CHAPTER 1

Key revisions to Schedule III to the Companies Act, 2013

This article aims to:
Provide an overview of the recent changes introduced to the Schedule III to the Companies Act, 2013.

Introduction

Schedule III to the Companies Act, 2013 (2013 Act) provides general instructions for presentation of financial statements of a company under both Accounting Standards (AS) and Indian Accounting Standards (Ind AS). Schedule III has three parts and they are as follows:

- **Division I:** Applicable to companies whose financial statements are required to comply with Companies AS Rules, 2006 (for companies following AS)
- **Division II:** Applicable to companies whose financial statements are required to comply with Companies Ind AS Rules, 2015 (for companies following Ind AS other than NBFCs)
- **Division III:** Applicable only to NBFCs[1] whose financial statements are required to comply with Companies Ind AS Rules, 2015.

1. Non-Banking Financial Company (NBFC) means a NBFC as defined in Section 45-I(f) of the Reserve Bank of India Act, 1934 and includes housing finance companies, merchant banking companies, micro finance companies, mutual benefit companies, venture capital fund companies, stock broker or sub-broker companies, nidhi companies, chit companies, securitisation and reconstruction companies, mortgage guarantee companies, pension fund companies, asset management companies and core investment companies.

Overview of the amendments

On 24 March 2021, the Ministry of Corporate Affairs (MCA) amended Schedule III to the 2013 Act. The amendment enhances the disclosures required for the preparation of the financial statements.

The amendments to Schedule III are applicable from 1 April 2021.

The following section provides an overview of the changes made to the respective divisions of the Schedule III to the 2013 Act.

Key changes applicable to Division I, II and III

Balance sheet and related notes section

- **Trade payables:** Disclose trade payables ageing schedule in the following format:

(Amount in INR)

Particulars	Outstanding for following periods from due date of payment*				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
i. MSME**					
ii. Others					
iii. Disputed dues-MSME					
iv. Disputed dues-Others					

*In the absence of due date of payment, above disclosure to be provided from the date of the transaction. Also, unbilled dues should be disclosed separately.
**Micro, Small and Medium Enterprises.

- **Trade receivables:** Disclose trade receivables ageing schedule in the following format:

(Amount in INR)

Particulars	Outstanding for following periods from due date of payment*					Total
	Less than 6 months	6 months-1 year	1-2 years	2-3 years	More than 3 years	
i. Undisputed Trade Receivables-considered good						
ii. Undisputed Trade Receivables-considered doubtful						
iii. Disputed Trade Receivables-considered good						
iv. Disputed Trade Receivables-considered doubtful						

*In the absence of due date of payment, above disclosure to be provided from the date of the transaction. Also, unbilled dues should be disclosed separately.

- **Change due to revaluation:** Disclose details in relation to amount of change due to revaluation for Property Plant and Equipment (PPE) and intangible assets (if change is 10 per cent or more in the aggregate of the net carrying value of each class of PPE/intangible assets).

- **Additional note on share capital:** Disclose 'shareholding of promoters' in the note on share capital in the notes to balance sheet as per following format:

Shares held by promotes at the end of the year				Percentage of change during the year
S. No	Promoter name	No. of shares	Percentage of total shares	
Total				

- **Use of funds:** If a company has not used funds for the specific purpose for which they were borrowed from banks and financial institutions, then details of where they have been used has to be disclosed in the notes to the balance sheet.

- **Regulatory information:** New disclosure requirements under the head additional regulatory information to be provided in the notes to the balance sheet. It relates to:
  - ***Title deeds of immovable property:*** Title deeds of immovable property not held in the name of the company in the prescribed format which, *inter alia*, would include details of title deed held in the name of, held since date, reasons for not being held in the name of the company, etc.
  - ***Valuation by registered valuer:*** Fair value of investment property or revaluation of PPE/ intangible assets (if any) is based on the valuation by a registered valuer as defined per valuation rules.
  - ***Loans and advances:*** Loans and advances granted in the nature of loans to promoters, directors, Key Managerial Personnel (KMPs) and the related parties, repayable on demand or granted without specifying terms in the prescribed format.
  - ***Ageing schedule:*** Ageing schedule for Capital Work in Progress (CWIP)/Intangible Assets Under Development (IAUD) (including whose completion is overdue or has exceeded its cost compared to its original plan) in the prescribed format.
  - ***Benami property:*** Details of benami property held in terms of amount, beneficiaries, reference in the balance sheet, details of proceedings against the company along with status/nature, etc.

