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The
Registered Accountants'
Journal

(Conducted under the auspices of the Society of Auditors, Madras.)

Edited by:

K. V. SRINIVASAN, B.Sc., G.D.A., R.A.

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Auditor's Certificates Rules 1932:—Amendments to the Auditor's Certificates Rules, 1932 have been published at a steady rate and the volume of the amendments is such that it has become difficult to get a clear picture of the amended rules at any particular time. We welcome this sure adaptation of the rules to the changing needs of the profession, but it is with sincere regret that we note that all the amendments are not made as a result of the deliberations of the Indian Accountancy Board. Nor is it a fact, we learn, that all amendments proposed—though it be unanimously—by the Central body are always carried out. The Government, and in this instance we mean the handful of officials

who are in charge of this particular branch of Governmental work, have thus proceeded on a quite arbitrary manner in accordance with the dictates of their whims. The formation of the Accountancy Board was done with the specific purpose of providing expert advice to the Government officials in shaping the destinies of the profession and one would have thought, and quite rightly too, that the unanimous advice tendered by the Board would be taken as a command by the officials of the Department. For, it is inconceivable that an official trained for general administration of the country would have superior knowledge on this subject over the body of experts constituted for the purpose. It is

not also as if such advisory bodies have been constituted of representatives elected by the exercise of a possibly freakish franchise of professional men. Expert Members, though nominated by these handful of *inexpert* officials—we use the term “inexpert” with no reservation whatever although we do not mean to cast any aspersions on the personnel of the officials, since our contention is that they cannot at all be so skilled enough for the purpose as are the other members of the Board, both elected and nominated—take part in the deliberations of this supreme body. It stands to reason, therefore, that the

explicit advices on various matters tendered time and again by this team of experts, who have been called upon by the Government to take up that responsibility thereby providing the expert direction to their permanent officials, should be followed to the very letter. The profession as a whole endorses this entirely reasonable expectation and we trust that the Government will concur and make it possible for the original intentions in the creation of the Indian Accountancy Board to fructify and the shaping of the profession in the right direction to proceed unhampered by the rigid ways of the bureaucracy.

SPECIAL ARTICLES

Appointment and retirement in rotation of, vacation of office by and removal of Directors of Public Companies under the provisions of the Indian Companies Act, 1913

(M. S. SRINIVASAN)

(Continued from page 129.)

If the appointment of the first directors lies with the signatories of the memorandum of association, then, until they have made the appointment, a general meeting of the company must be held to do any act. A majority of the subscribers must act in making the appointment of directors, but the appointment may be made by writing without a meeting (Gore Brown, page 337). Acts done by them unanimously are not vitiated by the fact of no meeting being held to sanction them (Hallows *Vs.* Fernie, 3 Eq. 520, 537; 3 Ch. 467), 472).

According to clause (5) of sub-section (1) of section 2 of the Act,

the word “Director” includes any person occupying the position of a director by whatever name called.

Such persons who are deemed to be directors will not make them directors for all purposes (London and Southern Counties Land Co., 31 Ch. D. 223) and it has been held that persons who are *de facto* but not *de jure* directors cannot allot shares (London and Southern Counties Land Co., 31 Ch. D. 223) make valid calls (Howleach Coal Co., *Vs.* Teague, 5, H & N 151), or forfeit shares (Garden Gully, etc. Co., *Vs.* McLister, 1 App. Ca. 39). Further the *de facto* directors and the subscribers of the memorandum of association who are deemed to be

directors do not come within the expression, “directors”, used in regulation 78 of Table A, and the power of the subscribers to appoint remains in force until the appointment of directors has been made notwithstanding the provisions of that regulation (John Morley Building Co. *Vs.* Barras, 1891, 2 Ch. 386). The first directors have the powers of directors for all purposes; their powers are the same as those of the directors to be elected by the shareholders (Eales *Vs.* Cumberland Mine Company, 6 H & N, 481).

The object of regulation 78 of Table A is to give the shareholders within a reasonable time the right to elect their own directors and not to leave them under the management of the temporary officers appointed by the subscribers of the memorandum.

