Presentation of financial figures in the form of published accounts for the benefit of persons concerned with the working of a joint stock company has been the inevitable result of the company form of organisation. The form and contents of annual report in India have undergone vital changes from time to time yielding to demands of time and extent of popularity of the form of business organisation. It is commonly believed that legislation has required the management to publish more and more information because the management try to withhold the necessary information from being published. Therefore, the followings have been examined in this Chapter.

01 Evolution of Law relating to the disclosure
02 Present legal requirements relating to disclosure.
The early history of the company form of organisation started with the formation of companies Royal Charter of Special Acts of Parliament. Later on, the Bubble Act was repealed in 1825 which helped the formation of companies of the present day. There was a need of large scale organisation where funds of several people had to be merged on account of rapidly increasing industrialisation culminating in the set up of costly equipments and thus, needed huge finances. Even the external investment had to be encouraged to amass more fund. This requires several factors to protect the investors in the era of disclosure.

The foundations of the present system of company financial reporting can be seen in the development which took place in the railway boom between 1830 and 1870.¹ The early railway companies were formed by the Acts of Parliament, most of which required accounting records to be kept but made no provision for the publication of the financial statements for shareholders. The shareholders were then deprived of access to any form of financial information about the companies in which they had invested. Later acts, however, took greater cognizance of the investor's needs; for example, the Greater

Western Railway Act 1935 required half yearly financial statement to be laid before the shareholders in general meeting.

After 1844, when companies were formed by incorporation, it was made obligatory on the part of each company to keep adequate accounting records; to present a balance sheet in each ordinary meeting of shareholders; to send a copy of the balance sheet to each shareholder; and to have an audit of the records and the balance sheet. The form and contents of the annual reports in India have undergone vital changes from time to time according to the needs of the users. To a great extent, changes in law have been for the purpose of enforcing healthy practices in the published accounts already being followed by leading companies within the country as well as outside.

Indian Companies Act, 1882

The first statutory act giving legal recognition to the preparation of balance sheet under the prescribed form, however, on the optional basis, was passed in 1857, which was converted into compulsory basis by the act of 1866. A comprehensive Act recasting and overhauling all the previous ones was passed in 1882, known as the Indian Companies Act, 1882, which came into force with effect from May 1, 1882,
and closely resembled in its prototype the U.K. Act of 1862.  

Under the Act of 1882, provisions pertaining to the balance sheet and its audit were contained in Sec. 74, and were binding upon each company, whereas for profit and loss accounts, laying and circulation of annual accounts, contents of auditors' report, directors' report and so on were contained in the regulations 78 to 94 of Table A which were optional on the part of each company i.e. which at the discretion of the directors, vide Sec.38, could be eliminated by specifically excluding their adoption. These provisions required maintenance of the true accounts of the stock in the trade of the company and the sums received and expended by it, of the matters in respect of which some receipts and expenditure took place and of the credits and liabilities of the company. As regards the balance sheet, it requires a summary of the properties and liabilities of the company arranged in the form annexed to the table or as near thereto as circumstances permitted. However, the form of the balance sheet included very few items and the information required to be disclosed was also limited.  

**Indian Companies Act, 1913**

The 1913 Act of Companies contained more detailed provisions regarding the published accounts. Sections 130 to

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132 dealt with these provisions. Articles 107 and 108 of Table A appended to the Act presented guidelines for the preparation of profit and loss accounts and balance sheet. Over and above this, a compulsory form of balance sheet (Form F of Schedule III) was given by law. Article 107 emphasises that the profit and loss account shall reveal, under convenient heads, the amount of gross income identifying the several sources from which it has been derived and the amount of gross expenditure distinguishing the expenses of the establishment; salary and other like matters. Every item of expenditure fairly chargeable against the year's income was required to be brought into account so that a true balance of profit and loss account may be laid before the meeting.

According to Article 108 of the 1913 Act; a balance sheet was required to be prepared every year and laid before the company in the general meeting. The balance sheet, accompanied by a report of the directors as to the state of the company's affairs, and the amount which they recommended to be paid by way of the dividend and the amount (if any) which they proposed to carry to reserve fund, were required to be presented.

Companies (Amendment) Act, 1936

This Act is another landmark in the history of Company Law. Section 130 regarding books to be kept by a company and
penalty for not keeping proper books was entirely recast. Profit and loss account was given a status equal to that of balance sheet. Section 131 was newly introduced making directors' report on the accounts compulsory. Section 132(3) required disclosure, in profit and loss account, of certain information of importance to the shareholders regarding remuneration to agents, directors and managers. Section 132-A, a new section, made information on subsidiary companies compulsory. The articles in Table A dealing with accounts were substantially amended of which some regulations were made compulsory.

