



Amendments to Schedule III

Division II (Ind AS)

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Amendments in Schedule III Division II (Ind AS)

Ministry of Corporate Affairs (MCA) has brought value adding disclosures in Schedule III of the Companies Act, 2013 vide notification dated March 24, 2021. These will provide vital information to stakeholders which was otherwise not available to stakeholders. Amendments have been made in all three divisions i.e. Division I, Division II and Division III. In this document we have discussed amendments in Division II which is applicable to companies following Indian Accounting Standards (Ind AS). Even though we have discussed Division II but requirement in Division I is more or less similar.

Disclosures in Financial Statements: Primary sources for disclosures in Financial Statements are:

- Indian Accounting Standards (Ind AS)
- Schedule III of the Companies Act, 2013
- Provisions of Companies Act (such as 186 of the Companies Act, 2013)
- MSME Act (for MSME disclosures)

Applicability: Changes made in Schedule III will be applicable for Financial Statements prepared for FY 2021-22 but because comparative figures for 2020-21 will be required to be disclosed in FY 2021-22 therefore these changes should be considered while finalizing financials of current financial year also.

Purpose of Amendments: To bring more transparency and enhanced disclosures in financial statements. These amendments have certainly added more value to financial statements. Some of the amendments have been made to align with CARO, 2020.

Schedule III prescribes format Financial Statements and various disclosures to be made in Financial Statements. These disclosures are in addition to disclosures requirement of Ind AS. Ind AS does not provide format for Financial Statements. Had there been no prescribed format of Financial Statement then every company would have chosen its own format of Financial Statements therefore Schedule III has provided us format of financial statements for better presentation and comparison.

S.No.	Description	Comments
1	<p>Trade Receivables: Ageing schedule has to be given in the following bucket:</p> <ul style="list-style-type: none"> - Less than 6 Months - 6 Months to 1 Year - 1 to 2 years - 2 to 3 years - More than 3 years <p>Notes:</p> <ol style="list-style-type: none"> 1. Ageing for disputed and undisputed balance to be given separately. 2. Ageing has to be computed from due date of payment but if due date is not prescribed then from the date of transaction. 3. Unbilled dues shall be disclosed separately which means that unbilled receivables are required to be disclosed separately. 	<ul style="list-style-type: none"> • Ageing schedule has been added in Schedule III now but Management has always been reviewing this in its monthly / quarterly review meetings. Now stakeholders will also get to know since when the amount is receivable. This is very important information for stakeholders. • Though it is not specifically mentioned but where the amount is due for more than let's say 1 year then management should provide reasons for the same. • If the amount is due for a long period but the same is not received then it raises a question

		<p>whether transaction was genuine or whether the customer's financial health is such that it can pay the dues.</p> <ul style="list-style-type: none"> • Dispute is not defined, in our view it may legal dispute as well as other disputes. • Stakeholders will get to know the quantum of unbilled receivables out of total receivables.
2	<p>Trade Payables: Ageing schedule has to be given in the following bucket:</p> <ul style="list-style-type: none"> - Less than 1 Year - 1 to 2 years - 2 to 3 years - More than 3 years <p>Notes:</p> <ol style="list-style-type: none"> 1. Ageing for disputed and undisputed balance to be given separately. 2. Ageing has to be computed from due date of payment but if due date is not prescribed then from the date of transaction. 3. Unbilled dues shall be disclosed separately which means that accrual of expenses or any other unbilled dues has to be disclosed separately. 	<ul style="list-style-type: none"> • Ageing schedule has been added in Schedule III now but Management has always been reviewing this in its monthly / quarterly review meetings. Now stakeholders will also get to know since when the amount is payable. This is very important information for stakeholders. • One thing to be noticed is that ageing bucket for trade payable is not same as trade receivables. • Though it is not specifically mentioned but where the amount is due for more than let's say 1 year then management should provide reasons for the same. • If the amount is due for a long period but the same is not received then it raises a question whether transaction was genuine. • Dispute is not defined, in our view it may legal dispute as well as other disputes.
3	<p>Capital Work-in-progress (CWIP) and Intangible assets under development (IAUD): Ageing schedule for CWIP and IAUD has to be given in the following bucket:</p> <ul style="list-style-type: none"> - Less than 1 Year - 1 to 2 years - 2 to 3 years - More than 3 years <p>Note: Ageing is to be given for "Projects in progress" and "Projects temporarily suspended"</p> <p>For CWIP / IAUD, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP / IAUD completion schedule shall be given, Project to be completed in:</p>	<ul style="list-style-type: none"> • Ageing of CWIP / IAUD will give information since when the projects are running. • Capital projects may take long period to complete even more that 5 years but here they have asked for very crucial information which is overrun in terms of cost and timing both. If the project is completion is overdue or has exceeded its cost compared to its original plan then ageing schedule is also to be disclosed. • If the amount is lying in CWIP/IAUD then expenses

