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GUIDANCE NOTE ON REPORTS IN COMPANY PROSPECTUSES

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Foreword

In order that the prospective investors in companies may make their decisions on the basis of proper and adequate information, the Companies Act has introduced stringent requirements which the companies are required to comply with whenever they intend to offer shares or debentures for public subscription. It is in this context that the requirements relating to issuance of prospectuses by companies assume importance. The legal formalities in this behalf seek to ensure that the information which would be relevant for the investors to make investment decisions, should be complete, comprehensive and at the same time truthful. The requirements, inter alia, include certain reports to be given by the members of our profession on certain financial matters. Since such reports provide crucial information about the companies to the investors, the Company Law Committee of the Institute was called upon to formulate a guidance note with a view to assist the members who are assigned this task. I am sure, the suggestions contained in this Guidance Note will be found useful by the members while discharging their professional duties.

The basic draft of this Guidance Note was prepared by an eminent member of the profession who wishes to remain anonymous but who nevertheless deserves our gratitude. I would also like to place on record, both on behalf of the Council and my own behalf, our thanks to the members of the Company Law Committee for finalising this Guidance Note.

13.12.1985

P. A. Nair
President

Legal Aspects

1.1 The purpose of this Guidance Note is to explain the provisions of the Companies Act, 1956 [1 of 1956] relating to the reports which are required to be set out in prospectuses issued by companies, and to suggest how the requirements of these provisions should be dealt with in framing such reports. This Guidance Note is also equally applicable to the reports to be set out in a statement in lieu of prospectus.

1.2 In this Guidance Note, the Sections and Schedules referred to are those of the Companies Act, 1956. The relevant provisions of the Companies Act, 1956 are :

(a) Section 2(36)-Definition of prospectus;

(b) Section 44(1)(b)-Requirement to be complied with by a private company which becomes a public company by altering its Articles of Association;

(c) Sections 55 to 73, containing provisions relating to issuance and contents of prospectus;

(d) Sections 603 to 608, relating to foreign companies; and

(e) Schedules II, III and IV, containing details of contents required to be stated in a prospectus or in a statement in lieu of prospectus.

1.3 Section 2 (36) of the Companies Act, 1956 defines 'Prospectus' as follows:

> Prospectus means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares in, or debentures of, a body corporate.

The object of issuing a prospectus is, therefore, to invite the public to invest their moneys in a company. In order to enable the potential investors to take a well-informed decision in the matter, the Act spells out in some detail, the information to be given in a prospectus. Furthermore, to ensure that the information required to be stated in a prospectus is truthfully disclosed, the Act prescribes severe penalties for untrue statements in a prospectus. The object of the law is to protect the potential investors, therefore, the prospectus should truthfully state all matters which will assist a potential investor in taking a decision in the matter.

1.4 Schedule II to the Companies Act, 1956, deals with the matters to be specified in prospectus and the reports to be set out therein. Schedules III and IV contain similar provisions with regard to statement in lieu of prospectus. Requirements of Schedule II are to be complied with when a company invites the public to subscribe for its shares or debentures. Schedule III applies to a company which does not issue a prospectus on, or with reference to its formation, or which has issued a prospectus but has not proceeded to allot any of the shares offered to the public for subscription. It is important to note that debentures are not mentioned. Schedule IV is applicable to a private company which becomes a public company by altering its Articles of Association. The provisions of Schedules II, III and IV are broadly similar. Part I of each of these Schedules specifies the matters to be stated; Part II, the reports to be set out; and Part III, the provisions which apply to Parts I and II.

1.5 Clauses 24, 25 and 26 of Part II of Schedule II and clauses 1 and 2 of Part II of Schedule III as well as those of Schedule IV deal with the reports to be set out in a prospectus or statement in lieu of prospectus. Clause 24 of Part II of Schedule II requires a report by the auditors of the company to be set out in the prospectus, containing the particulars specified in the said clause. Clauses 25 and 26 of the aforesaid Schedule and clauses 1 and 2 of Part II of Schedule III as well as Schedule IV require a report by accountants to be set out in a prospectus/statement in lieu of prospectus in certain circumstances, containing the specified particulars.