Report of the Bhabha Committee

On October 28, 1950, a committee under the chairmanship of C.H.Bhabha, more familiarly known as Bhabha Committee, was appointed to consider and report what amendments were necessary in the existing legislation pertaining to companies in the light of the experiences gained in the actual working and the larger changes taking place in organisation and the working of joint stock companies, especially on account of the World War II. Besides this, the U.K. Cohen Committee Report had also taken the shape of new companies Act 1948 and the Indian Company law had been based largely on the law of United Kingdom. The government thought that the time was ripe for the review of the Indian Companies Act also.

While making recommendation about the provisions pertaining to matters connected with the financial reporting,
the committee did not hesitate to recommend the adoption of some of the provisions contained in Section 147 to 163 of the English Companies Act of 1948, relating to accounts, and audit, and in particular, the provisions contained in the Eighth and Ninth Schedule of that Act. Many of the existing provisions as contained in the Indian Companies Amendment Act of 1936 which were in advance even at the time of enactment of 1936 Act but which still retain their usefulness, have been retained. The Committee also recommended the adoption of several other provisions which they considered to be a further advance upon the provisions of the English Companies Act of 1948.4

The Committee emphasised that the form of balance sheet and the contents of the profit and loss accounts should be such as would make available to the share holders as much information relating to the affairs of the company as it is possible to disclose.

**Indian Companies Act, 1956**

The introduction of Schedule VI by the Companies Act 1956 is considered an important step forward in the presentation of accounts. Provisions in law that were just a part of Table A, were incorporated in the main provisions of the Act. This Act greatly enlarged the scope and limitations of disclosure, particularly with regard to company accounts. Many important

areas of management and company practices, previously left entirely to the judgement of the board, was brought by the Act under the surveillance of the general body of the shareholders. Much detailed information about the working of joint stock companies was now readily available, not only to shareholders but also in offices of registrar of joint stock companies, for the benefit of the public.

Section 209 of Indian Companies Act 1956 provides that each company should keep proper books of account with respect to all sums of money received and expended, sales and purchases of goods, assets and liabilities of the company and such particulars relating to utilization of material or labour or to other items of cost in the case of company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities. The Act has also set specific forms for the balance sheet and profit and loss account.

Corporate annual report contains a report by its board of directors with respect of:

a) the state of company affairs;

b) the amounts, if any, which it proposes to carry to any reserves;

c) the amount, if any, which it recommends, shall be paid by way of the dividend; and

d) material changes and commitments, if any, affecting the financial position of the Company.
The Director's report also deals with changes occurred during the year in the nature of company's business and subsidiaries in the nature of business carried on by the subsidiaries. An auditor's report expressing his opinion about balance sheet and profit and loss account is given in the Annual Report.

Amendment in 1961

In only four years, the form of balance sheet and content required in profit and loss account were amended. Through an amendment carried out in 1961, some unnecessary items in the balance sheet such as 'liability fund' and 'any other fund created out of net profits', were weeded out. Whereas changes were made in other items, viz., premium on shares went from capital to reserve, pension, insurance and provident fund went from reserve to provisions. Interest accrued from investments went from investment to current assets, cash ceased to be an independent item but formed part of current assets.

In the contents of profit and loss account, the changes were in the nature of additional information, particulars regarding commission and brokerage were fully required, opening and closing stocks and work-in-progress were to be necessarily divulged, arrears of depreciation in accordance with Section 205(2) of the Companies Act 1956 were to be noted, interest on debentures paid to the managing agents, amount reserved for the
repayment of capital or loans, unprovided expenses on workmen and staff welfare, and unadjusted losses on investments were to be shown. Finally, auditor's remuneration was to be bifurcated as to for audit and for other services. The notes to various items and interpretation given in law clarifies the extent of requirements in some detail.

**Amendment in 1973**

In 1973, some amendments in Companies' Act were carried out to require disclosure of additional information in financial statements. These amendments related to the following items of information:

a) Specified details in respect of investments and profit earned or loss incurred in partnership firms in which the company is a partner;

b) quantities and amounts in respect of the turnover of each class of goods;

c) break-up in quantity and value in respect of each class of raw materials consumed or purchased;

d) class-wise break-up of quantity and value in profit and loss account in respect of opening and closing stock of goods manufactured or purchased;

e) break-up of expenditure on salary, wages and bonus in respect of employees drawing a remuneration of Rs.3,000 or more; and

f) suitable quantitative details regarding licensed capacity, installed capacity and actual production in respect of each class of goods manufactured.

