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GUIDANCE NOTE ON AUDIT OF ABRIDGED FINANCIAL STATEMENTS

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Audit of Abridged Financial Statements

Preface

The Companies (Amendment) Act, 1988 has brought about significant changes in section 219 of the principal Act. By virtue of these amendments, a company listed on a recognised stock exchange can send abridged Balance Sheet and Abridged Profit and Loss Account to its members etc., subject to certain conditions. The form of these abridged financial statements has been prescribed by the Central Government.

The Companies Act, 1956 does not specifically require audit of abridged financial statements. However, it is a healthy practice to get these statements audited. The audit of abridged financial statements assures the readers that the relevant information is properly disclosed in such statements and thus lends a greater degree of credibility to them. Considering this, the Auditing Practices Committee has brought out this Guidance Note on Audit of Abridged Financial Statements which provides guidance to the members on issues relating to such audit.

It is hoped that the Guidance Note will be found useful by members while carrying out audit of abridged financial statements.

S.S. Bhandari

Chairman

Auditing Practices Committee

New Delhi.
August 1, 1990

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The following is the text of the Guidance Note on Audit of Abridged Financial Statements, issued by the Auditing Practices Committee¹ of the Council of the Institute of Chartered Accountants of India. This Guidance Note should be read in conjunction with the 'Preface to the Statements on Standard Auditing Practices' issued by the Institute.

Introduction

1. Sub-section (1) of section 219 of the Companies Act, 1956 requires every company to send a copy of its Balance Sheet, Profit and Loss Account and other documents attached or annexed to the Balance Sheet to its members and other persons specified therein. The Companies (Amendment) Act, 1988 has inserted a new proviso (b)(iv) to sub-section (1) which provides that a company listed on a recognised stock exchange may, instead of sending a copy of the documents as aforesaid, send a statement containing the salient features thereof in the prescribed form, subject to complying with certain conditions. The purpose of this Guidance Note is to provide guidance to members on issues relating to audit of such a statement.

Legal Requirements

2. Sub-section (1) of section 219 of the Companies Act, 1956 provides:

"(1) A copy of every Balance Sheet (including the Profit and Loss Account, the auditors' report and every other document required by law to be annexed or attached, as the case may be, to the Balance Sheet) which is to be laid before a company in general meeting shall, not less than twenty-one days before the date of the meeting, be sent to every member of the company, to every trustee for the holders of any debentures issued by the company, whether such member or trustee is or is not entitled to have notices of general meeting of the company sent to him, and to all persons other than such members or trustees, being persons so entitled;

Provided that –

- (a) in the case of a company not having a share capital, this sub-section shall not require the sending of a copy of the documents aforesaid to a member, or holder of debentures, of the company who is not entitled to

¹ Now known as the Auditing and Assurance Standards Board.

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have notices of general meeting of the company sent to him;

(b) this sub-section shall not require a copy of the documents aforesaid to be sent –

- (i) to a member, or holder of debentures, of the company, who is not entitled to have notices of general meetings of the company sent to him and of whose address the company is unaware;
- (ii) to more than one of the joint holders of any shares or debentures none of whom is entitled to have such notices sent to him;
- (iii) in the case of joint holders of any shares or debentures some of whom are and some of whom are not entitled to have such notices sent to them, to those who are not so entitled;
- (iv) in the case of a company whose shares are listed on a recognised stock exchange, if the copies of the documents aforesaid are made available for inspection at its registered office during working hours for a period of twenty-one days before the date of the meeting and a statement containing the salient features of such documents in the prescribed form or copies of the documents aforesaid, as the company may deem fit, is sent to every member of the company and to every trustee for the holders of any debentures issued by the company not less than twenty-one days before the date of the meeting."

It can be seen that proviso (b)(iv) gives an option to a company whose shares are listed on a recognised stock exchange to send either (a) a copy of the balance sheet and other documents listed in sub-section (1), or (b) a statement containing the salient features of those documents in the prescribed form. In the latter case, however, copies of the documents listed in sub-section (1) (i.e., Balance Sheet, Profit and Loss Account, auditors' report and other documents required by law to be annexed or attached to the balance sheet) have to be made available for inspection at the registered office of the company during working hours for a period of twenty-one days before the date of the meeting.

3. The Central Government has prescribed the form and content of the statement to be sent in pursuance of proviso (b)(iv) to section 219(1).² Accordingly, such a statement should contain –

² Form No. 23AB, prescribed by Notification No. GSR 449(E) dated April 17, 1989, Department of Company Affairs, Ministry of Industry, Government of India. The form is reproduced in Appendix A to this Guidance Note.

