



**Study Notes**

# **Preparation and Presentation of Companies Final Accounts**

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### Proper Books of Account

- **Section 128(1) of Companies Act, 2013** requires that every company shall prepare and keep at its registered office,
  - books of account and
  - other relevant books and papers and
  - financial statements
 for **every financial year** which give a true and fair view of the state of affairs of the company, including that of its branch office or offices, if any
 

**Note** – *the accounts and papers can also be kept at any other location as decided by the Board of directors, (provided it is intimated to the Registrar within 7 days of decision) or also in electronic mode.*
- Books would be kept on accrual basis and according to double entry system of accounting.
- **Final Accounts** – The final accounts of the company require the preparation of **financial statements**

#### Box 1: Meaning of Financial Statements

**Section 2(40)** of the Companies Act 2013 say that the financial statement in relation to the company includes –

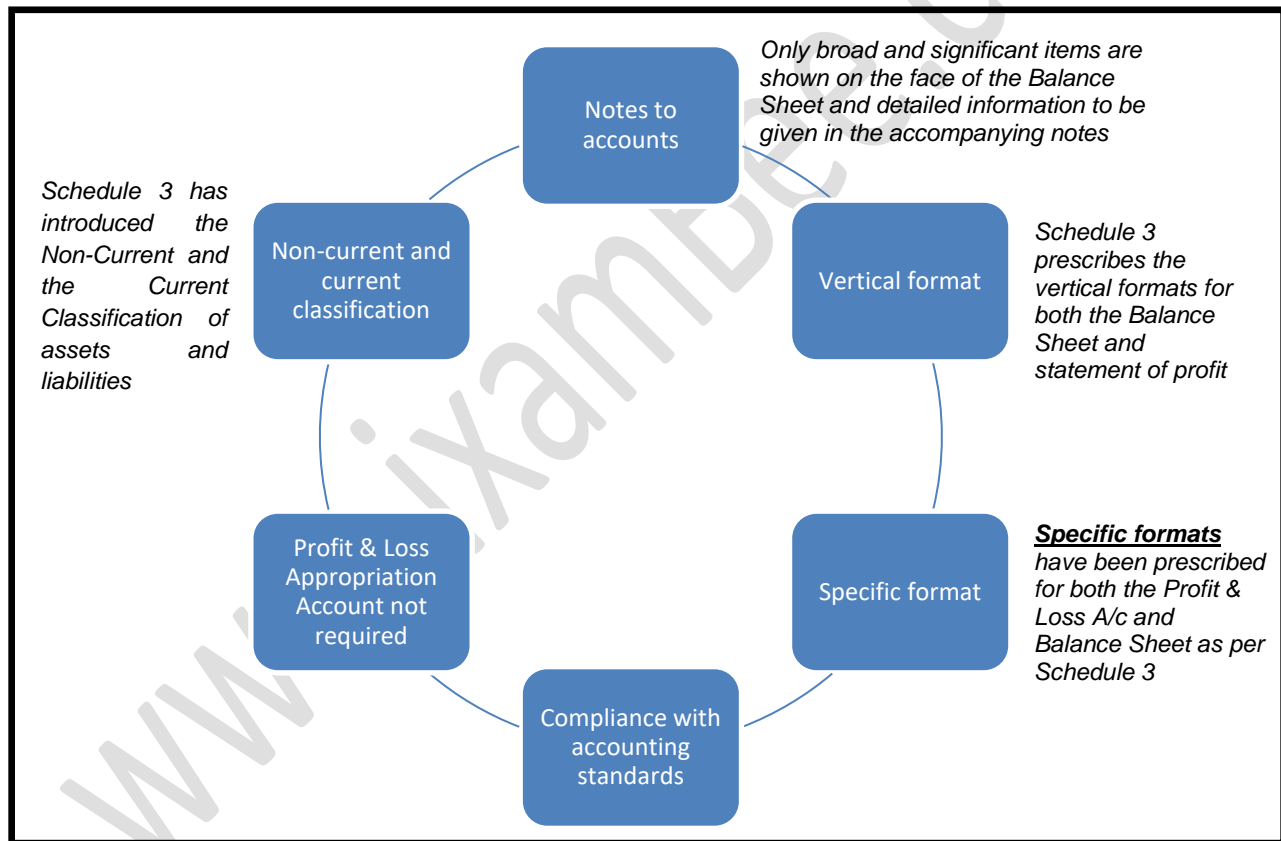
- A **Balance sheet** at the end of the financial year
- A **Profit and Loss Account** and in case of non-profit organizations, income and expenditure account for the financial year
- Cash flow statement** for the financial year (*not mandatory for one person company, small company, dormant company or private start-up company*)
- A **statement of changes in equity**, if applicable
- Explanatory notes



