

PROVISION FOR PROPOSED DIVIDEND*

1. This Statement summarises the Council's view regarding the responsibility of the auditor relating to the provision for and disclosure of proposed dividend and replaces all earlier statements on this subject.
2. The Council is aware of the fact, that a large number of companies do not provide for the proposed dividend but either carry forward the balance on the profit and loss account or transfer an amount to the General Reserve and charge the dividend to the profit and loss account or to the reserve when payment is made.
3. The Council is of the view that a proposed dividend does not represent a liability nor does it amount to a provision, pending the approval of the shareholders in General Meeting. Since the meeting to approve the accounts would take place after the Balance Sheet date, there could not be any liability in respect of the proposed dividend on the date of the Balance Sheet. The Council is of the opinion that merely because the form requires proposed dividend to be shown under "Current Liabilities and Provisions", it does not mean that in fact the proposal for the dividend becomes a liability or is necessarily a provision. The Council would draw attention to the forms of accounts laid down under the Insurance Act, 1938 and the Banking Regulation Act, 1949, in both of which it is not a requirement to show "proposed dividend" and it cannot be contended that merely because proposed dividend is not shown in the accounts, that the accounts of Insurance and Banking Companies do not disclose a 'true and fair' view.
4. Since, however, the form of Balance Sheet prescribed in Part 1 of Schedule VI requires "proposed dividends" to be shown under "Provisions",

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and since paragraph 3(xiv) of Part II of the same Schedule requires the “proposed dividends” to be disclosed, the Council is of the opinion that, though on correct accounting principles, the proposed dividend does not become a liability for reasons mentioned above, the attention of the shareholders would have to be drawn to the fact that no appropriation has been made for the proposed dividend, the amount in respect of which should be specified.

5. The Council, therefore, recommends that the fact that provision for proposed dividend has not been made should be disclosed by means of a note in the accounts and that the auditor should refer to the note in his report and make his report subject thereto.