auditor in his audit report.
- The department of company affairs has opined that accounts already adopted in an annual general meeting become final and cannot be reopened in subsequent meeting. But after some rules and supreme court decision regarding such fact its conclude that, the legal position as on date appears to be that rectification of annual accounts after adoption by the shareholder is no permissible unless such rectification is required for the limited purpose of meeting technical requirements of Income Tax act, 1961 or any other law fro the time being in force. After revising the annual accounts, the company would be required to adopt them in a general meeting and file with the registrar such adopted accounts.