	<ul style="list-style-type: none"> - Less than 1 Year - 1 to 2 years - 2 to 3 years - More than 3 years <p>Note: Details of projects where activity has been suspended shall be given separately</p>	<p>(including borrowings costs) related to the project are debited to the project (CWIP/ IAUD) and depreciation is also not charged on CWIP/IAUD.</p> <ul style="list-style-type: none"> • Details of suspended projects are also asked for, if the project is suspended then expenses (including borrowing costs) capitalisation is to be checked. • Suspension of projects may also trigger impairment provision which need to be checked.
4	<p>Title deed for Immovable properties: Where title deed of any immovable property is not in the name of the Company, then following disclosure has to be given:</p> <ul style="list-style-type: none"> - 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 - <i>Reason for not being held in the name of the company</i> 	<ul style="list-style-type: none"> • This has been aligned with requirement of CARO. Earlier only auditors were required to report in its Auditor's report. Now, first Management has to disclose in Financial Statements and then auditors have to verify the same report in CARO. • If the title deed is not in the name of the Company, then they have asked for reason as well
5	<p>Ratios: The Company has to disclosure following ratios:</p> <ul style="list-style-type: none"> - Current Ratio - Debt-Equity Ratio, - Debt Service Coverage Ratio - Return on Equity Ratio - Inventory turnover ratio - Trade Receivables turnover ratio - Trade payables turnover ratio - Net capital turnover ratio - Net profit ratio - Return on Capital employed - Return on investment <p>Notes:</p> <ol style="list-style-type: none"> 1. The company shall explain the items included in numerator and denominator for computing the above ratios. 2. Explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year 	<ul style="list-style-type: none"> • At present, stakeholders such as bankers and investors used to compute these ratios to analyze the financial strength of the Company. Now, company has to disclose these ratios in its financial statements itself. • The best part is that reasons for variation of more than 25% is also to be disclosed. This has added a lot of value to the financial statements. • Formulas for computation of these ratios are not given in the Schedule III, we hope that either MCA or ICAI in its guidance note would provide formula of computation of these ratios because this will make comparison between two companies easy.

6	<p>Corporate Social Responsibility (CSR): Following disclosure for CSR has to be given:</p> <ul style="list-style-type: none"> - amount required to be spent by the company during the year - amount of expenditure incurred - shortfall at the end of the year - total of previous years shortfall - reason for shortfall - nature of CSR activities - details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard - where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately. 	<ul style="list-style-type: none"> • These changes are in line with recent changes in provisions of CSR. • Earlier, if the Company was not able to spend complete amount of CSR, then the fact was required to be disclosed in Board's report but now the Company will have to spend the shortfall amount in subsequent years.
7	<p>Loans Given (ICD): Loans granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013), which are either repayable on demand or without specifying any terms or period of repayment then following disclosure will be made:</p> <ul style="list-style-type: none"> - Amount of loan or advance in the nature of loan outstanding - Percentage to the total Loans and Advances in the nature of loans 	<p>There is a clause in CARO which requires auditors to report on "<i>whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular</i>" and "<i>if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest</i>". It was noticed that Company used to mention in the loan agreements that loans are repayable on demand. Now, Companies are required to disclose proportion of such loans.</p>
8	<p>Utilization of Borrowed Funds: 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.</p>	<ul style="list-style-type: none"> • There are two clauses in CARO, 2020 on utilization of funds "<i>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</i>" and "<i>whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated</i>".

