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Audit & Assurance

Amendments to Schedule III Under Companies Act, 2013

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Background & Coverage

Amendments to Schedule III Under Companies Act, 2013

The Ministry of Corporate Affairs ("MCA") vide Notification dated 24th March 2021 has amended Schedule III to the Companies Act, 2013 ("the Act"), which shall be effective from 1st April 2021. The notification also incorporates various additional disclosure requirements to be complied with while preparing the financial statements.

Majority of the amendments to Schedule III to the Act have been brought in as an alignment to the amendments covered in the newly issued Companies (Auditors and Report Order), 2020 ("CARO") and the Companies (Indian Accounting Standards) Amendment Rules, 2020. It is noteworthy that these amendments will apply even if CARO is not applicable to the company. Since the amended Schedule III is effective from 1st April 2021, the interim financial information reporting would also need to be in compliance with amended Schedule III. The amendments are intended to enhance the quality of financial reporting and will emphasise more oversight on Governance, facilitate better analysis of financial discipline/solvency of the companies and give early signal for Money laundering activities, if any. Below is the glimpse of Amendments.

Amendments	Number of Amendments		
	Division I	Division II	Division III
General Instructions	1	1	-
Balance sheet	1	2	-
General Instructions for Balance sheet	14	15	6
Statement of Profit and loss	1	-	-
General Instructions for Statement of profit and loss	4	4	3
Statement of changes in equity	Not Applicable	Amended	Amended
Additional Regulatory Information Reporting	14	16	16

Applicability – For the Financial Years beginning on or after 1st April 2021.

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Rounding off Provision	Substitution	<ul style="list-style-type: none"> Change in basis for Rounding off "Turnover" substituted by "Total Income". 	✓	✓	
Rounding off Provision	Substitution	<p><u>Application of Rounding off</u></p> <ul style="list-style-type: none"> "May" substituted by "Shall". Now Companies must round off the figures appearing in Financial Statements as per conditions specified, hitherto it was optional. 	✓		
Non-Current Assets	Addition (Face of Balance Sheet)	The words "and Intangible assets" inserted after Property, Plant & Equipment ("PPE") under sub-heading non-current assets.	✓		
Non-Current Assets	Substitution (Face of Balance Sheet)	The words "Tangible Assets" substituted by "PPE".	✓		
Share capital	Additional Disclosure	Detailed disclosure of shares held by Promoters are required to be given in tabular form. (Names, No. of Shares, % of Total Shares and percentage change during the year)	✓	✓	✓
Trade Payables	Additional Disclosure	Ageing Schedule of MSME & other Trade Payables (with further bifurcation into undisputed and disputed Trade payables) for amount outstanding from due date of payment for a period - less than 1 year, 1 to 2 years, 2 to 3 years, and more than 3 years.	✓	✓	✓

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Current maturities of long-term Borrowings	Regrouping	Current Maturities of Long-Term Borrowings are now placed under sub-heading "Short Term borrowings (AS) / Current Liabilities – Borrowings" (IND AS) and removed from sub heading "Other Current Liabilities".	✓	✓	
Security Deposits	Regrouping	Security Deposits are now placed under sub heading "Other non-current assets (AS) / Other Financial assets" (IND AS) and removed from sub heading "Long-term loans and advances."	✓	✓	
PPE & Intangible Assets	Additional Disclosure	Additional Disclosure for amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of assets) is to be given.	✓	✓	✓
Trade Receivables	Additional Disclosure	Ageing schedule of current and non- current trade receivables (with further bifurcation into undisputed and disputed) for amount outstanding from due date of payment, for a period - less than 6 months, 6 months to 1 year, 1 to 2 years, 2 to 3 years, and more than 3 years. Ageing of unbilled dues also to be given.	✓	✓	✓
Utilisation of Borrowings	Additional Disclosure	Where the company has not used the borrowings from banks and financial institutions ("FIs") for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where such borrowings have been used.	✓	✓	✓

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
General Instructions (Intangible assets added into the ambit of disclosure)	Addition	If, in the opinion of the Board, any of the assets other than PPE, Intangible assets and non-current investments do not have a value on realisation in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated.	✓		
Title deeds of Immovable Property not held in name of the Company	Additional Regulatory Information Reporting	<ul style="list-style-type: none"> – Title deeds of immovable property (other than property taken on lease by duly executed lease agreement) not held in the name of the company – Format specified in line with CARO. – Disclosure to the extent of company's share where such property is jointly held. 	✓	✓	✓
Revaluation of PPE	Additional Regulatory Information Reporting	Where company has revalued its PPE, the company shall disclose as to whether the revaluation is based on the valuation by a Registered Valuer ("RV") as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.	✓	✓	✓
Revaluation of Intangible assets	Additional Regulatory Information Reporting	Where the Company has revalued its Intangible assets, the company shall disclose as to whether the revaluation is based on valuation by a RV as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.		✓	✓
Loan given to Related Party	Additional Regulatory Information Reporting	Detailed disclosures shall be made for loans and advance granted to promoters, directors, KMPs and the related parties (as defined under the Act), either severally or jointly with any other person.	✓	✓	✓

