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## AMENDMENT IN SCHEDULE III

& Auditors Report , Directors Report

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### **Short Summary:**

The Ministry of Corporate Affairs, Government of India, issued notifications dated 24<sup>th</sup> March, 2021 to amend Schedule III to the Companies Act, 2013 read with Companies (Accounts) Rules, 2014 and Companies (Audit and Auditors) Rule, 2014 to enhance the disclosures required to be made by the Company in its:-

- a) Financial Statements;
- b) Board Report;
- c) Audit Report

### **Purpose of Amendment:**

By these amendments MCA increasing stringency in compliances and adding numerous additional disclosures in Financial Statement, Directors Report and Audit Report. The main purpose behind these amendments is more transparency.

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### **Ministry has issues following Notifications:**

S. No.	Date of Notification	Particular	Purpose (Amendment in)
i.	24.03.2021	<sup>1</sup> Companies (Audit & Auditors) Amendment Rules, 2021	Audit Report
ii.	24.03.2021	<sup>2</sup> Companies (Account) Amendment Rules, 2021	Directors Report
iii.	24.03.2021	<sup>3</sup> Amendment to Schedule III to the Companies Act, 2013	Financial Statement

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<sup>1</sup> [http://www.mca.gov.in/Ministry/pdf/AuditAuditorsAmendmentRules\\_24032021.pdf](http://www.mca.gov.in/Ministry/pdf/AuditAuditorsAmendmentRules_24032021.pdf)

<sup>2</sup> [http://www.mca.gov.in/Ministry/pdf/AccountsAmendmentRules\\_24032021.pdf](http://www.mca.gov.in/Ministry/pdf/AccountsAmendmentRules_24032021.pdf)

### APPLICABILITY:

Above mentioned amendments shall come into force w.e.f. 01<sup>st</sup> day of April 2021 except some points including amendment in Auditors Report.

**Que:** Financial year end on 31<sup>st</sup> March 2021. Balance sheet and Directors Report signed on 25<sup>th</sup> August 2021. Whether Company have to give effect of amendment in Financial Statement and Directors Report?

**Ans:** All three above mentioned amendment shall be applicable on Companies for financial year start on or after 01<sup>st</sup> April 2021 or 1<sup>st</sup> April, 2022. Therefore, all these amendments shall effect the financial statement as on 31<sup>st</sup> March 2022 i.e. (f.y. 2021-22) or 31<sup>st</sup> March 2023 i.e. (f.y. 2022-23).

Therefore, one can opine that Directors Report and Financial Statement for financial year ending 31.03.2021 shall be same as per earlier disclosures.

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### *Amendment 1 : Companies (Account) Amendment Rules, 2021*

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First Amendment in Rule 3 i.e. Manner of Books of Account to be Kept in Electronic Mode. in Rule 3, in sub-rule (1) the proviso shall be inserted:

*Rule 3(1)The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India so as to be usable for subsequent reference.*

**New Proviso:** Provided that for the financial year commencing on or after the 1st day of April, 2021, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of:-

- Recording audit trail of each and every transaction,

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<sup>3</sup> [http://www.mca.gov.in/Ministry/pdf/ScheduleIIIAmendmentNotification\\_24032021.pdf](http://www.mca.gov.in/Ministry/pdf/ScheduleIIIAmendmentNotification_24032021.pdf)

- Creating an edit log of each change made in books of account along with,
  - The date when such changes were made and
  - Ensuring that the audit trail cannot be disabled.
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**Audit Trail means**, an audit trail is defined as a **step-by-step sequential record** which provides evidence of the documented history of financial transactions to its source. An auditor can trace every step of, the financial data of a particular transaction right from the general ledger to its source document with the help of the audit trail.

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**Benefit of Amendment:**

- Prevent Fraud
  - Stress free Audit
  - Easy error correcting and time saving
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**Provision of Audit Trail, Rules shall come into effect from 01<sup>st</sup> April, 2022.**

**Ques:1** Whether this amendment applicable on every company or exemptions are given to some classes of companies?

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Second Amendment in Rule 8 i.e. Matters to be Included in Board's Report. In rule 8, sub rule 5 after clause x, two new clauses added.

**New Clauses:**

(xi) the details of application made or any proceeding pending under the Insolvency and Bankruptcy Code, 2016 during the year along with their status as at the end of the financial year.

(xii) the details of difference between the amount of the valuation done at the time of one time settlement and the valuation done while taking loan from the Banks or Financial Institutions along with the reasons thereof.

Disclosure on above mentioned two clauses are required to give in Directors Report of Companies along with other disclosures.

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**Ques:2** Whether above mentioned amendment in Directors Report required to be covered in Directors Report prepared for f.y. ended 31.03.2021?

**Ques:3** Whether this amendment applicable on Directors Report of every company or exemptions are given to some classes of companies?

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**Amendment 2 : Companies (Audit and Auditors) Amendment Rules, 2021**

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**These Rules shall come into effect from 01<sup>st</sup> April, 2022.**

Amendment in Rule 11 i.e. Other Matters to be Included in Auditors Report. In Rule 11.

- Existing clause (d) shall be omitted.
  - New Clause (e), (f) & (g) inserted.
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*Rule 11(d) whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November,*

*2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.]*

**New Clause:**

(e)

(i) Whether the management has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, **that the Intermediary shall**, whether, **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 provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

**Note:** Auditor have to check the details in notes to account and take a representation from director about such clause and check all the transaction of Company in respect of loan, advance, investment & their respective documents.