The Companies(Amendment) Act 1974 has made obligatory for the companies to indicate the names of employees getting remuneration of Rs.36,000 per annum inclusive of the perquisites, their relationship, if any, with any of the directors
of the company, in the report of the Board of Directors to be attached with the balance sheet and the profit and loss account.

Sachar Committee Report

Report of the High Powered Expert Committee (hereafter called Sachar Committee Report)\(^5\) has given some suggestions on the provisions regarding accounts and audit which will make the annual report more intelligible and useful to the shareholders and others. The Committee has given a blanket option in the matter of the presentation of balance sheet and profit and loss account and has also suggested a model form for vertical balance sheet. It is further suggested that the requirements of quantity details in the profit and loss account should be done away with as they do not serve any useful purpose for the shareholders in general. But such quantity details may be filed with the company law department and furnished on request to the financial institutions or other government departments.

To ensure adequate disclosure as regards the utilisation of company's funds, the committee has suggested that provision of Section 212 (requiring every holding company to attach to its balance sheet, copies of balance sheet, profit and loss account, director's report and auditor's report of its subsidiary companies) be made applicable to partnership/joint ventures entered into by the company.

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The Sachar Committee has suggested the following additional items for inclusion in the Directors' report are as under:

a) Amount of deposits received from the public during the year, total repayments during the year and year-end-outstandings with a break up of dues within one or two years;

b) Brief particulars of prosecutions which resulted in a fine of Rs.1,000 or more in any one case, or in imprisonment of any of the directors or officers of the company;

c) Particulars of unclaimed dividend and unpaid dividends;

d) Details of investment in bodies corporate, firm or joint ventures which have not yielded any return during the year and reasons thereof, if the investments are in excess of 5 per cent of the company's paid up capital and free reserves;

e) Particulars of material liability and matters adversely affecting the profit/loss, asset and liability position since the closing of the year to the date of adoption of accounts by the directors;

f) Statement of unprovided liabilities and commitments during the year and reasons thereof;

g) Details about the company's social activities and the future plan for the same;

h) Statement indicating the loss suffered by the company in any division of the activities, which accounts for not less than 10 per cent of the total turnover of the company;

i) Accounting ratios of current assets to current liabilities, inventory to sales, trade receivables to sales, net income to net sales and net worth, return on total capital employed, profit before interest and tax to total assets and net profit after tax to shareholders equity.

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j) Key-limiting factors preventing full utilisation of installed capacity of plant and machinery;

k) Number of shares held by each director carrying not less than 20% of the total voting rights;

l) Particulars of any contract in which directors or his spouse or dependent children have interest; and

m) Statement regarding compliance of statutory norms and guidelines in respect of managerial appointment and remuneration and inter-company investment and loans.

The aforesaid items would provide useful information to shareholders and potential investors and indicate to them whether the affairs of a company are prudently managed or not.

In India, an annual report containing financial statements and directors' report is submitted to shareholders for approval and sent to government authorities. The information to be disclosed and even the form of balance sheet has been laid down. From time to time, changes have been made to retain shareholders' interest and at other times due to public interest and the requirements of the government.

The object of presenting the contents of the financial statements is to obtain a 'true and fair view' of the results and state of affairs of companies from time to time. However, there is a tendency among the majority of companies to interpret the minimum requirements (in law) as maximum standard of disclosure. It is contended that legal requirements can sometimes be a problem and may well hinder the development of financial
accounting to the detriment of common good of users. Financial accounting is largely a means of communication of information to users. Needs of users change with circumstances, but if the communication is compulsorily placed in a strait-jacket, it is generally the users who suffer.

Disclosure does not imply that users have a guarantee as to the correctness and soundness of their economic decisions. In brief, it simply means that the companies have the responsibility to "telling the truth" about their economic condition so that investors may be in a position to make reasonable judgements as to their prospects. It provides impetus to honest and fair dealings in securities and thereby bring back public confidence.

In United States, the Securities Act of 1933 and Security Exchange Act of 1934 are aptly referred to as 'disclosure' status. The theory of Securities Act is that if investors are provided with sufficient information to permit them to make a reasoned decision concerning the investment merits of securities offered to them, investor interests can be adequately protected without unduly restricting the ability of business ventures to raise capital. In United States, both the SEC and Self-Regulatory Agencies have continued responsibilit

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of reviewing corporate practices in this respect and taking necessary measures to ensure that the benefits of this informed reporting are transmitted to the public. About American disclosure practices, Rose\textsuperscript{8} opines that there is not much doubt that disclosure plays a material part in keeping American Management at full stretch.