Summary of Amendments

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Capital-Work-in Progress ("CWIP")	Additional Regulatory Information Reporting	<ol style="list-style-type: none"> Detailed Ageing schedule of CWIP for a period - less than 1 year, 1 to 2 years, 2 to 3 years, and more than 3 years. Details of CWIP whose completion is overdue or has exceeded its cost compared to its original plan, in such cases, the completion schedule for a period less than 1 year, 1 to 2 years, 2 to 3 years and more than 3 years shall be given. Details of projects where activity has been suspended shall be given separately. 	✓	✓	✓
Intangible assets under development	Additional Regulatory Information Reporting	<ol style="list-style-type: none"> Detailed Ageing schedule of Intangible assets under development for period less than 1 year, 1 to 2 years, 2 to 3 years, and more than 3 years to be given. Details of Intangible assets under development whose completion is overdue or has exceeded its cost compared to its original plan, in such cases, the completion schedule for period less than 1 year, 1 to 2 years, 2 to 3 years and more than 3 years shall be given. Details of projects where activity has been suspended shall be given separately. 	✓	✓	✓
Details of Benami Property held	Additional Regulatory Information Reporting	Detailed disclosure of whether any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder.	✓	✓	✓

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Enhanced disclosure of Security of Current assets given for Borrowings from Banks or FIs	Additional Regulatory Information Reporting	Company who has borrowings from Banks or FIs against security of its current assets shall disclose whether quarterly returns or statement of current assets filed with bank or FIs are in agreement with books of accounts or not and if not shall also disclose reconciliation with reason for material discrepancies if any.	✓	✓	✓
Willful Defaulter	Additional Regulatory Information Reporting	Company which is declared willful defaulter by any bank or FIs, or other lender requires to disclose date of such declaration and details of defaults.	✓	✓	✓
Relationship with Struck off Companies	Additional Regulatory Information Reporting	Company shall disclose the details of transactions including balance outstanding for transactions done with the Companies Struck Off either under section 248 of the Act or under Section 560 of Companies act 1956.	✓	✓	✓
Charges with Registrar of Company (ROC)	Additional Regulatory Information Reporting	Details of pending registration or satisfaction of charges with ROC beyond the statutory period and reason for delay are to be given.	✓	✓	✓
Compliance with number of layers of companies	Additional Regulatory Information Reporting	Disclosure for Non-Compliance of Companies (Restriction on number of Layers) Rules, 2017 is to be given.	✓	✓	✓

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Ratios	Additional Regulatory Information Reporting	Company shall give various ratios as specified with explanation of items included in numerator and denominator for computing the ratios along with explanation for any change in the ratio by more than 25% as compared to the preceding year.	✓	✓	✓
Compliance with approved Scheme(s) of Arrangements	Additional Regulatory Information Reporting	The Company shall disclose that the effect of any Scheme of Arrangements as approved by the Competent Authority in terms of sections 230 to 237 of the Act have been accounted for in the books of account of the Company "in accordance with the Scheme" and "in accordance with accounting standards" and deviation in this regard shall be explained.	✓	✓	✓
Utilisation of Borrowed funds and share premium	Additional Regulatory Information Reporting	<p>(a) Company must disclose the details of such advances or loans given or invested funds with an understanding with beneficiary that:</p> <ul style="list-style-type: none"> – the said funds will be further lent or invested, either directly or indirectly, in other person or entities by or on behalf of company OR – the said funds shall be used for providing guarantee or security etc. or on behalf of ultimate beneficiaries. <p>(b) Company must disclose details of any fund received from person(s) or entity(ies), including foreign entities (Funding Party) with an understanding that:</p> <ul style="list-style-type: none"> – the said funds will be further lent or invested, either directly or indirectly, in other person or entities by or on behalf of Funding Party. – the said funds shall be used for providing guarantee or security etc. or on behalf of ultimate beneficiaries. 	✓	✓	✓

