



Reporting and Disclosures under the Companies Act, 2013 broadened | Schedule III to contain disclosures on items such as crypto currency or virtual currency

INSIGHTS

March 25, 2021

MCA has carried out major amendments related to reporting and disclosures of information by companies under the Companies Act, 2013:

- Disclosures in Auditor's report on management's representation on inflow and outflow of funds and utilization, dividend declaration, accounting software which can record audit trail;
- Mandatory use of accounting software which can record audit trail, for the financial year commencing on or after the April 1, 2021;
- Additional disclosures in Board's report for IBC matters and valuations;
- Schedule III which deals with disclosures in Balance Sheet and Statement of Profit and Loss of a Company, has been revamped, with various new disclosures such as: (i) shareholding of promoters; (ii) current maturities of long term borrowings; (iii) trade payables and receiving ageing schedule to be adopted for trade payables and receivables; (iv) utilization of borrowings; (v) title deeds of immovable property not held in name of the Company; (vi) revaluation of properties; (vii) loan /advances to promoters, directors, KMPs and the related parties; (viii) details of benami property held; (ix) willful defaulter; (x) relationship with struck off companies; (xi) registration of charges or satisfaction with registrar of companies; (xii) compliance with number of layers of companies; (xiii) ratios; (xiv) compliance with approved scheme(s) of arrangements; (xv) utilization of borrowed funds and share premium; (xvi) undisclosed income; (xvii) corporate social responsibility (CSR); (xviii) details of crypto currency or virtual currency.

An analysis of the changes is provided below:

A. Disclosures in Auditor's Report:

- **Management's representation on inflow and outflow of funds and utilization:** Whether the management has represented the following to the best of its knowledge and belief, and based on such audit procedures, the auditor has considered reasonable and appropriate in the circumstances that nothing has come to their notice that has caused them to believe that the representations contain any material mis-statement.
 - (a) no funds have been advanced or loaned or invested by the company to or in any other person(s) or entity(ies), including foreign entities (**Intermediaries**), with the understanding 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;
 - (b) no funds have been received by the company from any person(s) or entity(ies), including foreign entities (**Funding Parties**), with the understanding 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;
- **Dividend declaration:** Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.
- **Accounting software which can record audit trail:** Whether the company has used such accounting software for maintaining its books of account which has a feature of recording an 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.

B. Mandatory use of accounting software which can record audit trail

For the financial year commencing on or after the April 1, 2021, every company which uses accounting software for maintaining its books of account, has been mandated to use only such accounting software which has a feature of:

- Recording audit trail of each and every 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.

C. Additional disclosures in Board's report for IBC matters and valuations

The report of the Board shall also contain:

- 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;
- The details of difference between 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.

D. Schedule III revamp:

Schedule III which deals with disclosures in Balance Sheet and Statement of Profit and Loss of a Company, has been revamped, with various new disclosures. The key disclosures relate to:

- Shareholding of Promoters;
- Current maturities of Long-term borrowings;
- Trade Payables and Receiving ageing schedule to be adopted for trade payables and receivables;
- **Utilization 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;
- **Title deeds of Immovable Property not held in name of the Company:** 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 and where such immovable property is jointly held with others, details are required to be given to the extent of the company's share;
- **Revaluation of properties:** 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;
- **Disclosures on loan /advances to promoters, directors, KMPs and the related parties:** Certain prescribed disclosures are to be made where loans or advances in the nature of loans are granted to promoters, directors, KMPs and the related parties either severally or jointly with any other person, that are: (a) repayable on demand or (b) without specifying any terms or period of repayment;
- **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 and the rules made thereunder, the company shall make certain prescribed disclosures;
- **Willful Defaulter:** Where a company is a declared willful defaulter by any bank or financial Institution or other lender, the company shall make certain prescribed disclosures;
- **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 make certain prescribed disclosures;
- **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;
- **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 Companies Act, 2013 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;
- **Ratios:** Certain ratios to be disclosed such as current ratio, debt-equity ratio, return on equity ratio, etc.
- **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;

- **Utilization of Borrowed funds and share premium:** In line with the disclosures in the auditor's report, the company shall make certain prescribed disclosures on inflow and outflow of funds;
- **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, 2013, the company shall make certain prescribed disclosures with regard to CSR activities;
- **Details of Crypto Currency or Virtual Currency:** Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the company shall make certain prescribed disclosures

Afore-mentioned changes have been introduced vide (i) Companies (Audit and Auditors) Amendment Rules, 2021, dated March 24, 2021, effective April 1, 2021 ([available here](#)); (ii) Companies (Accounts) Amendment Rules, 2021, dated March 24, 2021, effective April 1, 2021 ([available here](#)); and (iii) Notification amending Schedule III (Balance Sheet and Statement of Profit and Loss of a Company) to the Companies Act, 2013, dated March 24, 2021, effective April 1, 2021 ([available here](#)).

Further, the provisions of the Companies (Amendment) Act, 2020, which deal with the reduction of penalty for dividend provisions and valuation by registered valuer have been notified with effect from March 24, 2021 (notification dated March 24, 2021 [available here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

Disclaimer: The information provided in this update is intended for informational purposes only and does not constitute legal opinion or advice. Readers are requested to seek formal legal advice prior to acting upon any of the information provided herein. This update is not intended to address the circumstances of any particular individual or corporate body. There can be no assurance that the judicial/quasi-judicial authorities may not take a position contrary to the views mentioned herein.



MUMBAI | NEW DELHI | BENGALURU | AHMEDABAD | PUNE | CHENNAI

Email: Insights@elp-in.com