**Financial Statements (Section 129 of Companies Act, 2013)**

- Financial statement to give a **true and fair view** of the state of affairs of the company
- Financial statement to **comply with accounting standards**
- Financial statement of the company to be prepared in accordance with **Schedule 3 of the Companies Act 2013**. Additionally, **Ind-AS 1** deals with the presentation of financial statements
- Financial statement to be **laid in the Annual General Meeting (AGM) within six months** from the end of the financial year
- The holding company to additionally prepare Consolidated Financial Statement of the company along with all its subsidiaries, associate companies and joint ventures and lay before the AGM

The main features of this Schedule are:



**Exclusions:**

- insurance or banking company or
- any company engaged in the generation or supply of electricity, or
- any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company

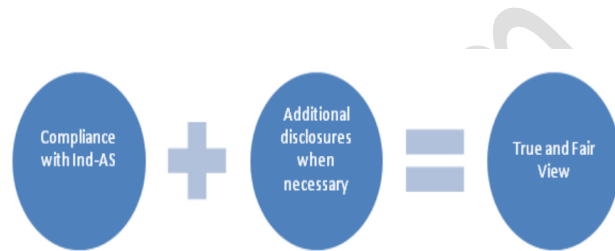
## Key Features of Ind-AS 1

This AS states the basis for preparation of:

- **General purpose** financial statements
- To **ensure comparability both with** the entity's financial statements of **previous periods and** with the financial statements **of other entities**

### General Features

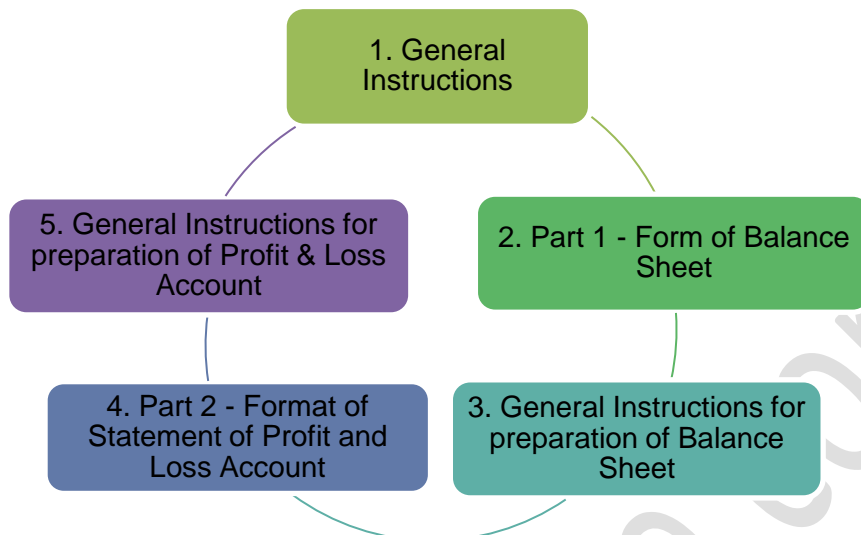
- Presentation of **true and fair view** and **compliance with Ind AS** (company to make an explicit and unreserved statement of such compliance in the notes) – company cannot rectify inappropriate policies by disclosure or note
- **Going Concern** –make an assessment of an entity's ability to continue as a going concern
- **Accrual basis of accounting** to be used except for cash flow statement
- **Materiality and aggregation** - Each material class of similar items shall be disclosed separately.
- **Offsetting** – assets and liabilities and income and expenses may not be offset unless required or permitted by an Ind AS (for example, revenue can be netted off for trade discounts and then stated as per Ind-AS 18)
- **Frequency of reporting** – complete set of financial statements should be presented **at least annually**; also if change in end of reporting period, then disclose reason for using a longer or shorter period and that the financials presented are not comparable
- **Comparative information** – present comparative information for previous year; if any reclassification is done in current year then do same for previous year and disclose the reason for reclassification
- **Consistency of presentation** - follow a presentation and classification of items consistently unless there is
  - a change in nature of operation or
  - there is a review of financial statements, which indicates that according to Ind AS-8 that a revised classification would be appropriate or
  - an Ind AS requires a change in the presentation



### Notes and disclosures

- Company should cross-reference each item in the financial statements to the related information in the relevant notes to accounts
- The company's accounting policies should be clearly stated and presented

**Structure of Schedule 3**



Note – Depending on the turnover, the amounts reported in the financial statements can be rounded off as follows:

