

# Accounting for cheques bearing the balance sheet date or before but received thereafter

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

## A. Facts of the Case

1. A public sector company registered under the Companies Act, 1956, is engaged in the construction and operation of hydro-electric power projects. Power generated is sold to State Electricity Boards (SEBs). The company also gets equity support from the Government of India.
2. The company collects the dues in respect of sale of power from State Electricity Boards through post/courier/in person, in addition to through letters of credit. At times, the company deputs its representatives for collection of these dues. Further, the Government of India also releases budgetary support/equity through cheques. At the year-end, the cheques bearing date of 31<sup>st</sup> March, or before, though received in first or second week of April of succeeding year, are accounted for as 'cheques-in-hand'.
3. These cheques are accounted for in the year relevant to the date of cheques as non-accountal thereof may result in non-reconciliation of accounts of the company with the accounts of the Government of India and also with the State Electricity Boards. This situation arises mainly due to the working of the financial system inherent in the government departments/SEBs. All these cheques are presented to bank in the month of April itself and are also realised in the same month in normal course after deposit in the bank. This practice is being followed consistently by the company.
4. The statutory auditors of the company, during the course of audit for the year 2003-04, were however of the opinion that the treatment given by the company is not correct. According to the statutory auditors, the meaning of 'cheques-in-hands' is that cheques are in the custody of the company or its authorised representative but not in the custody of payer on the balance sheet date. In other words, cheques which are not in the custody of the company or its representatives on the balance sheet date, though dated 31<sup>st</sup> March, or before should not be shown as cheques/drafts-in-hand.
5. The company is still of the view that the practice being followed by it is in order as cheques are being credited to its account in normal course after deposit in the bank. By drawing a distinction between the 'cheques-in-custody', which may be at outstation and 'cheques sent not through the representative of the company' shall vitiate the basic concept and would result in over statement of debtors etc., and difference in accounts with the Government of India particularly in equity account. The company is of the opinion that it is appropriate to account for the instruments dated 31<sup>st</sup> March or before but received within a reasonable time after close of the accounting year as cheques-in-hand.
6. Finding the difference in views, it has been decided to refer the matter to the Expert Advisory Committee of the Institute of Chartered Accountants of India.

*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.*

## B. Query

- 7 The opinion of the Committee has been sought on the following issues:
  - (a) Whether the practice being followed by the company is correct;
  - (b) if not, what would be the acceptable practice; and

- (c) whether any accounting policy is required to be disclosed in the annual accounts in this regard.

### C. Points considered by the Committee

8. The Committee notes that one of the basic principles of preparation of the financial statements is to record transactions and events that occur or relate to the accounting period for which the financial statements are prepared. Thus, where the accounting period ends on 31<sup>st</sup> March, all transactions and events that take place upto 31<sup>st</sup> March should be reflected in the financial statements as of that date. In other words, it is the conditions existing on the balance sheet date that are to be reported in the financial statements. Events occurring after the balance sheet date should be incorporated in the financial statements only where they assist the estimation of amounts relating to conditions existing at the balance sheet date. Therefore, the Committee is of the view that cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31<sup>st</sup> March or before.
9. The Committee also notes the definition of the term 'asset' contained in paragraph 49 of the 'Framework for the Preparation and Presentation of Financial Statements', issued by the Institute of Chartered Accountants of India, which is reproduced below:  
“(a) An *asset* is a resource *controlled by the enterprise* as a result of past events from which future economic benefits are expected to flow to the enterprise. (*Emphasis supplied by the Committee.*)”
10. From the above the Committee is of the view that an enterprise controls a resource if the enterprise has the power to obtain future economic benefits flowing from it. The Committee is, accordingly, of the view that cheques, which are not in its possession or in the possession of its representative(s) on the balance sheet date can not be termed as its assets as it has no control over the cheques on that date. Thus, the 'cheques in-hand' should be the cheques that are in the possession of the company so that it has the power to use or direct the use of those cheques for its purposes on the balance sheet date.
11. The Committee is of the view that reconciliation with the relevant balances in the accounts of the

Government departments/SEBs because of the accounting system followed by the latter is not a justifiable reason for recognising cheques received after 31<sup>st</sup> March as cheques on-hand on that date even though the cheques bear the date before 31<sup>st</sup> March or 31<sup>st</sup> March itself.

### Opinion

12. On the basis of the above, the Committee is of the following opinion in respect of the issues raised in paragraph 7 above:
- The practice followed by the company to recognise the cheques bearing date of 31<sup>st</sup> March or before, though received after 31<sup>st</sup> March as 'cheques-in-hand' in the financial statements for the period ending on 31<sup>st</sup> March is not correct.
  - The acceptable practice would be to recognise such cheques only when these are received by the company or its representative irrespective of the date borne by the cheques.
  - No accounting policy is required to be disclosed in the annual accounts in this regard. ■

### Announcement

#### **New ICSI President, Vice President elected**

Mr R Ravi has been elected as the President and Mr H M Choraria as the Vice President of the Institute of Company Secretaries of India (ICSI) with effect from 19<sup>th</sup> January 2005.

Mr Ravi, 52, is a Graduate in Science, Master of Law and a Fellow Member of the ICSI professionally engaged in Chennai. He has been the Vice President of ICSI for the year 2004 and has been re-elected as the Central Council Member of the ICSI for the second successive term. Earlier Mr. Ravi was the Chairman of the Southern India Regional Council (SIRC) of the ICSI.

Mr HM Choraria, 52, B.Com, LL.B and a Fellow Member of ICSI has been elected as the Vice-President of ICSI w.e.f. 19<sup>th</sup> January, 2005. He is presently practising in Kolkata. He has been re-elected as the Central Council member of the ICSI for the second successive term (2004-2006). Earlier Mr. Choraria was the Chairman of Eastern Indian Regional Council (EIRC) during 1997-98.