

PREPARATION OF FINAL ACCOUNTS OF A COMPANY

B.COM-Part-II

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PROFIT AND LOSS APPROPRIATION ACCOUNT

The account showing the disposal of profits is known as Profit and Loss Appropriation Account. The balance on Profit and Loss Account is transferred to this Profit and Loss Appropriation Account. Profits available for dividend to shareholders are known as divisible profits. The Directors may decide to retain a certain amount to strengthen the companies finances. The amount retained may take the form of transfer to various reserves and funds. It is a wise policy to keep aside certain portion of divisible profit in the form of reserves and funds before distributing entire divisible profits among the shareholders as dividend. Therefore, the account which shows how the divisible profits of the company have been dealt with is known as Profit and Loss Appropriation Account, as appropriation means to keep aside.

The amount brought forward from the previous year is put on the credit side together with current year's profit. On the debit side of this account, the following items are usually found :

- i) Transfer to General Reserve.
- ii) Transfer to Divided Equalisation Fund - (Dividend Equalisation Fund means a fund created out of profits available for dividend for the purpose of stable dividend policy i.e. making the rate of dividend uniform from year to year).
- iii) Transfer to Sinking Fund for Redemption to Debentures.
- iv) Dividend (Interim/Final, paid or proposed).
- v) Balance if any, carried to B/Sheet. Therefore, this Account, generally appears as under :

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bal. b/d (Dr. bal. from last year if any , as per Trial Balance)		By Balance b/d from last year (As per Trial Balance)	
To Net Loss during the year, if any		By Savings in the provision for Taxation	
To General Reserve (transfer)		By Net Profit during the year (as per P & L A/c)	
To Dividend Equalisation Fund (transfer)		By Transfer from Reserves, if any	
To Sinking Fund for Redemption of Debentures		By Bal. c/d to Balance Sheet	
To Transfer to other Reserves & Funds			
To Dividend (Interim or Final; Paid/or proposed)			
To Balance c/d to Balance Sheet			

Profit and Loss Appropriation Account is a part and parcel of Profit and Loss Account showing the disposal of divisible profits. The balance on this account is shown as a separate item in the Balance Sheet.

11.5 BALANCE SHEET

According to Section 210 of the Companies Act, a company is required to prepare a Balance Sheet at the end of each trading period. Section 211 requires the Balance Sheet to be set up in the prescribed form. This provision is not applicable to banking, insurance, electricity and the other

companies governed by special Acts. The Central Government has also the power to exempt any class of companies from compliance with the requirement of the prescribed form if it deems to be in public interest. The object of prescribing the form is to elicit proper information from the company so as to give a 'true and fair' view of the state of the company's affairs. As a matter of fact both window dressing and creating secret reserves will be considered against the provisions of Section 211.

Section VI, Part I gives the prescribed form of a company's Balance Sheet. Notes and instructions regarding various items have been given in brackets below each item. It may be noted that if information required to be given under any of the items or sub-items in the prescribed form cannot be conveniently given on account of lack of space, it may be given in a separate schedule or schedules. Such schedules will be annexed to and form part of the Balance Sheet.

Schedule VI, Part I permits presentation of Balance Sheet both in horizontal as well as vertical forms. The forms with necessary notes, explanations, etc., are given below:

(A) HORIZONTAL FORM OF BALANCE SHEET

SCHEDULE VI PART I

(See Section 211)

