CRITICAL ASPECTS OF FINANCIAL STATEMENTS

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Overview

Schedule III of the Companies Act, 2013 is divided in III Divisions

***Division 1*- ** Financial Statements for a company whose Financial Statements are **required to comply with the Companies (Accounting Standards) Rules, 2006;**

***Division II* -**Financial Statements for a company whose financial statements **are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015;**

Division III- Financial Statements **for a NBFC whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015**

Significant Amendments in Schedule III under CA-2013

- Depending upon the [*Total income*] of the company, the figures appearing in the Financial Statements [*shall*] be rounded off as given below:—

S.No	*Total income*	Rounding off
(a)	less than Rs. 100 crore	To the nearest hundreds, thousands, lakhs or millions, **or decimals thereof.**
(b)	Rs. 100 crore or more	To the nearest lakhs, millions or crores, **or decimals thereof.**

Section 2(91) as amended provides that "**turnover**" means the gross amount of revenue recognized in the profit and loss account from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a financial year;

*Meaning thereby **other income like interest, profit on sale of assets or investments, rent, etc. was not included earlier in the turnover now to be included in total income** for the purposes of applicability of other provisions of the Companies Act, 2013 like Section 135, small company,*

Significant Amendments in Schedule III under CA-2013

Balance Sheet: II. Assets (Non-Current Asset)

1(a) Property, Plant and Equipment *[and Intangible Assets]* (Inserted)

(*i*) [*Property, Plant and Equipment*] (Substituted for Tangible Assets)

General Instruction for Preparation of Balance Sheet

A. Share Capital

(m) *A company shall disclose Shareholding of Promoters* as below: (In addition to disclosure for more than 5% shaeholding)*

Shares held by promoters at the end of the year				*% Change during the year****
S. No	*Promoter name*	*No. of Shares***	*% of total shares*	
Total				

Promoter u/s 2(69): means a person—**(*a*)** who has been named as such in a prospectus or is identified by the company in the **annual return (MGT-7)** referred to in section 92; or **(*b*)** **who has control over the affairs of the company**, directly or indirectly **whether as a shareholder, director or otherwise**; or (*c*) in accordance with whose advice, directions or instructions the Board of directors of the company is accustomed to act:

Provided that nothing in sub-clause (*c*) shall apply to a person who is acting merely in a professional capacity;

Significant Amendments in Schedule III under CA-2013

Balance Sheet:

- **Short Term Borrowing**

[*(v) current maturities of Long-term borrowings shall be disclosed separately.*] (Inserted)

- **Trade payables due for payment**

The following ageing schedule shall be given for Trade payables due for payment:—

Particulars	Outstanding for following periods from due date of payment#				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) MSME					
(ii) Others					
(iii) Disputed dues – MSME					
(iv) Disputed dues – Others					

similar information shall be given ***where no due date of payment is specified in that case disclosure shall be from the date of the transaction. Unbilled dues shall be disclosed separately****;*]

Section 5(6) of IBC, 2016 states that **"dispute" includes a suit or arbitration proceedings relating to—**

- the existence of the amount of debt; or
- the quality of goods or service; or
- the breach of a representation or warranty

Significant Amendments in Schedule III under CA-2013

Balance Sheet:

- Property, Plant and Equipment &
- Intangible Assets
- *A reconciliation of the gross and net carrying amounts of each class of assets* ***at the beginning and end of the reporting period*** *showing additions, disposals, acquisitions through business combinations,* ***amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation & impairment losses/reversals shall be disclosed separately****.]* (Substituted)

Significant Amendments in Schedule III under CA-2013

Balance Sheet: Trade Receivable have been bifurcated into Current & Non Current

- **Other Non- Current Assets** *[(iv) For trade receivables outstanding, and [Inserted]*
- **Current Assets - Trade Receivable** ***(i)*** *following ageing schedule shall be given:*

Trade Receivables ageing schedule [Amount in Rs.]

Particulars	Outstanding for following periods from due date of payment#					
	Less than 6 months	6 months- 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) Undisputed Trade receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

*# **similar information shall be given where no due date of payment is specified, in that case disclosure shall be from the date of the transaction**. Unbilled dues shall be disclosed separately.*]

Substituted for Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated

Significant Amendments in Schedule III under CA-2013

Balance Sheet:

- *Where the* ***company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date****, the company shall disclose the details of* ***where they have been used****.* (Inserted)

- If, in the opinion of the Board, any of the assets other than Property, Plant and Equipment [*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**. (Inserted)

Significant Amendments in Schedule III under CA-2013

Balance Sheet:

Additional Regulatory Information

- ***Title deeds of Immovable Property not held in name of the Company***

  The company shall provide the ***details of all the immovable property*** *(other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee)* ***whose title deeds are not held in the name of the company*** *in format given below* ***and where such immovable property is jointly held with others,*** *details are required to be given to the extent of company's share.*