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- (a) an abridged Balance Sheet in the prescribed form;
- (b) an abridged Profit and Loss Account in the prescribed form;
- (c) the auditors' report in full; and
- (d) the report of the board of directors in full, except that the particulars of employees (to be included in the board's report pursuant to the requirements of sub-section (2A) of section 217 of the Act) need not be given.

The documents at (a) and (b) are collectively referred to in this Guidance Note as 'abridged financial statements'. The terms 'Balance Sheet' and 'Profit and Loss Account' used in this guidance note refer to those statements prepared in accordance with the requirements of Schedule VI to the Companies Act, 1956.

4. It may be emphasised that the format of abridged financial statements, as prescribed by the Central Government, represents the minimum disclosure requirements. Therefore, if in the circumstances of a particular case, disclosure of certain information is considered necessary or desirable to enable the readers to appreciate properly the financial position or the working results, it is recommended that the company should disclose such information in its abridged financial statements even in the absence of a specific requirement to do so.

Form and Content of Abridged Balance Sheet

5. The abridged Balance Sheet is required to be prepared in vertical form and has to disclose the various sources of funds and applications thereof.

6. The sources of funds are to be broadly classified into shareholders' funds and loan funds. Shareholders' funds comprise (a) capital (equity and preference capital to be disclosed separately) and (b) reserves and surplus (classified into capital reserve, revenue reserve, revaluation reserve and surplus in the profit and loss account). Loan funds comprise debentures, public deposits, secured loans (other than debentures) and unsecured loans. It may be noted that deferred payment liabilities would also be included in loan funds.

7. With regard to the disclosure of reserves, the following extracts from Part III of Schedule VI to the Companies Act, 1956, setting out the definitions of

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the terms *reserve*, *capital reserve* and *revenue reserve*, may be noted.

"(1) For the purposes of Parts I and II of this Schedule, unless the context otherwise requires:

- (a) the expression "provision" shall, subject to sub clause (2) of this clause, mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy;
- (b) the expression "reserve" shall not, subject as aforesaid, include any amount written off or retained by way of providing for any known liability;
- (c) the expression "capital reserve" shall not include any amount regarded as free for distribution through the Profit and Loss Account; and the expression "revenue reserve" shall mean any reserve other than a capital reserve;

and in this sub-clause, the expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.

(2) Where –

- (a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, not being an amount written off in relation to fixed assets before the commencement of this Act; or
- (b) any amount retained by way of providing for any known liability; is in excess of the amount which, in the opinion of the directors, is reasonably necessary for the purpose, the amount shall be treated for the purposes of this Schedule as a reserve and not as a provision."

8. The disclosure of reserves in the abridged Balance Sheet is somewhat different from that in the case of the Balance Sheet. For example, Capital Redemption Reserve is required to be shown separately in the Balance Sheet. In the abridged balance sheet, however, separate disclosure of capital redemption reserve is not required. In this regard, the following recommendations are made:

- (a) Capital Reserves, Capital Redemption Reserve and Share Premium Account, as appearing in the balance sheet, may be included under the

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head 'Capital Reserves' in the abridged Balance Sheet.

- (b) Revenue reserves are required to be disclosed separately in the abridged balance sheet. Revenue reserves, by definition, are available for distribution as dividend under the provisions of the Companies Act, 1956. However, investment allowance reserve, though a revenue reserve within the meaning of the Companies Act, cannot be distributed before the period specified in this behalf in the Income-tax Act, 1961, without foregoing the deduction claimed in respect thereof. Therefore, for a proper appreciation of the nature of various revenue reserves, it is suggested that investment allowance reserve, if material should be shown separately from other revenue reserves.

9. The application of funds comprise fixed assets, investments, current assets, loans and advances less current liabilities and provisions, miscellaneous expenditure to the extent not written off or adjusted, and the debit balance of profit and loss account. Investments are, to be classified into those in government securities, in subsidiary companies (quoted and unquoted investments to be shown separately) and others (quoted and unquoted investments to be shown separately). Current assets are to be classified into inventories, sundry debtors, cash and bank balances, and other current assets. Loans and advances to subsidiaries and to others are to be shown separately. Current liabilities have to be shown separately from provisions. The debit balance of profit and loss account should be shown after deduction of the uncommitted reserves, if any.