At the first ordinary general meeting the whole of the directors (that are subject to retirement in rotation) must retire, and at the ordinary meeting in every subsequent year, one-third of the directors (that are subject to retirement in rotation) for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third must retire from office. For example, if the total strength of the Board of directors is 9 and if 2 of them be not subject to retirement in rotation, at the first ordinary meeting the remaining seven must retire and in every subsequent year 2 must retire. If the strength of the Board is 7 and if 5 of them are subject to retirement in rotation, 2 of these five must retire from the second ordinary meeting onwards.

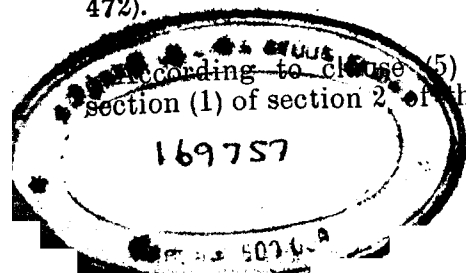
The learned author, K. M. Ghosh, in his book on Indian Companies Act, in page 841, has observed thus:—

“Where besides the governing director and the managing director (who were not to retire according to the articles of association of the company) the number of ordinary directors was reduced to two only, neither of the latter was bound to retire from office at the ordinary general meeting.”

And the learned author quotes in support of the above observation the case David Mosley & Sons, 1939, 1 Ch. 719. The above observation is made in the notes under regulation 78 of Table A. Such a bald statement without setting out the facts of the case is misleading. The decision arrived at in that case is correct only in respect of the facts of that case. According to the provisions of the articles of association of the company—

“At the ordinary general meeting to be held in the year 1904 and at every succeeding ordinary general meeting one-third of the directors (other than the governing directors and managing director or directors) or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office.”

The decision in the above case rested on two provisions in the above articles. First, the one-third to retire must be determined from the directors who are subject to retirement. Secondly the number to retire must not exceed one-third of such directors. As the number of ordinary directors was only two, the number to retire was only two third of a director. One director will exceed one-third of the direc-



tors that were subject to retirement. Hence, it was decided that none need retire in those circumstances.

Regulation 81 of Table A provides that when directors retire in accordance with regulation 78 of Table A, the company at the general meeting at which such retirement takes place *may fill up* the vacated office by electing a person thereto. The use of the word "may" in regulation 81 of Table A must be construed in such a way that the regulation gives the company in general meeting an enabling and discretionary power. That is, there is no duty cast on the company in general meeting to fill up the vacated places. Therefore it is legitimate to infer that regulation 81 of Table A gives the company in general meeting the option not to fill up any or all of the vacancies created by retirement in accordance with regulation 78 of Table A. That is, the company in general meeting may, if it is so inclined, pass a resolution that one or more of the vacancies need not be filled up. But, the exercise of any such option by the company in general meeting will be infructuous under the provisions of regulation 82 of Table A. This regulation runs as follows:

"If at any meeting at which an election of directors ought to take place, the places of the vacating directors are not filled up, the meeting shall stand adjourned till the same day in the next week at the same time and place, and, if at the adjourned meeting the places of the vacating directors are not filled up, the vacating directors or *such of them as have not had their places filled up shall be deemed to have been re-elected at the adjourned meeting.*"

Therefore, if any of the places vacated by the retiring directors be not filled up at the ordinary general meeting at which the retirement takes place, such of the retiring directors as have not had their places filled up will be deemed to have been re-elected at the adjourned meeting. This conclusion is strengthened by a reading of regulation 76 of Table A of the English Companies Act, 1929. There is no regulation in the Table A of the English Companies Act 1929 corresponding to regulation 82 of Table A of the Indian Act. Regulation 76 of Table A of the said English Act is a combination of the substance of regulations 81 & 82 of Table A of the Indian Companies Act and carries with it the virtue of conciseness and consistency. Regulation 76 of the said English Act runs as follows:

"The Company at the general meeting at which a director retires in manner aforesaid may fill up the vacated office by electing a person thereto and in default the retiring director shall be deemed to have been re-elected *unless at such meeting it is resolved not to fill up such vacated office.*"

The words in italics above give a power to the company in general meeting which is consistent with the use of the word, "may" in the second line of the aforesaid regulation.

Regulation 82 of Table A will come into operation only when the meeting at which the election of directors ought to take place does not proceed validly to fill up the places of the vacating directors (Great Northern Salt Co., E. P. Kennedy 44 C. D. 472, 482). The

regulation does not apply if the meeting is adjourned and an appointment made at the adjourned meeting, as for this purpose the adjournment is a mere continuation of the original meeting (Spencer Vs. Kennedy, 1926 Ch, 125).