(ii) Whether the management has represented, that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, 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 provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and

**Note:** Auditor have to check the details in notes to account and take a representation from director about such clause and check all the transaction of Company in respect of loan and advance received by company & their respective documents.

(iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.

(f) Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

(g) Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.]

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**Ques:4** Whether it is mandatory for auditors to add above mentioned three points in auditors report of all the Companies for f.y. 2020-21?

**Ques:5** Whether this amendment applicable on Auditors Report of every company or exemptions are given to some classes of companies?

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### *Amendment 3 : Amendment in Schedule III*

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Schedule III i.e. Financial Statement of Companies.

The Ministry of Corporate Affairs vide Notification dated 24 March 2021 has amended Schedule III to the Companies Act, 2013, which shall be effective from the 1st day of April 2021.

**Schedule III divided into three parts:**

- **Division I** - 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 Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015
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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 to the Companies Act, 2013.

**Purpose of Amendment:**

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. 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.

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**BRIEF ON AMENDMENTS TO SCHEDULE III DIVISION I, TO THE ACT (FOR COMPANIES WHOSE FINANCIAL STATEMENTS ARE REQUIRED TO COMPLY WITH THE ACCOUNTING STANDARDS):**

**I. General Instruction for preparation of Balance Sheet:**

**Rounding Off:** It is option to do rounding off of figures till financial year ended 31.03.2021. For the purpose of rounding off the figures appearing in the Financial Statements for financial year ending 31.03.2022 the total income of the Company shall be considered as the basis.

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<b>Total Income</b>	<b>Rounding Off</b>
<b>Less than 100 Crore Rupees</b>	To the nearest hundreds, thousands, lakhs or millions or decimals thereof
<b>100 Crore Rupees or more</b>	To the nearest lakhs, millions or crores, or decimals thereof

**II. Additional Disclosure in Notes to Balance Sheet:**

- i. **Shareholding of Promoter:** The note on Share Capital in the Financial Statements shall mention details of the Shareholding of the Promotes along with changes, if any, during the Financial Year. The format of such disclosure shall be as follows:



**Shares held by promoters at the end of the Year    % Change during the Year**

S. No.	Promoter's Name	No. of Shares	% of total shares	
Total				

**Note:**

- Here management shall give details 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."

**Ques:6** <sup>4</sup>What is the meaning of promoter under Companies Act, 2013?

- ii. **Trade Payable (Creditors) ageing Schedule:** Companies henceforth be 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. These include trade payables to MSMEs, disputed dues to MSMEs, and other dues and disputed dues. Similarly, disclosures shall also be made where no due date of payment is specified. Information for unbilled dues is also required to be disclosed separately.

<sup>4</sup> "promoter" 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:

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

Trade Payables ageing schedule: (Amount in Rs.)

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

iii. **Trade receivables (Debtors) ageing Schedule:** Companies will be required to disclose the ageing schedule of its trade receivables i.e. including undisputed and disputed trade receivables considered good and doubtful with ageing classified as less than 6 months, 6 months to 1 year, 1-2 years, 2-3 years and 3 years or more along with disclosures separate disclosure for information of unbilled dues. These undisputed and disputed trade receivables which are further categorized into good and doubtful.

Trade Receivables Ageing schedule: (Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment					Total
	Less than 6 months	6 months-1 year	1-2 yrs.	2-3 yrs.	More than 3 yrs.	
(i) Undisputed						

Trade receivables- considered good						
(ii) Undisputed Trade Receivables- Considered Doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

iv. **Title deeds of Immovable Property not held in name of the Company:** The Company shall provide the details of 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 the prescribed format.

If such immovable property is jointly held with others, details are required to be given to the extent of the Company's **share**;

v. **Disclosure on revaluation of Assets:** 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.

vi. **Disclosure on Loans/ Advance to Directors/ KMP/ Related parties:** 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 Companies Act, 2013,) either severally or jointly with any other person, that are:

(a) repayable on demand or

(b) 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
Promoters		
Directors		
KMPs		
Related Parties		

vii. **Details of Benami Property held:** 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. The Company shall disclose the followings:

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 abettor 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.

viii. **Details of Borrowing:** 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.

ix. **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 Reserve Bank of India.

x. **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:-

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

- xi. **Registration of charges or satisfaction with Registrar of Companies:** Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.
- xii. **Compliance with number of layers of companies** Where the company has not complied with the number of layers prescribed under clause (87) of section 2 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.
- xiii. **Disclosure of Ratios**

The amendment requires the companies covered under division I and II of schedule III to disclose the following ratios:

- 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.

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

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

- a. Transactions where an entity has provided any advance, loan, or invested funds to any other person (s) or entity/ entities, including foreign entities.
- b. Transactions where an entity has received any fund from any person (s) or entity/ entities, including foreign entity.

xv. **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 of holding of the company in such downstream companies shall be disclosed.

### **III. Additional Disclosure in Notes to Profit & Loss Account:**

- i. **Undisclosed Income (Reconciliation of Income Tax and Companies Act):** 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, 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.
  
- ii. **CSR Disclosure:** 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.
  
- iii. **Details of Crypto Currency or Virtual Currency:**
- iv. 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.

