

Divergent practices in the approval of financial statements

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The term “financial statement” has been introduced in the Companies Act, 2013 (the Act). In relation to a company, it includes:

- a) Balance sheet as at the end of the financial year;
- b) Profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- c) Cash flow statement for the financial year;
- d) Statement of changes in equity, if applicable; and
- e) Any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):



However, with respect to one person company, small company and dormant company, the financial statement need not include the cash flow statement as mentioned at (c) above.

Preparation of financial statements

The financial statements shall give a true and fair view of the state of affairs of the company, comply with the accounting standards as prescribed by Central Government and notified and to be prepared as per the format prescribed under Schedule III.

However, certain class of companies such as insurance company, banking company and company engaged in the generation or supply of electricity or any other company governed by any specific law for the time being in force and all such companies prepare their respective financial statements in compliance of their respective laws.

Approval of financial statements by shareholders

Every financial statement shall be approved by the Board of directors before they are signed on behalf of the Board. Thereafter, these financial statements are forwarded to the auditors for their report.

At every annual general meeting of a company, the Board of directors of the company shall lay before such meeting the financial statement for the financial year. The shareholders receive, consider, approve and adopt the said financial statement.

Consolidated financial statements

There is no definition under the Act for “consolidated financial statement”. However, the Act requires that, where a company has one or more subsidiaries, joint venture or associate companies, it shall, in addition to financial statement of its own, prepare a consolidated financial statement of the company and of all the subsidiaries, joint ventures and associate companies in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement.

Therefore, a company which has one or more subsidiaries, joint ventures and associate companies has to place both the financial statements of the company which is otherwise called standalone financial statement as well as the consolidated financial statement at the annual general meeting.

Board of directors’ report

The Act mandates that the directors’ report shall be attached to every financial statement.

The directors’ report has to include, inter alia, “material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statement relate and the date of report.”

It is clear that the directors’ report is exclusively for the company and its financial statement and not relating to the consolidated financial statements.

Divergent practice

The notice convening the annual general meeting of companies having prepared consolidated financial statements has two types of resolutions recommended to the shareholders for their approval.

The first type of resolution, as given hereunder, includes both the standalone and consolidated financial statement:

To receive, consider and adopt the standalone and consolidated financial statements of the company for the financial year ended March, 31, 2017 and report of the Board of Directors and the Auditors thereon.

“RESOLVED THAT the audited standalone and consolidated financial statements of the Company for the financial year ended March 31, 2017 together with the report of the Board of Directors and the Auditors thereon be and are hereby received, considered and adopted.”

The second type of resolution, as given hereunder, has two separate resolutions for shareholders’ approval:

To consider and adopt (a) the audited financial statement of the Company for the financial year ended March 31, 2017 and the reports of the Board of Directors and Auditors thereon; and (b) the audited consolidated financial statement of the Company for the financial year ended March 31, 2017 and the report of the Auditors thereon in this regard, pass the following resolutions as **Ordinary Resolution**:

(a) **“RESOLVED THAT** the audited financial statement of the Company for the financial year ended March 31, 2017 and the reports of the Board of Directors and Auditors thereon laid before this meeting, be and are hereby considered and adopted.”

(b) **“RESOLVED THAT** the audited consolidated financial statement of the company for the financial year ended March 31, 2017 and the report of Auditors thereon laid before this meeting, be and are hereby considered and adopted.”

Conclusion

The first type of resolution speaks as if the directors’ report is for both standalone financial statement and consolidated financial statements, whereas the directors’ report is only for the standalone financial statement.

It would be considered as a good corporate practice if two resolutions are provided for shareholders’ approval as provided above.

The divergent practice in seeking the shareholders’ approval for both standalone and consolidated financial statements in one resolution and the directors’ report for both needs to be addressed.

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