

Companies Act 2017 Section 220-239

ACCOUNTS OF COMPANIES

FINANCIAL STATEMENTS (Section-2(33)):

Financial statements in relation to a company, includes:

1. a statement of financial position as at the end of the period;
2. a statement of profit or loss and other comprehensive income or in the case of a company carrying on any activity not for profit, an income and expenditure statement for the period;
3. a statement of changes in equity for the period;
4. a statement of cash flows for the period;
5. notes, comprising a summary of significant accounting policies and other explanatory information;
6. comparative information in respect of the preceding period; and
7. any other statement as may be prescribed.

FINANCIAL YEAR (Section-2(34)):

Financial year in relation to a company or any other body corporate, means the period in respect of which any financial statement of the company or the body corporate, as the case may be, laid before it in general meeting, is made up, whether that period is a year or not.

BOOKS OF ACCOUNT (Section-2(11)):

Books of account includes records maintained in respect of:

1. all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
2. all sales and purchases of goods and services by the company;
3. all assets and liabilities of the company; and
4. items of cost in respect of production, processing, manufacturing or mining activities.

BOOKS OF ACCOUNT TO BE KEPT BY COMPANY (Section-220):

FINANCIAL ACCOUNTS: Every company shall prepare and keep, at its registered office or other place in Pakistan if decided by the Board, books of account and financial statements for every financial year which give a true and fair view of the state of the affairs of the company including its branch offices.

If a company has a branch office in or outside Pakistan and proper books of account relating to the transactions effected at the branch office should be kept at that office and proper summarized returns are to be sent periodically by the branch office to the company at its registered office or the other place.

COST ACCOUNTS: In the case of a company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or the other inputs or items of cost shall also be maintained.

KEEPING ACCOUNTS AT A PLACE OTHER THAN REGISTERED OFFICE:

Board of directors may decide to keep the books of accounts at a place in Pakistan other than the registered office. In this case, the company shall file with the registrar a notice in writing giving the

full address of other place within seven days of decision of Board.

INSPECTION: The books of account and other books and papers maintained by the company within Pakistan shall be open for inspection at the registered office of the company or at such other place in Pakistan by any director during business hours, and in the case of financial information, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by any director.

TIME PERIOD: The books of account of every company relating to a period of not less than ten financial years immediately preceding a financial year, or where the company had been in existence for a period less than ten years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account shall be kept in good order. A liquidator shall also ensure compliance with this provision.

PENALTY (Sub Section-6): If a company fails to comply with any of the requirements of this section, every director, including chief executive and chief financial officer, of the company who has by his act or omission been the cause of such default shall-

- a) in respect of a listed company, be punishable with imprisonment for a term which may extend to two year and with fine which shall not be less than five hundred thousand rupees nor more than five million rupees, and with a further fine which may extend to ten thousand rupees for every day after the first during which the default continues; and
- b) in respect of any other company, be punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees.

INSPECTION OF BOOKS OF ACCOUNT BY THE COMMISSION (Section-221, 222):

If SECP considers it necessary for reasons to be recorded in writing then it may inspect the books of account of a company via any officer authorised by SECP and it shall be the duty of every director, officer or other employee of the company to produce to the person making inspection all record in his custody or under his control, and to furnish him with any such statement, information or explanation relating to the affairs of the company, as the said person may require of him within such time and at such place as he may specify.

POWERS OF INSPECTOR: The officer making the inspection may, during the course of inspection-

- a) make or cause to be made copies of books of account and other books and papers; or
- b) place or cause to be placed by marks of identification thereon in token of the inspection;
- c) take possession of such documents and retain them for a reasonable time if there are reasonable grounds for believing that they are evidence of the commission of an offence.

REPORT: The officer authorized by SECP shall make a report to after the inspection has been conducted.

PENALTY: Every person who is in default of above provision shall be punishable with imprisonment for a term which may extend to six months and with fine which may extend to one hundred thousand rupees.