Relevant line item in the Balance sheet	***Description of item of property***	***Gross carrying value***	***Whether title deed holder is a promoter, director or relative# of promoter*/ director or employee of promoter/director***	***Property held since which date***	***Reason for not being held in the name of the company*****
Property, Plant, Equipment	*Land*	-	-	-	***also indicate if in dispute*
-	*Building*				
Investment property	*Land*				
-	*Building*				
Non-current asset held for sale	*Land*				
-	*Building*				
others (Trademark, Copy Rights, Patents, Shares, etc)					

Significant Amendments in Schedule III under CA-2013

Y. Additional Regulatory Information…….

- ***Where the Company has revalued its Property, Plant and Equipment**, the company **shall disclose as to whether the revaluation is based on the valuation by a registered valuer** as defined u/r 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.*
- *Following **disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties** (as defined under u/s 2(76) of the CA-2013, Read with Rule 3 and 4) <u>either severally or jointly</u> with any other person, that are:*

  *(a) **repayable on demand;** or **without specifying any terms or period of repayment***

Type of Borrower	*Amount of loan or advance in the nature of loan outstanding*	*Percentage to the total Loans and Advances in the nature of loans*
Promoter		
Directors		
KMPs		
Related Parties		

Significant Amendments in Schedule III under CA-2013

Meaning of Related Party [Under Section 2(76)]

Related party", with reference to a company, means—

(*i*) a director or his relative;

(*ii*) a key managerial personnel or his relative;

(*iii*) a firm, in which a director, manager or his relative is a partner;

(*iv*) a private company in which a director or manager ***[or his relative]*** is a member or director;

(*v*) a public company in which a director or manager is a director **[*and*] holds along with his relatives, more than 2% of its paid-up share capital**;

(*vi*) any body corporate whose Board of directors, MD or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;

(*vii*) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (*vi*) and (*vii*) shall apply to the advice, directions or instructions given in a professional capacity;

Significant Amendments in Schedule III under CA-2013

Meaning of Related Party [under Section 2(76)]……

[(*viii*) *any body corporate which is*—

(*A*) *a holding, subsidiary or an associate company of such company;*

(*B*) *a subsidiary of a holding company to which it is also a subsidiary; or*

(*C*) *an investing company or the venturer of the company;*

Explanation.—For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate;]

(*ix*) such other person as may be prescribed;

Rule 3 Related party.—For the purposes of section 2(76)(ix) of the Act, a director [*other than an independent director*] or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

Significant Amendments in Schedule III under CA-2013

Meaning of Relative [under Section 2(77)]……

"R*elative*", with reference to any person, means any one who is related to another, if—

(*i*) they are members of a Hindu Undivided Family;

(*ii*) they are husband and wife; or

(*iii*) one person is related to the other in such manner as may be prescribed;

Rule 4 Relative: A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:—

(1) Father: Provided that the term "Father" includes step-father.
(2) Mother: Provided that the term "Mother" includes the step-mother.
(3) Son: Provided that the term "Son" includes the step-son.
(4) Son's wife.
(5) Daughter.
(6) Daughter's husband.
(7) Brother: Provided that the term "Brother" includes the step-brother;
(8) Sister: Provided that the term "Sister" includes the step-sister.

[Rule 4 of *Companies* (*Specification of Definitions Details*) *Rules, 2014*.]

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

Capital-Work-in Progress (CWIP)

- *For Capital-work-in progress, following ageing schedule shall be given: CWIP aging schedule*

CWIP	***Amount in CWIP for a period of***				**Total***
	Less than 1 year	*1-2 years*	*2-3 years*	*More than 3 years*	
Projects in progress					
Projects temporarily suspended					

**Total shall tally with CWIP amount in the balance sheet.*

- ***For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP completion schedule shall be given**:***

CWIP	**To be Completed**			
	Less than1 year	*1-2 years*	*2-3 years*	*More than 3 years*
Project 1				
Project 2"				

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

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

Intangible assets

- *For Intangible assets under development, following ageing schedule shall be given:*

Intingable asset under Development	*Amount in CWIP for a period of*				**Total***
	Less than 1 year	*1-2 years*	*2-3 years*	*More than 3 years*	
Projects in progress					
Projects temporarily suspended					

**Total shall tally with the amount of intangible assets under development in the balance sheet.*

- For Intangible assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, following Intangible assets under development completion schedule shall be given**:

Intingable asset under Development	**To be Completed**			
	Less than1 year	*1-2 years*	*2-3 years*	
Project 1				
Project 2"				

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

Significant Amendments in Schedule III under CA-2013

Y. Additional Regulatory Information…….

(vi) Details of Benami Property held

Where any proceedings have been initiated or pending against the company *for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and the rules made thereunder, the company shall disclose the following:—*

- *(a)* ***Details of such property, including year of acquisition****,*
- *(b) Amount thereof,*
- *(c)* ***Details of Beneficiaries****,*
- *(d)* ***If property is in the books, then reference to the item in the Balance Sheet****,*
- *(e)* ***If property is not in the books, then the fact shall be stated with reasons****,*
- *(f)* ***Where there are proceedings against the company under this law*** *as an a better of* ***the transaction or as the transferor*** *then the details shall be provided,*
- *(g)* ***Nature of proceedings, status of same and company's view on same****.*

