

## **Guidance Note on AOC-4**

---

### **INTRODUCTION**

Financial Statements are formal record of the financial operations and financial position of the Company. Financial statements are the heart and soul of Company's annual report. While financial statements do not provide answers, they provide information of great significance to the stakeholders. It gives a broad financial picture of the affairs of the company during the financial year.

Mandatory disclosure through financial statement including Auditor's Report and Board's Report is a method of providing information to the shareholders and the public about the financial position and activities of the company so as to enable its members to exercise a more intelligent and purposeful control thereon.

It is mandatory for the Board of Directors of every company to present financial statement (annual report) to the shareholders along with its report i.e. Board's Report. Financial statement prepared, presented and filed annually is the most important means of communication by the Board of Directors of a company with its shareholders.

As per section 137(1) of the Companies Act, 2013, every Company is required to file with the Registrar a copy of its financial statements, including consolidated financial statement, if any, along with all the documents which are required to be or attached to such financial statements under this Act, duly adopted at the annual general meeting of the company within thirty days of such AGM. Section 403 prescribes the manner, fees or additional fees in this respect.

This Guidance Note intends to explain various features relating

to financial statements under the Companies Act, 2013. It is intended to guide the professionals in filling, filing and certifying the Form AOC-4. Financial Statements of a company includes Balance Sheet, Profit and Loss Account, Cash Flow statement (if applicable), statement of change in equity (if applicable) and any explanatory notes annexed to the financial statements.

### DEFINITIONS

- (i) **"accounting standards"** means the standards of accounting or any addendum thereto for companies or class of companies referred to in section 133. [Section 2(2)].
- (ii) **"associate company"**, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. [Section 2 (6)].

*Explanation.*—For the purposes of this clause, "significant influence" means control of at least twenty per cent. of total share capital, or of business decisions under an agreement.
- (iii) **"auditing standards"** means the standards of auditing or any addendum thereto for companies or class of companies referred to in sub-section (10) of section 143. [Section 2(7)]
- (iv) **"authorised capital"** or **"nominal capital"** means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company. [Section 2 (8)]
- (v) **"book and paper"** and **"book or paper"** include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form. [Section 2 (12)]
- (vi) **"books of account"** includes records maintained in respect of—
  - (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
  - (ii) all sales and purchases of goods and services by the company;

- (iii) the assets and liabilities of the company; and
- (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section. [Section 2 (13)]
- (vii) "**chartered accountant**" means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 who holds a valid certificate of practice under sub-section (1) of section 6 of that Act. [Section 2 (17)]
- (viii) "**Chief Financial Officer**" means a person appointed as the Chief Financial Officer of a company Section 2 (19).
- (ix) "**company secretary**" or "**secretary**" means a company secretary as defined in clause (c) of sub-section (1) of section 2 of the Company Secretaries Act, 1980 who is appointed by a company to perform the functions of a company secretary under this Act.
- (x) "**electronic form**" with reference to information means any information generated, sent, received or stored in media, magnetic, optical, computer memory, micro film, computer generated micro fiche or similar device.
- (xi) "**electronic record**" means data, record or data generated, image or sound stored, received or sent in an electronic form or micro film or computer generated micro fiche.
- (xii) "**financial statement**" in relation to a company, includes—
  - (i) a balance sheet as at the end of the financial year;
  - (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
  - (iii) cash flow statement for the financial year;
  - (iv) a statement of changes in equity, if applicable; and
  - (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):  
Provided that the financial statement, with respect to One

Person Company, small company and dormant company, may not include the cash flow statement. [Section 2 (40)]

- (xiii) **“financial year”**, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up: Provided that on an application made by a company or body corporate, which is a holding company or a subsidiary of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year: Provided further that a company or body corporate, existing on the commencement of this Act, shall, within a period of two years from such commencement, align its financial year as per the provisions of this clause. [Section 2 (41)]
- (xiv) **“issued capital”** means such capital as the company issues from time to time for subscription Section 2 (50).
- (xv) **“net worth”** means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation Section 2 (57).
- (xvi) **“officer who is in default”** [Section 2 (60)], for the purpose of any provision in this Act which enacts that an officer of the company who is in default shall be liable to any penalty or punishment by way of imprisonment, fine or otherwise, means any of the following officers of a company, namely:—
- (i) whole-time director;
  - (ii) key managerial personnel;
  - (iii) where there is no key managerial personnel, such director