Where a director or any other officer of a company has been convicted under this section, he shall, on and from the date on which he is so convicted, be deemed to have vacated his office as such

and, on such vacation of office, shall be disqualified for holding such office in any company, for a period of three years.

FINANCIAL STATEMENTS (Section-223):

The board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company.

The financial statements must be laid within a period of four months following the close of financial year of a company. However, in the case of a listed company SECP, and in any other case the registrar may for any special reason, extend the period for a term not exceeding thirty days.

The first financial statement must be laid at some date not later than sixteen months after the date of incorporation of the company and subsequently once at least in every calendar year.

The period to which the statements aforesaid relate, not being the first, shall not exceed twelve months except where special permission of the registrar has been obtained.

AUDIT OF FINANCIAL STATEMENTS: The financial statement shall be audited by the auditor of the company and the auditor's report shall be attached with them. However, a private company having the paid up capital not exceeding one million rupees or such other amount of paid up capital as may be notified by the Commission, shall not be required to have its financial statements audited.

SHARING OF FINANCIAL STATEMENTS WITH MEMBERS: Every company shall send the audited financial statements together with the auditors' report, directors' report and in the case of a listed company the chairman's review report to every member of the company and every person who is entitled to receive notice of general meeting, either by post or electronically at least twenty-one days before the date of meeting and shall keep a copy at the registered office of the company for the inspection of the members.

A listed company shall also send by post three copies and electronically a copy of such financial statements together the reports to each of the Commission, registrar and the securities exchange and shall also post on the company's website.

PENALTY: The provisions of sub-section (6) of section 220 shall apply to any person who is a party to the default in complying with any of the provisions of this section.

CLASSIFICATION OF COMPANIES (Section-224):

The classification of the companies will be as per **Third Schedule**, which is as follows:

S.No.	Classification Criteria of Company		Applicable Accounting Framework	Relevant Schedule
1.	Public Interest Company & Large Sized Company (PILSC)			
	Sub-categories of PILSC:			
	a)	Listed Company	International Financial Reporting	Fourth Schedule

	b)	Non-listed Company which is: (i) a public sector company as defined in the Act; or (ii) a public utility or similar company carrying on the business of essential public service; or (iii) holding assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity.	International Financial Reporting	Fifth Schedule
	c)	Non-listed Company with: (i) paid-up capital of Rs. 200 million or more; or (ii) turnover of Rs. 1 billion or more; or (iii) employees more than 750; or (iv) such number of members holding ordinary shares as may be notified; or (v) assets exceeding such value as may be notified.		
	d)	Foreign Company with turnover of Rs. 1 billion or more.		
	e)	Non-listed Company licenced / formed under Section 42 / Section 45 of the Act having annual gross revenue (grants/income/subsidies/donations) including other income/revenue of Rs. 200 million and above.	International Financial Reporting Standards and Accounting Standards for NPOs	Fifth Schedule
2.	Medium Sized Company (MSC)			
	Sub-categories of MSC:			
	a)	Non-listed Public Company with: (i) paid-up capital less than Rs.200 million; (ii) turnover less than Rs1 billion; (iii) Employees more than 250 but less than 750.	International Financial Reporting Standards for SMEs	Fifth Schedule
	b)	Private Company with: (i) paid-up capital of greater than Rs. 10 million but not exceeding Rs. 200 million; (ii) turnover greater than Rs. 100 million but not exceeding Rs. 1 billion; (iii) Employees more than 250 but less than 750.		
	c)	A Foreign Company which has turnover less than Rs. 1 billion.		
	d)	Non-listed Company licensed / formed under Section 42 or 45 of the Act which has annual gross revenue (grants/income/subsidies/donations) including other income or revenue less than Rs.200 million.	Accounting Standards for NPOs	Fifth Schedule
3.	Small Sized Company (SSC)			
		A private company having: (i) paid-up capital up to Rs. 10 million; (ii) turnover not exceeding Rs.100 million; (iii) Employees not more than 250.	Revised AFRS for SSEs	Fifth Schedule

Notes:

- The classification of a company shall be based on the previous year's audited financial statements.
- The classification of a company can be changed where it does not fall under the previous criteria for two consecutive years.
- The number of employees means the average number of persons employed by a company in that financial year calculated on monthly basis.

