

# Demystifying enhanced financial reporting disclosures—amendment to Schedule III (Division II)

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# Foreword

The Ministry of Corporate Affairs (MCA) has amended Schedule III of Companies Act 2013 (Act) on 24 March 2021 with an objective to increase transparency and provide additional disclosures to users of financial statements. These amendments are effective from 1 April 2021. Companies need to gear up to provide significant information about the new clauses in financial statements. Companies may need to realign their Financial Statements Close Process (FSCP) and internal control over financial reporting to ensure that information and data relating to new clauses are compiled appropriately and on timely basis to avoid last minutes hassles in preparation of financial statements.

Earlier, MCA had issued the Companies (Auditor's Report) Order, 2020 (CARO 2020), which is also applicable for audit reports to be issued on or after 1 April 2021. Some of changes in Schedule III are in line with changes in CARO 2020, so companies can provide required information in financial statements for Auditors to report in CARO 2020.

In this publication, we have tried to highlight what are the new requirements in Division II (applicable to companies following Indian Accounting Standards "Ind AS") of Schedule III (here in referred to as Schedule III amendment or amendment), corresponding implication in CARO 2020 (if any) and our viewpoints on those changes. It should be noted that there are also changes in division I and III, however same are not covered in this publication. Further, it does not attempt to provide an in-depth analysis or conclusive views on the new changes. Rather, it aims to highlight key consideration which companies should be aware of while implementing these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

The disclosures / presentation requirement discussed are by no means exhaustive and the views expressed herein are more directional and not necessarily conclusive. The views expressed in the publication need to be evaluated in light of the facts and circumstances of each company.

We hope you will find this publication useful in navigating and understanding the impact of amendments in Schedule III on financial reporting.



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# Contents





The Ministry of Corporate Affairs has amended Schedule III of Companies Act 2013 on 24 March 2021 with an objective to increase transparency and provide additional disclosures to users of financial statements. These amendments are effective from 1 April 2021. Since an auditor is required to issue a true and fair view on the financial statements, the additional disclosures as prescribed in Schedule III will form part of financial statement and hence will be covered by auditor's report.

This publication provides a brief overview of the requirement of new clause and our viewpoint on some of those new clauses. However, amendment is not clear on applicability of these amendments with respect to full / condensed Interim Financial statements as per Ind AS 34 on Interim Financial Reporting and Quarterly / Half-Yearly Results as per the Securities and Exchange Board of India (SEBI) Regulations. In absence of any specific guidance, following can be argued with respect to applicability:

## Interim financial information:

- ▶ **Full / Condensed interim financial statements:** If a complete set of financial statements is presented as interim financial statements, all new disclosures are required including for comparatives. When condensed financial statements are presented as interim financial statements, necessary accounting standard disclosures as specified in Ind AS 34 that were not included in the last set of published financial statements are required to be provided. Distinction needs to be made between regulatory disclosures and the those required by accounting standards. Therefore, considering the new disclosures under Schedule III are regulatory disclosures, these need not to be included in condensed interim financial statements, but may be provided voluntarily.
- ▶ **Quarterly and half yearly SEBI results:** SEBI Listing Obligations and Disclosure Requirements (LODR) requires Schedule III format to be used for SEBI results. Schedule III amendments make no changes in format of statement of profit and loss. However, there are a few new line items inserted or grouping is changed in the format of balance sheet. These format changes need to be made in half yearly results since SEBI format is aligned to Schedule III format. Comparative figures also need to be re-grouped / re-classified, wherever required, with appropriate notes.

## 1. Applicability

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### Consolidated financial statements:

Guidance note on Schedule III provided following guidance on applicability of Schedule III requirements to consolidated financial statements (CFS). Schedule III itself states that the provisions of the Schedule are to be followed mutatis mutandis to a consolidated financial statement. MCA has also clarified vide General Circular No. 39 / 2014 dated 14 October 2014 that Schedule III to the Act with the applicable Accounting Standards does not envisage that a company while preparing its consolidated financial statements merely repeats the disclosures made by it under stand-alone accounts being consolidated. Accordingly, the company would need to give all disclosures relevant for CFS only. Guidance note provided detailed guidance on many disclosure requirements to help user understand what should be furnished in the financial statements.

One may argue that above guidance may be equally be applicable to amendment made in Schedule III. MCA / Institute of Chartered Accountants of India (ICAI) should provide clarification on same to ensure consistency in application. For large groups which have various group companies (including foreign companies), this may pose a significant challenge. Companies will need to gear up the systems and process to enable disclosures in CFS.

### Applicability to companies following 31 December as year-end for financial reporting:

The notification for Schedule III amendment states that Schedule III amendment are effective from 1 April 2021 and it does not explicitly state that it would be applicable only to financial statement prepared for year beginning on or after 1 April 2021. Hence it is not clear whether Schedule III amendment would be applicable for annual financial reporting for 31 December 2021. We urge MCA / ICAI should provide clarification on same.

In later part of this publication we have categorized all the new disclosures / presentation requirement in different categories as: a) Balance sheet items related disclosures b) Profit and loss account items related disclosures c) Other additional disclosures and d) Overview of CARO 2020.



# Balance sheet items related disclosures

# 2

## 1. Promoter's shareholding

### Existing requirement:

There was no specific requirement to disclose the promoter's shareholding in financial statements.

However, as per SEBI LODR Regulation 2015, all entities falling under promoter and promoter group shall be disclosed separately in the shareholding pattern appearing on the website of all stock exchanges having nationwide trading terminals where the specified securities of the entity are listed, in accordance with the formats specified by the Securities and Exchange Board of India.

### Amended requirement:

As per amendment, the company shall disclose shareholding of promoters at the end of the year as follows:

- ▶ Promoter name
- ▶ Number of shares held
- ▶ Percentage of total shares
- ▶ Percentage change during the year

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.

Promoter here means promoter as defined in Companies Act 2013 which is as follows:

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.

## 2. Balance sheet items related disclosures

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### Corresponding reporting in CARO 2020:

Not prescribed

#### How we see it

Companies will have to maintain robust documentation and internal controls to identify promoters as per the definition of promoter given in the Act. Since the definition of control in Act and Indian Accounting Standards is not exactly same, the company may be required to assess the reasons if there are any difference identified for person having control over company.

Companies should proactively engage with their auditors to agree with them their assessment of promoters in accordance with the definition given in the Act.

As per Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), companies are required to give details of promoter group as well. However, the requirement in Schedule III refers to only "Promoter". Hence it seems that details required in Schedule III will not include details of promoter group.