Who are eligible to make the reports

1.6 The report to be included in a prospectus under Clause 24 of Part II of Schedule II should be made by the auditors of the company. In case the company has joint auditors, the report should be made by all the joint auditors. The report under clauses 25 and 26 should be made by an accountant who shall be named in the prospectus. According to clause 33(a) of Part III of Schedule II, the accountant shall be a person qualified under the Act for appointment as auditor of a company. Clause 33(b) of Part III of Schedule II further states that the report shall not be made by any accountant who is an officer or a servant or a partner or in the employment of an officer or servant of the company or of the company's subsidiary or holding company or of a subsidiary of the company's holding company. It has been clarified that the expression "Officer" does not include an auditor. Thus, an auditor of a company is eligible to make a report under clauses 25 and 26 of Schedule II as well as under clauses 1 and 2 of both Schedules III and IV. Schedules III and IV also contain identical provisions.

1.7 It is important to note that in terms of Section 226(3)(d), a chartered accountant who is indebted to a company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees, is disqualified for appointment as its auditor. However, there seems nothing to prohibit such person from acting as an 'accountant' for the purpose of making a report under the relevant provisions of Schedules II, III and IV.

1.8 The reporting accountant should ensure that he does not commit any misconduct, as defined in the Chartered Accountants Act, 1949. In particular, if he has substantial interest in the business, he should disclose the same in his report. (See Institute's publication, "Code of Conduct").

Fees for Issuing the Reports

1.9 Clause 24 of Part II of Schedule II states that the report shall be made by the auditor of the company. An auditor appointed under Section 224 at the Annual General Meeting holds office until the conclusion of the next Annual General Meeting on a fee fixed under Section 224(8). It is advisable for the members to advise the Board of Directors of their client companies to draft the resolutions appointing them in such a way as to leave with the Board the authority for fixing the fees for making the reports to be set out in the company prospectuses. The fee for making the reports under clauses 24 and 25 is a matter of agreement between the Board of Directors and the reporting accountant and should be determined on the basis of factors such as the quantum of work involved, extent of the reporting accountant's responsibility, etc.

Signing the Report

1.10 Where the report is issued in a firm name, it should be signed by the member in his individual name, as partner, for and on behalf of the firm, as in the case of other company audit reports. This is in conformity with the

Institute's circular published in the March, 1973 and May, 1973 issues of "The Chartered Accountant" and reprinted at pp. 95-96 of "A Guide to Company Audit" (1980 edition).

Consent Letters

1.11 Section 60(3) requires that a prospectus delivered to the Registrar of Companies for registration, shall be accompanied by the consent, in writing, of the persons named therein as the auditor, legal adviser, attorney, solicitor, banker or broker of the company, to act in that capacity. Section 60(1) requires that the prospectus should have endorsed thereon, or attached thereto, any consent required by section 58 from any person as an expert. As stated earlier, a chartered accountant whose report is included in the prospectus is to be treated as an expert. According to Section 58, the expert should give his written consent to the issue of the prospectus, with his statement or report included in the form and context in which it is included. The prospectus should further state that he has not withdrawn his consent as aforesaid.

Liability for misstatement in Prospectus

1.12 Section 62 casts, *inter alia,* on every person who has authorised the issue of the prospectus, a liability to pay compensation to every person who subscribes for shares or debentures on the faith of the prospectus for any loss or damage he may have sustained by reason of any untrue statement included therein. However, a Chartered Accountant giving his consent under Section 58 or 60(3), shall be liable, only in respect of an untrue statement, if any, purporting to be made by him as an expert.

1.13 A statement shall be deemed to be untrue, if the statement is misleading in the form and context in which it is included. Where the omission from a prospectus of any matter is calculated to mislead, the prospectus shall be deemed, in respect of such omission, to be a prospectus in which an untrue statement is included (Section 65).

1.14 Where a Chartered Accountant is liable to pay compensation, he may claim contribution, as provided in Section 62(5).

Reports and Certificates

1.15 Clause 24(I) of Part II of Schedule II begins with the words "a report by the auditor.............", but later in the para below sub-clauses (a) and (b) of the said clause 24(1), the words "together with certificate from the auditor" have been used. The certificate referred to therein obviously means the report.

Rights and Powers

1.16 The next point for consideration is, what are the rights and powers which the Chartered Accountant has for performing his onerous duties? In this connection, it should be noted that only the report required by clause 24 of Part II of Schedule II is to be made by the company's auditors; all other reports (clauses 25 and 26 of part II of Schedule II; clauses I and 2 of part II of Schedules III and IV) are to be made by accountants to be named in the prospectus or statement in lieu of prospectus, and not necessarily by the company's auditors.

