

NAVIGATING NEWER VERSION OF SCHEDULE III - A BETTER TOMORROW??

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Dear professional colleagues, it gives me immense pleasure to contribute my 1st article on this platform.

Recently Ministry of Corporate Affairs vide its notification dated 24th March, 2021 amended the following:

- Schedule III to the Companies Act, 2013
- Companies (Accounts) Rules, 2014
- Companies (Audit and Auditors) Rules, 2014

Amendments have been made in all three divisions i.e. Division I, Division II and Division III.

Applicability - Based on the harmonious reading and the interpretation it is concluded that these changes are effective from 1st April 2021 i.e. for Financial Statements prepared for FY 2021-22.

Purpose of Amendments - The amendments have been brought to bring more transparency by providing for enhanced disclosures including dealing with struck off companies, details of benami property, undisclosed income etc. Some of the amendments have been made to align with CARO 2020.

The various amendments in the Schedule III are divided and explained from the perspective of its usefulness to the various stakeholders and the users of financial statements: -

1. Improving Transparency and useful in Financial Analysis

- Trade payables ageing

This disclosure is newly inserted. The following ageing schedule shall be given for Trade Payables due for payment:-

Particulars	Outstanding for following periods from due date of payment				
	< 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

- Trade receivable ageing

This disclosure is newly inserted. For trade receivables outstanding, the following ageing schedules shall be given:

Trade Receivables ageing Schedule – Indian GAAP companies – under 'Other non-current assets' and Trade receivables

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						

Trade Receivables ageing Schedule – Ind AS companies – under 'Non-current assets' and 'Current assets'

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 – which have significant increase in credit risk						
(iii) Undisputed trade receivables – credit impaired						
(iv) Disputed trade receivables – considered good						

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
(v) Disputed trade receivables – which have significant increase in credit risk						
(vi) Disputed trade receivables – credit impaired						

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

- Disclosure regarding revaluation of PPE / Intangible assets

If change due to revaluation is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment / Intangible assets then the same needs to be disclosed separately.

- Disclosure regarding valuation of PPE / Intangible assets

Where the Company has revalue its PPE/IA or fair valued investment property for disclosure purpose, the company shall disclose as to whether the revaluation / fair valuation is based on the valuation by a **registered valuer** as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

- CWIP & Intangible asset under development ageing

For Capital-work-in-progress, ageing schedule shall be given

CWIP	Amount in CWIP for a period of				
	< 1 year	1 – 2 years	2 – 3 years	More than 3 years	Total*
• Project in progress					
• Project temporarily suspended					
* Total shall be tallied with CWIP in balance sheet.					

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

Intangible assets under development	To be completed in			
	< 1 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				

• Disclosure of 11 Ratios for analysing purpose the health of the company

The Company has to disclose the following ratios:

- Current Ratio
- Debt-Equity Ratio,
- Debt Service Coverage Ratio
- Return on Equity Ratio
- Inventory turnover ratio
- Trade Receivables turnover ratio
- Trade payables turnover ratio
- Net capital turnover ratio
- Net profit ratio
- Return on Capital employed
- Return on investment

Notes:

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

2. Close Group Related

• Disclosure on Promoters Holding

This is a new disclosure wherein the Promoter's Shareholding Details mandatorily needs to be provided irrespective of number / % of shares by all companies. Earlier only listed companies had to make specified disclosures as per the format specified by SEBI.

Sr. No	Shares held by Promoters at the end of the year			% Change during the year
	Promoter Name	No. of Share	% of Total Share	

Promoter here means Promoter as defined in Companies act 2013

Details shall be given separately for each class of assets

% 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.

- Loans or Advances granted to promoter, director, KMPs, and related parties

Loans granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013), which are either **repayable on demand** or **without specifying any terms or period of repayment** then following disclosure will be made:

- Amount of loan or advance in the nature of loan outstanding
- Percentage to the total Loans and Advances in the nature of loans

3. Control over Property

- 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 (45 of 1988) and rules made thereunder, then certain disclosures need to be made in the Financial Statements.