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## 2. Statement of changes in equity

### Existing requirement:

A. For equity share capital, companies were required to disclose balance at the beginning and end of the reporting period along with changes during the year.

Further as per Ind AS 8, an entity shall disclose the following in case of prior period error:

- a) The nature of the prior period error;
- b) For each prior period presented, to the extent practicable, the amount of the correction:
  - (i) For each financial statement line item affected; and
  - (ii) If Ind AS 33 applies to the entity, for basic and diluted earnings per share;
- c) The amount of the correction at the beginning of the earliest prior period presented; and
- d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

### Amended requirement:

A. For equity share capital, now additionally following disclosures are required:

- ▶ Changes in equity share capital due to prior period errors
- ▶ Restated balance at the beginning of the current reporting period

### Corresponding reporting in CARO 2020:

Not prescribed

#### How we see it

Although now the revised Schedule III requires disclosures of changes in equity share capital due to prior period errors and restated balance at the beginning of the current reporting period, similar kind of disclosures were already required under Ind AS 8 and hence it may not have major impact due to amendment.



### 3. Trade receivable

#### Existing requirement:

Currently, trade receivables are sub-classified as:

- (i) (a) Considered good - Secured
- (b) Considered good - Unsecured
- (c) Trade Receivables which have significant increase in credit risk
- (d) Trade Receivables - credit impaired
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated

#### Amended requirement:

As per amendment, following additional categorization is to be disclosed:

- (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
- (v) Disputed Trade Receivables - which have significant increase in credit risk
- (vi) Disputed Trade Receivables - credit impaired

Further, companies will be required to give following ageing from the due date of payment for each of the category mentioned above:

- ▶ Less than 6 months
- ▶ 6 months - 1 year
- ▶ 1-2 years
- ▶ 2-3 years
- ▶ More than 3 years
- ▶ Total

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.

#### Corresponding reporting in CARO 2020:

Not prescribed.

## 2. Balance sheet items related disclosures

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### How we see it

Earlier companies were not mandated to give detailed ageing. Many companies may not have an adequate system of generating ageing data of debtors as required now in the amendment including tracking of debtors which are disputed. Considering detailed ageing data is required to be furnished in the financial statements, companies should ensure that their ERP are geared up to furnish such information. Companies must institute robust internal control and documentation for categorization between disputed and undisputed.

Unbilled dues are generally disclosed as contract assets and not trade receivables when the right is conditioned on something other than the passage of time. Amendment clarifies that unbilled dues should be disclosed separately. However, it does not clarify whether ageing analysis as required for trade receivables should also be furnished for contract assets. MCA / ICAI should clarify this aspect to avoid diversity in practice.

Most of the Indian companies will be applying simplified approach for computation of expected credit loss. Companies should ensure that their provision matrix appropriately factors default risk which will be evident from detailed age wise analysis of trade receivables disclosure in the financial statements. All stakeholders will closely scrutinize the provisioning assumptions followed by the company based on trend of age of debtors.

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## 4. Other financial assets

### Existing requirement:

Security deposit was required to be disclosed under Loans.

Bank deposits with more than 12 months maturity shall be disclosed under "Other financial assets". In case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under "Other financial assets" separately.

### Amended requirement:

The amendment requires that other financial assets shall include:

- (i) Security deposits
- (ii) Bank deposits with more than 12 months maturity
- (iii) Others (to be specified)

### Corresponding reporting to CARO 2020:

Not prescribed.

### How we see it

The amendment requires security deposits to be included under other financial assets, which were earlier included under loans. With this amendment, disclosures relating to loan with respect to loans receivables considered good, which have significant increase in credit risk and credit impaired are not required. But companies may voluntarily disclose such sub-classification.



### 5. Fair value of investment property

#### Existing requirement:

In Schedule III there was no disclosure requirement on whether the fair value of investment property is based on the valuation by a registered valuer or not.

As per section 247 (1) of Act, where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

However, Ind AS 40 - Investment property, requires all entities to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model. An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

#### Amended requirement:

As per amendment, the companies are required to disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

#### Corresponding reporting to CARO 2020:

Not prescribed.

#### How we see it

This is a welcome change. It will bring more transparency as companies are required to make a positive assertion that whether the fair value of investment property is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

Section 247 mandated any fair valuation done under the Act to be done by the registered valuers. It was not clear whether fair valuation required under Indian accounting standards will also need to comply with Section 247 of the Act. Now, Schedule III amendment clarifies the aspect of disclosure, but the ambiguity with respect to valuation by registered valuer for compliance with Section 247 continues. However, we strongly recommend companies to use registered fair valuers for material investment property where fair valuation is required for recognition, measurement or disclosures. This will provide more comfort to stakeholders about the fair value of the asset.

### 6. Loans and advances

#### Existing requirement:

Schedule III required disclosure of loans to related parties (giving details thereof) and advances to related parties (giving details thereof). Further it required following disclosure:

- ▶ Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.
- ▶ Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

As per Ind AS 24 - Related Party Disclosures, if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments.

#### Amended requirement:

Additionally, following disclosures shall be made where loans or advances in the nature of loans are granted to promoters, directors, key managerial personnel (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		

#### Corresponding reporting to CARO 2020:

CARO 2020 requires auditors to report whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Act.



## 2. Balance sheet items related disclosures

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### How we see it

As of now disclosure is required for loans or advances in the nature of loans given without specifying any terms or period of repayment, MCA should clarify what is meant by “without specifying any terms”. This is specifically important for group company loans, where very brief terms are mentioned like interest rate, repayment date, but it does not cover detailed terms like secured, unsecured, ranking in terms of repayment in case of liquidation, etc.

Further as per format of disclosure given in amendment to Schedule III, it is not clear whether separate break up is required for both categories, i.e., (a) repayable on demand or (b) without specifying any terms or period of repayment. Hence MCA should clarify this aspect as well. However, until the clarification is issued, companies may voluntarily give separate disclosure for both the above-mentioned categories.

It is critical that company maintains appropriate documentation of loans or advances in the nature of loans arrangements to provide disclosure under this clause. Any disclosure under the heading “without specifying any terms” will require assessment of compliance with related party provisions. Also, companies may need to disclose assumptions or estimates used for accounting for such loans or advances in the nature of loans – Ind AS 109 requires all loans (which meet definition of financial asset) to be recorded at fair value. Depending on whether loans are considered as demand loan or term loan can significantly impact measurement and disclosure of such loans in the financial statements.