- ***Borrowings against security of current assets:*** In case of borrowings from banks or financial institutions on the basis of security of current assets, disclose details relating to quarterly returns and summary of reconciliations.
- ***Wilful defaulter:*** If a company is declared as a wilful defaulter by any bank or financial institution, then disclose the date of declaration as defaulter and details of defaults (amount and nature of defaults).
- ***Scheme of arrangement:*** Disclose the effect of schemes of arrangements, if any, that have been accounted in accordance with the schemes approved by the competent authority and accounting standards and any deviation thereof, to be explained.
- ***Struck-off companies:*** Details of relationship with struck-off companies such as name, nature of transaction, balance outstanding, etc. in a prescribed format.
- ***Layer of companies:*** Reasons for non-compliance with provision related to number of layers of companies under Section 2(87) of the 2013 Act.
- ***Utilisation of borrowed funds and share premium:*** Detailed disclosure where a company has advanced/loaned/invested funds (borrowed funds/share premium/any other sources or kind of funds) to intermediaries with the understanding (in writing or otherwise) that the intermediary would:
  - Directly/indirectly lend or invest in ultimate beneficiaries or
  - Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries.

  Also, similar disclosure would be required in case of receipt of funds from a funding party.
- ***Registration of charges:*** Disclosure of charges or satisfaction yet to be registered with the Registrar of Companies (ROC) beyond the statutory period along with details and reasons thereof.

Statement of profit and loss

Introduction of additional regulatory information to be provided in the notes to the statement of profit and loss as follows:

- **Undisclosed income:** Provide details of undisclosed income in terms of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income in the tax assessment.
- **Corporate Social Responsibility (CSR):** Details of CSR including amount required to be spent/spent/shortfall/previous years' shortfall/reasons for shortfall/nature of CSR, etc.
- **Virtual currency:** Details of crypto currency or virtual currency, if traded, in terms of profit/loss on transactions, amount of currency held at reporting date, deposits or advances from any person for trading in crypto/virtual currency.

Other key changes

Division I

Balances sheet and related notes section

- **Long-term borrowings:** Disclose 'current maturities of long-term borrowings' under the heading 'short term borrowings schedule'. Earlier it was disclosed under 'other current liabilities' head.
- **Security deposits:** Disclose security deposits under the heading 'other non-current assets'. Earlier security deposits were disclosed as part of 'long-term loans and advances'.
- **Ratios:** Disclose certain ratios in the notes and explain the items included in numerator and denominator of those ratios. Those ratios are:
  - i. Current ratio
  - ii. Debt service coverage ratio
  - iii. Return on equity ratio
  - iv. Trade payables turnover ratio
  - v. Net capital turnover ratio
  - vi. Net profit ratio
  - vii. Return on capital employed
  - viii. Return on investment.

Division II

Balances sheet and related notes section

- **Long-term borrowings:** Disclose 'current maturities of long-term borrowings' under the heading 'short term borrowings schedule'. Earlier it was disclosed under 'other current liabilities' head.

- **Lease liabilities:** Disclose current and non-current portion of lease liabilities under the head 'current and non-current financial liabilities' on the face of the balance sheet. Earlier this disclosure was under the head 'borrowings' for non-current portion and 'other financial liabilities' for current portion.
- **Other financial assets:** Disclose 'other financial assets' in the notes. This is a new requirement and it will include following line items:
  - Security deposits
  - Bank deposits for more than 12 months maturity
  - Others (to be specified).
- **Ratios:** Disclose certain ratios in the notes and explain the items included in numerator and denominator of those ratios. Those ratios are:
  - Current ratio
  - Debt service coverage ratio
  - Return on equity ratio
  - Trade payables turnover ratio
  - Net capital turnover ratio
  - Net profit ratio
  - Return on capital employed
  - Return on investment.