- or directors as specified by the Board in this behalf and who has or have given his or their consent in writing to the Board to such specification, or all the directors, if no director is so specified;
- (iv) any person who, under the immediate authority of the Board or any key managerial personnel, is charged with any responsibility including maintenance, filing or distribution of accounts or records, authorises, actively participates in, knowingly permits, or knowingly fails to take active steps to prevent, any default;
  - (v) any person in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act, other than a person who gives advice to the Board in a professional capacity;
  - (vi) every director, in respect of a contravention of any of the provisions of this Act, who is aware of such contravention by virtue of the receipt by him of any proceedings of the Board or participation in such proceedings without objecting to the same, or where such contravention had taken place with his consent or connivance;
  - (vii) in respect of the issue or transfer of any shares of a company, the share transfer agents, registrars and merchant bankers to the issue or transfer;
- (xvii) **“paid-up share capital”** or **“share capital paid-up”** means such aggregate amount of money credited as paid-up as is equivalent to the amount received as paidup in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called [Section 2 (64)].
- (xviii) **“subscribed capital”** means such part of the capital which is for the time being subscribed by the members of a company Section 2 (86).
- (xix) **“turnover”** means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year Section 2 (91).

## **KEEPING OF THE BOOKS OF ACCOUNT AND FINANCIAL STATEMENT**

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

The books shall be kept on accrual basis and according to the double entry system of accounting.

All or any of the books of account aforesaid and other relevant papers may be kept at any other place in India as may be decided by the Board of Directors. The notice regarding address at which books of account may be kept is required to be filed with the Registrar within seven days of passing of resolution by Board of Directors in **Form AOC-5** (Rule 2A of the Companies (Accounts) Rules, 2014).

Rule 3 of Companies (Accounts) Rules, 2014 allows and provides the manner for keeping books of account in electronic mode.

It provides that the information in the electronic record of the document shall be capable of being displayed in a legible form. There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.

The back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a periodic basis.

In case a company has a branch office in India or outside India, it shall be deemed to have complied with these provisions, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns periodically are sent by the branch office to the company at its registered office or the other place.

The books of accounts maintained by the company within India shall be open for inspection at the registered office of the company

or at such other place in India by any director during business hours and in case of financial information, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by any director subject to such conditions as may be prescribed.

Rule 4 of Companies (Accounts) Rules, 2014 deals with the Conditions regarding maintenance and inspection of certain financial information by directors.-

- (1) The summarised returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at quarterly intervals, which shall be kept and maintained at the registered office of the company and kept open to directors for inspection.
- (2) Where any other financial information maintained outside the country is required by a director, the director shall furnish a request to the company setting out the full details of the financial information sought, the period for which such information is sought.
- (3) The company shall produce such financial information to the director within fifteen days of the date of receipt of the written request.
- (4) The financial information required under sub-rules (2) and (3) shall be sought for by the director himself and not by or through his power of attorney holder or agent or representative.

#### **PRESERVATION OF BOOKS OF ACCOUNT**

Section 128(5) provides that the books of account of every company relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account shall be kept in good order.

Where an investigation has been ordered in respect of the company under Chapter XIV, the Central Government may direct that the books of account may be kept for such longer period as it may deem fit.

## PREPARATION OF FINANCIAL STATEMENT

The Companies Act, 2013 gives an inclusive definition of financial statements. As per clause (40) of section 2 of the Act:

“Financial statement” in relation to a company, includes—

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Companies Act provides for the contents and disclosures required to be given in the financial statement. It also provides the detailed procedure of presenting the financial statement at the meeting of the shareholders and filing of these documents with Registrar of Companies.

Rule 4A of Companies (Accounts) Rules, 2014 i.e. Forms and items contained in financial statements provides that the financial statements shall be in the form specified in Schedule III to the Act and comply with Accounting Standards or Indian Accounting Standards as applicable.

The items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in the Accounting Standards or the Indian Accounting Standards as the case may be.

Section 129 (1) requires that the financial statements shall give a true and fair view of the state of affairs of the company or companies and it shall:

- comply with the accounting standards notified under section 133; and
- shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.