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## 7. Trade payables

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### Existing requirement:

Trade payables were required to be segregated into dues of micro enterprises and small enterprises (MSME) and other than micro enterprises and small enterprises. Schedule III also required disclosure of specific details which are mandated as per the MSMED Act, 2006.

### Amended requirement:

As per amendment, following additional categorization is to be disclosed:

- (i) MSME
- (ii) Others
- (iii) Disputed dues (MSMEs) and
- (iv) Disputed dues (Others)

Further, companies will be required to give following ageing from the due date of payment for each of the category mentioned above:

- ▶ Less than 1 year
- ▶ 1-2 years
- ▶ 2-3 years
- ▶ More than 3 years
- ▶ Total

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.

### Corresponding reporting to CARO 2020:

Not prescribed.

#### How we see it

Earlier companies were not mandated to give detailed ageing. Many companies may not have adequate system of generating ageing data of trade payable as required now in the amendment including tracking of trade payable which are disputed. Considering detailed ageing data is required to be furnished in the financial statements, companies should ensure that their ERP are geared up to furnish such information. Companies must institute robust internal control and documentation for categorization between disputed and undisputed.

Significant unpaid dues which are not disputed may raise serious questions with respect to liquidity of company or genuineness of such transactions. This may warrant disclosure explaining liquidity risk. Companies should also assess necessity to provide for interest on such unpaid dues as per the terms of the contract.

Amendment clarifies that unbilled dues should be disclosed separately. However, it does not clarify whether ageing analysis as required for trade payable should also be furnished for unbilled dues. MCA should clarify this aspect to avoid diversity in practice.

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## 8. Details of Benami property held

### Existing requirement:

No such disclosures required.

### Amended requirement:

Where any proceeding has been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:

- a) Details of such property,
- 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 a better 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.

### Corresponding reporting to CARO 2020:

Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made there under, if so, whether the company has appropriately disclosed the details in its financial statements.



## 2. Balance sheet items related disclosures

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### How we see it

CARO 2020 did not mandate the specific disclosure to be made in the auditor's report. However, with amendment to Schedule III, MCA has specified disclosures required in financial statements. Auditors may refer the disclosures specified in financial statement while reporting in CARO 2020.

Depending on the merits of each case, company must also assess whether any disclosures is required for contingent liability or provision is required in books of account due to such proceedings against the company.

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## 9. Relationship with struck off companies

### Existing requirement:

No such disclosures required.

### Amended requirement:

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:

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

### Corresponding reporting to CARO 2020:

Not prescribed.

## 2. Balance sheet items related disclosures

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### How we see it

One big question is that how practically companies will identify such parties on continuous basis, since companies will be having transaction on ongoing basis with numerous parties like customers, vendors etc.

Companies will have to put in proper systems and controls in place for identification of such parties as well as nature of transaction and relationship, if any, with such struck off companies.

Further it is not clear whether this disclosure would be required in cases where company has entered into transaction with other company and name of that other company was struck off subsequent to entering into transaction but before settlement of amount due under transaction. Hence MCA / ICAI should clarify on this aspect.

Companies may consider referring to website of MCA where details of struck off companies are available and flag off those companies in its ERP. However, companies need to assess on at what frequency the list on MCA website is updated and whether it covers all struck off companies under section 248 of Companies Act, 2013 or section 560 of Companies Act, 1956

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## 10. Current maturities of long-term borrowings

### Existing requirement:

Ind AS Schedule III requires presenting "current maturities of long-term debt" under "Other Financial Liabilities" grouped under "Current Liabilities". Long-term debt is specified in Schedule III as a borrowing having a period of more than twelve months at the time of origination. However, current maturities of long-term debt are of the nature of a "Borrowings" but since Schedule III specifically provides a separate line item for presenting current maturities of long-term debt under Other Financial Liabilities, it was presented under Other Financial Liabilities.

### Amended requirement:

Current maturities of long-term borrowings shall be disclosed under "Short term borrowings" separately, namely:

"Current maturities of long-term borrowings"

### Corresponding reporting to CARO 2020:

Not prescribed.

### How we see it

The amendment removes anomaly in classification of "Current maturities of long-term borrowing". Companies should reclassify the same from "other financial liability" to "Short term borrowing". This will avoid any confusion for users of financial statement and brings out outstanding borrowings clearly in the financial statements. It will avoid same getting missed in ratios like debt equity ratio if companies were not considering "Current maturities of long-term borrowings" under debt. This is more important since debt ratios are required to be now furnished in the financial statement and will be subjected to audit by auditors as well.

### 11. Borrowings obtained on the basis of security of current assets

#### Existing requirement:

No such requirement

#### Amended requirement:

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.

#### Corresponding reporting to CARO 2020:

Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of INR 5 crores, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the company, if not, give details.

#### How we see it

1. This may require companies to institute appropriate debt management system and internal controls to track filings with banks and financial statements.
2. CARO reporting would be required only in case where working capital limits are sanctioned in excess of INR 5 crores and obtained on the basis of current assets security. However, no such limit criteria is mentioned in requirements of Schedule III amendment.
3. Schedule III requires to provide the disclosure in case of all types of borrowing which are obtained basis current assets security. However, CARO reporting is only required in case of sanctioned working capital.
4. Instances of differences may be relating to difference in value of stock, amount of debtors, ageing analysis of debtors, etc. between the books of account and the returns / statements submitted to banks/financial institutions. The auditor needs to exercise his professional judgement to determine the materiality and the relevance of the discrepancy to the users of financial statements while reporting under this clause.

### 12. Lease liabilities

#### Existing requirement:

There was no specific guidance on the classification of lease liabilities. Reference was drawn by the companies from the disclosure requirements of finance lease obligation in the guidance note on Ind AS Schedule III.

Accordingly, the current maturities of lease liabilities were disclosed under other financial liabilities (similar to current maturities of finance lease obligation) and for long term maturities of lease liabilities, it was allowed to classify the same either under long-term borrowings or under other non-current financial liabilities. Also, some of the Companies use to disclose lease liability on face of balance sheet.

Further as per paragraph 47 of Ind AS 116 on Leases, a lessee shall either present in the balance sheet, or disclose in the notes:

- a) Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the balance sheet, the lessee shall:
  - i) Include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
  - ii) Disclose which line items in the balance sheet include those right-of-use assets.
- b) Lease liabilities separately from other liabilities. If a lessee does not present lease liabilities separately in the balance sheet, the lessee shall disclose which line items in the balance sheet include those liabilities.