The underlying philosophy of Company Law in England is that disclosure of all matters will prevent abuse. The Cohen Committee\textsuperscript{9} stated, "Much of our report is based on the principle of the validity of which we are convinced, that the fullest information practicable about the affairs of companies should be available to the shareholders and the public".

The Companies Act 1967 in U.K. has greatly extended the information which must be disclosed in the accounts and in the directors' report. As a result of this Act published financial statements provide valuable information, supplying knowledge of company's financial position in greater detail than is likely to be available from any other source. England has pinned its faith on a philosophy of disclosure rather than that of supervision.\textsuperscript{10}

\begin{thebibliography}{9}
\bibitem{8} Rose, Hoyold, "Disclosure in Company Accounts", Institute of Economic Affairs, 1963.
\bibitem{9} Report of the Committee on Company Law Amendment, 1945, Cmd-6659, Paragraph No.50.
\end{thebibliography}
Compulsory disclosure through law is a method of providing information about companies. Clearly, the statutory provisions are not the last word on the subject. They only ensure that the significant information is there for the public. Annual reports containing financial statements should not necessarily reflect the strict legal position but should meet user's needs in their specific purposes.

In India, as far as the accounting profession and the enforcement agencies are concerned, mere form and the technicalities are required to be ensured, to the comparative exclusion of substance; whereas it is a substantive economic characteristic which should prevail in adequate disclosure over legal and technical form in case of conflict. Although law has positively contributed to disclosure in corporate annual reports, but ideally it should follow the development. The government should promote legislation to require further disclosure in corporate annual report.

02 PRESENT LEGAL REQUIREMENTS RELATING TO DISCLOSURE

In accounting, financial statements are the means of conveying to management, owners and to interested outsiders, a concise picture of profitability and financial position of the business. The preparation of financial statements is not the first step in the accounting process but they are the end.
products of the accounting process which gives a concise accounting information of the accounting period when it is over.

The major financial statements are the Balance Sheet and the Profit and Loss Account. These two statements summarised all the accounting information recorded in the subsidiary books and the ledger generally for a year.

In India, there is no statutory obligation upon sole proprietorship or partnership firms to prepare final accounts, but companies have a statutory obligation to prepare final accounts as required by Section 210 of the Companies Act.

The main objective of the company law in making such requirements regarding the disclosure is to give protection to investors. One of the ways in which the law seeks to ensure this is by enabling the public and the members of a company to obtain all relevant information about the working of a company through its published accounts which are certified by a professional auditor.

Section 210 provides that it is the duty of the Board of Directors to have the annual accounts and balance sheets of their company prepared. At every annual general meeting of the company, the Directors must lay before the members of the company and balance sheet and profit and loss account.
The balance sheet and profit and loss account (or where the company is not carrying on business for profit, the income and expenditure account) must be prepared as at the end of the period specified in sub-section 3 of section 210; in other words, if it is the first annual general meeting, the balance sheet and profit and loss accounts must be prepared so as to relate to the period starting from incorporation of the company and ending with a day which must not precede the day of the holding of the meeting by more than nine months; and in the case of any subsequent annual general meeting, the balance sheet and profit and loss accounts must be prepared so as to relate to the period starting with the day immediately after the day up to which the previous account was prepared for and ending with a day which must not precede the day of holding of the meeting by more than six months. If the time for the holding of the general meeting has been extended by the Registrar, the balance sheet and the profit and loss accounts must relate to the period already mentioned but ending with a day which must not precede the extending date by more than six months.

The period for which the balance sheet and the profit and loss accounts may be prepared is referred to in the Companies Act, 1956 as a financial year. It may be less or more than a calendar year; but must not exceed fifteen months, unless
special permission has been granted by the Registrar so as to extend the financial year even to eighteen months.

The annual accounts comprising the balance sheet and the profit and loss account have to be laid before the company for the first time within 18 months of its incorporation, and thereafter once every year. A company can have its own financial year which may differ from the calendar year, and except where specially authorised, the annual accounts must represent the transactions over the year.