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Non-Current Lease Liability	Regrouping	Lease Liability is to be separately shown under heading: Non -Current Liabilities (a) Financial Liabilities i. Borrowings I. Lease Liabilities		✓	
Current Lease Liability	Regrouping	Lease Liability is to be separately shown under heading: Current Liabilities (a) Financial Liabilities i. Borrowings I. Lease Liabilities		✓	
Bank Deposits more than 12 months maturity shall be disclosed under "Other Financial assets"	Amendment	Head wise disclosure of Other Financial Assets to be given as under: i. Security Deposits ii. Bank deposits with more than 12 months maturity iii. others (to be specified)		✓	
Fair Value of Investment Property	Additional Regulatory Information Reporting	The Company shall disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a RV as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.		✓	✓
Undisclosed Income	Amendment	Undisclosed Income, if any, voluntarily disclosed under any scheme or identified by Income tax authorities under any tax assessments under the Income Tax Act shall be disclosed.	✓	✓	✓

Amendments to Schedule III

Particulars	Type of changes	Description of Amendment	Division I* Accounting Standards (AS)	Division II** Indian Accounting Standards (IND AS)	Division III*** (NBFC)
Corporate Social Responsibility ("CSR")	Amendment	Companies covered under Section 135 of the Act must give details of CSR Compliances w.r.t. amount to be spent as per provisions and CSR Activities actually carried out by the Company, stating reasons for shortfall in amount to be spent, if any.	✓	✓	✓
Crypto Currency or Virtual Currency	Amendment	Where the Company has traded or invested in Crypto Currency or Virtual Currency, following shall be disclosed: <ul style="list-style-type: none"> – Profit or Loss on such trading/investment – Amount of such currency held as on date of balance sheet – Deposits or Advances accepted / given for the trading or investing in such currency. 	✓	✓	✓
Revenue from operations	Addition	Additional disclosure for "Grants or donations received" is required to be given by Section 8 Companies only.	✓	✓	

* **Division I** - Guidelines for entities whose financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006, as amended.

** **Division II** - Guidelines for entities whose financial Statements are required to comply with the Companies (Indian Accounting Standards) Rules, 2015, as amended.

*** **Division III** - Guidelines for Non- Banking Financial Companies (NBFCs) whose financial statements are required to comply with Companies (Indian Accounting Standards) Rules, 2015, as amended.

Amendments in Statement of changes in Equity – Applicable to Division II and III

Equity Share Capital (For both Current and Previous Reporting Periods)

Balance at the beginning of the current reporting period	Changes in Equity Share Capital due to prior period errors	Restated balance at the beginning of the current reporting period	Changes in equity share capital during the current year	Balance at the end of the current reporting period



New Insertion

1. Undisclosed Income

Company shall give details of any transaction not recorded in the books of account that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Commentary:

- The purpose of above additional disclosure requirement is to bring more transparency by providing the specified details and to align with the amended reporting requirements under clause (viii) of CARO.

- This disclosure in the financial statements should be sufficient to enable the users understand the impact of such transactions.
- Disclosure of above information is important for stakeholders and auditors as audit procedures may not always unearth the transactions which are conducted outside the books of account.
- There are instances wherein declaration of such undisclosed income is filed with the Tax authorities, taxes are offered to be paid on such declared income and reported directly in the Computation of Income, without disclosing the same in the books of account. Now in case of such declarations made by the company, it can be concluded that such income is earned out of the books. Thus,

company needs to now report such income in the books of account by passing the appropriate accounting entries and provide prescribed disclosure in connection thereof.

- Such disclosure would also assist various other tax and regulatory authorities in taking informed view and appropriate measures in connection with undisclosed income.
- There would also be question marks on the effectiveness of Internal Financial Controls. Such undisclosed income may also trigger fraud reporting and may constitute prior period error as well.

2. Corporate Social Responsibility

Details of CSR Compliances under the Companies Act w.r.t. amount to be spent as per provisions and CSR Activities actually carried out by the Company including stating reasons for shortfall in amount to be spent, if any, shall be duly disclosed.

Commentary:

- The above change is undertaken in response to amendments covered under Clause (xx) of newly issued CARO, having substantial changes in the reporting requirements by Auditors. Such disclosure requirement hitherto, was not there in pre-amended schedule III.
- The additional disclosure for total amount of shortfall with reasons will give useful information to the Stakeholders and, the level of compliances made by the company.

3. Details of Crypto Currency or Virtual Currency if company has traded or invested during the year such as:

- Profit or Loss on such trading/investment;
- Amount of such currency held as on date of balance sheet;
- Deposits or Advances accepted / given for the trading or investing in such currency.