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

***Where the Company has borrowings from banks or financial institutions on the basis of security of current assets**, it shall disclose the following:—*

(a) *whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions **are in agreement with the books of accounts**.*

(b) ***if not, summary of reconciliation and reasons of material discrepancies**, if any to be adequately disclosed.*

Wilful Defaulter*

***Where a company is a declared wilful defaulter** by any bank or financial Institution or other lender, following details shall be given:*

(a) ***Date of declaration as wilful defaulter,***

(b) ***Details of defaults (amount and nature of defaults**),*

"wilful defaulter" here means a person or an issuer who or which is categorized as a wilful **defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the RBI.*

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

(ix) Relationship with Struck off Companies [LLPs not covered presently]

Where the company has any transactions with companies struck off u/s 248 of the CA- 2013 or section 560 of CA-1956, the Company shall disclose the following details:—

Name of struck off Company	***Nature of transactions with struck-off Company***	***Balance outstanding***	***Relationship with the Struck off company, if any, to be disclosed***
	Investments in securities		
	Receivables		
	Payables		
	Shares held by stuck off company		
	Other outstanding balances (to be specified)		

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

(x) Registration of charges or satisfaction with ROC

Where any charges for Registration for Creation or Modification or satisfaction yet to be registered with ROC beyond the statutory period, details and reasons thereof shall be disclosed.

(xi) Compliance with number of layers of companies

Where the company has not complied with the number of layers *prescribed u/s 2(87) of the Act read with Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies* ***beyond the specified layers*** *and* ***the relationship/extent of holding of the company in such downstream companies shall be disclosed****.*

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

(xii) Following Ratios to be disclosed:—

(a) Current Ratio,
(b) Debt-Equity Ratio,
(c) Debt Service Coverage Ratio,
(d) Return on Equity Ratio,
(e) Inventory turnover ratio,
(f) Trade Receivables turnover ratio,
(g) Trade payables turnover ratio,
(h) Net capital turnover ratio,
(i) Net profit ratio,
(j) Return on Capital employed,
(k) Return on investment.

The company shall ***explain the items included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year****.*

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

(xiii) Compliance with approved Scheme(s) of Arrangements

*Where any Scheme of Arrangements has been approved by the Competent Authority (NCLT/RD) in terms of sections 230 to 237 of the Companies Act, 2013, the Company shall **disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the Company <u>'in accordance with the Scheme'</u> and <u>'in accordance with accounting standards'</u>** and deviation in this regard shall be explained.*

Significant Amendments in Schedule III under CA-2013

Additional Regulatory Information…….

Uti*lisation of Borrowed funds and share premium:*

(A) Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall;

(i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries); or

(ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries;

the company shall disclose the following:—

(I) date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.

(II) 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 the ultimate beneficiaries.

(III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries

(IV) declaration that relevant provisions of the FEMA, 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the PMLA, 2002;

Significant Amendments in Schedule III under CA-2013

Y. Additional Regulatory Information…….

Utilisation of Borrowed funds and share premium:,,,,,,,,,,,,,,

(B) *Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall*

(i) *directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries); or*

(ii) *provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:—*

(I) *date & amount of fund received from Funding parties with complete detail of each Funding party.*

(II) *date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries alongwith complete details of the other intermediaries' or ultimate beneficiaries.*

(III) *date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries*

(IV) *declaration that relevant provisions of the FEMA 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the PMLA 2002*

Significant Amendments in Schedule III under CA-2013

Statement of Profit & Loss

General Instructions for Preparation of Statement of Profit and Loss

2.(A) In respect of a company **other than a finance company** revenue from operations shall disclose separately in the notes revenue from—

(ba) Grants or donations received (relevant in case of section 8 companies only); (Inserted)

Significant Amendments in Schedule III under CA-2013

Statement of Profit & Loss

General Instructions for Preparation of Statement of Profit and Loss

Additional Information

(*ix*) *Undisclosed income*

*The Company shall give **details of any transaction not recorded in the books of accounts 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;*** (Inserted)

Significant Amendments in Schedule III under CA-2013

Statement of Profit & Loss

General Instructions for Preparation of Statement of Profit and Loss

(x)Corporate Social Responsibility (CSR)

Where the company covered u/s 135 of the CA-2013, the following shall be disclosed with regard to CSR activities:—

(a) amount required to be spent by the company during the year,

(b) amount of expenditure incurred,

(c) shortfall at the end of the year,

(d) total of previous years shortfall,

(e) reason for shortfall,

(f) nature of CSR activities,

(g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,

(h) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately. (Inserted)

Significant Amendments in Schedule III under CA-2013

Statement of Profit & Loss

General Instructions for Preparation of Statement of Profit and Loss

(xi) Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:—

(a) profit or loss on transactions involving Crypto currency or Virtual Currency

(b) amount of currency held as at the reporting date,

(c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.] (Inserted)

THANK YOU