		<ul style="list-style-type: none"> • Earlier, only auditors were required to report on utilization of funds but now management has to report first in the Financial Statements and then the Auditor has to report.
. 9	Bank returns (Stock Statements): Bank returns / stock statements filed by the Company with its bankers should be in agreement with books of account. If the same is not in agreement with books of account, then reconciliation has to be provided in Financial Statements.	<ul style="list-style-type: none"> • Banks were noticing variations in returns furnished by Companies to them and books of account therefore a new clause was added in CARO, 2020. • Now, the Management has to report first in Financial Statements and then auditors have to verify and report in its CARO report.
10	Registration of charges or satisfaction: Where any charges or satisfaction yet to be registered with ROC beyond the statutory period, details and reasons thereof shall be disclosed.	The Company has to make sure that ROC forms for charge creation / satisfactions are filed within time limit.
11	Finance Lease Liability (Current and Non-current): Finance lease liabilities are currently disclosed under Borrowings, now the same has be disclosed separately on face of Balance Sheet.	Change is presentation on face of Balance Sheet
12	Current maturities of Non-current borrowings: At present, Current maturities of Non-current borrowings are disclosed under "Other Current Financial Liabilities". Now, the same has to be disclosed under "Current Borrowings"	This is more logical presentation because Current maturities of Non-current borrowings are also part of borrowings itself.
13	Security Deposits Given: Currently, security deposits given can be classified into two categories i.e., "Loans" and "Other financial assets" depending upon nature of security deposit. Now, the same has to be disclosed under "Other financial assets" only.	This is more logical presentation because security deposit is not loan by nature.
14	Promoters Shareholding: At present, shares held by shareholders holding more than 5% needs to be disclosed. Now, disclosure of promoters' shareholding will also be disclosed.	Stakeholders will get to know about promoters holding.
15	Relationship with Struck off Companies: Where the company has any transactions with companies struck off under the Companies Act, then the Company has to disclose following: <ul style="list-style-type: none"> - Name of struck off Company 	The Company has to download the list of Struck off companies from MCA website and then find if any customers' / vendors' / any other parties' name is appearing in that

	<ul style="list-style-type: none"> - Nature of transactions with struck-off Company (Investments in securities, Receivables, Payables, Shares held by stuck off company, Other outstanding balances) - Balance outstanding - Relationship with the Struck off company, if any, to be disclosed 	list or not. If yes, then disclosure is to be made.
16	<p>Surrendered income: The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and shall also state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.</p>	If any income is surrendered by the Company under Income tax law, then disclosure of same has to be made in Financial Statements.
17	<p>Revaluation of Property, Plant and Equipment / Intangible assets: If change due to revaluation is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment / Intangible assets then the same needs to be disclosed separately.</p>	
18	<p>Valuation of Investment Property, Property Plant and Equipment and Intangible Assets: Where the Company has revalued its PPE / IA or fair valued investment property for disclosure purpose, the company shall disclose as to whether the revaluation / fair valuation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.</p>	
19	<p>Utilization of Borrowed funds and share premium (Diversion of Funds) <i>(Case 1: Where the Company has made investment / given loan)</i></p> <p>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:</p> <p>(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</p> <p>(ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries</p>	<ul style="list-style-type: none"> • This disclosure has been included after witnessing diversion of borrowed funds made by companies in recent past. • In my humble view if any company is doing such a malpractice, then it will not make this disclosure on its own and it is the auditor who has to check utilization of funds ultimately from financials of investee company. • Linkage with Section 186(4) of the Companies Act, 2013: <i>“The company shall disclose to the members in the financial statement the full particulars of</i>

the company shall disclose the following:

- date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary
- date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- declaration that relevant provisions of the Foreign Exchange Management Act, 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002

Example Case-1: Company A has given Loan to Company B (Intermediary company) and there is an understanding that Company B will give loan to Company C (Ultimate Beneficiary Company), then Company A will provide above disclosures in its Financials

(Case 2: Where the Company is Intermediary Company)

Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (**whether recorded in writing or otherwise**) that the company shall

- (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 alongwith complete details of the other intermediaries' or ultimate beneficiaries
- date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- declaration that relevant provisions of the Foreign Exchange Management Act, 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002.

Example Case-2: Company A has given Loan to Company B (Intermediary company) and there is an understanding

the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security”

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

	that Company B will give loan to Company C (Ultimate Beneficiary Company), then Company B will provide above disclosures in its Financials.	
20	Wilful Defaulter: Where a company is a declared wilful defaulter by any bank or financial Institution or other lender, following details shall be given: <ul style="list-style-type: none"> - Date of declaration as willful defaulter - Details of defaults (amount and nature of defaults) 	
21	Benami Property: Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, then certain disclosures need to be made in the Financial Statements.	
22	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’. Any deviation in this regard shall be explained.	
23	Compliance with number of layers of companies: Where the company has not complied with the number of layers prescribed under clause (87) of section 2 of the Act read with the Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies beyond the specified layers and the relationship or extent of holding of the company in such downstream companies shall be disclosed.	
24	Statement of Changes in Equity (SOCIE): Previous year figures have been incorporated in the format.	Though, previous year figures have been incorporated now but Companies were already disclosing previous year figures.
25	Rounding Off: Earlier rounding off criteria was based on “Turnover” now the same has been changed to “Total Income”.	
26	Crypto Currency: Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, certain disclosures have to be made in respect of same.	