Commentary:

- Cryptocurrency market is increasing gradually. Investors attracted by higher returns, are investing, or looking to invest in cryptocurrencies. In view of developments and Government's intention in drafting policies w.r.t. Crypto/Digital currencies, the above details may have been now brought into the ambit of disclosure in Financial Statements of the companies dealing into it.
- Disclosure of dealings in cryptocurrencies was also necessary because there have been complaints in the past about few companies luring investors with promise of high returns through investing in cryptocurrencies and there were also instances of people losing money. It is intended that if companies are indulging in trading in cryptocurrencies, there should be transparency through adequate disclosure about the magnitude and how much profit or loss is being made/incurred through such trading activities.
- As there is no guidance for accounting of cryptocurrency and the cryptocurrency legislation is not yet notified, each company may adopt different accounting method, which would result in variations, hence prescribed disclosure is imperative to enable users to understand its impact.

Applicable to Division I, II & III (unless specifically mentioned)

1. Title Deeds of Immovable Property not held in the name of Company.

Details of Title deeds of all Immovable Properties not held in name of the Company in specified format.

- Coverage: All immovable properties other than properties taken on lease by company after duly executing lease agreements.
- Disclosure includes Gross Carrying Value, Name of holder of Title deeds and disclosure of the fact whether the title deed holder is the Promoter, Director or Relative of Promoter/Director or employee of Promoter/Director. (Relative means relative as defined under section 2(77) of the Act).
- In case of joint ownership, details to be given to the extent of Company's share in the property.

Commentary:

- The above change is undertaken in response to amendments covered under Clause(i)(c) of newly issued CARO, having substantial changes in the reporting requirements by Auditors. Such corresponding disclosure requirement, hitherto, was not there in pre-amended schedule III.
- In these cases, it is important to note that even if CARO is not applicable to the company, the Company has to ensure that this prescribed disclosure is duly made in the Notes to Account of the Financial Statements of the Company.
- The Company is required to identify immovable properties and verify the title deeds of such immovable properties. Transfer

Development Rights (TDRs), plant and machinery embedded in land, etc., are not considered as an immovable property.

- Following documents mainly constitute title deeds of the immovable property: Registered sale deed / transfer deed / conveyance deed, etc. of land, land & building together (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee), etc. purchased, allotted, transferred by any person including any Government, government authority / body/ agency / corporation, etc. to the company.
- The Company should verify the title deeds available and reconcile the same with the PPE register. The scrutiny of the title deeds of the immovable property may reveal several discrepancies between the details in the PPE register and the details available in the title deeds. This may be due to various reasons which need to be examined.

2. Revaluation of PPE by Registered Valuer

If the Company has revalued its PPE (including Right of Use Assets), the Company shall disclose as to whether the revaluation is based on the valuation by a RV as defined under rule 2 of the **Companies (Registered Valuers and Valuation) Rules, 2017**.

Commentary:

- The above change is undertaken in response to amendments covered under Clause (i)(d) of newly issued CARO, having substantial changes in the reporting requirements by Auditors. Such corresponding disclosure requirement, hitherto, was not there in pre-amended schedule III.

- This requirement has also emerged as a result of introduction of the New Valuation regime under the Act, wherein w.e.f. 01st February 2019, only a RV can undertake valuation required under the provisions of Companies Act. Consequently, if the valuation is not done by the RV, it would be treated as non-compliance of law and there could be adverse consequences in respect thereof.
- The Company has to consider in line with the principles laid down in AS 10 (Revised) and Ind AS 16, that if a single item of PPE is revalued, then the entire class of PPE to which that item belongs should be revalued.
- Hitherto, there was no such requirement. Now, the companies have to get Valuation done only from RV in order to comply with this amendment.

3. Loans or Advances granted by Company

Where Loans or Advances in the **nature of loans** are granted to **promoters, directors, KMPs** and the **related parties** either severally or jointly with any other person, the company shall disclose that whether the same are:

- repayable on demand **or**
- without specifying any terms or period of repayment.

Commentary:

- The above change is undertaken in response to amendments covered under Clause (iii)(f) of newly issued CARO, having substantial changes in the reporting requirements by Auditors. Such corresponding disclosure requirement, hitherto, was not there in pre-amended schedule III.

- This disclosure provide overview to the stakeholders regarding the amounts given to Related parties as loan or advance out of total loans and advances.
- The Company is required to disclose the above information w.r.t. amount of loan or advance in the nature of loan outstanding and percentage of such loan or advance to the total amount of loans or advances.
- Most of the Companies were giving loans without having any specified terms and conditions w.r.t. repayment terms, repayment schedule i.e., it is deemed that such loan is repayable on demand. Henceforth this condition, if prevalent, will be specifically outlined in disclosure that the Loan is repayable on demand.
- Exposure towards loans and advances granted to **promoters, directors, KMPs** and the **related parties** as against total exposure will now be evident from the Financial Statements.

