

Amendment to Schedule III of Companies Act, 2013

Additional disclosures in the financial statements



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Background

Year by year and day by day there has been an ever increasing stringency in the regulatory framework and disclosure requirements under various laws such as increased reporting in Tax Audit Report and detailed reconciliation in the GST Audit report. Now MCA vide notification dated 24th March, 2021 has further prescribed a list of numerous additional disclosure required in the financial statements by amending Schedule III of Companies Act, 2013. With the said amendment the financial reporting framework in India has gone momentous transformation while bringing in more transparency and objectivity in disclosing various facts and circumstances which might affect the decision making of the users of financial statements and also becoming a reference point for tax authorities. The amendments deals with disclosure relating to usage of funds borrowed and given, trade payables and receivables ageing, benami property, undisclosed income etc.

The amendments have been brought in Division I (Non-Ind AS), Division II (Ind AS) and Division III (NBFC) of Schedule III of Companies Act, 2013. This article is an attempt to cover all the major new inclusions that the companies (following Division I) will have to disclose with effect from 01st April, 2021.

Disclosure of Promoter Holdings

Earlier companies were required to disclose the following two details with respect to share capital reflecting the key shareholders and owners who were in a position to effect significant influence on the company's decisions:

- a) Details of Shareholder holding more than 5% of shares in the company.
- b) Details of the shares held by the company's holding, ultimate holding company or their subsidiaries or associates in the company.

Now in addition to the above disclosure, the Company will also have **to provide the shareholding details of the promoters*** in the following prescribed manner:

Shares held by the promoters at the end of the year				%Change during the year***
Sr. No	Promoter Name	No. of Shares**	% of total shares	

* Promoter as defined in S. 2(69) of Companies Act, 2013 means a person

(a) who has been named as such in a prospectus or is identified by the company in the annual return 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 (other than a person who is acting merely in a professional capacity).

** Details shall be given separately for each class of shares

*** Change to be computed by comparison of the shares held at the end of the year with the shares held at the beginning of the year. In case shares of any class issued for the first time than said comparison to be done with respect to the date of issue.

CGCA Comments:

Presently listed entities are required to publish promoter holding in compliance with the SEBI rules and regulations. However, Unlisted Companies (Private and Public) were required to disclose the names and shareholding of the promoters in MGT-7 only, which was not readily accessible to users of the financial statements. With the new requirement promoters (whether shares held or not) and their shareholding will be in public domain. The said amendment will put the listed and unlisted entities on equal footing in terms of disclosure of promoters and their shareholding.

Trade Payables Ageing

In addition detailed disclosures of MSME payables as required by S. 22 of MSME Act, 2006 companies are now required to report **trade payables ageing schedules** in the following prescribed manner:

Particulars	Overdue Period				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
(i) MSME					
(ii) Other than MSME					
(iii) Disputed Dues – MSME					
(iv) Disputed Dues – Others than MSME					

Overdue period to be calculated from the due date of payment specified in the contract or invoice. Further unbilled dues (provision for expenses) to be disclosed separately for which no ageing schedule is to be provided.

CGCA Comments:

Undisputed trade payables outstanding for more than 3 years will be the source of inquiry from income tax officers and tax auditors why the same should not be taxed u/s 41 of Income Tax Act, 1961.

Further trade payables outstanding for a period of 1 year will be scrutinized by GST authorities whether Input Tax Credit has been reversed or not.

Companies will now have to maintain contractual credit period for all the trade payables for providing the ageing schedule at year end.

Further, disputed payable has not been defined. Clarity is required what amounts to disputed payable for eg:

- i. Whether payable not confirmed by the party amounts to disputed payable?*
- ii. In case lower amount is confirmed by the party whether differential or entire payable is to be reported as disputed payable?*

In the absence of clarification management estimates and auditor's professional judgement will become significant for reporting and confirming the said trade payable disclosure.

Trade Receivables Ageing

Currently trade receivables is classified into less than and more than 6 months with further classification into good and doubtful debts. Now trade receivables are to be further **classified into disputed and undisputed and reported with detailed ageing** in the following prescribed format.

Particulars	Overdue Period					Total
	Less than 6 months	6 months – 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables – considered good						
(ii) Undisputed Trade receivables – considered doubtful						
(iii) Disputed Trade receivables – considered good						
(iv) Disputed Trade receivables – considered doubtful						

Overdue period to be calculated from the due date of payment specified in the contract or invoice. If no due date specified then overdue period to be calculated from the date of transaction.

Further unbilled revenue (accrued but not billed) to be disclosed separately for which no ageing schedule is to be provided.