1.17 In cases coming under clause 24 of Part II of Schedule II, the report is to be given by the auditors, who are empowered, by Section 227(1), to have right of access at all times to the books and accounts and to require from the officers of the company necessary information and explanations. Thus, they seem to be vested with sufficient powers to discharge their duties. As mentioned in Clause 33 of Part III of Schedule II, the reporting accountant envisaged in Clauses 25 and 26 of Part II of Schedule II should be a Chartered Accountant but not an officer or a servant, etc., of the company. It will be observed that such an accountant has no statutory powers. Therefore, he should ensure that the necessary authority is given to him by the Board of Directors to discharge his duties

To whom should the report be made?

1.18 There is no provision in the Act in this behalf. The usual practice is to address the report to the Board of Directors of the company

Overview of Part II of Schedules II, III and IV

1.19 For convenience, II(24), II(25) and II(26) will denote clauses 24, 25 and 26, respectively of Part II of Schedule II. Similarly, III (1) and III (2) will denote clauses (1) and (2) of Part II of Schedule III, respectively, and IV (1) and IV (2) will refer to clauses (1) and (2) of Part II of Schedule IV respectively. Clause II (24) deals with a company, and its subsidiaries, if any. Clauses II (25), III (1) and IV(1) deal with the purchase of a business (there are variations in detail among these clauses which will be separately considered). Clauses II (26), III (2) and IV (2) deal with acquisition of a subsidiary company.

1.20 In general, the requirement is to give the figures of profits and losses for the five financial years preceding the issue of the prospectus or statement in lieu of prospectus. If the entity has been carrying on business for less than five financial years, the figures are to be given for the actual period. Where the five financial years immediately preceding the issue of the prospectus cover a period of less than five years, i.e., 60 months (this can happen if the company has changed its accounting period), the report should cover as many financial years as may be necessary, so that the aggregate period covered is not less than five years (60 months). The report should also give the statement of assets and liabilities as at the last date of the latest financial year. The report should also, either

(a) indicate by way of note any adjustments as respects the figures of any profits or losses or assets and the liabilities dealt with by the report which appear to the persons making the report necessary; or

(b) make these adjustments and indicate that adjustments have been made.

In the case of (b), the reporting accountant should also give a signed statement setting out the adjustments and the reasons therefor and such statement shall be delivered to the Registrar along with the prospectus [sections 60(1) (b) (ii) and 70(2)].

1.21 Incidentally, it may be noted that Schedule II does not require the inclusion of projections regarding future earnings. Therefore, the reporting accountant should be careful that he does not give a report on future earnings, if any, projected by the management.

1.22 While Clause II (24) contains detailed provisions for disclosing figures relating to subsidiary companies, it is silent about partnership firms in which a company may be a partner. It may be noted that Schedule VI requires disclosure about the stake in a partnership firm, and the share in income of such a firm. Having regard to the objectives underlying the accountant's report, it would be desirable that the shares in the earnings and the assets and liabilities of a partnership firm are also clearly disclosed in the report, subject to such adjustments, as may be considered necessary.

1.23 As regards subsidiaries, two companies may stand in the relation of parent-subsidiary merely by one company controlling the composition of the majority of the Board of Directors of the other, without any shareholding [See Section 4(1) (a)]. In such cases, it may be stated in the report that the company has no financial interest in the subsidiaries and hence the accounts are not dealt with.

1.24 Only subsidiaries as at the last date of the latest accounting year are to be included. Thus, it is not necessary to show in the earnings statement, the figures relating to a company which ceased to be a subsidiary at any time before such date.

1.25 Similarly, cases may arise where the holding company has been in existence for shorter period than the subsidiary company. In such cases, the figures have to be given for the holding company for the period it has been in existence, and for the subsidiary only for the period for which it has been such holding company's subsidiary.