Under the provisions of sub-section (2) of section 17 of the Act the articles of association of a company may adopt all or any of the regulations contained in Table A of the Act; but, it is doubtful whether regulation 83 of Table A of the Act can co-exist along with regulations 78 and 82 of Table A of the Act. Regulation 83 of Table A of the Act runs as follows:—

"Subject to the provisions of Sections 83-A and 83-B of the Indian Companies Act, 1913 the company may from time to time in general meeting increase or reduce the number of directors, and may also determine in what rotation the increased or reduced number is to go out of office."

The doubt referred to above is not in respect of the power to increase given by regulation 83. The doubt is in respect of the power to reduce and to the power to determine in what rotation the increased or reduced number is to go out of office. When the compulsory regulation 78 of Table A of the Act has laid down the kind of rotation in which the directors are to retire in every year, a variation of this procedure cannot, under a power of an article like regulation 83 of Table A, be valid. The increased or reduced number must go out of office only in the way indicated by regulation 78 of Table A. Again, if the company in general meeting resolves to reduce the number of directors at a meeting at which

retirement of directors does not take place, unless some of the directors are removed, there seems to be no way of giving effect to such a resolution. If the resolution to reduce is passed at a general meeting at which retirement of directors takes place and if such a resolution is resolved to be implemented by not filling up some of the vacated places, the resolution will, as already observed, under the provisions of regulation 82 of Table A, become infructuous.

Articles of association of companies usually provide that—

"Any casual vacancy occurring in the board of directors may be filled up by the directors, but the person so chosen shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director."

If, by any chance, the articles of association of a company exclude the operation of Table A and at the same time do not provide any such article as aforesaid for the purpose of filling up vacancies, then, clause (iii) of the sub-section (1) of section 83-B of the Act will come into operation. This clause is to the same effect as the aforesaid article.

A casual vacancy means in general any vacancy occurring by death, resignation, bankruptcy, any of the disabilities mentioned in section 86-I of the Act, etc., and not by efflux of time. Probably the vacancy caused by the death, resignation etc., of a director appointed by an outside body cannot be construed to be a casual vacancy so as to enable the direc-

tors to appoint a person to fill up that place.

In the book on The Law & Practice under the Companies Acts, by Buckley, eleventh edition, page 746, the following observation is made:—

"A casual vacancy occurred in February; the ordinary general meeting in March elected to the places of the directors who retired by rotation, but did not fill up the casual vacancy; the board had power to fill it up subsequently. *Semble*, the general meeting could have filled it up." (The case that is quoted in support of this statement is *Munster Vs. Cammel Co.*, 21 C. D. 183: *Isle of Weight Railway Co.*, *Vs.* *Tahourdin*, 25, C. D. 320.)

But these cases contain only dicta, and Cotton, L. J. limits the power to the case where there are no directors to act in filling the vacancies. Fry, L. J., extends it to cases where the directors fail to act. Therefore, where there is an express power given to the directors to fill vacancies this will negative any implied power on the part of the company for the same purpose and if willing to act only the directors can fill a vacancy. (*Blair Open Furnace Co.*, *Vs.* *Reigart*, 1913, 108 L. T. 665.)

In the absence of a regulation like 89 of Table A if the number of directors falls below the quorum fixed by the articles it is doubtful whether the board so reduced can act at all (*Owen and Ashworth's Claim*, 1900, Ch. 272, 278).

Certain Articles of association provide an article on the lines of regulation 85 of Table A. This

regulation empowers directors to appoint a person as an additional director who shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the company at that meeting as an additional director. It has been held that an article in this form amounts to such a delegation to the directors of the power of appointing additional directors as to preclude the company in general meeting from appointing such directors. (*Blair Open Hearth Vs. Reigart*, 108, L. T. 665). It has also been held that the provisions of regulation 82 of Table A (regulation which is similar to article 148 of the articles of association of the company concerned in the case) applied to co-opted directors as much as to other directors. Where additional directors are appointed in accordance with provisions similar to those under regulation 85 of Table A, the number of directors for the time being of whom a proportion is to retire does not include the additional directors who hold office until the ordinary general meeting (*Eyre vs. Milton Proprietary, Ltd.*, 1936, 1 Ch. 244).

