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# **RECENT AMENDMENTS IN CORPORATE LAWS - COMPANIES ACT, 2013, INCLUDING SCHEDULE III AND CARO 2020**



## RECENT AMENDMENTS IN CORPORATE LAWS - COMPANIES ACT, 2013, INCLUDING SCHEDULE III AND CARO 2020

### AMENDMENTS IN SCHEDULE III OF THE COMPANIES ACT, 2013

The MCA issued notifications dated 24 March 2021 to amend Schedule III to the Companies Act, 2013 read with Companies (Accounts) Rules, 2014 and Companies (Audit and Auditors) Rule, 2014. The main aim of the amendments in Schedule III of the Companies Act, 2013 is to improve the transparency in the financial statements of the company. Amendments in Schedule III are applicable from 01 April 2021.

### KEY AMENDMENTS IN COMPANIES ACT, 2013

#### AMENDMENT TO RULES

- **Amendment in Rule 3 i.e. Manner of books of account to be kept in electronic mode**  
Every company which uses accounting software for maintaining its books of accounts shall use only such accounting software which has a feature of recording the audit trail of each transaction, 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. The MCA has extended the implementation of Audit Trail software to a financial year commencing on or after 01 April 2023 which was earlier applicable from 01 April 2022.
  
- **Amendment in Rule 8 i.e. Matters to be included in a board's report**
  - The details of an application made or any proceeding pending under the Insolvency and Bankruptcy Code, 2016 during the year along with their status as of the end of the financial year.
  - The details of the difference between the amount of the valuation done at the time of one-time settlement and the valuation done while taking a loan from the Banks or Financial Institutions along with the reasons thereof.

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



## KEY AMENDMENTS IN SCHEDULE III

- **Shareholding of Promoters**

Shareholding of promoters at the end of the year in a tabular form containing name, number of shares, percentage of total shares, percentage change during the year (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) to be disclosed.

- **Short-term Borrowings**

Current maturities of long-term borrowings shall be disclosed separately.

- **Trade Payable and Trade Receivable Ageing Schedule**

- a) Ageing to be divided into outstanding for periods from the due date of payments
- b) For trade payables, it is to be divided into MSME and others (Disputed to be shown separately)
- c) For trade receivables, it is to be divided into considered good and considered doubtful (Disputed to be shown separately)

- **Property, Plant and Equipment & Intangible Assets**

A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if a change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

- **Disclosure of Revaluation of Property, Plant and Equipment**

Whether based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

- **Title deeds of immovable property not held in name of the company**

Details of all the immovable property (other than under lease and the agreement is in the name of the Company) whose title deeds are not held in name of the company. If the same is held jointly with others, details to the extent of the company's shares shall be disclosed.

- **Capital Work In Progress (CWIP) & Intangible Assets**

- a) Ageing schedule



b) For CWIP/Intangible assets, whose completion is overdue or has exceeded its cost compared to its original plan, the CWIP completion schedule is mandatory – (Projects where activity is suspended to be given separately)

▪ **Charge Details**

Details of registration or satisfaction of charge not registered with ROC beyond the time period needs to be disclosed along with reasons thereof

▪ **Wilful Defaulter**

If the company has been declared a wilful defaulter by any banks/FI, the same needs to be disclosed

▪ **Details of Benami Property Held**

Disclosure of any proceedings initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 with all details like: Details of such property, year of acquisition, amount, beneficiaries, reference to the item in the Balance Sheet (if it is in Books of account), If the property is not in the books, then the fact shall be stated with reasons, any proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided.

▪ **Utilisation of Borrowings**

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.

▪ Disclosure to be provided in case of loans or advances; loans, are granted to promoters, directors, KMPs and the related parties either severally or jointly with any other person, that is:

a) repayable on demand or

b) without specifying any terms or period of repayment

– Amount of loan or advance in the nature of loan outstanding

– Percentage of the total loans and advances in the nature of loans

▪ **Transactions with Struck Off Companies**

If your company has had any transactions with another company whose name has been struck off, disclosures have to be made accordingly.



- **Scheme of Arrangement**

In case a scheme of arrangement has been approved, relevant disclosures have to be made, such as:

- The effect of such an arrangement on the books of accounts of your company
- If there is any deviation from the accounting standards while giving effect to the scheme, the reasons for such deviation have to be explained

- **Undisclosed Income**

The company shall give details of any transaction not recorded in the books of accounts that have 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 accounts during the year.

- **Disclosure in case the company has traded or invested in crypto currency or virtual currency**

- Profit or loss on such transactions
- Amount of currency held as of the reporting date.
- Deposits or advances from any person for the purpose of trading or investing.

- **Disclosure with regard to Corporate Social Responsibility (CSR) activities**

- The amount required to be spent and expenditure incurred by the company during the year
- The shortfall at the end of the year along with cumulative balance and reasons for such shortfall
- Nature of CSR activities
- Details of related party transactions
- Movements in the provision made in case of contractual obligation

- **Disclosures in case of borrowings from financial institutions are secured by current assets**

- Whether statements of current assets filed with financial institutions are in line with books of accounts or not
- If not, a summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed



▪ **Ratios to be disclosed**

- 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

The company shall explain the items included in the 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).

▪ **Applicability of Rounding off**

- Compulsory Rounding off figures as below:
  - Total Income < INR 100 Crores – Nearest hundreds, thousands, lakhs or millions
  - Total Income > INR 100 Crores – Nearest lakhs, millions or crores

**COMPANIES (AUDITOR AND REPORT ORDER) 2020**

Company Auditor’s Report Order (CARO) 2020 is the new format for the issue of audit reports, in case of statutory audits of companies under the Companies Act, 2013 which includes the additional reporting requirements after the consultations with the National Financial Reporting Authority (NFRA).

Its main motive is to enhance the overall quality of reporting by the company auditors and is applicable from 01 April 2021.

The CARO 2020 has 21 clauses against 16 clauses in the CARO 2016. Seven new clauses have been inserted, one clause has been merged and one deleted.

The 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, hence they are covered in the Schedule III amendment too.



## KEY NEW CLAUSES

### **Reporting on core investment companies, Non-Banking Financial Companies(NBFC) and Housing Finance Companies (HFC)**

- Any non-banking financial activity or housing finance activity conducted before obtaining a certificate of registration
- Whether a company is a Core Investment Company (CIC) or exempted or unregistered CIC and continues to fulfil such criteria
- Total number of CICs which are part of a group, in case there is more than one

### **Reporting on Working Capital Loans**

New reporting on whether quarterly returns or statements filed with banks or financial institutions based on current assets security for sanctioned working capital limits above INR 5cr in the aggregate are in agreement with the books of accounts and if not, details are to be reported.

### **Reporting on Unrecorded Income**

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

### **Reporting on Internal Audit**

- a) Whether the company has an internal audit system commensurate with the size and nature of its business.
- b) Whether the reports of the internal auditors for the period under audit were considered by the statutory auditor.

### **Reporting on Cash Losses**

Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.

### **Reporting on Auditor's Resignation**

Whether there has been any resignation of the statutory auditors during the year, and if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.



### **Reporting on Financial Position**

On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of the balance sheet as and when they fall due within a period of one year from the balance sheet date.

### **Reporting on CSR Compliance**

- Whether, in respect of other than ongoing projects, the company has transferred an unspent amount to a fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with the second proviso to sub-section (5) of section 135 of the said Act
- Whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to a special account in compliance with the provision of sub-section (6) of section 135 of the said Act.

### **Reporting on Consolidated Financial Statements**

Qualification/Adverse remarks in CARO in the audit report of companies that are consolidated in the CFS will be required to be reported.