1.26 Clause II(24)(1) provides for the situation where no accounts have been made up in respect of any part of the period of five years ending on a date *three months before the issue* of the prospectus. In such a case, the report should contain a statement of that fact. The report should also contain a statement of accounts of the company in respect of that part of the said period up to a date *not earlier than six months of the date of issue of the prospectus.* Such accounts should indicate the profit or loss for that period and the assets and liabilities position as at the end of that period. They should also be accompanied by a *certificate* from the auditors that such accounts have been *examined and found correct* by them. The said statements may indicate the nature of provisions or adjustments made or yet to be made. To illustrate, suppose a company's accounting year is the calendar year. In the year 1985, it issues a prospectus when its accounts for the year 1984 are not ready. If the prospectus is issued before March 31, 1985, it would be sufficient to give the figures for the financial years ending 31.12.1983. However, if the prospectus is issued on or after April 1, 1985 say on 30th April, the aforesaid clause would come into operation. Accordingly, it would have to be stated in the report that the accounts for the financial year ending on 31st December, 1984 have not been made. Further, a statement of accounts made up to, at the latest, 31st October, 1984 would have to be given. Considering the difficulties involved in preparing such a statement, it would be desirable that either the prospectus is issued within three months of the close of a financial year, or the accounts for the last financial year are drawn up before the prospectus is issued.

Clauses II (25), III (1) and IV (1)

1.27 (a) These clauses have the similarity that they deal with the acquisition of a business. The accountant is required to report on the profits or losses for each of the five financial years immediately preceding the issue of the prospectus or the delivery of the statement in lieu of prospectus. The reporting accountant should also report upon the assets and liabilities of the business at the last date to which the accounts of the business are made up. Clause II(25) stipulates that such date shall not be more than 120 days before the date of issue of the prospectus.

Clause II (25)

(b) The further conditions [see sub-para (a) above] are that the proceeds, or any part of the proceeds, of the issue of the shares or debentures, are or is to be applied directly or indirectly, (i) in the purchase of any business, or (ii) in the purchase of an interest in any business, and by reason of that purchase or anything to be done in consequence thereof, or in connection therewith, the company will become entitled to an interest, as respects either the capital or profits and losses or both, in such business exceeding fifty per cent thereof.

(c) Clause IV (1) prescribes the following further condition (see sub-para (a) above), for that clause to apply: "If unissued shares or debentures of the company are to be applied in the purchase of a business."

(d) Comparing these further conditions, it may appear that if the business is to be acquired by allotting shares; or debentures; (i.e. not by cash payment), Clause II (25) will not apply. [But see para (e) below] Similarly, if the business is to be acquired by cash payment, clause IV(1) will not apply.

(e) The interpretation referred to in para (d), of the non-applicability of clause II (25) if the business is acquired by allotting shares or debentures, does not seem to be correct. Even in such cases, the shares or debentures so allotted will have to be serviced and the potential investor must know about these matters. Therefore, having regard to the purpose of the accountants' report, the clause should be interpreted liberally, and thus, the constructive receipt of cash and the application thereof for the acquisition of the business (which is implicit in the allotment of shares or debentures for acquiring a business), should be viewed as application of the "proceeds" of the issue. Further, Clause (12) of Part I of Schedule II requires the disclosure of details of "the amount paid or payable in cash, *shares or debentures* to the vendor" In respect of any property "purchased or acquired by the company or proposed to be purchased or acquired which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription." In view of this, it would appear that if the business (or interest therein) is acquired by the allotment of shares or debentures then also the accountants should report upon the profits and losses and assets and liabilities of the business, as explained in para (a) above.

(f) A point to be noted is that the particulars are required only if the company's interest in the capital, or the profits/losses of the business, or both, *exceeds* 50% thereof; anything up to and including 50% does not require such a report. It would appear that investment in a partnership or a joint venture, or a lease of a business will be covered by the expression "interest in a business."

Clauses II(26), III(2) and IV(2)

1.28 (a) These clauses also are similar in that they deal with the acquisition of a subsidiary company. These clauses have some similarities with Clause II (24) also.

(b) The accountants are required to report on the profits or losses of the said subsidiary for each of the five financial years immediately preceding the issue of the prospectus or the delivery of the statement in lieu of prospectus. The reporting accountant should also report upon the assets and liabilities of the subsidiary at the last date to which its accounts were made up. It may be noted that these clauses, unlike Clause II (25), do not prescribe a ceiling on the time-lag between the date to which the accounts are made up, and the date of the prospectus (or the delivery of the statement in lieu of prospectus).