CGCA Comments:

Undisputed considered good trade receivables outstanding for more than 3 years will be seen adversely by the investors and raise questions from auditors for provision of doubtful debt.

Companies will now have to maintain contractual credit period for all the trade receivables for providing the ageing schedule at year end.

Further, disputed receivable has not been defined. Clarity is required what amounts to disputed receivable for eg:

- i. Whether receivable not confirmed by the customer amounts to disputed receivable?*
- ii. In case lower amount is confirmed by the customer whether differential or entire receivable is to be reported as disputed receivable?*

In the absence of clarification management estimates and auditor's professional judgement will become significant for reporting and confirming the said trade receivable disclosure.

Property, Plant and Equipment and Intangibles

PPE Schedule

In the Property, Plant and Equipment Schedule **any changes in the carrying value of PPE due to revaluation (if change is 10% of more) needs to be disclosed separately** in the reconciliation schedule of gross and net carrying value of PPE. Depreciation and impairment loss/reversals related to such revaluation shall be disclosed separately.

Further, company should disclosed whether the any revaluation of its PPE is based on valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Title Deeds of the Immovable Property

The company shall provide the **details of all the immovable property (other than properties where the Company is 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 the company's share.

Relevant line item in the balance sheet	Description of item of Property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is promoter, director or relative of promoter / director or employee promoter / director#	Property held since which date	Reason for not being held in the name of the company%
PPE	Land	-	-	-	-	-
PPE	Building	-	-	-	-	-
Investment Property	Land	-	-	-	-	-
Investment Property	Building	-	-	-	-	-
PPE Retired from active use	Land	-	-	-	-	-
PPE Retired from active use	Building	-	-	-	-	-
Others	-	-	-	-	-	-

#Relative and Promoters as defined in Sec. 2(77) and Sec. 2(69) of Companies Act, 2013 respectively.

% Details of immovable property whose title is in dispute also needs to be reported.

Capital Work-In-Progress

a) For Capital-work-in progress, following ageing schedule shall be given:

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

b) For CWIP, *whose completion is overdue or has exceeded its cost compared to its original plan*, following CWIP completion schedule shall be given. Separate details to be given for project suspended.

CWIP	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

CGCA Comments:

Whether a project is overdue or exceeded its cost to be compared with Capex budget authorised by board. Auditors to now review Capex budget and business plan and opine on the same. Further, board will have to provide future plans for suspended projects for reporting and auditing purposes.

The above mentioned CWIP ageing disclosures and details of suspended projects will enable the users of the financial statements to make more informed investment decision.

Overdue project and ageing for a longer period might raise the question of impairment of CWIP assets, especially in the case borrowing cost is capitalized to the CWIP. Also capitalization of borrowing cost to be suspended in case of suspended projects.

Borrowings funds Disclosure

Terms & Conditions of borrowings

Where the Company has borrowings from banks and financial institutions then it shall disclose the following:

- a) Where any **charges or satisfaction is yet to be registered with the ROC** beyond the statutory period, details and reasons there off shall be disclosed
- b) If the borrowed funds **have not been utilised for the purpose for which it was taken**, at the balance sheet date then the company shall disclose where the said funds have been used.
- c) 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. If not, then summary of reconciliation and reasons of material discrepancies to be provided.

CGCA Comments:

Company will have to close the trial balance and then submit the quarterly and statements of current assets, inventory to the banks and financial institutions.

Banks and financial institutions will inquire with the management with reasons for material deviation as disclosed in the above mentioned disclosure. Such material deviation will have adverse remark in "Auditor's report on the Internal Financial Controls" and also on audit opinion in general.

Proper and detailed documentation to be maintained to substantiate the utilization of funds for the purpose for which it was borrowed.

Loans and advances granted

Details in tabular format to be given wherein *loans or advances are granted to promoters, directors, KMP's* and the related parties (as defined in Companies Act, 2013) either severally or jointly with any other person specifying whether:

- a) Repayable of demand or
- b) Without specifying any terms or period of engagement

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
Promoters		
Directors		
KMP's		
Related Parties		

CGCA Comments:

It is not clarified whether name of individual promoter, director etc. to given or total of promoter, director, etc.

Utilization of Borrowed funds and share premium

A. Disclosure in case funds advanced by the company under specified circumstances

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;

In the above cases, the company shall disclose the following: -

- a) date and amount of fund advanced or lent or invested in Intermediaries with complete details of each Intermediary.
- b) date and amount of fund further advanced or lent or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.
- c) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- d) 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).

B. Disclosure in case receipt of funds by the company under specified circumstances

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

In the above cases, the company shall provide the similar details as required in Point (A) above.

