

Chapter V: CONCEPTS AND DEFINITIONS OF SPECIFIED HEADS OF ACCOUNTS

V.1 CAPITAL AND LIABILITIES

V.1.1 Share capital

Share capital includes paid-up capital and forfeited shares. The break-up of paid-up capital by class of shares, viz. ordinary shares and preference shares is also presented.

Paid-up capital *ordinary*: This comprises capital paid-up on all shares which are not preference shares. 'Bonus shares' are included.

Paid-up capital *preference*: This includes all types of preference shares including the component of bonus share.

Forfeited shares: This relates to the amount received on forfeited shares. This item was included under capital reserves upto 1965-66.

V.1.2 Reserves and Surplus

Capital reserves: This comprises capital reserves, profit/loss on sale of fixed assets and/or investments, profits realised on purchase of company's own debentures, profits on re-issue of forfeited shares, surplus arising out of acquisition of subsidiary, capital redemption reserves, reserves arising out of revaluation of fixed assets and premium on shares. Premium on shares is shown separately from 1965-66 onwards.

Investment allowance reserves: This item comprises all reserves set apart in terms of Income Tax Act, 1961 and is available from 1975-76 onwards. For the period prior to 1975-76, the figures relate to Development Rebate Reserves.

Sinking funds: Funds created for redemption of debentures or other loans are included in this item. Prior to 1975-76, this item was included in 'Other reserves'.

Other reserves: All reserves other than Capital Reserves, Investment Allowance Reserves and Sinking Funds are included under this head.

V.1.3 Borrowings

The presentation of the constituent items under borrowings has undergone changes over a period of time to reflect the availability of details. The borrowings from banks, statutory financial corporations and the break-ups according to securities such as debentures, mortgage, etc. are given upto 1965-66. From 1965-66 onwards, details of borrowings according to credit agencies, Government and semi-Government bodies etc., are presented.

Debentures: This includes funds raised through public issue of debentures and/or privately placed debentures with financial institutions.

Loans and advances

Borrowings from banks: All borrowings by the corporates from banks including loans against mortgages and advances against debentures lodged with banks as security, are included in this item.

Borrowings from other Indian financial institutions: These include borrowings from development finance institutions, insurance institutions and others.

Borrowings from foreign institutional agencies: Borrowings from eligible foreign institutional agencies are included here.

Borrowings from Government/semi-Government bodies: Borrowings from the Central and State Governments, semi-Government bodies such as municipal corporations, port trusts etc, are included under this item.

Borrowings from companies: These are inter-corporate borrowings from Indian as well as foreign companies.

Borrowings from others: These include borrowings from sources other than those mentioned above.

Deferred payments: All borrowings on deferred payment basis such as deferred payment credit, hire purchase liabilities etc., are included.

Public deposits: All deposits from public, directors, employees, selling agents, etc., whether secured or unsecured, are included here.

Debt: Comprises (a) all borrowings from Government and semi-Government bodies, financial institutions other than banks, and from foreign institutional agencies, (b) borrowings from banks against mortgages and long-term securities, (c) borrowings from companies and others against mortgages and other long-term securities and (d) debentures, deferred payment liabilities and public deposits.

V.1.4 Trade dues and other current liabilities

Sundry creditors: These include sundry creditors and liabilities for (i) goods supplied, (ii) expenses and (iii) other finances.

Acceptances: Bills payable whether shown as acceptances or notes payables are included in this item.

Liabilities to companies: Liabilities to companies including subsidiary and holding companies are included in this item.

Advances/deposits from customers, agents, etc.: Outstanding payments against orders as also advances received in the case of construction companies are included here. Trade and sundry deposits, deposits from agents, business advances, earnest money deposits, government securities held on behalf of stockists, contractors, other parties, consumer or service deposits in the case of electricity companies, etc. are included under this item.

Interest accrued on loans: This item includes interest accrued whether due or not, and unclaimed interest.

Others: These include trade dues and other current liabilities other than those classified above.

V.1.5 Provisions

Taxation provision: Taxation provision was shown on the liabilities side as against 'Advance of income tax' on the assets side upto 1960-61. However, from 1960-61 onwards the item is netted out on either side as the case may be. 'Taxation provision' includes provision for income tax, wealth tax, capital gains tax and agricultural income tax. Taxation provision is inclusive of taxation reserve upto 1959-60.

Provision for dividends: All amounts set aside by the companies for dividend distributions are included in this item. These are available from 1990-91 onwards.