Turnover	Round-off allowed
Less than Rs.100 crore	To nearest hundreds, thousands, lakhs or millions
Rs.100 crore or more	To nearest lakhs, millions or crore or decimals

**Balance Sheet**

**Part -1 Form of Balance Sheet**

	<u>Particulars</u>	<u>Note No.</u>	<u>Figures as at the end of the current reporting period</u>	<u>Figures as at the end of the previous reporting period</u>
	1	2	3	4
I	<b>EQUITY AND LIABILITIES</b>			
(1)	<u>Shareholders' Fund</u>			
	a. Share Capital (A)			
	b. Reserves and Surplus (B)			
	c. Money received against share warrants			
(2)	<u>Share application money pending allotment</u>			
(3)	<u>Non-Current Liabilities</u>			
	a. Long-Term Borrowings (C)			
	b. Deferred Tax Liabilities (Net)			
	c. Other-Long Term Liabilities (D)			
	d. Long-Term provisions (E)			
(4)	<u>Current Liabilities</u>			
	a. Short-Term Borrowings (F)			
	b. Trade Payables (G)			
	c. Other current liabilities			
	d. Short-Term provisions (H)			
	<b>TOTAL</b>			

	<u>Particulars</u>	<u>Note No.</u>	<u>Figures as at the end of the current reporting period</u>	<u>Figures as at the end of the previous reporting period</u>
II	<b>ASSETS</b>			
(1)	<u>Non-Current Assets</u>			
	a. Property, Plant and Equipment and Intangible Assets			
	1. Property Plant and Equipment (I)			
	2. Intangible Assets (J)			
	3. Capital Work-in-Progress			
	4. Intangible assets under development			
	b. Non-current Investments			
	c. Deferred Tax Assets (net)			
	d. Long term loans and advances			
	e. Other Non-current assets			
(2)	<u>Current Assets</u>			
	a. Current Investments (N)			
	b. Inventories (O)			
	c. Trade Receivables (P)			
	d. Cash and Cash Equivalents (Q)			
	e. Short-term loans and advances ®			
	f. Other Current Assets (S)			
	<b>TOTAL</b>			

**Points relating to Balance Sheet:**

1. An **asset** shall be classified as **current** when it satisfies any one of the following criteria:
  - a. It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle
  - b. It is held primarily for the purpose of being traded
  - c. It is expected to be realized within 12 months after the reporting date, or
  - d. It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date

All other assets shall be classified as **non-current**.

2. An **operating cycle** is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. **Where a normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.**

3. A **Liability** shall be classified as **current** when it satisfies any one of the following criteria:
  - a. It is expected to be settled in the company's normal operating cycle
  - b. It is held primarily for the purpose of being traded
  - c. It is expected to be realized within 12 months after the reporting date, or
  - d. The company does not have an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

All other liabilities shall be classified as **non-current**.

4. A receivable shall be classified as a "**Trade Receivable**" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a "**Trade Payable**" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
6. A company shall disclose the following **notes to accounts**:
  - A. **Share Capital** (for each class of share capital) - Authorized shares, Issued and Subscribed and fully Paid up capital, subscribed and not fully paid information (number and amount of shares and par value) for each class of shares (like equity and preference shares), Rights shares, reconciliation of shares outstanding at beginning and end of reporting period, new shares issued in year, **shareholding of more than 5%**, terms of securities convertible into equity shares, **calls unpaid, forfeited shares (amount originally paid up)**, shareholding of promoters as per given format
  - B. **Reserves & Surplus** – includes Capital Reserves, Capital Redemption Reserve, Securities Premium, Debenture Redemption Reserve, Revaluation reserve, Share Options Outstanding Account, Other reserves, Surplus (i.e. balance in P&L Account disclosing appropriations such as dividend, bonus shares, transfer to reserves).
    - A reserve specifically represented by earmarked investments shall be termed as a "fund"
    - Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative
  - C. **Long term Borrowings** – include Bonds/ Debentures, Term Loans (from banks and from other parties), deferred payment liabilities, loans and advances from related parties, deposits, long term maturities of finance lease obligations, other loans and advances
    - Borrowing should further be sub-classified as secured and unsecured.
    - Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date
    - Terms of repayment of term loans and other loans shall be stated.
    - Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case
  - D. **Other Long-Term Liabilities** – may include trade payables which are of long-term nature



