Chapter II: METHODOLOGY OF PROCESSING THE DATA

The main sources for the financial statistics on companies are the annual reports and accounts of the companies. The annual report and accounts of a company consist of (i) the balance sheet showing the financial position of the company as at the end of the accounting period, (ii) manufacturing, trading and profit and loss accounts showing the working of the company during the period and the profits earned during that period and appropriations thereof and (iii) directors' report showing the proposed appropriation of profits. In some cases, the annual report reviews the working of the company during the year and outlines broad contours of the future programme of the company. In order to arrive at meaningful results, these data need to be analysed, classified under uniform heads, aggregated and presented appropriately. The final results mainly take the form of the combined balance sheet and the combined income, expenditure and appropriation accounts.

During the course of the exercise of combining the accounts of individual companies for obtaining the totals, one encounters certain issues such as non-uniformity in nomenclature and method of presentation, differences in account closing dates, amalgamation of companies, revaluation of assets and changes in the activities of the companies. Methodological aspects of certain important heads are delineated in the following paragraphs.

II.1 Study year

Companies engaged in industrial activities which have a natural intra-year business cycle close their accounts at a time when the cycle is complete and activities are at a low ebb. Where the business activities do not exhibit any such pattern, it is observed that there is a concentration of companies in closing the accounts in March and December. The accounts closed during any given time slot, thus, represent the financial results of the working of the companies with diverse twelve-month periods. The study year was taken as July to June up to the year 1965-66. In other words, the statistics presented against the year, say, 1960-61 relate to the combined data in respect of annual accounts closed between July 1960 and June 1961. Considering several factors like the distribution of companies, the need to synchronise the corporate statistics with other economic indicators and the availability of population information from the Ministry of Corporate Affairs, etc., the study year was changed to April-March from 1966-67 onwards. In other words the statistics presented against the year, say 2008-09, relate to the combined data in respect of annual accounts closed between April 2008 to March 2009.

II.2 Change in account closing dates

In case a company changes its account closing date, its account will cover a period exceeding or falling short of 12 months. In order to make the data comparable to those of previous years, all the items in the profit and loss account are annualised and adjusted proportionately to represent 12 months' of working. The balance sheet data are, however, retained as presented in the accounts of the companies with the result that the data reported in the balance sheet in these cases refer to varying periods.

II.3 Selection of companies

In view of the practical difficulties posed by the sheer number of the companies in the private corporate business sector and the time and resource constraints in the procurement, processing and analysing of the balance sheets, the scheme envisaged the study of the accounts of only selected companies in the private corporate business sector. The main objectives of the study were to get an idea of the magnitude and trends in industrial profits, to gain a deeper understanding of the working of the sector and to prepare estimates of the saving and capital formation.

The criterion adopted for the selection of companies in the studies is the size of their paid-up capital, as it is the only characteristic for which information is available at the population level. The objective is to have maximum coverage, industry-wise, in terms of paid-up capital and to include as many representative units as possible from various industries consistent with the twin parameters of time and resources. Companies in construction stage and defunct companies are not included. The studies also exclude companies in formative stage and those not operative for more than six months during the year. The list of selected companies is revised constantly with a view to improving the paid-up capital coverage and the representative character of the selected companies.

II.4 Time-lag in procuring annual accounts

The Companies Act, 1956 requires a company to present within six months of the date of closing of the accounts, its balance sheet and profit and loss accounts at the annual general meeting (AGM) and simultaneously, file copies of these with the concerned Registrar of Companies (RoC). The Registrar may grant an extension of time limit for three more months (maximum) for holding the AGM. The accounts of companies, thus, generally become available six to nine months after the respective account closing dates and consequently the studies pertaining to different sub-sectors of the private corporate business sector are published by the Bank a year or so after the study year. Sometimes, the studies get delayed because of difficulties in obtaining the requisite annual accounts. As per the standing arrangements between the Bank and the Ministry of Corporate Affairs (MCA), the Registrars in the various States used to send copy of the accounts of each company filed with them to the Bank. However, with the implementation of MCA21, companies are now submitting annual accounts directly to MCA electronically in a pdf format and as such annual accounts are not received from RoC's. Accessing the annual accounts of companies through the online portal of MCA is beset with some practical difficulties. Thus, in practice, the required annual accounts are obtained through correspondence with the companies.

After the receipt of the accounts, the next steps relate to determination of industrial classification, analysis and checking of data, processing and consolidation of data and preparation of analytical report and final publication thereof. In view of the topical importance, the Bank brings out a special study on large non-Government non-financial public limited companies as an advance indicator of the corporate financial performance of the outgoing year.

II.5 Amalgamation / Merger of companies: Adjustments in accounts

Amalgamation/Merger of a company is another instance which calls for certain adjustments in the data for ensuring comparability. Comparable statistics for such a company for the back period are obtained by combining the accounts of the amalgamated units. However, the combined accounts of the amalgamated units for the years prior to amalgamation obtained by merely adding the corresponding items in the accounts will not be strictly comparable with the consolidated accounts of the company after amalgamation/merger. This is due to the fact that the balances arising out of the inter-company transactions within the amalgamated units no longer appear in the accounts of the company after amalgamation as these units function as a single company. It is observed that generally the amalgamating companies prior to amalgamation are connected with each other in certain aspects such as subsidiary and holding companies, managing and managed companies, companies under same management, financing and financed companies, etc.. Accordingly, their accounts include certain items, which are contra to the items in the accounts of the other amalgamating companies, which cancel out to some extent on amalgamation of these units. In order to make the combined data prior to amalgamation comparable with the consolidated data after amalgamation, such inter-company transactions are eliminated from the pre-amalgamation accounts of the constituent units before they are combined. It is not possible to identify all the inter-company transactions in the published accounts of the companies and as such adjustments are made to the extent such information is available.