Key Ratios to be disclosed

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

a) Current Ratio
b) Debt-Equity Ratio
c) Debt-Service 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

CGCA Comments:

Ratio calculation and explanation in case change being more than 25% will provide the required information easily accessible to credit rating agencies, banks, financial institutions and other investors. Said disclosure is appreciated as this will make the financial statements more analytical in nature.

Earlier such analysis and explanations were part of other information in the annual report and hence unaudited. Now the ratios and explanations being part of financial statements, auditors will have to provide negative audit opinion in case the said explanations are materially misstated.

Though this will increase the user's confidence and reliance on the ratios and explanation, but whether providing an opinion on business reasons for significant change in the ratios within the scope of an audit??

Corporate Social Responsibility (CSR)

Where the company covered under section 135 of the companies act, 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.

Undisclosed Income to be reported

During the tax assessments under the Income Tax Act, 1961 (such as search or survey or any other relevant provisions of the Income Tax Act) company may surrender or disclose certain transactions as income which are otherwise not recorded in the books of accounts.

The Company shall provide details of such transactions and also state whether during the year the previously unrecorded income and related assets have been recorded in the books of account or not.

Willful Defaulter

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

- a) Date of declaration as willful defaulter,
- b) Details of defaults (amount and nature of defaults),

Willful defaulter here means a person or an issuer who or which is categorized as a willful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on willful defaulters issued by the Reserve Bank of India

Benami Property details

Where 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, 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 abetter 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.

Compliance with number of layers of companies

As per Companies (Restriction on number of Layers) Rules, 2017 no company shall have more than two layers of subsidiaries. The said restriction does not apply where investment is in wholly owned subsidiary or where the acquirer is a banking company, NBFC, insurance company or a government company

Where the company has not complied with the number of layers as mentioned above then it shall disclose the name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies.

Compliance with approved Scheme(s) of Arrangements

Where any Scheme of Arrangements has been approved by the Competent Authority 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 'in accordance with the Scheme' and 'in accordance with accounting standards' and deviation in this regard shall be explained.

Presentation and Nomenclature Changes

1. Under non-current assets heading changed from Property, Plant and Equipment to Property, Plant and Equipment **and Intangible assets**. Sub-heading changed from **Tangible Assets** to **Property, Plant and Equipment**.
2. Current maturity of long term borrowings is to be now reported under **short-term borrowings instead of other current liability**.
3. **Security deposits** given is to be now reported under other **non-current assets** instead of **long-term loans and advances**.
4. In the statement of profit and loss in the heading **“Total Revenue”** the word **“Revenue”** will be replaced with **“Income”** thereby resulting the heading as **“Total Income”**.

Rounding Off Criteria

1. Earlier company's **having turnover 100 Cr or more had an option** (i.e. non-mandatory) to round off the financial figures in the financial statements to lacs, millions or crores. Now the criteria has changed to 100 Cr of Total Income instead of Turnover and that too mandatory in nature.
2. Accordingly amended rounding off criteria for companies is as follows:

Total Income	Rounding Off
(a) Less than 100 Crores	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(b) 100 Crores or more	To the nearest lakhs, millions or crores, or decimals thereof

CGCA Comments:

Amending the rounding off criteria to mandatory in nature is to align the requirement with that Division II to Schedule III. Such rounded off figures will simplify the interpretation and analysis of financial information by the user of the financial statements.

Relationship with Struck off Companies

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 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
	Investment in Securities		
	Receivables		
	Payables		
	Other outstanding balances (to be specified)		

CGCA Comments:

Companies can check the status of the other company (Active or struck off) on MCA website for entities whose balance is outstanding for a longer duration and movement thereon.

In case of strike off, the company will have to write off or write back the asset and liability balances in its books of account.

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.

CGCA Concluding Remarks

Compilation and verification of the data would put onerous task not only on the Company but also on the auditors. Company will also have to prepare and disclose the additional data for the previous comparative year as well.

As per the notification amendments to Schedule III is effective from 01st April, 2021. However clarification is sought from MCA as to whether 01st April, 2021 would mean for the financial year starting from 01st April, 2021 or for any financials prepared on or after 01st April, 2021.

Considering that the above disclosure requirement is applicable to all companies (irrespective of threshold of business operations) would result in additional compliance burden on small and medium companies and would increase the cost of carrying out business operations in India.

It's high time that Government revisits its mantra of ease of doing business as such elaborate disclosure requirement in no manner will create ease of doing business in India for India Inc.

It would also be important for companies to review the above reporting requirements and start preparing for the information and also train their accounts staff, enabling them to meet the requirement in time bound and efficient manner.

Disclaimer:

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.