Section 86-G of the Act provides for the removal of a director. This section was introduced by the Companies (Amendment) Act, XXII of 1936. Before this section was introduced, it has been held in *Boschock Co.*, *Vs.* *Fuke*, 1906, 1 Ch. 148 that, unless the articles contain a power of removal, they must be altered by inserting a power, and then the exercise of the power must follow. After the introduction of the section 86-G of the Act, there is no necessity for the existence of regulation 86 in Table A. Section 86-G runs as follows:—

"The Company may by extraordinary resolution remove any director, whose period of office is liable to determination at any time by retirement of directors in rotation, before the expiration of his period of office and may by ordinary resolution appoint another person in his stead. The person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected director. A director so removed shall not be reappointed a director by the board of directors."

This section applies to directors that are subject to retirement in rotation and it does not apply to directors appointed by an outside body. The removal can be effected by an extraordinary resolution of the company in general meeting. The director so removed cannot be re-appointed a director by the board of directors. *Semble*, the company in general meeting may appoint such a person as a director. Probably no reason need be given for the removal of a director so long as the removal is in accordance with the section.

Sub-section (1) of section 86-I of the Act provides for vacation of office by directors on the happening of certain stated contingencies. Sub-Section (2) of the same Section gives power to the company to provide in its articles additional contingencies. Sub-Section (1) begins with the words "The office of a director shall be vacated if—". It has been held that, upon the happening of any of the events mentioned in Sub-Section (1) of Section 86-I of the Act or in the articles the director concerned vacates his office automatically (*Bodega Co., Ltd.*, 1904, 1 Ch. 276).

If a director acts in contravention of section 86-F of the Act, he ceases to be a director on entering into a contract. In accordance with the decision in *Public Prosecutor Vs. Coimbatore National Bank Ltd.*, 1943 Madras, 214, it is the duty of the company to take steps to see that it is aware of all such changes in the office of directors. The board meeting immediately following the cessation of office of a director as aforesaid can re-appoint him as a director in the very place vacated by him.

STUDENT'S CORNER

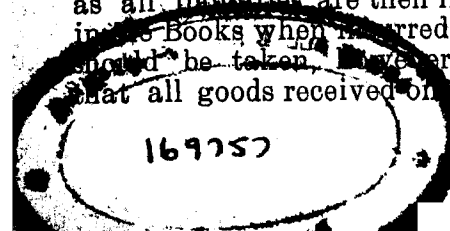
Balance-Sheet—Audit

(S. P. S. IYER, R.A.)

(Continued from page 133.)

Accounts Payable :—This liability is easily verified in companies with modern voucher systems, as all liabilities are then included in the Books when incurred. Care should be taken, however, to see that all goods received on the last

day of the fiscal period, as shown by the receiving records, and also all goods that were in transit and belonged to the company on that day are included as liabilities, and the corresponding assets taken up in inventories. The argument is



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frequently advanced that this test is unnecessary, in as much as it does not make any difference if any equal amount is omitted from the inventories on the one side of the Balance Sheet and from the accounts on the other. But the argument is fallacious when it is remembered that an increase in the accounts payable may have a very important bearing on the financial position of a company if the cash on hand is small.

Monthly charges outstanding can usually be ascertained by a comparison of the expenses of the last month of the fiscal period with previous months, and of those of the year with the previous year. The voucher record should, however, be examined for the months subsequent to the close of the fiscal year in case any expenses included therein are applicable to the fiscal year under audit.

When a first class voucher system is not in operation the auditor will require to take additional precautions to satisfy himself that all liabilities are included in the accounts among which may be mentioned:—

1. payments made in the months subsequent to the date of the fiscal period as shown by the cash book should carefully be scrutinised to see that none of them are applicable to the period under review;
2. the file of bills and vouchers should be examined to see that none are applicable to the period under audit;
3. a careful perusal of the minutes may further assist the

auditor in determining liabilities.

As an additional precaution against the omission of liabilities, certificate should be obtained from the comptroller and treasurer stating that all outstanding liabilities for purchases and expenses have been included in the accounts of the period under review. In many cases it is also advisable to obtain a certificate from the president stating that all liabilities for legal claims, infringements of patents, claims for damages, bank loans etc., have been included as he may be the only executive officer of the company to know the extent of such obligations.