4. Capital Work in progress

- **CWIP ageing schedule** shall be given w.r.t. Project in progress and Projects temporarily suspended, if any.
- Further, **CWIP Completion schedule** shall be given for those CWIP, whose completion is overdue or has exceeded its budgeted cost.
- Details of projects where activity has been suspended shall be given separately.

Commentary:

- Ageing schedule is required to be provided from F.Y 2021-22. However, for comparative figures, ageing schedule will also be

required for F.Y 2020-21. Therefore, it would be advisable to maintain proper details for F.Y 2020-21.

- The company will have to maintain project wise completion details along with actual cost incurred in comparison to budgeted cost. Earlier, there were lapses in maintaining proper records of Project budget allocation, completion, and resource allocation.
- The ageing schedule will also help the management to take necessary decision for the accounting treatment for those CWIP identified as abandoned or suspended since long time but still included under CWIP.
- By providing the above information, stakeholders will be able to analyse the funds of the company blocked in the CWIP, its ageing and status of completion of such CWIP.
- If there is no movement in CWIP since more than 2 or 3 years, Management will have to decide on whether the impairment indications exist, whether asset will actually be created out of the same or it has to be written off in the Statement of Profit & Loss. This will again depict the quality of CWIP at every stage.

5. Intangible Assets under development

- Disclosures are same as they are for CWIP
- **Intangible assets under development aging schedule** shall be given w.r.t. Project in progress and Projects temporarily suspended if any.
- Further, **Intangible assets under development Completion schedule** shall be given for those intangible assets under

development, whose completion is overdue or has exceeded its budgeted cost.

- Details of projects where activity has been suspended shall be given separately.

Commentary:

- Ageing schedule is required to be provided from F.Y 2021-22. However, for comparative figures ageing schedule will also be required for F.Y 2020-21 and therefore, it would be advisable to maintain proper details for F.Y 2020-21.
- The company will have to maintain project wise completion details along with actual cost incurred in comparison to budgeted cost in a more scientific manner. Earlier, there was not enough focus on maintaining proper records in sophisticated and scientific manner of asset budget allocation, completion, and resource allocation.
- There are certain conditions prescribed in the accounting standards whereby Intangible assets can be recognised. If those conditions are not met, the same are to be charged off to the Statement of Profit & Loss. When the company recognises any asset as intangible asset under development, the recognition of intangible asset should be done within reasonable time limit. Even after reasonable time limit, asset is not created, there will be question on the quality of asset upon its mandatory disclosure in financial statements. The delay in recognition may reduce the credibility of financial statements. It may also give impression that the recovery of such assets may not be possible and exaggerated value of such assets or Net worth may be reflected in the financial statements.

- The ageing schedule will also help the management to take necessary decision for the accounting treatment for those CWIP identified as abandoned or suspended since long time but still included under "Intangible Asset under Development".
- By providing the above information, stakeholders will be able to analyse the funds of the company blocked in the Intangible Asset under Development, its ageing and status of completion of asset development.

6. Details of Benami Property held

Disclosure required when:

- Any proceedings have been **initiated**; or
- Any proceedings are **pending**, under the Benami Transactions (Prohibition) Act, 1988 and the rules made thereunder.

What is required to be disclosed?

- Details of such Benami Property including year of acquisition;
- Purchase consideration paid;
- Beneficiaries of property;
- Group under which booked in Balance Sheet, if included in Books of account;
- If not accounted for in books of account, the fact shall be stated with reasons;
- Details of ongoing proceedings against the company either acting as a better or transferor of property;
- Nature of proceedings, Status of the case and Company's point of view on the same.

Commentary:

- The purpose of above additional disclosure requirement is to bring more transparency, eradicate the malaise of black money transactions and sources of illegal funds, by providing the specified details and to align with the amended reporting requirement by Auditors under Clause (i)(e) of CARO.
- Depending on the merits of each case / proceeding, the company is required to evaluate whether the liability is required to be disclosed as "contingent liabilities" or whether provisions are required to be made.
- This disclosure will convey the stakeholders such information which were earlier never known to them even in case where proceedings under Benami Property Act were ongoing.
- The problem will arise when such properties are genuinely held by the company since long, but to some error or technical glitches, the title deeds are not transferred into the name of the company. The important issue that may arise is, the title of the disclosure itself states "Details of Benami Property held". In this case when there is no proceeding going on under the Benami Act but still title deed isn't in the name of company. Whether such property is to be disclosed in the above head of disclosure? Such disclosure would be tough for Management and state that the property held is Benami Property, though the fact is the other way round. Necessary clarification from MCA with regards to above situation would be desirable.

7. Quarterly returns / statements filed with the Banks/FIs.

Where the Company has availed borrowings against security charges of its current assets, the company has to disclose whether the Quarterly returns or current assets statements filed by it with the Banks/FIs are in agreement with the books of account or not.