(c) The relevant rules require that the accountant's report should deal with the subsidiaries, if any, or the subsidiary to be acquired, in the same manner as stated in Clause II (24) (3).

Accounting Aspects

2.1 As stated earlier in para 1.20, the reporting accountant is required to report on the profits and losses (distinguishing items of non-recurring nature) for the preceding 5 years and on the assets and liabilities, after making such adjustments, as he may consider necessary. The Act does not spell out the nature of these adjustments. The reporting accountant should therefore keep in mind the object of the law *viz.,* the protection of potential investors, and accordingly, his report should provide the information which will be relevant for a reader to make decisions regarding investment in the company. Of course, the report has to deal only with past data (and not projections), but they should be stated in such a manner as to enable a reader to get a clear idea of the trend in profits.

2.2 Adjustments to the figure of profits will usually be required in the following circumstances:

(a) Where there are material facts which would have been taken into consideration while preparing the accounts for the respective years, had those facts been known at that time.

(b) Where certain types of income earned or expenditure incurred in the past, which are of a material nature, are unlikely to recur. Such items might have been considered normal at the time the accounts were prepared, but due to subsequent developments they may not recur and hence adjustments may be necessary.

(c) Where the accounting policies have not been consistently applied during the period and the effect of a change therein is material.

2.3 Adjustments may also become necessary in relation to the statement of assets and liabilities included in the report. In particular, the accountant will have to decide whether all the Notes on Accounts appearing in the published accounts should be reproduced. It may well be that many of them can be omitted; it may equally be found necessary to add certain new items.

2.4 It must be appreciated that the usual Profit and Loss Account and Balance Sheet are general-purpose financial statements. While using such financial statements for a specific purpose, it may be necessary to make certain adjustments in view of the nature of information required. Such adjustments, however, do not imply any criticism of the accounts as originally drawn up since the adjustments are to be made because of the differences in perspective. In making the adjustments, the accountant should exercise his professional judgment and independence, and take his own decision in such cases. He must recognise that it may be undesirable to make an adjustment merely because in the period covered by the report there were items of revenue expenditure which, it is believed, will not recur in the future. In many businesses, special expenditure of one kind or another may be incurred from time to time and it will often be inappropriate to eliminate the particular items which arose in the period covered by the report.

2.5 Non-recurring items are in the nature of extraordinary items and the prior period items. Reference may be made in this regard to Accounting Standard 5 (AS 5) on "Prior period and Extraordinary Items and Changes in Accounting Policies," issued by the Institute of Chartered Accountants of India.

2.6 The following items may be of non-recurring nature and may require adjustment:

(a) Heavy repairs, renovation and rehabilitation expenses;

(b) Losses due to natural calamities, political disturbances and civil commotion;

(c) Exchange rate fluctuations;

(d) Discontinued operations/businesses;

(e) Sale of significant part of the business; and

(f) Losses or additional expenses relating to past periods.

2.7 Where the accounting policies have not been consistently applied during the period covered by the report, the figures for all the periods should be retro-actively restated in accordance with the accounting policies used in the latest period. The basis and method of stock valuation at the end of each of the accounting periods should be examined in relation to the fair presentation of accounts. If the basis of valuation has been changed, the stock values should be re-calculated and profits adjusted accordingly. Since most businesses adopt the historical cost convention in accounting, fixed assets will be generally stated in the books at their original costs less depreciation written off. The reporting accountant will have to review the principles of capitalisation used by the company especially in respect of financing costs and for assets constructed 'in-house'. If necessary, the carrying values may have to be restated. The depreciation policy should also be reviewed to ensure its conformity with generally accepted accounting principles and practices. The reasonableness of the depreciation rates should be examined.

2.8 The law does not specify whether the report should show the profits before or after taxes. The usual practice, and the recommended procedure, is to show the profit before tax, the charge for tax, and the profit after tax.

2.9 As explained in para 1.26, it may become necessary to prepare accounts for part of the current accounting period. This need should be identified as early as possible so that there is adequate time to organise for the preparation of accounts for such broken period and for their audit. Conceptually, interim profit report may be viewed as relating either to part of a year, or to a separate accounting period.

Under the first (i.e., part of a year) approach, the accounting principles and practices would be substantially the same as for annual accounts, with some modifications. Estimates may have to be made of operating results for the rest of the year, and some items may have to be allocated to the interim period under consideration. For example, costs normally incurred on a seasonal basis may need to be allocated to the period under consideration even though the costs have not been so far incurred. Reported results for interim periods are thus subject to a large number of estimates.