Other current provisions: This item includes other current provisions for purposes such as bonus to staff, employees' welfare, repairs, contingencies and provision for part obsolescence.

Non-current provisions: This item includes provisions for gratuity, pension and superannuation benefits to employees and other non-current provisions.

V.1.6 Miscellaneous non-current liabilities: All non-current liabilities not elsewhere included are covered here.

V.2 ASSETS

V.2.1 Gross fixed assets: The gross value of fixed assets, i.e., gross of depreciation is shown in this item. Fixed assets are classified into land, buildings, plant and machinery, capital work-in-progress, 'furniture, fixtures and office equipments' and others.

Land: This is the gross value of freehold and leasehold land, mines, quarries, collieries. Mining rights, forest rights, prospecting rights (i.e. rights of utilisation of natural resources), development expenses on land or nurseries of plantation companies, and mining (upto 1965-66) are shown under this item. Land held by way of investment is included as immovable property.

Buildings: Factory buildings, office buildings, staff and workers' quarters, godowns, hospital for staff, crèche, canteen, library, recreation centre, etc. are included under this item. Buildings and other structures held by way of investments are grouped under 'immovable properties'. However, in the case of land and estate companies since the main income is derived from investments in immovable properties, these are treated as fixed assets and not as immovable properties.

Plant and machinery: This item includes all types of plant and machinery used in the production process, e.g. engines, generators, motors, transformers, spindles, looms, humidifiers, sprinklers, furnaces, boilers, foundries, electrical installations, etc. Vehicles used for passenger and freight transport in case of transport companies, ships and boats of shipping companies and other water transport companies, moulds for ceramic and rubber manufacturing companies, ovens and earth-moving equipments in case of mining companies, condensers of salt manufacturing companies and types in respect of printing companies are included in this item.

Capital work-in-progress: This includes items such as machinery awaiting installation, machinery under erection, payments on account of steamers under construction, as also machinery on which erection work is going on.

Furniture, fixtures and office equipments: These include furniture, air-conditioning plant, typewriters, calculating machines, computers and any other item which can be identified as office fixture/equipment.

Other fixed assets: The fixed assets which are not included in land, buildings, plant and machinery, capital work-in-progress and furniture, fixtures and office equipments are classified as other fixed assets.

V.2.2 Depreciation provision: This represents accumulated depreciation provided on various fixed assets including extra/ multiple shift allowances. Special depreciation reserve or initial depreciation reserve is not included under this head.

V.2.3 Net fixed assets: This is a derived item and is computed by deducting accumulated depreciation provision from total gross fixed assets.

V.2.4 Inventories

Raw materials, components, etc.: This includes stocks of all types of raw materials and components used in the manufacture of the final product / products of the company.

Finished goods: Stocks of all types of finished goods of the company are included in this item. This item also includes goods in agent's custody, in showrooms or at branches. The stock-in-trade i.e., goods meant for re-sale by trading companies and the stocks of shares, debentures, etc. acquired for trading in the case of a company regularly trading in securities are included under this item.

Work-in-progress: This item includes work-in-progress, goods-in-process, semi-finished goods, etc.

Stores and spares: This item includes stocks of stores and spares used by the company for maintenance of its plant, machinery, buildings, transport equipment, etc.

Other inventories: Miscellaneous items of inventory which are not classified under the above mentioned heads are included here. This item includes foodstuffs for canteen run for the benefit of the employees, building materials lying on the site, stock of office stationery items, goods in transit and stock of fuel materials such as coal, gas, oil, etc.

V.2.5 Loans and advances and other debtor balances

Sundry debtors: This item is taken net of provision for bad debts.

Loans and advances to subsidiaries and companies under the same management: Loans and advances to subsidiaries and companies under the same management also include debit balances in current accounts with these companies.

Loans and advances to others: Loans and advances to companies other than subsidiaries and companies under the same management, and to others are covered here. Loans on deferred payments basis are also included in this item.

Interest accrued on loans and advances: This item includes interest accrued on loans and advances, whether due or not.

Deposits/ balances with Government/ others: This includes amounts of cash lodged as security deposits, earnest money, etc. with Government and statutory authorities such as Telephones, Port Trusts, Railways, Excise, Customs, Postal authorities, Electricity and Gas companies, as also security deposits with the companies by the stockists, contractors, etc. Deposits made by companies under Companies Deposits Schemes, etc. are also included here.

Others: All other loans and advances and debtor balances which are not classified elsewhere are shown under this item.