Statement of changes in equity

- **Equity:** Disclose additional line items in the statement of changes in equity such as:

  a. Changes in equity share capital due to prior period errors and

  b. Restated balance at the beginning of the current reporting period.

  Additionally, the entire disclosure for equity is to be given for prior period as well.
- **Defined benefit plans and financial liabilities:** Schedule III now provides an option to present remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at Fair Value Through Profit or Loss (FVTPL) as a separate column under 'reserves and surplus'. Earlier this information could be given only as a note.

Division III

Balances sheet and related notes section

- **Ratios:** Disclose certain ratios in the notes and explain the items included in numerator and denominator of those ratios. Those ratios are

  i. Capital to Risk-weighted Assets Ratio (CRAR)

  ii. Tier I CRAR

  iii. Tier II CRAR

  iv. Liquidity coverage ratio.

- **Lease liabilities:** Disclose current and non-current portion of lease liabilities under the head 'current and non-current financial liabilities' on the face of the balance sheet.

Statement of changes in equity

- **Equity:** Disclose additional line items in the statement of changes in equity such as:

  a. Changes in equity share capital due to prior period errors and

  b. Restated balance at the beginning of the current reporting period.

  Additionally, the entire disclosure for other equity is to be given for prior period as well.
- **Defined benefit plans and financial liabilities:** Schedule III now provides an option to present remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at Fair Value Through Profit or Loss (FVTPL) as a separate column under 'reserves and surplus'. Earlier this information could be given only as a note.

Consider this

The recent amendments to Schedule III mandate enhanced disclosures in the financial statements by a company. The amendments to presentation and disclosure requirements are aimed at enabling the higher level of corporate governance and additional tools with the regulators to ensure closer observation on the financial transactions of a company.

- **Amendments are aligned with the Companies (Auditor's Report) Order, 2020 (CARO 2020):** The amendments to Schedule III are largely driven by requirements relating to CARO 2020. This is an important and imperative step from MCA as several companies in India are in the process of complying with the requirements of CARO 2020 from 1 April 2021. Some of the key requirements aligned with the CARO 2020 clauses are:

  a. Disclosure regarding revaluation of PPE/ intangible assets

  b. Loans or advances granted to promoters, directors, KMPs and the related parties

  c. Disclosure of title deeds of immovable property not held in name of the company

  d. Details of benami property held

  e. Details if a company has not used funds for the specific purpose for which it was borrowed from banks and financial institutions

  f. Specified details such as quarterly returns and summary of reconciliations in case of borrowings being taken from banks or financial institutions on the basis of security of current assets

  g. New disclosures relating to undisclosed income and CSR under the head 'additional information' in the notes to the statement of profit and loss.

- **Amendment relating to disclosure of lease liabilities:** The amended Schedule III requires lease liabilities to be disclosed separately under the head financial liabilities. The amendment removes the anomaly as prior to the amendment Schedule III required finance lease obligations to be disclosed under borrowings. However, Ind AS 116 requires disclosure of lease liabilities separately from other liabilities. The amendment to Schedule III has been introduced in order to maintain uniformity in relation to presentation and disclosure requirement of Ind AS 116.

- **Ratios in the board's report:** Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) requires disclosure by listed entities in their board's report of various ratios such as inventory turnover ratio, interest coverage ratio, debt equity ratio, net profits ratio, etc. Thus, disclosure of ratios specified under Schedule III would be in addition to the requirements of the Listing Regulations.

  Further, the additional disclosures would also enable an auditor to comment on the solvency status of the company, going concern assessment and its capability of meeting its liabilities existing at the balance sheet date on the basis of the newly introduced financial ratios, ageing of trade receivables/trade payables and expected dates of realisation of financial assets and payment of financial liabilities.

- **Virtual currency:** Introduction of disclosure requirement of crypto or virtual currency is an important step towards regulating digital assets in India and is expected to bring in a lot of transparency in reporting in such direction.

Next steps

The amended Schedule III intends to enhance the transparency in reporting by companies in India. Companies in India should start evaluating and assess the additional lines items to be presented/disclosed in the financial statements.