10. It is required that where fixed assets are revalued, the amount of revaluation should be shown separately for the first five years subsequent to the date of revaluation. This requirement is similar to that applicable in the case of disclosure of fixed assets in the balance sheet. Thus, a company which has revalued its assets will have to show the revalued amounts in place of the original cost in the abridged balance sheet. For the first five years subsequent to the date of revaluation, the amount of increase or decrease in the value of assets consequent to the revaluation will also have to be shown.

11. The market value of quoted investments has to be stated, both for the current year as also for the previous year.

Form and Content of Abridged Profit and Loss Account

12. The form of abridged profit and loss account requires the disclosure of income, expenditure, profit/loss before tax, provision for taxation, profit/loss after tax proposed dividend (separately in respect of preference shares and equity shares) and transfer to reserves/surplus.

13. Under the head 'income', details of sales/services rendered have to be given in the form prescribed in this behalf. Income in the form of dividend and in the form of interest have to be shown separately. Any other income, which does not fall within the sub-heads of 'sales/services rendered', 'dividend' and 'interest', has to be shown under the head 'other income'. In this regard, it is provided that any item which constitutes 20% or more of the total income should be shown separately in the abridged profit and loss account.

14. Under the head 'expenditure', the following details are required to be given: cost of goods consumed/sold (opening stock, purchases and closing stock to be shown separately); manufacturing expenses; selling expenses; salaries, wages and other employee benefits; managerial remuneration; interest; depreciation; auditor's remuneration; and provisions for (i) doubtful debts and (ii) other contingencies (to be specified). Those items of expenditure which do not fall in any of the above categories are to be shown under the head 'any other expenses'. As in the case of income, it is required that any item of expenditure which constitutes 20% or more of the total expenditure (including provisions) should be shown separately. The term 'managerial remuneration', for purposes of disclosure in the abridged profit and loss account, may be construed as having the same meaning as is assigned thereto in the Explanation to section 198 of the Companies Act, 1956. It may be mentioned that Schedule VI also requires a separate disclosure of managerial remuneration under section 198 paid or payable during the financial year'.

15. It may be noted that disclosure is required in the abridged profit and loss account of 'manufacturing expenses' and 'selling expenses'. The requirements of Part II of Schedule VI regarding the information to be disclosed in the profit and loss account do not envisage disclosure under these categories and follow a somewhat different classification of expenses. For example, Schedule VI requires disclosure of the total expenditure on rent, irrespective of whether the rent is paid in respect of factory premises or retail outlets. In the abridged profit and loss account, on the other hand, the

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rent on factory premises would be included under the head 'manufacturing expenses' whereas the rent in respect of retail outlets would form a part of 'selling expenses'. Thus, some of the items appearing in the profit and loss account may require analysis and re-classification for the purpose of inclusion under the heads 'manufacturing expenses' and 'selling expenses'. In this context, the term 'manufacturing expenses' may be construed as referring to direct production costs and production overheads other than those which are required to be disclosed separately in the abridged profit and loss account. Similarly, selling expenses may include all direct and indirect expenses on selling and distribution other than those which are required to be disclosed separately in the abridged profit and loss account. The re-classification of the relevant items, as stated above, should be done on a reasonable basis, considering in particular the materiality of the items involved.

Other Requirements Regarding Abridged Financial Statements

16. In the abridged financial statements, figures have to be given for the current year as well as for the previous year.

17. The total amount of contingent liabilities and that of capital commitments has to be shown separately, as a note to the abridged balance sheet.

18. The amount, if material, by which any item shown in the profit and loss account is affected due to any change in the basis of accounting, has to be disclosed separately. It is also required that where no provision is made for depreciation, the fact that no provision has been made should be stated along with the quantum of arrears of depreciation computed in accordance with section 205(2) of the Act. These requirements are similar to those applicable in the case of the profit and loss account.

19. The instructions for preparation of abridged financial statements clearly specify that the amounts to be shown in the abridged statements should be the same as shown in the corresponding aggregated heads in the accounts as per Schedule VI or as near thereto as possible. It is also required that all notes forming part of the accounts as per Schedule VI to which specific attention has been drawn by the auditors or which form a subject matter of a qualification by the auditors should be reproduced. Similarly, any note forming part of the accounts as per Schedule VI which is in the nature of any

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explanation regarding compliance with any law should be reproduced.