#### Amended requirement:

Long term maturities and current maturities of lease obligations needs to be classified under non-current and current financial liabilities respectively.

#### Corresponding reporting to CARO 2020:

Not prescribed.

#### How we see it

Now with the specific clarification that lease obligations needs to be classified under financial liabilities, the earlier debate on whether lease liabilities were to be classified under borrowings or under other financial liabilities has come to an end. This will now ensure consistency in presentation requirement of all companies and ensure smooth benchmarking in industry. Considering the fact that now financial ratios are required to be disclosed in the financial statements, one need to see what practice emerges - whether lease liability will be factored in debt equity ratio or not. It will good if MCA or ICAI provides guidance on the same to avoid diversity in practice.



### 13. Revaluation of property, plant and equipment and intangible assets

#### Existing requirement:

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 and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

Further Ind AS 16 on Property, Plant and Equipment (PP&E) and Ind AS 38 on Intangible Assets also required disclosures of increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income in accordance with Ind AS 36 on Impairment of Assets (if any).

As per section 247 (1) of Act, where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

#### Amended requirement:

Upon revaluation of PP&E / Intangible assets the company in addition to above items of reconciliation, is required to make disclosure with respect to amount of change due to revaluation (if change is 10% or more in aggregate of the net carrying value of each class of PP&E / Intangible assets). Further, it shall disclose as to whether the revaluation (where carried out) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

#### Corresponding reporting to CARO 2020:

Whether the company has revalued its Property, Plant and Equipment (including Right of use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

#### How we see it

This is a welcome change. It will bring more transparency as companies are required to make a positive assertion that whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017. Section 247 mandated any fair valuation done under the Act to be done by the registered valuers. It was not clear whether fair valuation required under Indian accounting standards will also need to comply with Section 247 of the Act. Now, Schedule III amendment clarifies the aspect of disclosure, but the ambiguity with respect to valuation by registered valuer for compliance with Section 247 continues. However, we strongly recommend companies to use registered fair valuers for material PP&E / Intangible asset where fair valuation is required for recognition, measurement or disclosures. This will provide more comfort to stakeholders about the revaluation of the asset.

### 14. Capital Work-in-progress (CWIP) and intangible assets under development

#### Existing requirement:

No such disclosures required.

#### Amended requirement:

- a) For capital-work-in progress / intangible assets under development categories namely: (1) projects in progress and (2) projects temporarily suspended, below mentioned ageing information shall be given for the period of:
- ▶ Less than 1 year
  - ▶ 1-2 years
  - ▶ 2-3 years
  - ▶ More than 3 years

Total shall tally with CWIP amount in the balance sheet.

- b) For capital-work-in progress / Intangible assets under development categories namely, (1) whose completion is overdue or (2) has exceeded its cost compared to its original plan, following CWIP completion Schedule shall be given at the project level to be completed in following period:
- ▶ Less than 1 year
  - ▶ 1-2 years
  - ▶ 2-3 years
  - ▶ More than 3 years

Details of projects where activity has been suspended shall be given separately.

#### Corresponding reporting to CARO 2020:

Not prescribed

#### How we see it

Disclosures mandated for amendment to Schedule III is very extensive. Company will need to reconfigure or changes in their ERPs to collate the necessary information.

Amendment also needs to provide information separately for overdue projects or projects which has exceeded costs compared to original plan. It is not clear whether the comparison has to be done only with original plan or if the plan was amendment and approved later, than whether comparison should be done with subsequently amended plan. In our experience, many do not maintain robust documentation with respect to planned completion or budgets. Companies will need to strengthen their documentation and internal controls around determination of planned completion dates and capital budget to ensure appropriate collation of data.

Companies should assess accounting implications on account of delay or suspension or cost overruns relating to capital projects. Some of the key risks which they need to focus are appropriateness of borrowing cost capitalization, impairment of PP&E, capitalization of abnormal costs.

### 15. Discrepancy in utilization of borrowings

#### Existing requirement:

Where in respect of an issue of securities made for a specific purpose the whole or part of amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

#### Amended requirement:

Now in addition to the old clause, further disclosure is required as follows:

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.

#### Corresponding reporting to CARO 2020:

Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported. Guidance note on CARO 2020 provides following suggested reporting format:

Nature of the fund raised	Name of the lender	Amount diverted (INR)	Purpose for which amount was sanctioned	Purpose for which amount was utilized	Remarks

Whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated.

#### How we see it

The amendment is silent on the extent of details required to be disclosed when company has not used the borrowings for specific purpose for which it was taken at. We believe the details required by the amendment may include the amount utilized and the nature of the spent. Company will also need to assess potential implication on account of breach of contractual terms - for e.g., will such usage result in loan becoming repayable on demand.

Considering onerous disclosures with respect to borrowings in the financial statements, we strongly recommend companies to develop loan management system to manage compliance with contractual terms specified in the loan arrangement and also maintain repository of filings and documents to support such compliance.

### 16. Title deeds of immovable properties not held in name of the company

#### Existing requirement:

No such disclosures required under Schedule III. However, Ind AS 16 on Property, Plant and Equipment requires disclosures of the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.

#### Amended requirement:

The company shall provide the following details of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favor 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.

- ▶ Relevant line item in the Balance sheet (i.e., PP&E, investment property, Non-current asset held for sale or others)
- ▶ 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 (also indicate if in dispute)

Relative/ promoter here means relative/ promoter as defined in the Companies Act, 2013.

#### Corresponding reporting to CARO 2020:

Similar amendment is applicable in CARO 2020.

#### How we see it

The companies need to ensure that they have processes to identify and maintain repository of such immovable properties and update it on regular basis.

The term immovable property and title deed are not defined in Schedule III, however guidance note on CARO 2020 provide some guidance on this. Guidance notes states that as per General Clauses Act, 1897, "Immovable Property shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth". It may be noted that investment property (as defined under Ind AS 40) and non-current assets held for sale (as defined under Ind AS 105) will be considered by the auditor for reporting under this clause. It further states that in general, title deeds mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property. In case of leased assets, title deeds would imply the lease agreements and related documents.



### 17. Utilization of borrowed funds and share premium

#### Existing requirement:

No such disclosures required.