When a company has large purchase contracts in force for future deliveries, they should be examined as, if the contract prices are greater than market prices, it might be necessary to set up a reserve for this loss.

Bills Payable:—The outstanding bills and loans should be compared with the Bills Payable Book, and the schedule therefor in the working papers should show the dates of making the notes, the dates they fall due, the names of creditors, the collateral hypothecated, additional endorsers, the amounts, the interest accrued etc. Notations should be made in the working papers of any notes that may have been renewed, as information of this nature furnishes a guide to the state of a company's credit.

When it is customary for a company to carry large loans with its bankers, it is advisable to add to the Bank certificate circular requests for lists of loans made by

the various Banks. These lists when received should be checked against the loans shown on the Company's Books and approved in the minutes of the Company.

In as much as a Note payable is a negotiable instrument, it is advisable to see that all of those paid during the year under audit have been properly discharged.

Careful attention should be given to the collateral deposited for loans, as should any of the company's assets be hypothecated, the fact should in most cases be brought out in the Balance Sheet.

Accrued Liabilities:—Frequently companies make a separate heading of "Accrued Liabilities" in their Balance Sheet for such items as accrued wages, taxes, interest etc. The verification of such items can be accurately made from the books and records, as for example, if a fiscal year ends on December 31st and the wages have been paid up to and inclusive of the week ending December 28th, the liability for the three days to the 31st can be definitely ascertained from the payroll for the week ending January 4th. In the same manner the amount of accrued taxes can be ascertained from an examination of the receipts for the latest payments. In some cases the period for which the taxes are paid is not shown on the face of the receipts, and in such cases it may be necessary to make inquiries of the tax commissioners as to the periods covered.

Accrued interests on outstanding Bonds and Bills payable is a definite liability and does not call for any special comment.

Contingent Liabilities:—Contingent liability should always be shown on a Balance Sheet either by means of foot notes or by referring them in the body of the Balance Sheet, without extending the amount in the money columns. Notes Receivable, discounted but not due, and also notes endorsed for outside parties etc., come under the heading.

Sinking Fund, Depreciation Reserves etc:—Provisions for sinking fund Reserves for the redemption of Bonds are based on definite facts recorded in the mortgages. When these reserves are provided out of the earnings the question as to whether they do not form a sufficient provision for depreciation should receive consideration.

Sinking fund Reserves for the extinguishment of minerals are more or less of definite nature in as much as estimates can frequently be made if the quantities of the minerals in the ground, and a fixed sum per ton charged to operations as the minerals are mined to provide for the capital investment after the mine is exhausted.

Reserves for the relining of blast furnaces and the rebuilding of open hearth furnaces are definite and can be decided upon from past experience, as can also other provisions that are specifically earmarked, such as reserves for contingencies, accident insurance, idle expenses, etc.

The adequacy of the amount of Reserve for Depreciation and Accrued Renewals is generally one of the most difficult matters to pass upon in a Balance Sheet Audit. The theory, of course, is that a

sufficient sum ought to be provided out of earnings each year to take care of obsolescence, accrued renewals and the depreciation of the properties which will never be made good. Among the more usual methods of calculating these reserves may be mentioned :—

1. the setting aside of a round sum each month based on a percentage of the capital assets;
2. basing the monthly provision on either the production, sales or pay-roll;
3. waiting until the annual earnings are known before deciding upon the provision for depreciation.

The amount of depreciation charge each month should vary

with the capacity at which the plants are operated, as it is reasonable to suppose that depreciation is not so great when plants are operating at half capacity as it is when they are full.

Expenditure for renewals and extraordinary repairs which occur periodically and are not applicable to the period in which they are made good should be charged to these reserves. The expenditures should be supported by authorizations in the same manner as has already been described for additions to properties. When property is either dismantled or abandoned the difference between the cost price and the scrap value should be charged to the reserves.

(Will continue.)

NOTIFICATIONS

GOVERNMENT OF INDIA

Department of Commerce.

NOTICE.

Taxation and Cost Accountancy.