- E. **Long-Term provisions** – include provisions for employee benefits and any other such long term provision
- F. **Short-Term Borrowings** – shall include loans repayable on demand (from banks and from other parties), loans and advances from related parties, deposits, other loans and advances, and **current maturities of long term borrowings**
- G. **Other Current Liabilities** – includes current maturities of finance lease obligations (*note – current maturities of long term debt are now shown under short term borrowings*), interest accrued but not due on borrowings, interest accrued and due on borrowings, income received in advance, unpaid dividend, Application money received for allotment of securities and due for refund, unpaid matured deposits, unpaid matured debentures, other payables.
- H. **Short-Term Provisions** – Provision for employee benefits and others of short-term nature
- I. **Propert Plant and Equipment** (previously called Tangible Assets) – includes Land, Buildings, Plant & Equipment, Furniture and Fixtures, vehicles, office equipment, assets under lease (under each sub-category) and others
- A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (*if change is 10% or more* in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately
- J. **Intangible Assets** – includes Goodwill, Brands/Trademarks, Computer Software, mastheads and publishing titles, mining rights, copyrights and patents and other intellectual property rights, recipes, formulae, models, designs and prototypes, licenses and franchise
- K. **Non-Current Investments** – may include Investments in property, in equity instruments, in preference shares, in Govt. or trust securities, in debentures and bonds, in Mutual funds, in partnership firms, or others;  
To also disclose:
- investments carried at other than at cost and basis of valuation
  - Aggregate amount of quoted investments and market value thereof
  - Aggregate amount of unquoted investments;
  - Aggregate provision for diminution in value of investments
- L. **Long-Term Loans and Advances** – include capital advances, loan and advances to related parties, other loans and advnaces; to be further sub-classified as secured,



- unsecured and doubtful; also allowance for bad and doubtful loans to be disclosed; Loans and advances due by directors or other officers of the company to be separately disclosed
- M. **Other Non-Current Assets** – include Long-Term trade receivables, security deposits, and others
- N. **Current Investments** – Investments in short term securities with all details as applicable for non-current investments to be disclosed here too
- O. **Inventories** – may be classified as Raw Materials, Work-in-Progress, Finished Goods, stock-in-trade, stores and spares, loose tools, and others  
Goods-in-transit to be disclosed under each sub-head and also the **mode of valuation** to be stated.
- P. **Trade Receivables** – for both these and long-term trade receivables, the ageing schedule to be provided in a table format for **undisputed trade receivables – considered good, undisputed trade receivables – considered doubtful, disputed trade receivables – considered good, and disputed trade receivables – considered doubtful** outstanding for period
- Less than 6 months
  - 6 months to 1 year
  - 1-2 years
  - 2-3 years
  - More than 3 years
- Also, they may be sub-classified as secured, unsecured and doubtful and allowance for bad and doubtful debts to be disclosed too
- Q. **Cash and Cash Equivalents** – may be classified as Balances with banks, Cheques, drafts on hand, cash on hand among others. Separate disclosures for:
- earmarked balances with banks
  - Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments
  - Repatriation restrictions, if any, in respect of cash and bank balances
  - Bank deposits with more than twelve months maturity
- R. **Short-Term Loans and Advances** – may include loans and advances to related parties
- S. **Other Current Assets** – assets which are not getting fit in any other asset categories

**T. Contingent Liabilities and commitments** – these are not liabilities as of now but may turn into a liability on the happening of a future event. Contingent liabilities include:

- claims against the company not acknowledged as debt,
- guarantees
- Other money for which company is contingently liable

Commitments include:

- Estimated amount of contracts remaining to be executed on account of capital account and not provided for
- Uncalled liability on shares partly paid
- Other commitments

U. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.

Some other Additional regulatory information to be disclosed:

- Title deeds of Immovable Property not held in name of the Company
- Details of benami property held
- Willful defaulter
- Key ratios like current ratio, debt equity ratio, Debt service coverage ratio, RoE, RoCE, net profit ratio, Inventory turnover, trade receivables turnover, trade payable turnover, net capital turnover; Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.
- Utilisation of Borrowed funds and share premium

## Profit and Loss Account

### Part -2 Form of Statement of Profit and Loss

	<u>Particulars</u>	<u>Note No.</u>	<u>Figures as at the end of the current reporting period</u>	<u>Figures as at the end of the previous reporting period</u>
	1	2	3	4
1	Revenue from Operations			
2	Other Income			
3	<b>Total Income (1+2)</b>			
4	<b>Expenses</b>			
	Cost of materials consumed			
	Purchases of stock in trade			
	Changes in inventories of finished goods, work-in-progress and stock-in-trade			
	Employee benefits expenses			

