



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(SETUP BY AN ACT OF PARLIAMENT)

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# KEY AMENDMENTS TO SCHEDULE III OF THE COMPANIES ACT, DIVISION 1

## I. Introduction:

Schedule III to the Companies Act, 2013 ('the Act') provides the manner in which every company registered under the Act shall prepare its Balance Sheet, Statement of Profit and Loss and notes thereto. In the light of various economic and regulatory reforms that have taken place for companies over the last several years, there was a need for harmonizing and synchronizing the notified Accounting Standards as applicable ('AS'/'Accounting Standard(s)').

As per the Act and Rules / Notifications thereunder, the Schedule applies to all companies, except for those companies where Division II and Division III of the Schedule III is applicable, for the Financial Statements to be prepared for the financial year commencing on or after April 1, 2014. This Guidance Note also incorporates the changes made by various MCA Notifications upto 31 March 2021 to Division I to the Schedule III (hereinafter, referred to as 'Schedule III').

The requirements of the Schedule III however, do not apply to companies as referred to in the proviso to Section 129(1) of the Act, i.e., any insurance or banking company, or any company engaged in the generation or supply of electricity or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company.

## II. Applicability:

As per the Government Notification no. S.O. 902 (E) dated 26<sup>th</sup> March, 2014, the Schedule III is applicable for the Balance Sheet and Statement of Profit and Loss to be prepared for the financial year commencing on or after April 1, 2014. Schedule III has been amended vide the Government Notification dated 24<sup>th</sup> March, 2021 to include certain additional presentation and disclosures requirements and changes some existing requirements. These changes need to be applied in prepa-



ration of financial statements for the financial year commencing on or after 1st April, 2021. All companies that prepare, either voluntarily or mandatorily, Financial Statements in compliance with the Companies (Accounts) Rules, should consider Schedule III as well as Guidance note on Schedule III to the Companies, Act, 2013. Additionally, preparers of financial statements should also consider requirements of the Act as well as other Statutes, Notifications, Circulars issued by various Regulators.

### III. **Principles:**

1. The Schedule III requires that if compliance with the requirements of the Act and/ or the notified Accounting Standards requires a change in the treatment or disclosure in the Financial Statements as compared to that provided in the Schedule III, the requirements of the Act and/ or the notified Accounting Standards will prevail over the Schedule.
2. The Schedule III sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e., Balance Sheet, the Statement of profit and Loss for the period (The term 'Statement of Profit and Loss' has the same meaning as 'profit and loss Account) and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirement of the relevant Accounting Standard. Line items, sub-line items and sub-totals can be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant for understanding of the company's financial position and/or performance.
3. The terms used in the Schedule III will carry the meaning as defined by the applicable Accounting Standards. For example, the terms such as 'associate', 'related parties', etc. will have the same meaning as defined in Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (as amended from time to time).
4. In preparing the Financial Statements including the Notes to Accounts, a balance will have to be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.
5. All items of assets and liabilities are to be bifurcated between current and non-current portions and presented separately on the face of the Balance Sheet.
6. There is an explicit requirement to use the same unit of measurement uniformly throughout the Financial Statements and notes thereon

#### IV. Key changes:

**1. Trade payable:** The following ageing schedule shall be given for Trade payables due for payment

Particulars	Outstanding for following periods from due date of payment #				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
MSME					
Others					
Disputed - MSME					
Disputed - 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.
- MSME: Micro, Small and Medium enterprises
- *Unbilled dues shall be disclosed separately.*

#### 2. Trade receivables:

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
Undisputed Trade receivables — considered good						
Undisputed Trade Receivables — considered doubtful						
Disputed Trade Receivables — considered good						
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.



**3. Share capital:** Every company is required to make a separate disclosure of shareholding of its promoters\* as below:

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

- \* Promoter here means promoter as defined in the Act
- \*\* Details shall be given separately for each class of shares
- \*\*\* percentage change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue.

#### 4. Loans & Advances:

Borrower	Loan/ advance in the nature of loan outstanding	% of total loans/ advances in the nature of loans
Promoters		
Directors		
KMPs		
Related parties		

**Note:** Following additional details to be disclosed, if the loans or advances in the nature of loans is lent to any of the above related parties that are:

1. repayable on demand
2. without specifying terms and conditions.



## 5. Relationship with struck off companies:

If in case, the entity 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:

Name of struck off company	Nature of transaction with struck off company	Balance outstanding	Relationship with the struck off company, if any, to be disclosed
	Investment in securities		
	Receivables		
	Payables		
	Shares held by struck off company		
	Other outstanding balances		

## 6. Other regulatory information:

### ► **Title deeds of immovable property:**

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.

### ► **Valuation by registered valuer:**

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 under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.





► **Ageing schedule:**

Ageing schedule for Capital Work in Progress (CWIP)/Intangible Assets Under Development (IAUD) (including whose completion is overdue or has exceeded its cost compared to its original plan) in the prescribed format.