V.2.6 Investments: Investments in Indian securities and foreign securities are presented as distinct items. Quoted investments including those in shares and debentures of subsidiary companies are also separately presented under investments.

Foreign: Investments in foreign securities, include foreign government securities and other foreign securities. Investments in foreign subsidiaries of Indian companies are included in 'foreign securities'.

Indian: Indian securities are further classified into Government/semi-Government, securities of financial institutions, industrial securities, shares and debentures of subsidiaries and others.

Government/semi-Government securities: These include all Government (Indian) securities, Treasury Savings Deposits Certificates, Prize Bonds, National Savings Certificates, Development Bonds, Promissory notes of Central and State Governments notes etc. Securities of semi-Government bodies like municipalities, port trusts, local bodies, bonds of electricity boards, etc. are also included here.

Securities of financial institutions: The securities issued by SIDBI, IFCI, SFCs, SIDCs, NHB, EXIM Bank, UTI, Mutual Funds, erstwhile IDBI, ICICI, HDFC, etc., are included under this item.

Industrial securities: Investments in shares and debentures of Indian companies (excluding subsidiary companies) are included here.

Shares and debentures of subsidiaries: Investments of holding companies in the shares and debentures of their subsidiary companies are included in this item.

Others: Investments in shares of co-operatives, partnership and proprietary concerns and investments in employees' co-operative societies are included here.

V.2.7 Advances of income-tax: This item relates to both, agricultural as well as non-agricultural income-tax and includes tax deducted at source, tax paid under protest/ under dispute or subject to appeal, tax payments pending adjustments, etc.

V.2.8 Other assets: These are sub-divided into (i) Immovable property, (ii) Intangible assets and (iii) Miscellaneous non-current assets.

Immovable property: Investment in immovable properties not used directly or indirectly for production purposes, are included here. However, in the case of land and estate companies, such investments in immovable property are treated as fixed assets.

Intangible assets: This item includes goodwill, patents, trade marks, capitalised expenses including preliminary expenses, technical know-how, under-writing and share selling commission, brokerage and discount on issue of shares and debentures, deferred revenue expenditure, promotional expenditure on advertisement, prospecting expenses, etc., and any other items of expenditure not representing tangible assets which are to be written off over a period of time.

Miscellaneous non-current assets: These include assets earmarked for employees' provident fund and gratuity, etc., investments and deposits with non-profit making institutions, dues from concerns under liquidation, investments in shares of companies under liquidation, assets under dispute in foreign countries and also those in the custody of custodian of enemy property etc.

V.2.9 Cash and bank balances

Fixed deposits with banks: All fixed deposits with banks are shown in this item. This includes term deposits as well as other deposits such as, recurring deposits, etc.

Other bank balances: All balances other than fixed deposits with banks are classified in this item. Post Office savings bank deposits are also included in this item.

Cash-in-hand: This includes cash in transit, petty cash (including postal stamps) in the custody of directors, managers, etc., and cheques in the course of realisation.

V.3 INCOME AND VALUE OF PRODUCTION

Sales: All receipts from sale of finished goods and services of the company including sale of by-products, waste and scrap are included in this item. Sales are net of 'rebates and discounts' and 'excise duty and cess' from 1960-61 onwards.

Increase (+) or decrease (-) in value of stock of finished goods and work-in-progress: This item is arrived at by subtracting opening stock from the closing stock of finished goods and work-in-progress, from 1960-61 onwards. Upto 1960-61, the items 'closing stock' and 'opening stock' were presented separately.

Value of production: This is arrived at by addition of 'Sales' and 'Increase or decrease in value of stock of finished goods and work-in-progress'.

Other income: This includes income from interest, dividends, rent, incentive schemes such as export incentives and from other items which are not derived from the main activity of the company. Contribution to 'other income' by way of dividends, interest and rent are also presented from 1975-76 onwards.

Non-operating surplus (+) /deficit (-): It comprises (a) profit/loss on account of (i) sale of fixed assets, investments, etc., and (ii) revaluation/devaluation of foreign currencies, (b) provisions no longer required which are written back, (c) insurance claims realised and (d) income or expenditure relating to the previous years and such other items of non-current nature. This item is available from 1970-71 onwards.

V.4 EXPENDITURE AND APPROPRIATIONS

Raw materials, components, etc. consumed: This item includes the cost of raw materials and components actually consumed by the manufacturing companies during the period and includes carriage inwards, excise duty, customs duty, octroi and town duty, cess, commission and sales tax paid on raw materials, purchases etc.