CONTENTS OF FINANCIAL STATEMENTS (Section-225):

CONTENT AND COMPLIANCE: The financial statements shall give a true and fair view of the state of affairs of the company and shall comply with the financial reporting standards.

Further, the financial statements shall be prepared in accordance with the requirements contained in the Third Schedule (given above) for different class or classes of companies.

However, companies like banking and insurance which have separate laws may shall not be required to comply with above requirement for their financial statements.

The Commission shall have power to modify requirements or to grant exemption to any company if it is in the public interest so to do, from compliance with all or any of the requirements of the relevant Schedule for its financial statements.

However, if any company intends to make unreserved compliance of IFRS issued by the IASB (International Accounting Standards Board) it shall be permitted to do so.

PENALTY of Sec-220 (6) shall apply to any person who is in non-compliance with above provisions.

DUTY TO PREPARE DIRECTORS' REPORT AND STATEMENT OF COMPLIANCE (Section-226):

The board of all companies, other than a private company, not being a subsidiary of public company, having the paid up capital not exceeding Rs. 3 million, shall prepare a directors' report for each financial year of the company.

The Commission may direct a company to prepare a statement of compliance with COCG.

The board of a holding company preparing consolidated financial statements shall include in its directors report information with respect to the consolidated financial statements. Further, the directors shall give greater emphasis to significant matters to the undertakings being consolidation in director's report.

PENALTY: Any contravention in complying with above requirements shall be an offence liable to a penalty of level 1 on the standard scale.

CONTENTS OF DIRECTORS' REPORT AND STATEMENT OF COMPLIANCE (Section-227):

CONTENTS OF DIRECTORS' REPORT OF EVERYCOMPANY REQUIRED TO MAKE THIS REPORT:

The directors shall make out and attach Directors' Report to the financial statements which shall include:

1. report with respect to the state of the company's affairs and a fair review of its business;
2. the amount (if any) that the directors recommend should be paid by way of dividend; and
3. the amount (if any), the directors propose to carry to the Reserve Fund, General Reserve or Reserve Account.

CONTENTS OF DIRECTORS' REPORT OF A PUBLIC COMPANY OR A PRIVATE COMPANY BEING A SUBSIDIARY OF A PUBIC COMPANY:

In the case of a public company or a private company which is a subsidiary of a public company, the directors report, in addition to the matters mentioned above must state:

1. the names of the persons who were directors of the company at any time during the financial

- year;
2. the principal activities and the development and performance of the company's business during the financial year;
 3. a description of the principal risks and uncertainties facing the company;
 4. any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or any other company in which the company has interest;;
 5. the information and explanation in regard to any contents of modification in the auditor's report;
 6. information about the pattern of holding of the shares;
 7. the name and country of origin of the holding company, if such company is a foreign company;
 8. the earning per share;
 9. the reasons for loss if incurred during the year and future prospects of profit;
 10. information about defaults in payment of any debts and reasons thereof;
 11. comments in respect of adequacy internal financial controls;
 12. any material changes and commitments 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 relates and the date of the report; and
 13. any other information as may be specified.

CONTENTS OF DIRECTORS' REPORT OF A LISTED COMPANY:

In the case of a listed company, the business review must include:

1. the main trends and factors likely to affect the future development, performance and position of the company's business;
2. the impact of the company's business on the environment;
3. the activities undertaken by the company with regard to corporate social responsibility during the year; and
4. directors' responsibility in respect of adequacy of internal financial controls.

The board of a listed company shall make a statement of compliance with COCG and attach the same to its financial statement.

The directors' report and statement of compliance must be approved by the board and signed by the chief executive and a director of the company.