- If yes, the fact shall be disclosed.
- If no, the reconciliation and reasons for material discrepancies, if any, has to be disclosed.

Commentary:

- The above additional disclosure requirement is undertaken in response to amendments covered under Clause (ii)(b) of newly issued CARO, having substantial changes in the reporting requirements by Auditors. Such corresponding disclosure requirement, hitherto, was not there in pre-amended schedule III.
- The reconciliation is to be prepared with reference to difference in value of stock, outstanding amounts of debtors/creditors, ageing analysis of debtors, etc., between the books of account and the returns/statements submitted to banks/FIs.
- It has been observed in the past that the Stock Statements, Receivables, and payables statements were submitted by the companies to banks merely on adhoc basis to comply the banks' stipulations to continue to avail loan facilities and no reconciliation was maintained by the company of quarterly returns with the books of account. There was no specific disclosure in Financial Statements. Now the same is brought into as additional disclosure requirement.

- This is not a matter of concern in case of large companies or listed companies, wherein their Quarterly financial results are prepared. However, in case of small companies where financial statements are not prepared on quarterly basis, it will become difficult task to prepare reconciliation.
- In CARO, the responsibility is cast upon Auditors. With this amendment in Schedule III, the said responsibility is now also cast upon Management. Management has to give confirmation in the notes to account of their financial statements and based on this, Auditors will form opinion or Comment on the same.

8. Willful Defaulter

If the Company is declared as Willful defaulter in accordance with the guidelines in this respect issued by RBI, banks or FIs, following is to be disclosed:

- Date of declaration as willful defaulter;
- Details w.r.t. amount and nature of default.

Commentary:

- This is one of the Challenging disclosures by the company as it may also affect the image of the company to a great extent.
- The purpose of above additional disclosure requirement is to bring more transparency by providing the specified details and to align with the amended reporting requirement by Auditors under clause (ix) of CARO.
- Companies avail funds from Banks/FIs on the basis of audited financial statements at regular intervals. In order to regulate and restrict access to the wilful defaulters in the market further, many regulatory authorities are striving to formulate certain

guidelines and conditions. This additional disclosure seems part and parcel for the drive to eradicate further moves of wilful defaulters and transactions by them.

- Reserve Bank of India has prescribed a transparent mechanism for identification of wilful defaulters. RBI Circular defines the term 'lender' to cover all banks/FIs to which any amount is due, provided it is arising on account of any banking transaction, including off balance sheet transactions such as derivatives, guarantee and letter of credit.
- This disclosure will provide straight information to stakeholders about the fact that the company has been categorised as Willful defaulter.

9. Transactions with Struck off Companies

In case, the company has entered into any **transactions with** other company, **related or non-related**, which is already **struck off** under the provisions of Companies Act, the company shall disclose details of such transactions with struck off companies as per specified format.

Commentary:

- Struck off company is barred from functioning from the date of publication of notice in Official Gazette by Registrar. No bank transactions can be initiated as the bank accounts are frozen from the date of Strike off. Even after so many restrictions and penalty imposed under the laws, many struck off companies are still functioning and entering into transactions. To curb the same, the Management of the company is now required to identify struck off company, if any, whom it is dealing with and report the transactions during the year along with outstanding

balances receivable / payable from/to such struck off companies.

- It will be big task for companies to identify the transaction with any struck off companies.
- The clarification from MCA is desirable as to the consequences the company is exposed to with regard to transactions entered into with Struck off companies. It also needs to be clarified whether such transactions would be void ab initio and how the transaction would be viewed if, for example, the company's name was struck off after the sale has been made but before the payment has been received from such company.

10. Charge Creation/Satisfaction on MCA

The Company shall also disclose **Creation or Satisfaction of Charges** which are **yet not registered** with MCA beyond the statutory time limit with details of charges along with reasons for the delay.

Commentary:

- The Company is now required to pay more attention with regards to pending Charge Creation as well as subsequent satisfaction. In case it is brought to notice that Charge is not created or not satisfied beyond specified time limits, then disclosure in financial statements is must along with reason why the same is delayed.

11. Compliance with number of layers of Companies

Disclosure w.r.t Non-Compliance of Companies (Restriction on number of Layers) Rules, 2017:

- Name and CIN companies beyond the specified layers; and

- relationship/extent of holding in such downstream companies.

