

Opinion

(a) Whether the information provided under Part IV of Schedule VI to the Companies Act, 1956, forms an integral part of the profit and loss account and the balance sheet.

(b) Information to be given with regard to 'total assets' as per requirements of Part IV of Schedule VI.

EXPERT ADVISORY COMMITTEE

The following is the brief version of an opinion given by the EAC of the Institute in response to queries sent by a member. This is being published for the information of the readers.

A. Facts of the case

1. The querist has drawn the attention of the Committee to the Balance Sheet Abstract and Company's General Business Profile, which is required to be given in terms of Part IV of Schedule VI to the Companies Act, 1956. It is normal practice to give this information as a separate item in the same manner as a cash flow statement and this practice had been followed by the company for the last several years. However, as per the querist, in the view of the government auditors, "Balance Sheet Abstract and Company's General Business Profile form an integral part of annual accounts of the company. Therefore, there should be a specific mention

on the face of the balance sheet that this is an integral part of accounts or the same should be mentioned in the notes to accounts".

2. According to the querist, as per the current practice of the company, "the total assets figure in the Abstract comprises total of all assets including working capital (current assets – current liabilities) and the total liabilities in the Abstract comprises all liabilities excluding the current liabilities". However, in the view of the government auditors, "the total assets in the Abstract should be the total of all assets including only current assets and the total liabilities in the Abstract should be the total of all liabilities including the current liabilities".

3. The Government auditors agreed to drop these points on the understanding that the company would seek a formal opinion on these issues from the Institute of Chartered Accountants of India.

B. Query

4. The querist has, therefore, sought the opinion of the Expert Advisory Committee as to whether –

(a) the Balance Sheet Abstract and Company's General Business Profile should form part of the notes to accounts or should find a reference/mention anywhere else in the accounts; and

(b) for the purpose of the Balance Sheet Abstract and Company's General Business Profile, total assets should be the total of all assets including current assets and the total liabilities should be total of all liabilities including current liabilities.

C. Points considered by the Committee

5. The Committee notes that section 211 of the Companies Act, 1956, *inter alia*, requires as follows:

"(1) Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial

year and shall, subject to the provisions of this section, be in the form set out in Part I of Schedule VI, or as near thereto as circumstances admit or in such other form as may be approved by the Central Government either generally or in any particular case; and in preparing the balance sheet due regard shall be had, as far as may be, to the general instructions for preparation of balance sheet under the heading "Notes" at the end of that Part:

..."

(2) Every profit and loss account of a company shall give a true and fair view of the profit or loss of the company for the financial year and shall, subject as aforesaid, comply with the requirements of Part II of Schedule VI, so far as they are applicable thereto:

..."

6. The Committee also notes that Part III, 'Interpretation', of Schedule VI to the Companies Act, 1956, refers to Parts I and II of Schedule VI.

7. The Committee further notes that neither any section of the Companies Act, 1956, including section 211, refers to Part IV of Schedule VI nor Part IV itself refers to Parts I and II of Schedule VI containing requirements related to the balance sheet and the profit and loss account, respectively. The Committee, based on the above requirements of law, is of the view that the information contained in Part IV of Schedule VI to the Companies Act would not form an integral part of the profit and loss account and the balance sheet. Accordingly, in the view of

the Committee, reference to information given pursuant to the requirements of Part IV of the Companies Act, 1956, need not be made in the profit and loss account or balance sheet including notes thereto.

8. The Committee notes that the term 'total assets' has not been defined anywhere in the Companies Act, 1956. In view of this, the information to be given with regard to 'total assets' pursuant to the requirements of Part IV of Schedule VI to the Companies Act, 1956, has to be construed keeping in view the common parlance in which the said term is used, according to which 'total' means the sum. Accordingly, 'total assets' would mean the total/sum of the assets side of the balance sheet, i.e., total of all assets including current assets without deduction of current liabilities.

9. The Committee also notes that the inclusion of the amount of current assets less current liabilities in the amount of total assets, would tantamount to reflecting the 'total application of funds'. Had that been the intention under Clause III of Part IV of Schedule VI to the Act, the said requirement would have been contained under the head 'Application of funds'. Further, the expressions used are 'total assets' and 'total liabilities' under Clause III and the terms 'Assets' and 'Liabilities' have been used in Part I of Schedule VI to the Act as the headings of the horizontal form of balance sheet. Accordingly, the term 'total assets' would represent the total of the 'Assets' side of the balance

sheet, without deduction of current liabilities. This argument is further strengthened by the fact that the vertical form of balance sheet given in Schedule VI to the Companies Act, 1956, does not use the terms 'assets' and 'liabilities'.

D. Opinion

10. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 4 above:

(a) The Balance Sheet Abstract and Company's General Business Profile need not form part of the notes to accounts nor there is any need to make a reference/mention in the profit and loss account or the balance sheet.

(b) 'Total assets' for the purposes of Clause III of Part IV of Schedule VI to the Companies Act, 1956, should mean the total of the 'Assets' side of the balance sheet without deduction of current liabilities, and 'total liabilities' should mean the total liabilities including current liabilities. □

Notes:

1. *The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.*
2. *The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in 23 volumes which are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.*