Under the second (separate accounting period) approach, the same accounting principles and practices as would apply for annual accounts, are to be used. Estimates, provisions, etc., would be made in the same manner as for annual accounts. Thus, for example, costs not incurred up to the date of the broken period, would not be charged to the results of that period.

The reporting accountant may choose either approach and indicate the same in his report.

2.10 The reporting accountant will also have to consider whether the results of foreign operations of the company have to be set out separately, in his report. For this purpose, he should take into consideration the political factors, exchange rate fluctuations, restrictions on remittances of profits/dividends and repatriation of capital. The double tax relief available if any, should be adjusted against Indian tax.

2.11 The report on profits to be included in the prospectus is usually fairly detailed, starting from the sales turnover, and showing the cost of sales with varying degrees of detail, ending up with profits before tax, provision for taxation and profits after tax. The statement of assets and liabilities may be so arranged that liabilities are deducted from the assets ending with the owner's funds (share capital and reserves).

2.12 A specimen format of the report of auditors in company prospectuses is given as Annexure to this Guidance Note.

2.13 The reporting accountant should remember that in due course he will have to give his consent to the inclusion of his report in the prospectus in the form and context in which it is so included. For this purpose, he will have to study the prospectus carefully. He should take note of:

(a) the manner in which the directors, in their estimate of current and future profits, deal with figures shown in the accountant's report and with matters to which attention has been drawn in that report;

(b) material facts known to him, in relation to directors' estimates;

(c) the manner in which the directors have dealt with any special circumstances, where the reporting accountant has decided that no reference thereto is necessary in his report.

He should also obtain the necessary management certificates and representations. He should then have the consent letter ready for issue.

2.14 If, after giving his report but before the issue of the prospectus, or after the issue of the prospectus and before allotment thereunder, the reporting accountant becomes aware of any important information which significantly affects the report given by him, the reporting accountant will have to consider whether he should withdraw his consent by writing to the company, the Registrar of Companies, the stock exchanges, and through suitable press publicity. The subject is complex and it will be prudent to take legal advice in this matter.

Annexure

Specimen

Auditor's Report in Prospectus

The Directors,

…..........................Ltd.

Dear Sirs,

We have examined the books and accounts of.....................…..Ltd., for the five financial years ended ....…. being the last date to which the accounts of the company have been made up and audited by us for presentation to the members. We have also examined and found correct the accounts of the company for the period from...........…..to............. prepared and approved by the Board of Directors of the Company.

(Applicable where there are no subsidiaries)

Or

We have examined the statement of assets and liabilities of……………………………………Ltd., as at…………………being the last date up to which the statement of assets and liabilities of the company has been made up and approved by the Board of Directors for the purposes of this report and found the same to be correct. As the company is still in the construction stage and has not yet commenced production, no Profit and Loss Account has been prepared for the period from.....................being the date of incorporation to……………………. The expenditure incurred from the date of incorporation up to……………has been grouped under the head "pre-operative expenditure" and carried forward pending capitalisation/allocation.

(Applicable in the case of a new company)

Or

We have examined the books and accounts of…………………………Ltd. and its subsidiary company/companies……………………………….……..Ltd·, and......................…………………. Ltd., for the five financial years ended ....being the last date to which the accounts of these companies have been made up and audited by us for presentation to the members. We have also examined and found correct the accounts of these companies for the period from....................to...............prepared and approved by the Board of Directors of the respective companies.

(Applicable where there are subsidiaries and the accounts of the subsidiaries are also audited by the auditors of the holding company)

Or

We have examined the books and accounts of...........................Ltd. for the five financial years ended...................being the last date to which the accounts of the company have been made up and audited by us for presentation to the members. We have accepted the relevant accounts and statements in respect of............................. Ltd., a subsidiary of the company for the five financial years ended .... audited and reported upon by M/s. ....the auditors of the subsidiary. *(In case the company has any overseas subsidiaries, add,* we have also accepted the accounts in respect of the overseas subsidiary of the company *viz*...................................Ltd. (country) for the five financial years ended... ....audited and reported upon by the overseas auditors). We have also examined and found correct the accounts of these companies for the period from ....to...... ....prepared and approved by the Board of Directors of the respective companies.