It has been decided by the Government of India to provide admission, passage and exchange facilities (where necessary) to Registered Accountants who desire to go abroad for higher studies in Taxation and Cost Accounting at their own expense. Registered Accountants, who intend to avail themselves of these facilities, should apply to the Secretary to the Government of India, Education Department, New Delhi, through the Secretary to the Government of India, Department of Commerce.

CIRCULAR

No. 7-A (7)/46, Simla the 17th June, 1946.

Final Examination Under the Auditor's Certificates Rules.

I am directed to say that on the recommendation of the Examination committee of the Indian Accountancy Board, the Government of India in the Department of commerce have decided that Paper (iii) Economics in Group II of the Final Examination held under the Auditor's Certificates Rules, 1932, will in future be split into two parts, (viz),

Part (i)—General theory of Economics and principles of Banking Currency and Foreign Exchange; and

Part (ii)—Indian Economics.

Both the parts will carry equal marks.

NOTIFICATION

New Delhi, the 22nd June, 1946.

Registration of Accountants.

No. 7-A (1)/45.—In pursuance of clause (iii) of sub-clause (a) of clause (3) of rule 22 and clause (b) of rule 41 of the Auditor's Certificates Rules, 1932, the Central Government is pleased to recognise the following examinations as equivalent to the Intermediate Examination of a University constituted by law in British India or British Burma or of the University of Mysore or of the Osmania University, namely:—

1. The Intermediate Examination of any Indian University incorporated by a law for the time being in force, other than those mentioned in rules 22 and 41 of the said Rules or of a Board of Intermediate Examination in India established by a resolution of Government.
2. The First Year Examination of the three-year Degree course of the Delhi University.
3. The Pre-Engineering Examination of the Delhi Polytechnic.
4. The Final Examination of the Government Commercial Institute, Calcutta.
5. The Pre-Medical Examination of the Delhi University;
6. The Cambridge Higher School Certificate Examination.
7. The Examination for the Diploma of Licentiate of Arts of St. Andrews University.
8. The Higher Oxford Certificate Examination with a combination of subjects considered by the Academic Council to be equivalent to that prescribed for the Intermediate (Arts and Science) Examination of the Nagpur University.

9. The Intermediate Examination (Arts) of the University of London.

(Y. N. SUKTHANKAR)

Additional Secretary to the Government of India.

Finance Department

(Revenue Division)

Excess Profits Tax.

Simla, the 29th June, 1946.

No. 2. In exercise of the powers conferred by sub-section (3) of section 10 of the Indian Finance Act, 1942 (XII of 1942) read with sub-section (5) of section 2 of the Excess Profits Tax Ordinance, 1943 (No. XVI of 1943) the Central Government is pleased to direct that the following further amendment shall be made in the Excess Profits Tax (Post War Refunds) Rules, 1942, namely—

"In Form E. P. 4-17, appended to the said rules, after the word "that" in the first line of paragraph 2, the words "in the case of plant and machinery" shall be inserted.

S. RANGANATHAN,

Dy. Secretary.

No. 1-A (5) 45

Department of Commerce

Simla, the 19th July, 1946.

FROM

P. N. BHANDARI Esq.,
B. Com., (London), A.O.A., R.A.,
Under Secretary to the
Government of India.

TO

ALL RECOGNISED INSTITUTIONS.

Subject:—Raising of educational qualification of candidates for admission to the First R. A. Examination.

SIR,

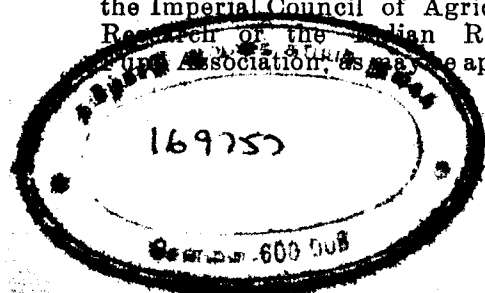
I am directed to say that in partial modification of this Department cir-

(Sd). P. N. BHANDARI,
Under Secretary to the
Government of India.

Income-tax

"47. For the purposes of clauses (xiii) and (xiv) of sub-section (2) of section 10 of the Act, the prescribed authority shall be the Council of Scientific and Industrial Research, the Imperial Council of Agricultural Research or the Indian Research Fund Association, as may be appropriate."

*Additional Secretary to the
Government of India.*

[illegible]

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Secretary.

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