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

Figures for the previous year Rs.	Liabilities	Figures for the current year Rs.	Figures for the previous year Rs.	Assets	Figures for the current year Rs.
(1)	(2)	(3)	(4)	(5)	(6)
	<p><i>Share Capital :</i> Authorised.....Shares of Rs.....each Issued : (distinguishing between the various 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).....shares of Rs.....eachRs.called up. (Of the above shares.....shares are allotted as fully paid up pursuant to a contract without payments being received in cash . Of the above shares.....shares are allotted as fully paid up by way of bonus shares)</p>			<p><i>Fixed Assets:</i> 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) livestock, and (k) vehicles, etc. (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 is to be stated.</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>Specify the source from which bonus shares are issued, e.g.....capitalisation of profits or Reserves or from Shares Premium Account.</p> <p><i>Less</i> : Calls unpaid</p> <p>(i) By Directors</p> <p>(ii) By Others</p> <p><i>Add</i> : Forfeited shares (amount originally paid up)</p> <p>(Any capital profit on reissue of forfeited shares should be transferred to Capital Reserves).</p> <p>Notes :</p> <p>1. Terms of redemption or conversion (if any) of any redeemable preference capital are to be stated together with earliest date of redemption or conversion.</p> <p>2. Particulars of any option on unissued Share Capital are to be specified.</p> <p>3. Particulars of the different classes of preference shares are to be given.</p>			<p>Depreciation written off or provided shall be allotted under the different asset heads and deducted in arriving at the value of Fixed Assets.</p> <p>In every case where the original cost can not be ascertained, without unreasonable expense or delay, the valuation shown by the books is to be given. For the purpose of this paragraph, such valuation shall be the net amount at which on asset stood in the company's books at the commencement of this Act after deduction of the amounts previously provided or written off for depreciation or diminution in value, and where any such asset is sold, the amount of sale proceeds shall be shown as deduction.</p> <p>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 with the date of the reduction in place of the original cost. Each Balance Sheet for the first five</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>These particulars are to be given alongwith Share Capital.</p> <p>In the case of subsidiary companies, the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries shall be separately stated in respect of Subscribed Share Capital. The auditor is not required to certify the correctness of such share-holdings as certified by the management).</p> <p>(1) Capital Reserves (2) Capital Redemption Reserves (3) Share Premium Account (showing details of its utilisation in the manner provided in Section 78 in the year of utilisation). (4) Other Reserves specifying the nature of each Reserve and the amount in respect thereof. <i>Less: Debit balance in Profit and Loss Account (if any).</i> (The debit balance in the Profit and Loss Account shall be shown as a deduction from the uncommitted</p>			<p>years subsequent to the date of the reduction, shall show also the amount of the reduction made.</p> <p>Similarly, where sums have been added by writing up the assets, every Balance 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 the writing up shall also show the amount of increase made.</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. (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 and showing also in similar details investments in shares, debentures or bonds of subsidiary companies). (3) Immovable properties.</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>reserves, if any).</p> <p>(5) Surplus, i.e., balance in Profit and Loss Account after providing for proposed allocations, namely:</p> <p style="padding-left: 40px;">Dividend, Bonus or Reserves.</p> <p>(6) Proposed additions to Reserves.</p> <p>(7) Sinking Funds.</p> <p style="padding-left: 40px;">Additions and deductions since last Balance Sheet to be shown, under each of the specified heads. The word "fund" in relation to any "Reserve" should be used only where such under Reserve is specifically represented by earmarked investments).</p> <p><i>Secured Loans:</i></p> <p>(1) Debentures.</p> <p>(2) Loans and Advances from Banks.</p> <p>(3) Loans and Advances from subsidiaries.</p> <p>(4) Other Loans and Advances. (Loans from directors and/or manager should be shown separately). Interest accrued and due on Secured Loans should be included under the appropriate sub-heads under the head</p>			<p>(4) Investments in the capital of partnership firms.</p> <p>(Aggregate amount of company's quoted Investments and also the market value thereof shall be shown).</p> <p>(Aggregate amount of company's unquoted investments shall also be shown).</p> <p><i>Current Assets, Loans and Advances:</i></p> <p>(A) CURRENT ASSETS :</p> <p>(1) Interest accrued on Investments.</p> <p>(2) Stores and spare parts.</p> <p>(3) Loose Tools.</p> <p>(4) Stock-in-trade.</p> <p>(5) Work-in-Progress.</p> <p>(In respect of (2) and (4), 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 work-in-progress shall be stated).</p> <p>(6) Sundry Debtors.</p> <p>(a) Debts outstanding for a period exceeding six months.</p> <p>(b) Other debts</p> <p><i>Less Provisions:</i></p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>"Secured Loans."</p> <p>The nature of security to be specified in each case.</p> <p>Where loans have been guaranteed by managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head.</p> <p>In case of Debentures, terms of redemption or conversion (if any) are to be stated together with earliest date of redemption or conversion.</p> <p><i>Unsecured Loans :</i></p> <p>(1) Fixed Deposits.</p> <p>(2) Loans and Advances from subsidiaries.</p> <p>(3) Short Term Loan and Advances:</p> <p>(a) From Banks.</p> <p>(b) From Others.</p> <p>(Short term loans include those which are due for repayment not later than one year as at the date of the Balance Sheet.</p> <p>(4) Other Loans and Advances :</p> <p>(a) From Banks</p>			<p>(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> <p>In regard to Sundry Debtors particulars to be given separately of :</p> <p>(a) debts considered goods and in respect of which the company is fully secured;</p> <p>(b) debts considered good for which the company holds no security other than the debtor's personal security; and</p> <p>(c) debts considered doubtful or bad.</p> <p>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 respectively in which any directors is a partner or a director or a member to be separately stated.</p> <p>Debts due from other companies under the same management within the meaning of</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>(b) From Others (Loans from directors and/or manager should be shown separately).</p> <p>Interest accrued and due on Unsecured Loans should be included under the appropriate sub-heads under the head "Unsecured Loans."</p> <p>(Where Loans have been guaranteed by manager, and/or directors, a mention thereof shall also be made together with the aggregate amount of such loans under each head. This does not apply to Fixed Deposits).</p> <p><i>Current Liabilities and Provisions:</i></p> <p>A Current Liabilities:</p> <p>(1) Acceptance. (2) Sundry Creditors. (3) Subsidiary Companies. (4) Advance payments and unexpired discounts for the portion for which value has still to be given, e.g. in the case of the following companies: Newspaper, Fire Insurance, Theatres, Clubs, Banking, Steamship companies, etc.</p>			<p>sub-section (IB) of Section 370 to be disclosed with the names of the companies. 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 Provision 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 Provision, 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> <p>(7A) Cash balance on hand. (7B) Bank Balances: (a) with Scheduled Banks. (b) with others.</p> <p>(In regard to bank balances particulars to be given separately of - (a) the balance lying with Scheduled Banks on current accounts, call accounts and deposit accounts. (b) the names of the bankers other than Scheduled Banks and the balances</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>(5) Unclaimed Dividends. (6) Other Liabilities (if any), (7) Interest accrued but not due on loans. <i>B. Provisions</i> (8) Provision for Taxation. (9) Proposed Dividends. (10) For contingencies. (11) For Provident Fund Scheme (12) For insurance, pension and similar staff benefit schemes. amounts (13) Other provisions.</p> <p>A foot-note to the Balance Sheet may be added to show separately</p> <p>(1) Claims against the company not acknowledged as debts. (2) Uncalled liability on shares partly paid. (3) Arrears of fixed cumulative dividends.</p> <p>(The period for which the dividends are in arrears or if there is more than one class of shares, the dividends on each such class that are in arrear, shall be stated. The amount shall be stated</p>			<p>lying with each such banker on current account, call account and deposit account and the maximum amount outstanding at any time during the year with each such banker; and</p> <p>(c) the nature of the interest, if any, of any director or his relative in each of the bankers (other than Scheduled Banks referred to in (b) above]</p> <p><i>B) Loans and Advances :</i> (8) (a) Advances and loans to subsidiaries. (b) Advances and loans to partnership firms in which the company or any of its subsidiaries is a partner. (9) Bill of Exchange. (10) Advances recoverable in cash or in kind or for value to be received, e . g . , Rates, Taxes, Insurance, etc. (11) Balances with Customs, Port Trust, etc. (where payable on demand). The instructions regarding Sundry Debtors apply to "Loans and Advances"</p>	