(Applicable where there are subsidiaries and the accounts of the subsidiaries are audited by different auditors)

In accordance with the requirements of Clause 24 of Part II of Schedule II to the Companies Act, 1956, we report that the profits of the company for the above years are as set out below *(In case there are subsidiarie*s, *state*-we report that the profits of the *company* and the consolidated profits of the company and its subsidiaries, so far as they concern the members of the company for the above years are as set out below). These profits (expressed in lakhs of rupees) have been arrived at after charging all expenses of manufacture, working and management including depreciation (or all expenses of management including depreciation) and after making such adjustments (and regroupings) as in our opinion are appropriate and are subject to the notes given below. *(Add, if necessary-Adjustments* may be necessary to make the accounts for the period from..............................to ....comply with the requirements of the law relating to accounts to be laid before the company in general meeting, but at the date of signing this report, we are not aware of any material adjustments which would affect the results of the accounts).

I.	**PROFITS**	Financial year ended (For each of the five years)	(Rupees in lakhs) For the period from.............. to …………….. (If Applicable)
A.	Income –		
	Sales		
	Other Income.	………………….	
	Total 'A'	**Rs...……………..**	
B.	Expenditure –		
	Consumption of Raw Materials and Finished goods		
	Manufacturing, Selling and Administration expenses		
	Excise Duty		
	Research and Development expenses		
	Interest		
	Depreciation	**……………………….**	
	Total 'B' Rs.	**……………………….**	
C.	Adjusted Profit before Taxation, Investment Allowance/Development Rebate (A-B)		
D.	Provision for Taxation.	**……………………..**	
E.	Profit after Tax (C-D)	**……………………**	

Notes*

1. Other income includes…………………(To Illustrate-Duty drawback and cash assistance on exports, unspent liabilities/excess provisions in the previous years written back, profit on sale of fixed assets, interest and dividend received and any other refunds.)

2. Manufacturing, selling and administration expenses include ……...........(To Illustrate—

   (a) Directors' fees

   (b) Directors' remuneration including estimated value of perquisites

   (c) Donations

   (d) Loss on sale of fixed assets

   (e) Bad debts written off

   (f) Provision for doubtful debts and advances

   (g) Any other item of extraordinary expenditure-loss included under this head.

   (Figures for each of the five years to be stated)

3. As the company has been accounting for gratuity on cash basis, only the cash payments and provision for gratuity in respect of employees who have left during the year have been deducted in arriving at the above profits.

4. Depreciation: Note regarding this item will depend on the facts of each case. To illustrate—

   (a) Depreciation has been provided on the straight line method in accordance with Section 205 (2) (b) of the Companies Act, 1956.

   (b) Depreciation includes 100% depreciation in respect of certain assets purchased during the period. The amount so charged in each of the above five financial years was Rs................, Rs............ ...respectively, [Clause (b) may be given only if the amount of depreciation is considered material].

* These notes are only illustrative in nature.

(c) The depreciation for the years.....................has been calculated on W.D.V. basis. For the year...:........................the method of charging depreciation has been changed to straight line basis and as a result of the aforesaid change, the depreciation charged for the year...............is less by Rs.....……….....lakhs and to that extent there has been an increase in profit for the year ended..................

5. Profits have been arrived at before charging any amount to Development Rebate/Investment Allowance Reserve which are as follows –

Development Rebate	Figures for each year to be stated.
Investment Allowance	Figures for each year to be stated.

6. Taxation has been computed on the basis of the rates applicable to the respective years [after considering the Companies Deposit (Surcharge on Income-tax) Scheme 1976] and deducting depreciation allowable ' under the Income-tax Rules, Development Rebate/Investment Allowance etc.

Or

Taxation in the above statement has been computed on the above adjusted profits at the rates and on the basis of the law currently in force and without considering development rebate, investment allowance etc. If the above deduction under the Income-tax Act had been taken into consideration, the taxation figures for the five financial years ended …………….............in the above statement would have been lower by Rs………………lakhs.

II. ASSETS AND LIABILITIES

The assets and liabilities of the company as at................................ which is the last date up to which the accounts of the company have been made up and audited by us to be presented to the members and subject to the notes appearing hereinafter are as set out below :

(Rupees in lakhs)
As at....................

