

MCA Schedule III Amendments as announced in March 2021 to be effective from 1st April 2021 onwards

The amendment rules were announced by MCA (Ministry of Company Affairs) under Schedule III of the Companies Act, 2013 w.e.f (with effect from) from 1st April 2021. These rules were introduced to ensure more transparency in the company through an increased disclosure in the financial statements and notes to accounts.

Schedule III of the Companies Act, 2013, provides the framework for preparing financial statements such as the Balance Sheet and the Statement of Profit and Loss of the company. Hence, the changes announced are important as they directly impact how you would prepare your company's financial statements.

The following changes have been notified in Schedule III of the Companies Act, 2013:

1. Earlier companies had to round off the figures appearing in the financial statements based on "turnover"; however, based on the latest amendment rounding off will be based on the "total income" of your company.

2. The notes under the balance sheet are subject to additional disclosures as mentioned below:

- A. The note on share capital has to disclose the details of shareholding of the promoters, along with changes, if any.

Suppose your company has borrowed funds from banks (while providing its current assets as collateral).

B. The company needs to disclose if the books of accounts tally with the quarterly or monthly returns filed with the respective banker. In case there is a discrepancy, a separate reconciliation statement needs to be provided.

C. Further, where the funds borrowed from banks and other financial institutions are not used for the specific purpose for which it was borrowed, then the reasons for the same have to be disclosed at the balance sheet date.

D. If the Property Plant and Equipment has been re-evaluated, the company needs to disclose if the valuation was done by a registered valuer.

E. In case your company has granted loans to its promoters, directors, KMPs (Key Managerial Persons), and related parties, the same has to be disclosed. Also, details of the loans given to promoters should be mentioned as a percentage of the total outstanding loans of the company.

F. As per the rules, a company needs to disclose how the borrowed funds have been utilized.

G. Disclosure of share premium has to be given. In case there is a change of more than 25% compared to the preceding financial year, the details of the same have to be mentioned.

3. The amendment rules require that an aging schedule has to be maintained for the following items appearing in your financial statements:

- A. Trade receivables
- B. Trade payables
- C. Capital-work-in progress
- D. Intangible assets under development

4. The amendment rules have mentioned the reclassification of certain items in the financial statements, namely:

A. Current maturities of long-term borrowings are required to be disclosed separately under the head 'Short Term Borrowings'. Before the amendment, it was disclosed under 'Other Current Liabilities'.

B. Earlier security deposits were classified under 'Long term loans and advances' w.e.f 1st April 2021, they shall be reclassified as 'Other Non- Current Assets'.

5. Further, the rules state that you need to disclose the following ratios:

- A. Current Ratio
- B. Debt-Equity Ratio
- C. Debt Service Coverage Ratio

- D. Return on Equity Ratio
- E. Trade payables turnover ratio
- F. Trade Receivables turnover ratio
- G. Inventory turnover ratio
- H. Net capital turnover ratio
- I. Net profit ratio
- J. Return on Capital employed
- K. Return on investment

6. Few additional disclosures that have to be included in the financial statements are as follows:

A. Your company is required to provide the details of all immovable property;

a. Where your company does not hold the title deed and

b. Where immovable property is jointly held with other parties.

c. Also, details regarding the extent of the company's share in such jointly held property need to be disclosed.

Exception:

The only exception to the above rule is if your company is the lessee and the lease agreements are duly executed in favor of the company.

B. Suppose proceedings that have been initiated against your company or pending against your company for holding any Benami property under the Benami Transactions (Prohibition) Act, 1988; relevant disclosures have to be made.

C. If a company has been declared a wilful defaulter by any bank or financial institution, or other lender, details of the same must be mentioned.

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

E. If your company has not registered any charges with the Registrar of Companies and the delay has extended beyond the statutory period, details and reasons must be disclosed.

F. If your company has received funds from any persons or entities (including foreign entities) to invest or provide any guarantee, security to third parties or to lend it to another party, the same has to be disclosed by the company.

G. In case a scheme of arrangement has been approved, relevant disclosure has to be made, such as:

a. The effect of such arrangement on the books of accounts of your company.

b. If there is any deviation from the accounting standards while giving effect to the scheme, the reasons for such deviation have to be explained.

7. Now monthly or quarterly stock and book debt statements as submitted by borrower company to their bankers including aging schedule if any has to be tallied with books of accounts. If discrepancy found, statutory auditors need to attach reconciliations with AFS.

Conclusion

The main aim of the amendments in Schedule III of the Companies Act, 2013 is to improve the transparency in the financial statements of the company. This will help the person reading these statements get a better understanding of the functioning of the company. It is applicable to all companies w.e.f. 1st April 2021.