

REGULATORY UPDATE

**Amendments in
Schedule-III of the
Companies Act,
2013**



Amendments in Schedule III of the Companies Act, 2013 (w.e.f. 01.04.2021)

The Ministry of Corporate Affairs vide Notification G.S.R. 207(E) dt. 24th March 2021 has amended Schedule III to the Companies Act, 2013 which shall be effective from the 1st day of April 2021. The notification incorporates various additional disclosure requirements while preparing the financial statements of an entity which are covered under the three divisions of Schedule III of the Companies Act, 2013.

1. **Division I** - Guidelines for entities whose financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006.
2. **Division II** - Guidelines for entities whose financial Statements are required to comply with the Companies (Indian Accounting Standards) Rules, 2015.
3. **Division III** - Guidelines for Non- Banking Financial Companies (NBFCs) whose financial statements are required to comply Companies (Indian Accounting Standards) Rules, 2015

A majority of the amendments to Schedule III to the Companies Act, 2013 have been undertaken in response to the amendments covered in the newly issued Companies (Auditors and Report Order) 2020 and the Companies (Indian Accounting Standards) Amendment Rules, 2020.

In recent years, there have been substantial changes in the reporting requirement by the auditors, but no such corresponding amendments were made in Schedule-III for the preparation of the financial statements. Thus, to align the company's financial statements in accordance with the auditor's reporting requirements, the following amendments have been discussed in this write-up.

Part I - Amendments corresponding to General Instructions for the preparation of Balance Sheet

1. A company must round off the figures in the financial statement. The criteria for rounding off shall now be the '**Total Income**' instead of Turnover. Previously, the rounding-off was optional for the companies.
2. The balance sheet shall also include the details of the promoter's shareholding held at the end of the year and the changes, if any, during the year.
3. "Current maturities of the long-term borrowings" shall be disclosed separately under the heading short-term borrowings.
4. An ageing schedule in respect of trade payables shall be provided for the period covering less than one year, 1-2 years, 2-3 years, and more than 3 years in respect of:
 - (a) Micro Small and Medium Enterprises (MSME);
 - (b) Others;
 - (c) Disputed Dues - MSMEs; and
 - (d) Disputed Dues - Others.

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

5. An ageing schedule in respect of Trade Receivables shall be provided for the period of less than 6 months, 6 month - 1 year, 1-2 year, 2- 3 year and more than 3 years in respect of:
 - (a) Undisputed Trade Receivables - Considered good
 - (b) Undisputed Trade Receivables - Considered doubtful
 - (c) Disputed Trade Receivables - Considered good
 - (d) 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 date of transaction. Unbilled dues shall be disclosed separately.

6. The word “Tangible Assets” has been replaced with “Property, Plant and Equipment” and word “and Intangible Assets” has been inserted after the words “Property, Plant and Equipment”.
7. Under the heading Tangible Assets and Intangible Assets, a reconciliation statement shall be provided in respect of gross and net carrying amount of each class of assets at the beginning and at the end of the reporting period showing additions, disposals, acquisitions, revaluations, and various other adjustments.
8. Security Deposits shall not be disclosed under “Long Term Loans and Advances” but disclosed under “Other Non-current assets”
9. The entities in addition to the above, are required to provide the details of any discrepancies of the utilization of specific borrowed fund.

Part II - Additional Reporting Requirement in respect of Regulatory disclosures

1. On the basis of CARO 2020, the companies will be required to provide the details of all the immovable property (other than properties wherein the entity is the lessee and the lease agreements are duly executed in favor of the lessee) the title deeds of which are not in the name of the company and where such properties are jointly held with others, disclosure should be provided to the extent of entity's share in prescribed format.
2. In case, the entity has revalued its Property, Plant and Equipment, disclosure should be provided whether the revaluation is based on the valuation done by a registered valuer as defined under Rule 2 of the Companies (Registered Valuer and Valuation) Rules, 2017.

3. The entities shall be required to report whether any loans or advances in the nature of loans have been granted to promoters, KMPs, and other Related Parties which are repayable on demand or without specifying any terms or period of repayment in prescribed format.
4. As a part of the additional requirement, the entities shall be required to provide Ageing Schedule for less than 1 year, 1-2 years, 2-3 years and more than 3 years in respect of:
 - (a) Capital Work-In-Progress (CWIP); and
 - (b) Intangible Assets under developments

Details of projects in progress and projects temporarily suspending shall be given separately.

For capital-work-in progress/Intangible Assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, completion schedule with ageing less than 1 year, 1-2 years, 2-3 years and more than 3 years shall be given in prescribed format.

5. In case, any proceedings have been initiated or pending against the entity under the Benami Transactions (Prohibitions) Act, 1988, the corresponding disclosures shall be provided in the financial statements.
6. Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose 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, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.
7. The financials of the entity shall be covering certain disclosures in respect of the whether the entity has been declared as a wilful defaulter by any bank or financial institution or other lender.

8. Whether the entity has entered into a transaction with such entities whose name has been struck off under Section 248 of the Act.
9. Whether any charge or satisfaction is pending to be registered with the Registrar of the Companies beyond statutory period, details and reasons thereof shall be disclosed.
10. As per the Clause (87) of the Companies Act, 2013, an entity has to comply with the number of layers of subsidiaries. In case, an entity has not complied with the number of layers, the name and the CIN of the companies beyond the specified layers shall be disclosed as a part of the financial statements of an entity.
11. Additionally, the entities shall be required to disclose the certain ratios, namely:
 - (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; and
 - (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.

12. Compliances with approved schemes of Arrangements Wherever applicable the Company shall make a disclosure to the effect of scheme of arrangements in the books of accounts and any deviation in this regard shall be explained.

13. Details in respect of Utilization of Borrowed funds and share premium shall be provided in respect of:

In case a Company has advanced or loaned or invested funds to any other person or entity, including foreign entities (intermediary) with the purpose that the Intermediary would invest in other persons or provide guarantees, the details pertaining to the same are to be provided. Vice-versa, disclosures are to be made in case the Company receives funds for the same purpose or acts as an intermediary for another company.

It shall also provide a declaration that relevant provisions of the Foreign Exchange Management Act, 1999 and Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002.

Part III - Amendments corresponding to General instructions for the preparation of Statement of Profit and Loss and Additional Information

1. A Company will have to provide details of transactions not recorded in the books but have been surrendered or disclosed as income during the year in the tax assessments.
2. Whether the company is covered under Section 135 of the Companies Act, 2013 in respect of Corporate Social Responsibility (CSR)? If yes, the entity is required to provide certain disclosures as a part of its financial statements.
3. In case, an entity is involved in trading or has invested in Crypto-Currency and Virtual Currency during the financial year, the disclosures in respect of profit and loss on the transaction and the amount of currency held at the reporting date shall be provided in the Notes to Accounts.

CONCLUSION

These disclosure requirements as well as the principles to be followed for the preparation of the financial statements have been substantially amended and will come into effect from Financial Year 2021-22. The majority of the amendments are in line with the new CARO Reporting and all these changes are aimed to strengthen the Corporate Governance practices of the Company.

For details, please refer MCA Notification G.S.R. 207(E) dated 24th March 2021:
<http://egazette.nic.in/WriteReadData/2021/226114.pdf>

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