Fixed Assets

Gross Block

Less: Depreciation

Investments

Quoted at cost

(Market value Rs..................Lakhs)

Unquoted [at cost or book value]

(Investments in subsidiary companies, if any,
to be shown separately).

Current Assets

Stocks at or below cost—

Raw materials

Work-in-progress

Finished goods

Stores

Sundry debtors, unsecured, considered good

Cash and bank balances

Cash in hand

Cash at Bank

(In current/fixed deposit accounts
with nationalised/scheduled banks)

Loans and Advances

Secured/Unsecured, considered good

Less : *Current Liabilities and Provisions*

Current Liabilities –

Sundry creditors and *acceptance*s

Advances from customers

Other liabilities

Provisions –

For taxes

Proposed dividend

Net Current Assets

Less: *Borrowings* –

Secured Loans

Debentures

Loans from financial institutions

Loans from banks

Term loans

Cash credit accounts

Unsecured Loans

Fixed deposits

Other loans

Net Assets

Represented by –

Share Capital

Issued, Subscribed and Paid-up.

……….......Equity Shares of Rs....……………........each.

......………....Preference Shares of Rs...............each.

Reserves & Surplus

Capital Reserves –

Share premium

Central/State subsidy

Other Reserves –

Development Rebate Reserve

Investment Allowance Reserve

General Reserve

Surplus in Profit and Loss Account.

Shareholders' Funds

Notes*:

1. Stocks (Inventories) are as valued and certified by the management.

2. Secured Loans—

   (a) Debentures are secured by.......................................

   (b) Loans from Financial Institutions and Banks.

      (i) From *ICICI/IFCI* secured by...........................

      (ii) Term loans from banks secured by.......................

      (iii) Cash credit accounts with banks secured by............

3. Contingent liabilities –

   (a) Claims against the company not acknowledged as debts.

   (b) Bills discounted with banks.

   (c) Estimated amount of contracts remaining to be executed on capital account and not provided for.

   (d) Uncalled liability on shares partly paid up.

   (e) Guarantees and counter-guarantees outstanding.

   (f) Income-tax/Sales *tax/Excise* duty in dispute against which appeals are pending.

   (g) Accrued gratuity liability actuarially determined

   Rs....... .... lakhs gross-Net of tax

   Rs......... ....lakhs, not provided for.

4. Sundry Debtors include Rs......... ....lakhs outstanding for more than six months.

5. (a) Authorised share capital of the Company is Rs..............lakhs divided into...............Equity shares of Rs............each and............... Preference Shares of Rs…............each;

   (b) Share capital includes

   (i) Equity shares of Rs............ ....each allotted as fully paid up pursuant to contract without payment being received in cash;

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* These notes are only illustrative in nature

(ii) ....Equity shares of Rs......., ...each allotted as fully paid up bonus shares by capitalisation of General Reserves/Share Premium.

6. Out of the unissued equity share capital........... ....Equity shares of Rs..........··· each are reserved for issue and allotment to the financial institutions which have been given the right to convert a portion of their respective term loans aggregating to Rs................lakhs into equity shares of Rs....... ....each at *par/at* a premium of Rs... ....,..,per share, such option to be exercised at any time or times during the period from...... ....to....................

(Similar details of profits and losses and assets and liabilities of subsidiary companies if any to be furnished.)

Additional notes to be given on profits and losses of subsidiaries—

(1) Of the above profits, profits to the extent of.........per cent concerning the members of...................................Ltd., the holding company.

(2) No adjustment has been made in the books of............ Ltd., holding company, in respect of the profits of this company concerning the members of the holding company, except to the extent of dividends declared from time to time and accounted for by the holding company in the following year.

III. DIVIDENDS

A. We further report that the dividends (subject to deduction of tax at source) declared by.......... .....Ltd., in respect of five financial years ended........................... are as under:

	19.........	19.........	19........	19.........	19.........
Number of equity shares of Rs..........each					
Rate of Dividend –					
Interim......					
Final......					
Total					
Total amount of dividend …………………………………………					

Or

We further report that, since the company is still in the construction stage and has not yet commenced production as stated earlier, the company has not declared any dividends since its incorporation.

B. (Similar details in respect of subsidiary companies if any, to be furnished)

Yours faithfully,
For …………………..
Chartered Accountants

Station

Date

Partner