(1)	(2)	(3)	(4)	(5)	(6)
	<p>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).</p> <p>(4) Estimated amount of contracts remaining to be executed on capital account and not provided for.</p> <p>(5) Other moneys for which the company is contingently liable.</p> <p>(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 or each such contingent liability, if material, shall also be specified).</p>			<p>also . The amounts due from other companies under the same management within the meaning of sub-section (IB) of Section 370 should also be given with the name of the companies; the maximum amount due from every one of these at any time during the year must be shown).</p> <p><i>Miscellaneous Expenditure :</i> (to the extent not written off or adjusted).</p> <p>(1) Preliminary expenses.</p> <p>(2) Expenses including commission or brokerage or underwriting or subscription of shares or debentures.</p> <p>(3) Discount allowed on the issue of shares or debentures.</p> <p>(4) Interest paid out of capital during construction (also stating the rate of Interest).</p> <p>(5) Development expenditure not adjusted.</p> <p>(6) Other sums (specifying nature).</p> <p><i>Profit and Loss Account</i> (Show here the debit Balance of Profit and loss Account carried forward after deduction of the uncommitted reserves, if any).</p>	

Notes :

- (1) Paise can also be given in addition to Rupees, if desired.
- (2) Dividends declared by subsidiary companies after the date of the Balance Sheet should not be included unless they are in respect of a period which closed on or before the date of the Balance Sheet.
- (3) 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.
- (4) Particulars of any redeemed debentures which the company has power to issues should be given.
- (5) Where any of the company's debentures are hold 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.
- (6) A statement of investments (whether shown under "investment" or under "Current Assets " as Stock-in-Trade) separately classifying trade investments and other investments should be annexed to the Balance Sheet, showing the names of the bodies corporate (including separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments whether existing or not, made subsequent to the date as at which the previous Balance Sheet was made out) and the nature and extent of the investments so made in each such body corporate; provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock , debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which the Balance Sheet has been made out. In regard

to the investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given in the statement.

- (7) If, in the opinion of the Board, any of the current assets, loans and advances 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.
- (8) Except in the case of the first Balance Sheet laid before the company after the commencement of the Act, the corresponding amounts of the immediately preceding financial year for all items shown in the Balance Sheet shall be also given in the Balance Sheet. The requirements in this behalf shall, in case of companies preparing quarterly or half-yearly accounts, etc., relate to the Balance Sheet for the corresponding date in the previous year.
- (9) Current accounts with Directors and Manager, whether they are credit or debit, shall be shown separately.
- (10) The information required to be given under any of the items or sub-items in the 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 forming part of the Balance Sheet. This is recommended when items are numerous.
- (11) Where the original cost (of fixed assets) and additions and deductions thereto, relate to any fixed asset which has been acquired from a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such assets, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset, or for repayment of the whole or a

part of monies borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the assets (being in either cases the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed assets.

Explanation :- This paragraph shall apply in relation to all Balance Sheet that may be made out as at the 6th day of June 1966, or any day thereafter and where, at the date of issue of the notification of the Government of India, in the Ministry of Industrial Development and Company Affairs (Department of Company Affairs), G.S.R.No.129, dated the 3rd day of January, 1968, any Balance Sheet in relation to which the paragraph applied, has already been made out and laid before the company in annual general meeting, the adjustment referred to in this paragraph may be made in the first Balance Sheet made out after the issue of the said notification.

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