Stores and spares consumed: This item includes stores and spares consumed by the company for maintenance of plant and machinery, buildings, transport equipments, etc., moulds, castings, dies, etc. written off and packing materials. Stores and spares utilised for repairs to buildings and plant and machinery were included under 'other manufacturing expenses' upto 1965-66. For the subsequent years, 'Repairs to buildings' and 'Repairs to machinery' are separately presented.

Power and fuel: This item relates to consumption of electricity, coal, gas and other fuel and water for manufacturing process.

Other manufacturing expenses: The figures for this item include 'Raw materials components, etc. consumed' upto 1960-61.

Salaries, wages and bonus: All salaries, wages and bonus (including provisions) relating to the accounting year, but excluding arrears of bonus relating to previous years, are included here. Dearness allowance, rent allowance and also other benefits (such as leave wages), whether paid in cash or kind, are included in this item.

Provident fund: Employer's contributions towards provident fund are included here.

Employees' welfare expenses: This item includes amounts paid as gratuity, pension, expenses on employees' state insurance, superannuation funds, leave passages to staff, recreation and medical benefits, crèche and canteen, loss incurred on food-grain shops for employees, free fuel and other welfare expenses.

Managerial remuneration: All remuneration paid to Directors, Managing Directors, Managers etc., including sitting fees for attending Board or Committee meetings, as well as perquisites provided to them by the company, are included here. Managing agents' remuneration presented upto 1960-61 includes amount paid to 'secretaries and treasurers' and 'secretaries and manager' by way of percentage of profits, office allowances, commission on purchases and/or sales etc.

Royalty: This item includes royalties paid to the collaborators in the projects of the companies, royalties paid for acquiring the rights to use patents, trade names, processing formulae etc. and also rights for mining, prospecting and exploring, etc.

Repairs to buildings/ machinery: Total expenditure on the repairs to buildings and machinery, including the amount of stores consumed and wages paid on such repairs is included under these heads.

Bad debts: This item includes bad debts written off as also provisions for bad and doubtful debts.

Selling commission: This comprises selling commission, brokerage, sole selling agents' commission, etc. This item is available from 1965-66 onwards and prior to this it is included under 'other expenses'.

Rent: This item includes rent paid. It also includes lease rent and hire charges paid.

Rates and taxes: This item includes local taxes other than octroi.

Advertisement expenses: This includes expenditure on advertisement in newspapers, journals, on radio and T.V. and other types of publicity, propaganda and such expenses for promotion of sales.

Research and development: Expenditure incurred by the companies on the research and development undertaken by them and also contributions made by the companies to research organisations/associations are included in this item.

Other expenses: Items not elsewhere classified are covered under 'other expenses.'

Depreciation provision: This relates to depreciation provision on fixed assets made during the year, whether for current year or earlier years and includes extra and multiple shift allowances.

Other provisions: This item includes all types of provisions other than depreciation and tax provisions. It includes provision for obsolescence, gratuity, contingencies etc., which are not actual expenses incurred during the year. Upto 1965-66 these are included under 'other expenses'.

Gross profits: It relates to profits after charging the depreciation but before payment of interest and taxation.

Interest: Gross interest paid on all borrowings, debentures, income-tax arrears, etc., is shown here.

Operating profits: Operating profits is the profit generated out of the normal activities of the company. It thus excludes non-operating surplus/deficit. This can be derived by subtracting Interest from Gross profits. The item has been introduced from 1970-71 onwards.

Profits before tax: This item represents the total profit whether it is generated out of the normal activities of the company or not and thus includes non-operating surplus/deficit. Hence it is the total of tax provision, dividends distributed and profits retained.

Tax provision: This is the provision towards corporate tax liability and includes amounts set aside for meeting liability of income tax (both agricultural and non-agricultural), Super tax, sur-tax, and taxes paid during the year but excludes sales tax, cess and other duties. It also includes tax deducted at source in respect of interest and dividends received by the company.

Profits after tax: This is the difference between profits before tax and tax provision. It is the profit net of all expenses and tax provision and represents the amount available for transfer to reserves and for distribution of dividends to shareholders.

Dividends: The total amount distributed/declared as dividends on ordinary and preference shares declared/paid during the year, is included here. Preference dividend includes accumulated preference dividend for earlier years, declared during the year under review.

Profits retained: This comprises profits retained in business in the form of transfers to various reserves (other than taxation and depreciation) and the balance of profit/loss carried to balance sheet.