#### Amended requirement:

- a) 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
- (i) 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 (ii) 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 along with 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 (42 of 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 (15 of 2003).
- b) 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
- (i) 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 (ii) 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 along with 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 (42 of 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 (15 of 2003)

#### Corresponding reporting to CARO 2020:

As per Companies (Audit and Auditors) Amendment Rules, 2021, The auditor's report shall also include views and comments on:

- (i) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from

## 2. Balance sheet items related disclosures

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

- (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
- (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 misstatement.

### How we see it

The above disclosures are intended to bring more transparency on funding structure in case of transactions where company has either received or invested funds by or on behalf of the other company (Ultimate Beneficiaries) / funding party.

ICAI / MCA should clarify on what is meant by “by or on behalf of. For example, does it cover all intermediate parent company situations or only where Parent has specifically stated to be invested by or on its behalf? What if intermediate entity also has its own operations / funds and one-on-one relationship may not be there. Hence in case of group transaction it would be practically difficult to assess whether the transactions are done by company on its own as a principal or on behalf of some other company like an agent.

Companies must maintain appropriate documentation which can support evaluation of whether transaction entered by company are covered under this clause or not.



# Profit and loss items related disclosures

3

## 18. Undisclosed income

### Existing requirement:

No such disclosures required.

### Amended requirement:

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.

### Corresponding reporting in CARO 2020:

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.

### How we see it

This disclosure will bring in more transparency and additional information relating to undisclosed income for user of financial statements.

When companies make disclosure regarding undisclosed income, it must evaluate the accounting implications under Ind AS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" for such transactions.

Companies must also consider whether there is any implication of section 130 and 131 of Act relating to reopening of accounts on court's or Tribunal's orders and voluntary revision of financial statements or Board's report.

Proactive discussion should be held with auditors to assess impact (if any) on clause relating to reporting on fraud under CARO 2020 and internal controls over financial reporting.

## 19. Grants or donation received

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### Existing requirement:

No such disclosures required.

### Amended requirement:

Section 8 Companies are required to make a new insertion in Schedule of Revenue from operations for "Grants or donation" received.

### Corresponding reporting to CARO 2020:

Not prescribed

### How we see it

Separate disclosures of grant or donation received will result in enhanced transparency in the financial statements of the Section 8 companies.

## 20. Corporate Social Responsibility (CSR)

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### Existing requirement:

In case of companies covered under section 135 of Companies Act 2013, disclosure required for amount of expenditure incurred on corporate social responsibility activities.

However as per Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities additional disclosures are required. Some of those key disclosures are as follows:

- ▶ From the perspective of better financial reporting and in line with the requirements of Schedule III in this regard, it is recommended that all expenditure on CSR activities, that qualify to be recognized as expense, should be recognized as a separate line item as "CSR expenditure" in the statement of profit and loss. Further, the relevant note should disclose the break-up of various heads of expenses included in the line item "CSR expenditure".
- ▶ The notes to accounts relating to CSR expenditure should also contain the following:
  - ▶ Gross amount required to be spent by the company during the year
  - ▶ Amount approved by the Board to be spent during the year
  - ▶ Amount spent during the year on:
    - (i) Construction/acquisition of any asset
    - (ii) On purposes other than (i) above



### 3. Profit and loss items related disclosures

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The above disclosure, to the extent relevant, may also be made in the notes to the cash flow statement, where applicable.

- ▶ Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per Ind AS 24, Related Party Disclosures
- ▶ Where a provision is made for CSR, the same should be presented as per the requirements of Schedule III to the Act. Further, movements in the provision during the year should be shown separately

#### **Amended requirement:**

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities:

- (i) Amount required to be spent by the company during the year
- (ii) Amount of expenditure incurred
- (iii) Shortfall at the end of the year
- (iv) Total of previous years shortfall
- (v) Reason for shortfall
- (vi) Nature of CSR activities
- (vii) 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
- (viii) 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

#### **Corresponding reporting to CARO 2020:**

Whether, in respect of other than ongoing projects, the company has transferred 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 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 special account in compliance with the provision of sub-section (6) of section 135 of the said Act

#### **How we see it**

The amendment signifies the focus of the regulators have on the area of CSR. The expectation is to track CSR spends is appropriately in line with requirements of the Act. Corporates needs to provide detailed disclosure of CSR spent. Companies should ensure that adequate documentation and controls are instituted to monitor CSR spends. They should ensure that systems and processes are geared up to furnish relevant details required to be disclosed in the financial statements.

As per “Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities” issued by ICAI following guidance is provided:

- ▶ A provision for liability needs to be recognised in the financial statements for the unspent amount.
- ▶ Excess amount spent would be allowed to be carried forward to next year, subject to satisfaction of specified conditions.

## 21. Details of crypto currency or virtual currency

### Existing requirement:

No such disclosures required.

### Amended requirement:

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 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

### Corresponding reporting to CARO 2020:

Not prescribed

### How we see it

There is no specific guidance given under Ind AS on accounting for cryptocurrency or virtual currency. There is no definition of cryptocurrency or virtual currency is given under the Act. Analogy can be drawn from guidance given under International Financial Reporting Standards (IFRS).

In June 2019, in response to a request from the International Accounting Standards Board, the IFRS Interpretations Committee (IFRS IC or the Committee) published an agenda decision on how an IFRS reporter should apply existing IFRS standards to its holdings of cryptocurrencies, a subset of crypto assets. The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset under International Accounting Standards (IAS) 38 Intangible Assets as it is capable of being separated from the holder and sold or transferred individually, and is not a monetary asset, i.e., does not give the holder a right to receive a fixed or determinable number of units of currency. The IFRS IC concluded that holdings of cryptocurrencies should be accounted for under IAS 38 unless they are held for sale in the ordinary course of business, in which case IAS 2 Inventories would apply. A commodity broker trader of cryptocurrencies would be able to measure its cryptocurrency inventories at fair value less costs to sell.