20. Since all the notes forming part of the annual accounts as per Schedule VI are not required to be given in the abridged financial statements, a problem about their numbering may arise. To illustrate, suppose the abridged financial statements contain five notes, numbered sequentially from 1 to 5. These notes may have been numbered in the annual accounts as per Schedule VI as notes number 3, 4, 11, 16 and 21. The different numbering of the notes would make it difficult for a reader to relate the auditor's observations with reference to a specific note as contained in his report on annual accounts, with the notes appearing in the abridged financial statements. To overcome this difficulty, it is suggested that while giving a note on abridged financial statements, wherever necessary, its number in the annual accounts should also be specified.

Authentication of Abridged Financial Statements

21. The abridged balance sheet and the abridged profit and loss account are required to be authenticated in the same manner as the balance sheet and profit and loss account are required to be authenticated.

Audit of Abridged Financial Statements

22. Although the Companies Act, 1956 does not specifically require the abridged financial statements to be audited, it is a healthy practice to get these audited by statutory auditors. The audit of abridged financial statements assures the readers that the relevant information is properly disclosed in such statements and thus lends a greater degree of credibility to them.

23. It is recommended that where an auditor carries out an audit of the abridged financial statements, he should examine whether the requirements relating to preparation of such statements as laid down in the relevant notification have been duly complied with. In case the audit report on abridged financial statements is issued on a date subsequent to the issuance of the audit report on annual accounts as per Schedule VI, the auditor's responsibility in relation to event occurring after the balance sheet date is limited to the events occurring up to the date of his report on the annual accounts.

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24. If, based on his examination as aforesaid, the auditor is satisfied that the abridged financial statements are proper in all respects, he should issue an unqualified audit report. An example of an unqualified audit report on the abridged financial statements of a company is given in Appendix B to this Guidance Note.

25. Where the auditor has certain reservations about the abridged financial statements, e.g., he is of the opinion that a material piece of information has not been disclosed in the abridged financial statements or has been disclosed in an inappropriate manner, he should express a qualified opinion or an adverse opinion, as appropriate. In this regard, he should bear in mind the relevant requirements of the *Statement on Qualifications in Auditor's Report*³ issued by the Institute. An example of a qualified audit report on the abridged financial statements of a company is given in Appendix C to this Guidance Note.

³ The Council of the Institute has issued Auditing and Assurance Standard (AAS) 28, 'The Auditor's Report and Financial Statements'. The AAS 28 lays down the principles to be followed in making qualification/disclosure in the audit report. The Statement on Qualifications in Auditor's Report provides, *inter alia*, the guidance on the application of principles contained in AAS. However, in the case of any inconsistency between the two, the requirements laid down by AAS 28 shall prevail. AAS 28 and the Statement on Qualification in Auditor's Report are published in Volume I of the Handbook of Auditing Pronouncements – Compendium of Statements and Standards (edn. 2003).

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Appendix A

(Ref. Para 3)

FORM NO. 23AB⁴

(See Rule 7A)

**Statement Containing Salient Features of Balance Sheet
and Profit and Loss Account etc.**

As per Section 219(1)(b)(iv)

FORM OF ABRIDGED BALANCE SHEET

Name of the company

Abridged Balance Sheet as at

Particulars	<i>Figures as at the end of</i>	
	Current Financial Year	Previous Financial Year

I. Sources of Funds

(1) Shareholders' funds

(a) Capital

(i) Equity

(ii) Preference

(b) Reserves and surplus

(i) Capital reserve

(ii) Revenue reserve

(iii) Revaluation reserve

(iv) Surplus in Profit and Loss Account

(2) Loan funds

(a) Debentures

⁴ Prescribed by Notification No. GSR 449(E) dated April 17, 1989, Department of Company Affairs, Ministry of Industry, Government of India.

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- (b) Public deposits
- (c) Secured loans (other than debentures)
- (d) Unsecured loans _____
- Total of (1) and (2)

II. Applications of funds

- (1) Fixed assets
 - (a) Net block (original cost less depreciation)
 - (b) Capital work-in-progress
- (2) Investments
 - (a) Government securities
 - (b) Investment in subsidiary companies
 - (a) Quoted
 - (b) Unquoted
 - (c) Others
 - (a) Quoted
 - (b) Unquoted
- (3) (i) Current assets, loans and advances
 - (a) Inventories
 - (b) Sundry debtors
 - (c) Cash and bank balances
 - (d) Other current assets
 - (e) Loans and advances
 - (i) To Subsidiary companies
 - (ii) To others

Less

 - (ii) Current liabilities and provisions
 - (a) Liabilities
 - (b) Provisions

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Net current assets (i-ii)

