

## Small Company Definition amendment and it's impacts :

The second amendment to the definition of Small Companies in the last 18 months. Earlier, the definition was amended in the Budget 2021 which was effective from 1st April, 2021. Now the amendment in definition of small company is effective from 15.09.2022.

### **Eight Advantages of a small company :**

1. No need to prepare Cash Flow Statement as a part of Financial Statements.
2. Exemption to CARO 2020 Reporting.

Important considerations in relation to the provisions of CARO Reporting and Small Companies definition:

The limit of Rs. 4 crores as per 2(85) (Small Company definition) is for Paid Up Capital, whereas the limit of Rs. 1 crore in case of CARO Reporting is the combined total of Paid Up Capital and Reserves and Surplus. The turnover limit of Rs. 40 crores in case of Small Company definition is to be checked for the immediately preceding financial year, whereas the limit of Rs. 10 crores is to be checked during the financial year.

3. Mandatory rotation of auditor not required.
4. An Auditor of a Small Company is not required to report on the adequacy of the internal financial controls and its operating effectiveness in the Auditor's Report.
5. Holding of only two board meetings in a year.
6. Advantage of preparing and filing an abridged annual return.

One of the key highlights of Form MGT-7A is that Details of directors and KMP i.e., the composition of the board of directors, details of directors and KMP are not required in the abridged form. Also, where other companies require providing details of remuneration to directors and key managerial personnel, small companies are required to provide details of the only aggregate amount of remuneration drawn by directors in their annual return.

7. Annual Return of the company can be signed by the company secretary, or where there is no company secretary, by a director of the company.

8. Lesser penalties for small companies