► **Borrowings against security of current assets:**

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

1. 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.
2. 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:

1. Date of declaration as wilful defaulter,
2. 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 Reserve Bank of India.

► **Registration of charges:**

Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.



► **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.

► **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:-

1. amount required to be spent by the company during the year,
2. amount of expenditure incurred,
3. shortfall at the end of the year,
4. total of previous years shortfall,
5. reason for shortfall,
6. nature of CSR activities,
7. 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,
8. 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.





► **Ratios:**

Disclose certain ratios in the notes and explain the items included in numerator and denominator of those ratios. Those ratios are:

- i. Current ratio
- ii. Debt service coverage ratio
- iii. Return on equity ratio
- iv. Trade payables turnover ratio
- v. Net capital turnover ratio
- vi. Net profit ratio
- vii. Return on capital employed
- viii. Return on investment.
- ix. Debt- Equity Ratio
- x. Inventory turnover Ratio
- xi. Trade Receivable turnover ratio

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.



# CARO 2020 AND CHANGES IN MAIN AUDIT REPORT (CONTINUED)

- HEMAL SHAH

## **X. Clause (VII) : Statutory dues**

- This clause is same as CARO 2016 except the following :
  - Auditor to report on timely payment of GST along with other undisputed statutory dues
  - Reporting of all unpaid statutory dues which are disputed. In CARO 2016, reporting was restricted to specified dues (i.e. income tax, sales tax, service tax, custom duty, excise, VAT)

## **XI. Undisclosed income**

- Limited to examination of those transactions, which were hitherto unrecorded in the books of account and which were surrendered or disclosed as income in the tax assessments under the IT Act
- Company must have voluntarily admitted to the addition of such income - demonstrated on the basis of the income tax returns
- Statement retracted on the ground that such disclosure was obtained under force, coercion, etc. cannot be treated as surrendered or disclosed by the company
- Proper recording, by implication, includes proper disclosure thereof in the financial statements of the company - Disclosure in the financial statements should be sufficient to enable the users understand the impact of such transactions
- Auditor to evaluate implications of applicable accounting standards i.e. Ind AS 8/ AS 5
- Whether additions made by the income tax authorities (but disputed by the company) warrant reporting under this clause?



## XII. Repayment of borrowings

- Sub - clause (ix)(a): Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender; if yes, the period and the amount of default to be reported as per the format below

Nature of borrowing, including debt securities	Name of lender (Lender wise details to be provided in case of defaults to banks, financial institutions and Government)	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
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- Reporting requirements and points for discussion
  - Enhanced and wider reporting requirements - Default in repayment of loans or other borrowings or interest thereon to any lender is required to be reported whereas previously it was restricted to a financial institution (FI), banks, Government or debenture holders only
  - “Default” would mean non-payment of dues to lenders on the last dates specified in loan documents or debentures trust deed
  - Auditor to report
    - amount of all defaults committed during the year and the number of days of default (consider period upto date of audit report)
    - amounts remaining unpaid, period and amount of all defaults existing at the balance sheet date irrespective of when those defaults have occurred.
  - Lender wise details in the format to be given where defaults to banks, FIs or Government; for other lenders – Aggregate for each type of lender may be given – e.g. debenture holders
  - Consider loans/borrowings/interest repayable on demand with no terms specified
  - Consider application for re-schedulements/restructuring proposals to lenders
- Key considerations
  - Companies adopting Ind AS
    - Borrowings need to be considered on the basis of legal form rather than on the basis of the substance of the arrangements as required in terms of Ind AS 32 and 109. eg. re-



deemable preference shares though considered as financial liabilities/borrowings under Ind AS, will not be considered for reporting under this clause

- Challenges for NBFCs and highly leveraged companies
  - Voluminous transactions – Auditor to review company’s internal control systems and test the design and operating effectiveness of company’s treasury activities and liquidity
  - Obtain and review latest credit rating report and whether there is mention of any defaults
- Wilful defaulter – consider additional disclosures under Schedule III
  - If the company has not been declared as wilful defaulter but has received a show cause notice as per RBI circular, auditor to disclose this fact
  - Auditor to obtain representation from management that company neither has been declared as wilful defaulter nor has it received any show cause notice
  - If company is legally disputing bank’s/financial institution’s declaration of the company – Perform procedures under SA 501 (Audit Evidence)

### **XIII. Short term funds for long term purpose**

- Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated
  - Intent is to assess the financial health of an entity
  - Auditor to determine the long-term sources and the long-term application of funds using the data contained in the financial statements
  - Determination of direct relationship between particular funds and an asset from the balance sheet may not be feasible
    - A more practical approach would be to determine the overall picture of the sources and application of funds of the company
  - Whether the current/ non-current classification of assets and liabilities have any bearing while reporting under this clause?
    - current maturities of long-term loans are to be treated as long term sources of funds for the purpose of reporting under this clause.