	<u>Particulars</u>	<u>Note No.</u>	<u>Figures as at the end of the current reporting period</u>	<u>Figures as at the end of the previous reporting period</u>
	Finance Costs			
	Depreciation and amortization expenses			
	Other expenses			
	<b>Total Expenses</b>			
5	<b>Profit before exceptional and extraordinary items and taxes (3-4)</b>			
6	Exceptional Items			
7	<b>Profits before extra-ordinary items and taxes (5-6)</b>			
8	Extraordinary Items			
9	<b>Profit before Tax ( 7-8)</b>			
10	Tax Expenses a. Current tax b. Deferred Tax			
11	<b>Profit (Loss) for the period from continuing operations (9-10)</b>			
12	Profit (Loss) from discontinuing operations			
13	Tax expense of discontinuing operations			
14	<b>Profit (Loss) from discontinuing operations (after tax) (12-13)</b>			
15	<b>Profit (Loss) for the period (11+14)</b>			
16	Earnings per Equity Share a. Basic b. Diluted			

### Points considering Preparation of Statement of Profit and Loss

1. **Revenue from Operations** – in case of non-finance company, will include
  - a. Sale of products
  - b. Sale of services (*Grants or donations received in case of Section 8 companies*)
  - c. Other operating revenues  
Less: Excise duty

In case of finance company, revenue from operations will include:

  - Interest
  - Other financial services
2. **Finance Cost** – to be classified as Interest Expense, other borrowing costs, applicable net gain/loss on foreign currency transactions and translation
3. **Other Income** – shall be classified as Interest Income (in case of non-finance company), dividend income, Net gain/loss on sale of investments and other non-operating incomes (net of expenses)
4. **Additional Information**
  - a. **Employee benefits** – include
    - i. Salaries and Wages
    - ii. Contribution to provident and other funds

- iii. Expense on Employee Stock Option Scheme
- iv. Staff Welfare Expenses
- b. Depreciation and amortization expense
- c. Any item if income or expenditure **which exceeds 1% of the revenue** from operations **or Rs.1,00,000 whichever is higher**
- d. Interest Income
- e. Adjustments to carrying amount of investments
- f. Payment to auditors
- g. In case of companies covered under Sec 135, expense on CSR activities
- h. Details of items of exceptional and extraordinary nature
- i. Prior Period Items – example tax adjustments which relate to previous year's tax expenses

### **Undisclosed income**

The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.;

### **Corporate Social Responsibility (CSR)**

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities:-

- a. amount required to be spent by the company during the year,
- b. amount of expenditure incurred,
- c. shortfall at the end of the year,
- d. total of previous years shortfall,
- e. reason for shortfall,
- f. nature of CSR activities,
- g. details of related party transactions in relation to CSR expenditure

### **Details of Crypto Currency or Virtual Currency**

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

- a) profit or loss on transactions involving Crypto currency or Virtual Currency
- b) amount of currency held as at the reporting date,
- c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency

*Note:— Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.*

### Box 2: Exceptional and Extraordinary items

**Exceptional items** are defined as those items that in management's judgment are material items which derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence, i.e.

- Exceptional items arise from ordinary activity;
- They are not expected to be recurring;
- the nature and amount of such item is relevant to user of financial statement;
- they are generally disclosed to balance sheet

Examples of exceptional items include:

- Write off of expenditure capitalized on intangible assets other than amortisation  
The write down of inventories to NRV
- Disposal of items of fixed assets i.e. Profit or loss arises on disposal of fixed asset.
- Disposal of long term investments
- Abnormal losses on long term contract.
- Litigation Settlement
- Amount received in settlement of insurance claims
- Legislative changes having retrospective application (e.g. increase in D.A. with retrospective effect after revision by 7th Pay Commission)

**Extraordinary items** are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Examples of extraordinary expenses include:

- Sale of an investment in subsidiary and associated companies;
- Significant change in Government fiscal policy;
- Discontinuance of business segment

### Other Requirements as per Companies Act, 2013

- The financial statement **to be approved by the Board of Directors** before they are signed on behalf of the Board by the chairperson of the company for submission to the auditor for his report thereon.
- The **auditors' report shall be attached** to every financial statement.
- A **report by its Board of Directors to be attached** to financial statement. The directors' report to include number of meetings of Board, Directors' Responsibility statement, declaration given by independent directors, explanations for adverse comments/qualification by auditors, if any, the state of company's affairs, material changes
- A copy of **the financial statement to be sent to every member** of the company and to **every trustee** for the debenture-holders not less than **21 days before the meeting**
- A copy of the financial statement be **filed with the Registrar within 30 days** of the date of AGM