II.6 Increase or Decrease in value of stock of finished goods and work-in-progress

The items 'Closing stock' and 'Opening stock' were shown under 'Income' and 'Expenditure' sides, respectively, in the statements on Combined Income, Expenditure and Appropriation Accounts upto the year 1960-61. This practice was later changed to present change in the stock i.e., Increase (+) or Decrease (-) in the value of stock of finished goods and work-in-progress and the net figures were included under 'Income' side.

II.7 Non-operating surplus/deficit

Companies report property income received and/or some non-recurring income which pertains to the previous years and income/loss not related to their business activity, such as sales of assets during the year. These are termed as non-operating surplus/deficit. The figures in respect of non-operating surplus (+)/deficit (-) are available from 1970-71 onwards in the Combined Income, Expenditure and Appropriation Accounts.

II.8 Depreciation provision

Depreciation provision should be in accordance with the provisions of the Income-tax Act, and the Companies Act, 1956. Sections 205 and 350 of the Companies Act, 1956, deal with the methods and rates which the companies may adopt for working out the depreciation provision. Section 205 states that no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year arrived at after providing for depreciation. The depreciation provisions made by a company should be in accordance with the provisions of Section 205(2) and Section 350. As per these sections, the depreciation shall be the amount calculated with reference to the written-down value of the assets as shown by the books of the company at the end of the financial year at the rate specified for the assets or an amount arrived at by dividing ninety-five per cent of the original cost of an asset by the specified period of that asset or any other basis approved by the Central Government.

Depreciation provision is an item that appears in the statements on combined balance sheets, income, expenditure and appropriation accounts. In the combined balance sheet, it denotes accumulated depreciation till the date of closing of the accounting year and is shown as a deduction from the total gross value of fixed assets. In the income, expenditure and appropriation account, the item signifies the provision made during the year. It is observed from these statistics that depreciation provision made during a year does not necessarily equal the difference in the accumulated depreciation shown in the balance sheet of that year and that of the previous year as the depreciation provision shown in the profit and loss account relates to the existing assets, while the accumulated depreciation for that year takes into account adjustments due to some assets being sold, scrapped, written-off or transferred to other companies.

The Companies Act, 1956, leaves it to the discretion of the management of the company, as to which of the several methods of depreciation they should adopt. The company may follow different methods for different types of assets. However, whichever method is adopted, it should be consistently followed.

The Companies Act, 1956, mentions that under each head of fixed assets the original cost, the additions thereto, deductions therefrom and total depreciation written off or provided for upto the end of the year should be given in the annual accounts of the company. It is also mentioned that for this purpose, where the original cost, additions and deductions thereto relate to any fixed assets which has been acquired from any country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such assets, there has been any increase or decrease in the liability of the company, the amount by which the liability so increases or decreases during the year may be added to or deducted from the cost of the fixed assets.

The basic data presented in statements, viz., (i) combined balance sheet and (ii) combined income, expenditure and appropriation account are discussed in the following paragraphs, whereas, data presented in statement 'Growth rates and financial ratios' is discussed in the next chapter.

II.9 Combined balance sheet

The balance sheets as at the end of the financial year are drawn up by the companies in the form prescribed in Part I of Schedule VI of the Companies Act, 1956. Though this is a standard form to be followed by the companies, there is some scope for differences in the presentation of some of the details. The nomenclature adopted for individual items and their classification under broad headings prescribed in the form differ from company to company. For example, items like sundry creditors, sundry debtors, other current liabilities and advances are to be shown in the balance sheet, but the individual items constituting these broad heads are not defined in the form and as such the presentation and their nomenclature is not uniform in the accounts of all the companies. The items are, therefore, classified as per the concepts and definitions given in the Chapter on 'Concepts and definitions of specified heads of accounts' and the combined balance sheets are presented in the proforma adopted for this purpose. However, the presentation of items over the period may vary in respect of certain items.

II.10 Combined profit and loss account

The profit and loss account of a company presents a summary record of its working during the accounting period. It shows the various items of expenditure and income under broad heads, profit/loss and the appropriations. The items of expenditure and income differ widely from company to company. The Companies Act has not prescribed any specific format for the presentation of profit and loss account, though some items like rent, rates and taxes and advertisement have been specifically prescribed for presentation in the account. However, Part II of Schedule VI of the Companies Act, 1956 enumerates the requirements as regards the presentation of profit and loss account by the companies. As in the case of balance sheet, the items in the profit and loss account of the company are classified according to the concepts and definitions to be followed and the combined profit and loss account is prepared in the proforma devised for the purpose.

II.11 Limitations of the data

The statistics presented in this publication are primarily arranged in two groups, viz., aggregate level data and industry/activity wise data. Data in each group are presented for Medium and Large Public Limited Companies (up to 1982-83), All Public Limited Companies (1982-83 to 2008-09), Medium and Large Private Limited Companies (up to 1982-83), All Private Limited Companies (1982-83 to 2008-09) and Financial and Investment Companies (1957-58 to 2008-09).

These statistics though are based on authentic documents like annual reports and accounts of the selected companies, but are subject to certain limitations. One such limitation is that the statements on some of the basic data viz., profit and loss account and balance sheet, show only the *combined* position, and not the *consolidated* position, for the group of companies for which the data are presented. In other words, inter-corporate transactions are not eliminated while combining the data.

As the individual accounts for any study year do not always relate to the same period, the combined figures do not depict the position for the year ended March, or the working for the year April-March as the case may be.