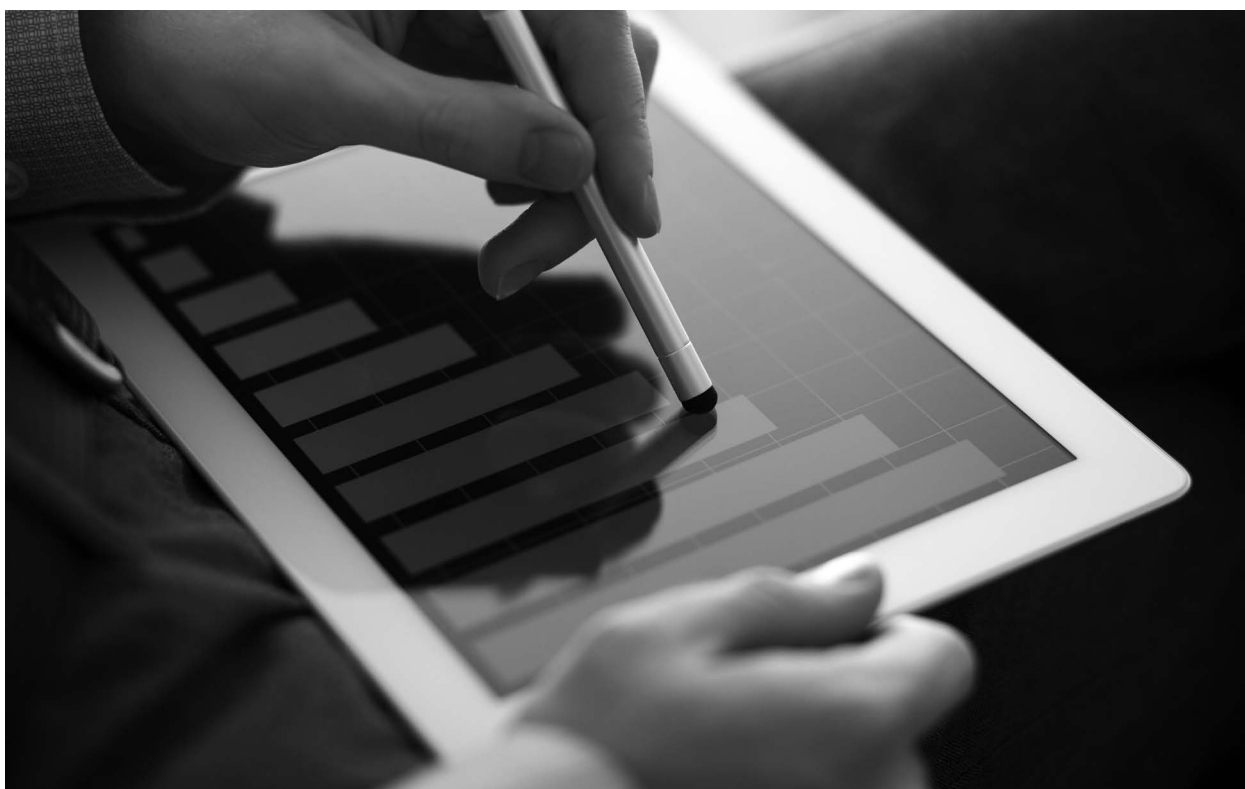
### 3. Profit and loss items related disclosures

#### How we see it (cont'd.)

The agenda decision also provides following guidance on the disclosure requirements within current IFRS standards that would be relevant to holdings of cryptocurrencies:

In addition to disclosures otherwise required by IFRS standards, an entity is required by IAS 1 Presentation of Financial Statements to disclose any additional information that is relevant to an understanding of its financial statements. In particular, the IFRS IC noted the following disclosure requirements in the context of holdings of cryptocurrencies:

- ▶ An entity provides the disclosures required by: (i) IAS 2 for cryptocurrencies held for sale in the ordinary course of business; and (ii) IAS 38 for holdings of cryptocurrencies to which it applies IAS 38
- ▶ If an entity measures holding of cryptocurrencies at fair value less costs to sell, IFRS 13 Fair Value Measurement specify applicable disclosure requirements
- ▶ Applying paragraph 122 of IAS 1, an entity discloses judgements that its management has made regarding its accounting for holdings of cryptocurrencies, if they are part of the judgements that had the most significant effect on the amounts recognised in the financial statements
- ▶ IAS 10 Events after the Reporting Period requires an entity to disclose details of any material non-adjusting events, including information about the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made). For example, an entity holding cryptocurrencies would consider whether changes in the fair value of those holdings after the reporting period are of such significance that non-disclosure could influence the economic decisions that users of financial statements make on the basis of the financial statements





## Other additional disclosures | 4

### 22. Wilful defaulters

#### Existing requirement:

No such disclosures required.

#### Amended requirement:

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.

#### Corresponding reporting to CARO 2020:

Auditor is required to report whether the company is a declared wilful defaulter by any bank or financial institution or other lender.

#### How we see it

This disclosure will bring in more transparency and additional information for user of financial statements. Many prospective investors analyzing financial statements, consider default in repayment of loans as of the key considerations in decision making process.

If company is declared as wilful defaulter, it is recommended that company provides sufficient disclosure in the notes to provide details of mitigating factors. Absence of same will have significant negative impact. Also, company should assess consequential impacts like impairment, change in fair values of financial assets and liabilities, disclosure on credit risk and liquidity risk and presentation of financial liabilities as non-current.

#### 4. Other additional disclosures

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### 23. Registration of charges or satisfaction with Registrar of Companies

#### **Existing requirement:**

No such disclosures required.

#### **Amended requirement:**

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

#### **Corresponding reporting to CARO 2020:**

Not prescribed.

#### **How we see it**

As per the new requirement, the companies are required to disclose the details and reasons for any charges or satisfaction of charge is pending to be registered with the Registrar of Companies beyond the statutory period. The clause has been inserted to emphasis on timely compliance on filing with Registrar for creation and satisfaction of charge. Company should assess whether non-creation of charge on timely basis tantamount to violation of any laws and regulations. If yes, then they should evaluate whether disclosure under contingent liability or provision for penalty etc. is warranted in the financial statement.

### 24. Compliance with number of layers of companies

#### **Existing requirement:**

No such disclosures required.

#### **Amended requirement:**

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.



#### 4. Other additional disclosures

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##### **Companies Act**

##### **Section 2 (87)**

“subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company:

- (i) Controls the composition of the Board of Directors; or
- (ii) Exercises or controls more than one-half of the [total voting power] either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation—For the purposes of this clause:

- a) A company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- b) The composition of a company’s Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- c) The expression “company” includes anybody corporate;
- d) “Layer” in relation to a holding company means its subsidiary or subsidiaries;

##### **Companies (Restriction on number of Layers) Rules, 2017**

On and from the date of commencement of these rules, no company, other than a company belonging to a class specified in sub-rule (2), shall have more than two layers of subsidiaries;

Provided that the provisions of this sub-rule shall not affect a company from acquiring a company incorporated outside India with subsidiaries beyond two layers as per the laws of such country.

Provided further that for computing the number of layers under this rule, one layer which consists of one or more wholly owned subsidiary or subsidiaries shall not be taken into account.

The provisions of this rule shall not apply to the classes of companies specified in rules.