(4) Miscellaneous expenditure to the extent not written off or adjusted

(5) Profit and Loss Account

Total of (1) to (5) _____

Abridged Profit and Loss Account For the year ending _____

<i>Particulars</i>	<i>Figures for the current year</i>	<i>Figures for the previous year</i>
I. Income		
Sales/Services rendered (Details to be given separately as per Annexure)		
Dividend		
Interest		
Other income (See Note 5)		
Total		
II. Expenditure		
Cost of goods consumed/sold		
(i) Opening stock		
(ii) Purchases		
Less Closing stock		
Manufacturing expenses		
Selling expenses		
Salaries, wages and other employee benefits		
Managerial remuneration		
Interest		
Depreciation		

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Auditor's remuneration

Provisions for –

- (i) doubtful debts; and
- (ii) other contingencies (to be specified)

Any other expenses (See Note 5)

Total

III. Profit/loss before Tax (I - II)

IV. Provision for taxation

V. Profit/loss after tax

VI. Proposed dividend

- Preference shares
- Equity shares

VII. Transfer to reserves/surplus

Notes to the Abridged Balance Sheet and the Abridged Profit and Loss Account

1. The amounts to be shown here should be the same as shown in the corresponding aggregated heads in the accounts as per Schedule VI or as near thereto as possible.
2. The total amount of contingent liabilities and that of capital commitments should be shown separately.
3. All notes forming part of the Accounts as per Schedule VI to which specific attention has been drawn by the auditors or which form a subject matter of a qualification by the auditor should be reproduced.
4. If fixed assets are revalued, the amount of revaluation to be shown separately for the first five years subsequent to the date of revaluation.
5. Any item which constitutes 20% or more of the total income or expenditure (including provisions) should be shown separately.

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6. Amount, if material, by which any items shown in the profit and loss account are affected by any change in the basis of accounting should be disclosed separately.
7. If no provision is made for depreciation, the fact that no provision has been made shall be stated along with the quantum of arrears of depreciation computed in accordance with section 205(2) of the Act.
8. Market value of Quoted Investments (both for current year as also previous year) be mentioned.
9. Any note forming part of the Accounts as per Schedule VI which is in the nature of any explanation regarding compliance with any law should be reproduced.

The above stated salient features of Balance Sheet and Profit and Loss Account should be authenticated in the same manner as the Main Accounts are to be authenticated.

Auditor's Report

Should be given in full.

Directors' Report

Should be given in full except the information about employees under section 217 (2A).

(Signed by Directors/Secretary)
in the manner prescribed in
section 215(1)

**Salient Features of Additional Information
on the Profit and Loss Account for the Year Ended _____**

		Figures for the current year Rs.'000		Figures for the Previous year Rs.'000	
<i>Sales</i>					
Class of Goods	Units	Quantity	Rs. ('000)	Quantity	Rs. ('000)

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Appendix B

(Ref. Para 24)

**Specimen Auditor's Report On Abridged Financial Statements
(Unqualified Opinion)**

To the members of —— Limited,

We have examined the abridged balance sheet of —— Limited as at —— and the abridged profit and loss account for the year ended on that date, together with the notes thereon. These abridged financial statements have been prepared by the company pursuant to Rule 7A of the Companies (Central Government's) General Rules and Forms, 1956 and are based on the accounts of the company for the year ended —— prepared in accordance with Schedule VI to the Companies Act, 1956 and covered by our report of even date to the members of the company which report is attached.

For _____

Dated :

Chartered Accountants

Place :

Partner

(Ref. Para 25)

**Specimen Auditor's Report on Abridged Financial Statement
(Qualified Opinion)**

To the members of _____ Limited

We have examined the abridged balance sheet of _____ Limited as at _____ and the abridged profit and loss account for the year ended on that date, together with the notes thereon. Contrary to the requirements of Rule 7A of the Companies (Central Government's) General Rules and Forms, 1956, these abridged financial statements do not include notes nos. _____ (reproduced below) which form subject matters of qualifications in our report on the accounts prepared by the company in accordance with Schedule VI.

(Here, reproduce the notes referred to above.)

Subject to the above, these abridged financial statements have been prepared by the company pursuant to Rule 7A aforesaid and are based on the accounts of the company for the year ended _____ prepared in accordance with Schedule IV to the Companies Act, 1956 and covered by our report of even date to the members of the company which report is attached.

For _____

Dated :

Chartered Accountants

Place :

Partner