PENALTY: Whoever contravenes any of the provisions of this section shall:

- in respect of a listed company, be punishable with imprisonment for a term which may extend to two years and with fine may extend to five hundred thousand rupees and with a further fine which may extend to ten thousand rupees for every day after the first during which the default continues; and
- in respect of any other company, be punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees.

CONSOLIDATED FINANCIAL STATEMENTS (Section-228):

CONSOLIDATED FINANCIAL STATEMENTS: Consolidated financial statements of the group, presented as a single enterprise, shall be attached to the financial statements of a holding company

having a subsidiary or subsidiaries, at the end of the financial year on the holding company. Consolidated financial statements shall comply with the disclosure requirements and financial reporting standards.

EXCEPTION: A private company and its subsidiary, where none of the holding and subsidiary company has the paid up capital exceeding Rs. 1 million, shall not be required to prepare consolidated financial statements.

INTERIM CLOSING: Where the financial year of a subsidiary precedes the day on which the holding company's financial year ends by more than three months, such subsidiary shall make an interim closing, on the day on which the holding company's financial year ends, and prepare financial statements for consolidation purposes.

AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS: Every auditor of a holding company shall also report on consolidated financial statements and shall exercise all such rights and duties of auditors.

Any material qualification or note in financial statements of subsidiary company which is not covered in financial statements of holding company, shall also be disclosed in the consolidated financial statements.

SIGNATURE: Every consolidated financial statement shall be signed by the same persons by whom the individual financial statements of the holding company are required to be signed.

PENALTY: Any contravention or default in complying with requirements of this section shall be an offence liable to a penalty of level 2 on the standard scale.

FINANCIAL YEAR OF HOLDING COMPANY AND SUBSIDIARY (Section-229): The board of a holding company shall ensure that its financial year and each of its subsidiaries coincides, except where in their opinion there are good reasons against it. The Commission on being requested may extend the financial year of either holding or subsidiary company for this purpose.

RIGHTS OF HOLDING COMPANY'S REPRESENTATIVES AND MEMBERS (Section-230): A holding company may, by resolution, authorize representatives named in the resolution to inspect the books of account kept by any of its subsidiaries; and the books of account of any such subsidiary shall be open to inspection by those representatives at any time during business hours.

FINANCIAL STATEMENTS OF MODARABA COMPANY TO INCLUDE MODARABA ACCOUNTS (Section-231):

There must be attached to the financial statements of a modaraba company, the annual accounts and other reports circulated in pursuance of the provisions of section 14 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), made out:

- a) as at the end of the financial year of the modaraba where such financial year coincides with the financial year of the modaraba company; and
- b) as at the end of the financial year of the modaraba last before that of the modaraba company, where the financial year of the modaraba does not coincide with that of the modaraba company.

PENALTY: Any contravention or default in complying with requirements of this section shall be an offence liable to a penalty of level 2 on the standard scale.

APPROVAL AND AUTHENTICATION OF FINANCIAL STATEMENTS (Section-232):

The financial statements must be approved by the board of the company and signed on behalf of the board by:

LISTED COMPANY	OTHER THAN LISTED COMPANY
CEO <i>(in case his non-availability in Pakistan, by another director)</i>	CEO <i>(in case his non-availability in Pakistan, by another director)</i>
DIRECTOR	DIRECTOR
CFO	Not applicable

APPROVAL IN CASE FINANCIAL STATEMENTS ARE IS NOT REQUIRED TO BE AUDITED: In case of a private company having a paid up capital not exceeding Rs. 1 million, the financial statements shall also be accompanied by an affidavit executed by the chief executive if the accounts are signed by him or by any of the directors if the accounts has been signed by two directors, as the case may be, that the financial statements have been approved by the board.

SINGLE MEMBER COMPANY: The financial statements of a SMC shall be signed by one director.

PENALTY: Any contravention or default in complying with requirements of this section shall be an offence liable to a penalty of level 1 on the standard scale.