If any company contravenes any provision of these rules the company and every officer of the company who is in default shall be punishable with fine which may extend to ten thousand rupees and where the contravention is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which such contravention continues.

##### **Corresponding reporting to CARO 2020:**

Auditor is required to report in CARO 2020 as follows:

- ▶ In respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof.

Further sub clause (l) Section 186 of Act states that “Without prejudice to the provisions contained in this Act, a company shall unless otherwise prescribed, make investment through not more than two layers of investment companies”

#### 4. Other additional disclosures

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##### How we see it

As per the new requirement, the companies are required to disclose name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies, if they have not complied with the number of layers prescribed under Companies Act. This will bring in more transparency and provide additional details to users of financial statements regarding such noncompliance.

In many large groups, there are complex structure with various investment holding company or operating company within the group. Companies should document their evaluation of why the group structure is compliant with the requirements of the Act. Proactive discussion with auditors and company law experts is encouraged to deal with any judgmental issue and identify red flags, if any. If any disclosures are made under this clause, it will be tantamount to non-compliance with laws and regulations and may attract modification in the audit report. Company must assess whether there is requirement of creating any provision in books on account of penalty for such noncompliance or disclosure as contingent liability.

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## 25. Disclosure of ratios

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### Existing requirement:

No such disclosures required.

### Amended requirement:

The amendment requires the companies 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

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.

#### 4. Other additional disclosures

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### Corresponding reporting to CARO 2020:

Not prescribed.

#### How we see it

SEBI Listing and Disclosure Requirements (Amendment) Regulation, 2018 required disclosure of key financial ratios in Management Discussion and Analysis (MD&A) in Management Discussion & Analysis (MD&A). The Provision also requires disclosure of the details of significant changes (i.e., change of 25% or more as compared to the immediately previous financial year) in key financial ratios. Schedule III also now requires similar disclosures with certain additional ratios like Return on Equity in the financial statements. Earlier such disclosure was not required to be audited by auditors. However now it will be subjected to audit. Hence proactive discussion with auditors should be taken to get alignment on the definition or measurement basis for each ratio.

Whilst SEBI LODR required only listed companies to provide the financial ratios and explanation for changes. Schedule III will require both listed and unlisted companies give such ratios and disclosures. This will bring lot of transparency and will help lenders to give audited data on various KPI of the company.

We urge MCA and ICAI to provide definition of each ratio to ensure consistency in computation and to facilitate peer benchmarking.

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## 26. Compliance with approved scheme(s) of Arrangements

### Existing requirement:

No such disclosures required.

### Amended requirement:

Where the 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.

### Corresponding reporting to CARO 2020:

Not prescribed.

#### 4. Other additional disclosures

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##### **How we see it**

Since Section 232 of the Companies Act requires accounting treatment given in the scheme to be in accordance with the Accounting Standard. We do not expect many companies will need to provide this disclosure as generally accounting treatment in the scheme will be in compliance with accounting standard.

However, it is not clear on whether this amendment will apply to schemes approved earlier and having continuing accounting effect as on date. For example, Scheme was approved under erstwhile Indian GAAP and scheme required company to follow the policy of goodwill amortization. On transition to Ind AS, Company continues the treatment prescribed in the Court scheme. It seems company will need to make disclosure under this clause in such cases. However, it will be good if MCA provide clarification on such issue.

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## **27. Rounding off**

### **Existing requirement:**

Currently, depending upon the turnover of the company, the figures appearing in the financial statements are required to be rounded off.

### **Amended requirement:**

As per amendment, depending upon the total income of the company, the figures appearing in the financial statements are required to be rounded off. Total income is sum of revenue from operations and other income.

### **Corresponding reporting to CARO 2020:**

Not prescribed.

##### **How we see it**

Consideration of total income may allow companies to go higher round-off denomination, if total income is higher than turnover.



# Overview of CARO 2020 | 5

As compared to CARO 2016, reporting requirements have increased manifold in CARO 2020. The clauses (including sub-clauses) have been bifurcated into the following:

Particulars	Count
New reporting requirements under CARO 2020 (including sub-clauses)	28
Reporting requirements modified (including sub-clauses)	15
Reporting requirements carried forward with no modifications (including sub-clauses)	8
Reporting requirement of CARO 2016 deleted	(1)
<b>Total</b>	<b>50</b>

## Applicability

There is no change in the applicability of CARO 2020 as compared to CARO 2016. CARO is applicable to every company including a foreign company except:

- (i) A banking company
- (ii) An insurance company
- (iii) A company licensed to operate under section 8 of the Companies Act, 2013
- (iv) A one person company as defined in section 2(62) of the Act and a small company as defined in clause 2(85) of the Act
- (v) A private limited company, not being a subsidiary or holding company of a public company, having a paid-up capital and reserves and surplus not more than INR 1 crore as on the balance sheet date and which does not have total borrowings exceeding

INR 1 crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Schedule III to the Companies Act (including revenue from discontinuing operations) exceeding INR 10 crores during the financial year as per the financial statements.

Unlike CARO 2016, only new clause (xxi) in CARO 2020 will apply to the Consolidated Financial Statements of the company.

### Effective date

Every report made by the auditor under Section 143 of the Act for financial year commencing on or after 1 April 2021 should include reporting in accordance with CARO 2020.



### New reporting requirements

#### Going concern

- ▶ Auditor to consider financial ratios, ageing and expected dates of realization of financial assets/ payment of financial liabilities, other information and their knowledge of Board of Directors and management plans; and
- ▶ Opine whether any material uncertainty exists as on the date of audit report that company is capable of meeting its liabilities existing at the balance sheet date as and when they fall due within a period of one year from the balance sheet date.

#### Cash losses

- ▶ Has the company incurred any cash losses in the current FY and in the immediately preceding FY; an amount of such cash losses. This requirement has been reinstated from CARO 2003.

#### Default in repayment of loans

##### Increased reporting requirements on:

- ▶ Default in repayment of loans and interest thereon from any lender in the prescribed format, unlike only banks, financial institutions, government or debenture holders in CARO 2016.
- ▶ Declaration of wilful defaulter by any bank or financial institution or other lender.
- ▶ Whether term loans were applied for the purpose for which it was obtained and the amount of diverted funds and the purpose for which such funds are used.
- ▶ Short term funds utilized for long term purposes. This requirement has been reinstated from CARO 2003.
- ▶ Any funds obtained from any entity/person on account of or to meet the obligations of its subsidiaries, associates or joint ventures.
- ▶ Loans raised during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies; details to be reported and if the company has defaulted in repayment of such loans raised.