Section 216 of the Act requires that the profit and loss accounts must be annexed to the balance sheet and the auditors' report must be attached thereto. Besides, the Directors are required under section 217 to make a report and attach the same to every balance sheet. The report must be with reference to (a) the state of affairs of the company; (b) the amounts, if any, which the Board of Directors propose to carry to any reserves, either in such a balance sheet or in a subsequent balance sheet; (c) the amount, if any, which the Board recommends should be paid by way of dividend; and (d) material changes and commitments, if any, affecting the financial position of the company which have occurred between the financial year to which the balance sheet relates and the date of the report.
The report of the Board of Directors must deal with any changes which have occurred during the financial year with respect to the nature of the business of the company, or the subsidiaries of the company, or the business carried on by them and generally in the class of business in which the company is interested. This is so far as is material; for appreciation of the state of affairs of the company by its members, and is not, in the opinion of the Board of Directors, harmful to the business of the company or the business of any of the subsidiaries of the company.

The profit and loss account is prepared at the end of the accounting period to know the net income earned by a business during the accounting period. It is helpful in measuring the economic performance of the business, i.e., success or failure of the business. Management, shareholders, prospective investors, employees, bankers and other creditors are anxious to know the latest income of the company. So, to satisfy their curiosity, the profit and loss account is prepared at the end of every accounting period. It is also known as income statement and statement of operations.

The statutory requirements [Section 211 (1&2)] regarding these documents are contained in the succinct provision that every balance sheet should give a true and fair
view of the state of the affairs of the company at the end of the financial year and every profit and loss account should likewise give a true and fair view of the profit and loss of the company for the financial year.

The expression "true and fair" epitomises the intention of these provisions. The accounts of a company must not only be "true and correct", as under the old law but "true and fair". They must be true accounts and must give a fair view also that is to say an honest appraisal of the company's position. This particularly applies to reserves and provisions. This section prescribes that the balance sheet and the profit and loss accounts should be in the forms in Schedule VI, or as near thereto as circumstances admit.

The profit and loss account must describe clearly the result of working of the company during the period covered by the account. It must also disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions of an exceptional nature. Items relating to previous years should also be shown separately.

The profit and loss account should disclose the aggregate amount of turnover for which sales are affected by the company together with the amount of sales in respect of each class of goods dealt in by the company indicating the quantities of such sales for each class separately. It must also disclose the various kinds of commission and discount paid to the different agents.
The profit and loss accounts must items relating to income and expenditure, arranged in most convenient heads. In practice, appropriation of profit will normally be included in a separate section of the profit and loss account which may be called the profit and loss appropriation account.

The profit and loss accounts of a company should give information about both quantities and values of various types of raw-materials purchased and about quantities and values of various products sold so that an analysis of input/output may be made.

From the requirements as to profit and loss accounts given in Part II of Schedule VI, it is clear that the Companies Act has not prescribed any standard form for the preparation of the profit and loss accounts because no standard form can meet the requirements of the different types of business. But the Companies Act requires that every profit and loss accounts of a company should be so prepared as to give a true and fair view of the profit and loss of the company for the financial year and comply with the requirements of Part II of Schedule VI, as they are applicable thereto.

A balance sheet also described as a statement showing the sources and application of capital is prepared with a view to measure the financial position of a company on a fixed date. The financial position of a concern is indicated by its assets...
on a given date and its liabilities on that date. Excess of assets over outside liabilities represents capital or net worth or shareholders' fund and is indicative of the financial soundness of company. "A balance sheet consists of a listing of the assets and liabilities of a business and the owners' equity".

Section 210 of the Companies Act makes it obligatory on the part of the Board of Directors of each company to lay before the shareholders a balance sheet as at the end of each trading year, at every general meeting. The balance sheet so presented should be prepared in the form given in Part I of the Schedule VI of the Companies Act 1965 so far as the circumstances of a particular company permit. Or it may be in such other form as may be approved by the Central Government. Further while preparing the Balance Sheet, care should be taken so that it would give true and fair view of the state of affairs of the company. It should be deemed to be disclosing a true and fair view of the state of affairs of the company so long as it is drawn up in conformity with the provisions contained in Schedule VI (except in the case of companies which are governed by special Act). There should be no room for window dressing, showing a better position than what actually is, and secret reserves, showing a worse picture than what actually is.
If the information required to be given under any of the items in the prescribed form cannot be conveniently shown in the Balance Sheet, it should be shown in a separate schedule or schedules to be attached to the Balance Sheet.

The legal provisions relating to disclosure (both for the Balance Sheet and the Profit and Loss Accounts) together with the form of the Balance Sheet prescribed by the Companies Act have been given as Appendix II.