Commentary:

- The Companies are required to comply with the provisions of two Sections of the Act, i.e., proviso to Section 2(87) and Section 186(1) with respect to restrictions in number of layers of subsidiaries with certain exemptions. These provisions / restrictions are to prohibit unauthenticated diversion and siphoning of funds.
- Proviso to Section 2 (87) of Companies Act 2013 states that such class or classes of holding companies shall not have layers of subsidiaries beyond such number as may be prescribed. These numbers are prescribed in The Companies (Restriction on Number of Layers) Rules, 2017. The said Rules prescribe that other than specified companies, no company shall have more than 2 layers of subsidiaries.
- In case, the company has investment in number of subsidiaries beyond the prescribed limits, the fact needs to be disclosed.
- The Company and its management are also punishable as per the provisions of these Rules in case of non-compliance/default.

12. Following ratios are required to be disclosed with reasons for variance beyond 25% as compared to previous year:

Division I & II:

- Current Ratio
- Debt-Equity Ratio
- Debt Service Coverage Ratio

- Return on Equity Ratio
- Inventory turnover ratio
- Trade Receivables turnover ratio
- Trade payables turnover ratio
- Net capital turnover ratio
- Net profit ratio
- Return on Capital employed
- Return on investment

Division III:

- Capital to Risk-weighted assets ratio (CRAR)
- Tier I CRAR
- Tier II CRAR
- Liquidity coverage ratio

Commentary:

- The purpose of above additional disclosure requirement is to bring more transparency by providing the specified details and to align with the amended reporting requirement by Auditors under Clause (xix) of CARO.
- The comparative ratios of two periods must be made by the company and variances of more than 25% have to be separately disclosed with reasons for such variances.
- The companies will provide explicit disclosure in the financial statements that whether material uncertainty exists about the company's capability of meeting its liabilities existing at the

date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

- It provides significant information to stakeholders regarding the performance of the business of the company, its liquidity & solvency position and financial health. It also helps in comparison of two or more companies under same industry. Disclosure of above ratios will also exhibit the level of efficiency and effectiveness of Company's operations and overall management.

13. Compliance with approved Scheme(s) arrangements

Disclosure is to be made that the effect of such approved Scheme of Arrangements has been accounted for in the books of account of the Company 'in accordance with the Scheme' and 'in accordance with accounting standards. In case of any deviation, the same needs to be explained.

Commentary:

- Following are the broad sections under the Act governing various scheme of arrangements under Chapter XV – Compromises, Arrangements and Amalgamations under the Act:
- Section 230 - Power to Compromise or Make Arrangements with Creditors and Members
- Section 231 - Power of Tribunal to Enforce Compromise or Arrangement
- Section 232: Merger and Amalgamation of Companies
- Section 233: Merger or Amalgamation of Certain Companies
- Section 234: Merger or Amalgamation of Company with Foreign Company

- Section 235: Power to Acquire Shares of Shareholders Dissenting from Scheme or Contract Approved by Majority
- Section 236: Purchase of Minority Shareholding
- Section 237: Power of Central Government to Provide for Amalgamation of Companies in Public Interest
- The approval of competent regulatory authority is prerequisite for any of above Scheme of arrangements to be legally effective. On approval of the arrangements by the competent authority, the results of arrangements are to be given effect to in the books of account of the company and fact of such arrangement with complete details needs to be disclosed. If the accounting effect given is not in accordance with the approved arrangement, the deviation needs to be disclosed along with justification in respect thereof.

14. Utilisation of Invested Funds, Borrowed Funds and Share Premium:

Where company has **Advanced, Loaned, or Invested funds** either out of borrowed funds, share premium or any other funds to any other person or entity incl. foreign entity (Intermediary) with the understanding that said Intermediary shall **directly or indirectly lend or invest** in other persons or entities in any manner by or on behalf of company (ultimate beneficiary) **or provide guarantee, security** or like, to or **on behalf of Ultimate beneficiary**, following shall be disclosed:

- date and amount of fund advanced or loaned or invested in Intermediaries with details of each intermediary;
- date and amount of fund further advanced or loaned or invested by such intermediaries to other intermediaries or

ultimate Beneficiaries along with complete details of ultimate beneficiaries;

- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries;
- declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).

Where company has **received funds** from any persons or entities including foreign entities with the understanding that company shall directly or indirectly lend or invest or provide any guarantee, security, or the like, on behalf of fund providers (the parties to be funded or the parties to whom guarantee is being provided are identified either by the Funding Party or on any other person on behalf of Funding Party), then the company **shall disclose the following:**

- date and amount of fund received from Funding parties with complete details of each Funding party;
- date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries' or ultimate beneficiaries;
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries;
- declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the

transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).