#### Working capital loans

- ▶ New reporting on whether quarterly returns or statements filed with banks or financial institutions on the basis of current assets security for sanctioned working capital limits in excess of INR 5 crores in aggregate are in agreement with the books of account, and if not, details to be reported.

#### Investments, guarantees, loans and advances

If the company has made investments in, provided guarantees or security in addition to loans or advances in the nature of loans, secured or unsecured, to any entity (as against the parties covered under Section 189 of the Act in the erstwhile clause), additional reporting is required for:

- ▶ Loans or advances in the nature of loans granted, guarantees provided or security given to any other entity (applicable to all companies other than those who are in the principal business of giving loans); if so, report aggregate amount during the year and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to (a) subsidiaries, joint ventures and associates and (b) other parties, separately.
- ▶ Whether investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are prejudicial to the company's interest.
- ▶ Where any loan or advance in the nature of loan granted, which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, additional disclosure with respect of renewal of loans /extension of loans/ existing loans settled by granting fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year is required to be made (not applicable to companies whose principal business is to give loans).

## 5. Overview of CARO 2020

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- ▶ Where the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, reporting on the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to promoters, related parties as defined in section 2(76) of the Act.

### Property plant and equipment

- ▶ New reporting on maintenance of proper records showing full particulars of intangible assets.
- ▶ Additional disclosures and reporting requirements for revaluation of PP&E (including Right of use assets) and intangible assets undertaken during the year; specific reporting on revaluation of 10% or more in aggregate net carrying value of each class of PP&E or intangible assets; reporting as to whether such revaluation is based on valuation by a registered valuer.
- ▶ Proceedings initiated or pending against the company for holding any benami property defined under Benami Transactions (Prohibition) Act, 1988.

### Core investment companies, non-banking financial companies and housing finance companies

- ▶ Any non-banking financial 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 fulfill such criteria.
- ▶ Total number of CICs which are part of a group, in case, the number of CIC is more than one.

### Nidhi company

- ▶ Reporting on default in payment of interest on deposits or repayment thereof for any period.

### Fraud

- ▶ Whether auditor has reported under Section 143(12) by filing Form ADT-4 with the Central Government.

- ▶ Whether whistle blower complaints received during the year by the company have been considered by the auditors.

### Internal audit reports

- ▶ New reporting on the internal audit system of the company being commensurate with the size and nature of the business of the company and whether reports of internal auditors considered by statutory auditor. This requirement has been reinstated from CARO 2003.

### Resignation of statutory auditors

- ▶ Incoming statutory auditors to report on consideration of concerns/objections raised by outgoing statutory auditor of the company.

### Unrecorded income subsequently recorded

- ▶ Reporting on any transactions not recorded in the books of account but surrendered/disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 and if such unrecorded income has been recorded in the books of account during the year.

### Corporate social responsibility

- ▶ Compliance of second proviso to section 135(5) of the Act – transfer of unspent amount to Fund as specified in Schedule VII (other than on going project).
- ▶ Reporting on compliance with the provision of section 135(6) of the Act – any amount remaining unspent under section 135(5) of the Act, pursuant to any ongoing project, has been transferred to special account.

It may be noted that second proviso to Section 135(5) and Section 135(6) of the Act are yet to be notified by the MCA.

### Consolidated financial statements

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

### Enhanced reporting from CARO 2016

#### Loans and Advances

- ▶ The ambit of reporting enhanced to include advances also. In respect of loans and advances in the nature of loans, reporting on whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular.
- ▶ If the amount of loans and advances is overdue, the total amount that is overdue for more than 90 days has to be disclosed. Besides this, it is important to report whether reasonable steps have been taken by the company for recovery of the principal and interest.

#### Property plant and equipment

- ▶ Aligned to the terminology used in Ind AS 16 and AS 10 on Property Plant and Equipment instead of Fixed Assets.
- ▶ Clarification on reporting on title deeds of all the immovable properties (other than leasehold properties where the company is the lessee and the lease agreements are duly executed in favor of the lessee).

#### Inventory

- ▶ Coverage and procedure of physical verification of inventory along with reporting whether discrepancies of 10% or more in the aggregate was noticed for each class of inventory and whether such discrepancies have been properly dealt in the books. Earlier, the clause required reporting with respect to only "material discrepancies" recorded in the books of account.

#### Fraud

- ▶ Earlier the reporting was restricted to fraud committed by the company or on the company by its officers or employees. Revised clause requires reporting on any fraud by the company or any fraud on the company, i.e., reporting on fraud is not limited to frauds by the officers or employees of the company while reporting under this clause.

#### Statutory dues

- ▶ Clarification on payment of undisputed Goods and service tax on account of introduction of Goods and Service Tax in India.
- ▶ Increase in reporting requirement with respect to all statutory dues which are disputed. Earlier the reporting was limited with respect to disputed income tax, sales tax or service tax or customs duty, excise duty or value added tax.

#### Deposits

- ▶ Slight modification has been made to the existing clause to include deemed deposits.

#### Preferential Allotment or private placement of shares or debentures

- ▶ Slight modification has been made to the existing clause to provide more clarity. Previously, only specific reference to section 42 of the Act for private placement of shares or debentures and no reference made to section 62 of the Act which deals with preferential allotment.

### Requirements carried forward with no modifications

#### Reporting under section 185 and 186

- ▶ In respect of loans, investments, guarantees and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.

#### Cost records

- ▶ Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

#### Nidhi company

- ▶ Whether the Nidhi company has complied with the net owned funds to deposits in the ratio of 1: 20 to meet out the liability.
- ▶ Whether the Nidhi company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.

#### Related party transactions

- ▶ Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the financial statements, etc. as required by the applicable accounting standards.

#### Non-cash transactions

- ▶ Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with.

#### Registration under section 45-IA of RBI Act

- ▶ Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

#### Public issue

- ▶ Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.

### Requirement not carried forward from CARO 2016

#### Managerial remuneration

- ▶ Subsequent to the amendment of section 197 of the Companies Act, 2013 in September 2018, the clause on reporting on managerial remuneration paid/provided in accordance with the requisite approvals mandated by the provisions of

Section 197 is required to be reported under Other Legal and Regulatory Requirements section of the audit report along with CARO 2016, thereby leading to duplicity. CARO 2020 has removed the duplicity of this reporting requirement.





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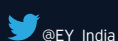
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