#### **XIV. Fraud reporting**

- Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
  - As compared to CARO 2016 - auditors responsibilities been widened by removing the words “officers/ employees”
    - Auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company.
  - Auditor is concerned with fraudulent acts that cause a material misstatement in the financial statements.
  - Auditor to consider reporting under other clauses e.g. whistleblower, undisclosed income
  - Whether reporting under this clause is triggered where investigation for allegations of fraud is in progress?
  - Auditor to assess implications on auditor’s report and state that the investigation is in progress for allegation of fraud. Involves critical evaluation of facts and circumstances including:
    - Management attitude – serious or casual
    - Investigation plan – whether covers possible exposures including criminal or civil
    - Involvement of external experts
    - Estimation of the impact on financial statements basis the evidence on hand
  - Concept of materiality may be considered while reporting under this clause

#### **XV. Whistle blower complaints**

- Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company? Which steps auditor may take to ‘consider’ whistle-blower complaints?
  - Auditor to consider every complaint received (including anonymous) while deciding the nature, timing and extent of audit procedures
  - Auditor to evaluate whether whistle blower complaints are investigated and resolved by the company in an appropriate and timely manner



- Evaluate that the whistle-blower mechanism is as per applicable laws and regulation
- Auditor to obtain all whistle-blower complaints from management which are not required and have not established whistle blower mechanism on a voluntary basis
- Not required to consider whistle-blower complaints pertaining to earlier years while reporting under this clause
- The auditor should enquire from the management about investigation of all whistle blower complaints received and the findings, if any. The auditor shall review the minutes of audit committee and board meetings to identify whistle blower complaints, if any.
- Assess consequential implications on the auditor's report
- Auditor to consider the nature, timing and extent of audit procedures, assess consequential implication e.g. impact on true and fair view, CARO clause on fraud, fraud reporting to central government
- Concept of materiality may be considered while reporting under this clause

● What are the reporting implications in the following scenarios?

### Scenario 1

Whistleblowing complaints received and satisfactorily dealt with during the year

### Scenario 2

- Whistleblowing complaints:
- Received during the year, and
  - Satisfactorily dealt with before the audit report

### Scenario 3

- Whistleblowing complaints:
- Received during the year, and
  - Is in the process of investigation

### Scenario 4

Whistleblowing complaints received after the year end but before the audit report date





● Implication:

● **Scenario 1, 2 and 3**

- Reporting obligation under CARO is triggered as the whistleblowing complaints were received during the year

● **Scenario 4**

- Management and auditor to address the complaint, irrespective of reporting obligations under CARO.

## **XVI. Internal audit**

● What are the reporting implications in the following scenarios?

● **Scenario 1**

- Some internal audit reports (for period upto YE) received at a very short notice

● **Scenario 2**

- Some internal audit reports (for period upto YE) not received

● Points for discussion

- The statutory auditor should consider the internal audit reports shared by the company till the date of completing the audit. Where some or all internal audit reports are not available, or provided at very short notice or do not adequately address the plan and scope required, the statutory auditor should consider appropriate reporting in this clause as well as consider its effect on the overall control environment with regard to reporting on internal financial controls over financial reporting (IFCoFR).
- Modified/Factual reporting – stating the inability to obtain reports. ICAI guidance note provides the following wordings:
- We were unable to obtain [any/ some/ on timely basis] of the internal audit reports of the company, hence the internal audit reports have not been [entirely] considered by us.

# ACTIVITIES - JULY, 2022



**CA Day 2022 celebrations - CA Santhosh Pai, Chairman, hoisted Institute's flag at Branch premises.  
CA Day 2022 celebrations held at Hotel Woodies , Kallai Road, Kozhikode.  
Chief Guest - Dr. Beena Philip, Hon'ble Mayor, Kozhikode Corporation.  
Senior Member CA. Ragunadan S. was be honoured at the function. - 01.07.2022**



**CSR activity donated Rs. 10,000 to Pain and Palliative Society , Medical College Kozhikode - 01.07.2022**





**Certification course on Forensic Accounting and Fraud Detection.**



**Seminar on "Indian Capital Market Trends, Strategies and Way forward"  
Speakers - CA. Lalit Kumar Rathi, Chennai - 14.07.2022**

# Upcoming Programmes August, 2022

**5** Cricket Tournament  
at Sports Arena, Karaparmaba, Calicut.

**14** Donation of Books to Kovoov Libaray

**15** Independence Day Celebration

**19** Seminar  
Topic - Tax Audit and Standards on Auditing  
Speakers - CA. Mohan Lavi, Bangalore,  
CA. Chinnasamy Ganesan, Chennai

**20** CA Sports Day 2022

**27** Overview of TDS section and recent amendments  
Speaker - Radesh Bhat, Ernakulam

## Contributions to e-newsletter

Contributions in the form of articles, poems, jokes, travelogues etc. are invited from members for consideration in the monthly e-Newsletter. Interested members may email their contribution to [icaikoznewsletter@gmail.com](mailto:icaikoznewsletter@gmail.com) along with name, membership number and mobile number.