COPY OF FINANCIAL STATEMENTS TO BE FORWARDED TO THE REGISTRAR (Section-233):

ADOPTED FINANCIAL STATEMENTS: A copy of audited financial statements adopted in AGM shall be filed by the company electronically with the registrar:

TIME	TYPE OF COMPANY	PENALTY
Within 30 days of meeting	In case of a Listed Company	Level 1
Within 15 days of meeting	In case of a company other than Listed Company	Level 2

All reports and documents should be attached and financial statements must be signed as well.

NON-ADOPTED FINANCIAL STATEMENTS: If the general meeting does not adopt the financial statements or defers consideration or is adjourned, a statement of that fact and of the reasons shall be annexed to the said financial statements required to be filed with the registrar.

EXEMPTION: A private company having the paid up capital not exceeding Rs. 10 million is not required to file its financial statements with registrar.

FILING OF UNAUDITED FINANCIAL STATEMENTS (Section-234): A private company, not being a subsidiary of public company, having the paid up capital not exceeding Rs. 1 million or such other amount of paid up capital as may be notified by the Commission, shall file the duly authenticated financial statements, whether audited or not, with the registrar within 30 days from the holding of annual general meeting. *(PENALTY Level-1)*

RIGHT OF MEMBER OF A COMPANY TO COPIES OF THE FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT (Section-235): On request and on payment of such fee as may be fixed by the company, any member of the company is entitled to be provided with a copy of any financial statement within seven days after the request is received by the company. *(PENALTY Level-1)*

PENALTY FOR IMPROPER ISSUE, CIRCULATION OR PUBLICATION OF FINANCIAL STATEMENTS (Section-236): If any copy of financial statements is issued, circulated or published without there being annexed a copy each of:

- any component of financial statements, reports, or statements referred therein,
- the auditors' report,
- the statements of compliance,
- review reports on the statement of compliance, and
- the directors' report

the company, and every officer of the company who is in default shall be liable to a penalty of level 1 on the standard scale.

QUARTERLY FINANCIAL STATEMENTS OF LISTED COMPANIES (Section-237):

Every listed company shall prepare the quarterly financial information within the period of:

- a) one month of the close of first and third quarters of its year of accounts; and
- b) two months of the close of its second quarter of its year of accounts.

LIMITED SCOPE REVIEW: The cumulative figures for the half year, presented in the second quarter accounts shall be subjected to a limited scope review by the statutory auditors of the company in a manner determined by the ICAP and approved by the Commission.

EXTENSION: The Commission may, upon an application by the company, extend the period of filing in case of accounts of first quarter for a period not exceeding thirty days, if the company was allowed extension in terms of sections 223 i.e. extension in AGM.

DISSEMINATION OF QUARTERLY FINANCIAL STATEMENTS: The quarterly financial statements shall be posted on the company's website for the information of its members and also be transmitted electronically to the Commission, securities exchange and with the registrar within the period of one month of close of 1st and 3rd quarter and two months of close of 2nd quarter. A copy of the quarterly financial statements shall be dispatched in physical form if so requested by any member without any fee.

APPROVAL: The provisions of section 232 (Approval of Financial Statements) shall be applicable to the quarterly financial statements.

PENALTY: If a company fails to comply with any of the requirements of this section, every director, including chief executive and chief financial officer of the company who has by his act or omission been the cause of such default shall be liable to a penalty of level 2 on the standard scale.

POWER OF COMMISSION TO REQUIRE SUBMISSION OF ADDITIONAL STATEMENTS OF ACCOUNTS AND REPORTS (Section-238): The Commission may by order require any company to prepare and send to the members, the Commission, the registrar, the securities exchange and any other person such periodical statements of accounts, information or other reports, in such form and manner and

within such time, as may be specified in the order. (*PENALTY Level-3*)

RIGHTS OF DEBENTURE-HOLDERS TO OBTAIN COPIES OF FINANCIAL STATEMENTS (Section-239):

The holders of debentures, including the trustees for holders of debentures, of a company shall be entitled to have copies of financial statements of the company and other reports on payment of such fee as may be fixed by the company. (*PENALTY Level-1*)