- Relationship with struck off Companies

Where the company has any transactions with companies struck off under the Companies Act, then the Company has to disclose following:

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

- Detailed Disclosure regarding title deed of immovable property not held in the name of Company

Where title deed of any immovable property is not in the name of the Company, then following disclosure has to be given:

- Description of item of property
- Gross carrying value
- Title deeds held in the name of
- 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

This has been aligned with requirement of CARO. Earlier only auditors were required to report in its Auditor's report. Now, first Management has to disclose in Financial Statements and then auditors have to verify the same report in CARO.

If the title deed is not in the name of the Company, then they have asked for reason as well

4. Control over movement of Funds

- Disclosure on Circular movement of funds

Case 1: Where the Company has made investment / given loan

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:

- 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 to or on

behalf of the Ultimate Beneficiaries the company shall disclose the following:

- date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary
- date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- declaration that relevant provisions of the Foreign Exchange Management Act, 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

Case 2: Where the Company is Intermediary Company

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

- 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, the company shall disclose the following:

- date and amount of fund received from Funding parties with complete details of each Funding party
- 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
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- declaration that relevant provisions of the Foreign Exchange Management Act, 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.

Linkage with Section 186(4) of the Companies Act, 2013: "The company shall disclose to the members in the financial statement the full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient of the loan or guarantee or security"

Role of Auditor: Auditor has to ask for the Financials of the Company to which loan / advance is given or in which investment is made and then check utilization of funds. These days financials of any company can be accessed from MCA website.

Auditor has to obtain a management representation letter in this regard.

- Use of borrowings for specific purpose

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.

Earlier, only auditors were required to report on utilization of funds but now management has to report first in the Financial Statements and then the Auditor has to report.

- Disclosure in case of Company is declared a wilful defaulter

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

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

- Compliance with number of layer 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 the Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies beyond the specified layers and the relationship or extent of holding of the company in such downstream companies shall be disclosed.

5. Compliance with laws and Disclosures thereof

- Compliance with approved scheme(s) of arrangement

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'. Any deviation in this regard shall be explained.

- Pending registration charges or satisfaction with registrar of companies

Where any charges or satisfaction yet to be registered with ROC beyond the statutory period, details and reasons thereof shall be disclosed. The Company has to make sure that ROC forms for charge creation / satisfactions are filed within time limit.

- Disclosure regarding Corporate Social Responsibility

Following disclosure for CSR has to be given:

- amount required to be spent by the company during the year
- amount of expenditure incurred
- shortfall at the end of the year
- total of previous years shortfall
- reason for shortfall
- nature of CSR activities

- **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**

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 shall be shown separately.

- Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, certain disclosures have to be made in respect of same.

- Details of Undisclosed/Surrendered 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 shall also state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

6. **Presentation related changes**

- Rounding off

Earlier figures appearing in the financial statements **may be** rounded off, based on the "**Turnover**" of the company now the same has been changed to, financial statements **shall be** rounded off based on the "**Total Income**".

- Classification of Current Maturities of Long-Term Borrowings
- Presentation of PPE & Intangible Asset
- Classification of Security Deposit

The below table covers the presentation changes for above three disclosure items

Old clause	Revised clause	Type of Change
Notes		
Non-current assets (1) (a) (Property, plant and Equipment) (i) Tangible assets (ii) Intangible assets	Non-current assets (1) (a) (Property, plant and Equipment and Intangible assets) (i) Property Plant and Equipment (ii) Intangible assets	Presentation change for companies
Other current liabilities The amounts shall be classified as; (a) Current maturities of long-term debt	Other current liabilities The amounts shall be classified as; Current maturities of long-term debt	Omission and included under the heading "Short term borrowings / Borrowings"
Long term Loans & Advances (i) Long term loans & advances shall be classified as; (a) Capital advances; (b) Security Deposits;	Long term Loans & Advances (i) Long term loans & advances shall be classified as; (a) Capital advances; (b) Security Deposits;	Omission and included under the heading "Other non-current assets/Other Financial Assets(for Ind AS)"
Other non-current assets Other non-current assets shall be classified as; (i) Long-term Trade receivables (ii) Others(specify nature)	Other non-current assets Other non-current assets shall be classified as; (i) Long-term Trade receivables (i) (a) Security Deposits (ii) Others (specify nature)	New addition of 'Security Deposits' has been made For Ind AS companies – under 'Other Financial Assets'

To conclude, the above mentioned amendments has mandated several disclosures which will have major impact on all stakeholders of the Company and shall enable the government to ensure closer vigilance on the financial transactions of the Company.