Commentary:

- It appears that the above disclosure has been mandated in view of the fact that most corporate frauds were committed by diversion of funds to related parties. This disclosure will provide further details on the quantum of lending to related parties and also the materiality of such balances compared to total loans and advances.
- Funds borrowed for specific purpose if not used for purpose for which it was taken is required to be disclosed in the notes to accounts. For e.g.: Packing credit facility limit utilised to make Payment for advance towards purchase of P & M will have to be disclosed in the notes to accounts.
- There are 2 important criteria for reporting requirements:
 - ✓ when the Company has lent/received any funds with the understanding (whether in writing or otherwise), to directly or indirectly lend or invest in other person or entity or
 - ✓ when the Company has lent/received any funds to provide any guarantee or security or like on behalf of the funding party or ultimate beneficiaries.
- Disclosure is must by the management regarding the utilisation of borrowed funds. If there is no disclosure and there are certain borrowings which are used for the purpose of further lending and management has represented that no funds are advanced out of said borrowed funds, then it amounts to misrepresentation

by the Management. Auditors may also opine on such representations received from Management.

- Diversion of Funds has resulted into real loss of value not only to the Shareholders but also to the other Stakeholders. And this is the restrictive measure by way of declaration from Management of the Company to disclose whether it has advanced any borrowed funds to intermediary or has received any such instructions to lend further.

15. Trade Payables & Trade Receivables ageing schedule.

Companies are required to provide ageing schedule for trade payables due for the periodicity of 1 year, 1-2-year, 2-3 year & more than 3 years and for trade receivables due for the periodicity of less than 6 months, 6 months to 1 year, 1-2 years, 2-3 years, and 3 years or more.

Commentary:

- Ageing schedule is required to be provided from F.Y 2021-22. However, for comparative figures, ageing schedule will also be required for F.Y 2020-21 and therefore, it would be advisable to maintain proper details for F.Y 2020-21.
- Trade receivables are important component of Financial Statements and above disclosure will provide broad indicators of the health of the trade receivables.

The idea is to look into whether the old trade receivables/payables are actual transactions which are recoverable/payable and carried in the financial statements of the Company. There are instances, where recovery is not there since long, then it can be categorised as bad debts and has to be written off in the Statement of Profit & Loss and true and fair

view of overall receivables can be reflected through the Financial Statements.

- In case of payables which are long outstanding, and when there is no evidence that the corresponding party is not asking for payment and company is also not making payment, this may turn out to be fictitious transactions. Quality of Trade Payables will be revealed with such disclosures.
- Contract Assets ageing is not required to be disclosed as they are neither trade receivables nor unbilled revenue.
- There are additional requirements to bifurcate trade receivables and payables between undisputed and disputed categories. The word "dispute" is a matter of judgement based on facts & circumstances. It appears that mere reconciliation differences or disagreements would not amount to "dispute". There needs to be positive affirmation from either party about the denial of dues, in order to treat the same as dispute.

1. Fair valuation of Investment property by Registered Valuer

The Company must disclose whether Fair Value of Investment property as disclosed in the financial statements is based on Valuation obtained from the RV.

Commentary:

- There was no standardized formula for valuing these assets nor any proper regulatory framework governing the same.
- It is mainly the impact of the New Valuation regime under the Act, wherein w.e.f. 01st February 2019, only a RV can undertake valuation required under the provisions of Companies Act. Consequently, if the valuation is not obtained from the RV, the same may be treated as non-compliance and the company might have to face consequences for violating the provisions.

2. Revaluation of Intangible assets by Registered Valuer

The Company must disclose whether Revalued Intangible assets are stated in financial statements at a value based on Valuation obtained from the RV.

Commentary:

- There was no standardized formula for valuing these assets nor any proper regulatory framework governing the same.
- It is mainly the impact of the New Valuation regime under the Act, wherein w.e.f. 01st February 2019, only a RV can undertake valuation required under the provisions of Companies Act. Consequently, if the valuation is not obtained from the RV, the company might have to face consequences for violating the provisions.

These amendments to Schedule III are quite comprehensive and the companies require to put in considerable time and efforts in preparation and presentation of financial statements to attain compliance in respect thereof. The amendments though effective for financial periods beginning on or after 1st April 2021, the requirement to disclose comparative information would mean that the said details would be required to be compiled/maintained from April 1, 2020. Further, the exemption of application of CARO, to certain class of Companies, would not relieve them from complying to additional disclosures per these amendments.

Hence, it would be utmost desirable for the companies to engage themselves well before the reporting period and attune the personnel involved in accounting & financial reporting matters with clear understanding of requirements of amended Schedule III. It would only be apt if the companies begin conducting dry runs on financial statements compiled in accordance with the amended Schedule III which would help in early diagnosis of problems encountered and accordingly revamp their financial reporting systems, controls, and processes. This would avoid hurdles and hardships that may arise nearer to reporting date, in absence of desired preparedness.

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