



## MCA amends order regarding information about payments to MSE suppliers

8 August 2024

### First Notes on

- Financial reporting
- Corporate law updates
- Regulatory and other information**
- Disclosures

### Sector

- All**
- Banking and insurance
- Information, communication, entertainment
- Consumer and industrial markets
- Infrastructure and government

### Relevant to

- All**
- Audit committee
- CFO
- Others

### Transition

- Immediately**
- Within the next three months
- Post three months but within six months
- Post six months
- Forthcoming requirement

## Introduction

Micro and Small Enterprises (MSEs)<sup>1</sup> play a pivotal role in the Indian economy. MSEs contribute a significant percentage to the country's Gross Domestic Product (GDP) as well as employ a sizeable portion of the country's total population, particularly belonging to the informal sector. Despite their significant contributions to the economy, one of the key challenges faced by such entities relates to the inadequate availability of funds, primarily due to delayed realisation of dues from the buyers.

Over the years, numerous instances have come to light of delayed payments to MSEs, thereby affecting their overall financial stability. In order to address these issues, the Government has introduced several measures to enable timely realisation of dues to the MSEs. The below infographic illustrates some of the key measures introduced in this regard:

### Chapter V, Section 15 of the MSME Development Act, 2006

Payment to MSEs to be made within 45 days (in case of written agreement between the buyer and the entity)

### Penalties in case of delayed payments to MSEs

In case of delayed payments to MSEs, buyers to pay compound interest at a rate three times the RBI's bank rate

### Amendment introduced by the Finance Act, 2023

Clause (h) to Section 43B of the Income Tax Act: Companies disallowed from deducting expenses from taxable income with respect to goods and services acquired from MSEs, wherein payments not settled within 45 days

### MCA prescribes enhanced disclosures on dues to MSEs

MCA amends the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019

<sup>1</sup> As per the Ministry of Micro, Small and Medium Enterprises, Government of India, 'micro enterprises' refer to the enterprises having investment in plant and machinery or equipment less than or equal to INR1 crore, and annual turnover of less than or equal to INR5 crore. 'Small enterprises' are those enterprises whose investment in plant and machinery or equipment is less than or equal to INR10 crore, and annual turnover is less than or equal to INR50 crore.

Recently, the Ministry of Corporate Affairs (MCA) issued the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Amendment Order, 2024 ('the Amendment Order 2024'), thereby amending the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 ('the erstwhile order').

This issue of First Notes aims to provide an overview of the key changes introduced by MCA through the Amendment Order 2024.

## Amendments introduced – An overview

Paragraph 3 of the erstwhile order provides that every specified company should file a return as per MSME Form I (specifying the details of all outstanding dues to MSEs) by 31 October for the period from April to September and by 30 April for the period from October to March. In this regard, MCA, through the Amendment Order 2024 has introduced two key changes. These are discussed below:

- **Applicability:** The Amendment Order 2024 states that **only** such specified companies which are having payments pending to any MSEs for more than 45 days from the date of acceptance or deemed acceptance of goods or services should furnish the information required in MSME Form I.
- **New Disclosures:** Through the Amendment Order 2024, MCA has revised the MSME Form I, thereby requiring the specified companies to make comprehensive disclosures with respect to amounts due to MSEs. The updated information required to be disclosed as part of the MSME Form I has been specified below:

Sno	Name of MSME supplier	PAN of the supplier	Paid within 45 days <sup>(NEW)</sup>		Paid after 45 days <sup>(NEW)</sup>		Outstanding for 45 days or less <sup>(NEW)</sup>		Outstanding for more than 45 days <sup>(NEW)</sup>		Reason for delay in payment/ amount outstanding		
			Through TReDS* (i)		Other mode of payments (ii)		No.	Amount (Rs.)	No.	Amount (Rs.)		No.	Amount (Rs.)
			No.	Amount (Rs.)	No.	Amount (Rs.)							
	<b>Total</b>												

\*TReDS: Trade Receivables Discounting System

NEW: New columns added in the revised Form MSME Form I

As per the erstwhile requirements, buyers need to disclose information relating to **amount due**, **date from which the amount is due** along with the **reason for delay**. The revised information requirements as specified in the Amendment Order 2024 are comprehensive and require disclosure of the **ageing of dues** as well.

**Effective Date:** The Amendment Order 2024 has come into force from the date of publication in the Official Gazette, i.e., 15 July 2024.

## Our comments

The implementation of the aforementioned changes is a significant step towards supporting the MSE sector and ensuring timely cash flow and financial stability. The buyer companies should recognise that supporting MSEs through timely payments isn't just a matter of compliance, but also a fundamental strategy towards fostering a robust and inclusive business ecosystem, strengthening supply chain resilience and enhancing trust with key business stakeholders.

<sup>2</sup> Specified companies are all companies, which get supplies of goods or services from MSEs and whose payments to MSE suppliers exceed 45 days from the date of acceptance or deemed acceptance of goods or services.

## Our comments (contd.)

A few key points for consideration on the changes introduced by MCA are discussed below:

- **Increase in compliance requirements:** The comprehensive information that companies (buyers) need to disclose in respect of the dues to MSEs would present some initial challenges for their businesses, including internal controls and MSE process adjustments, reworking of the credit cycle, cash flow management, additional administrative burden, etc.
- **Enhanced processes with respect to MSE payments:** Companies should take the necessary steps to enhance transparency and communication with the MSE suppliers with respect to payment timelines and expectations, resolution of any ongoing disputes, etc. The companies should develop appropriate control system to ensure timely payments to MSEs and reporting of information in respect of MSE dues to the regulators.
- **Evaluating the impact of non-compliances:** Management should evaluate the impact of any non-compliances in relation to MSE payments and/or any ongoing disputes with the suppliers on the financial statements, tax liabilities, amongst other things. For example, with effect from FY 2023-24 onwards, companies are disallowed from deducting expenses from the taxable income in relation to goods and services acquired from MSEs, if payments are not settled within 45 days (these will be allowed as expense in the year of payment). This would result in temporary difference/timing difference and hence, deferred tax asset would need to be recognised on the basis of principles defined in Ind AS/Accounting Standards.
- **Responsibility of management and audit committee:** The responsibility of effective implementation of the amendments introduced would rest with the executive management and the audit committee overseeing financial compliance. Audit committees may consider including the dues to MSEs as an agenda in their meetings, thereby exercising effective oversight towards reducing the overdue amounts.

## The bottom line

Companies should develop an action plan to ensure timely payment of dues to MSEs and reporting of information in respect of MSE dues to the regulators.



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## Missed an issue of Accounting and Auditing Update or First Notes?



### Issue no. 96 – July 2024

The topics covered in this issue are:

- Settlement by electronic payments
- Evolution of the offer document
- Regulatory updates

To access the publication, please click [here](#)



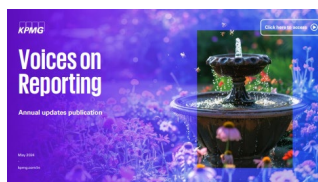
### RBI releases revised fraud risk management directions for Regulated Entities 30 July 2024

With an aim to promote better fraud risk management systems and framework in Regulated Entities (REs), on 15 July 2024, the Reserve Bank of India (RBI) has issued three revised master directions on fraud risk management, which are applicable to banks, Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies (HFCs)) and co-operative banks. In this First Notes, we have reviewed the revised master directions for banks and NBFCs (including HFCs). These two master directions are together referred to as revised MD.

The revised MD are principle-based and strengthen the role of the board of directors in the overall governance and oversight of fraud risk management in Regulated Entities (REs).

This issue of First Notes aims to provide an overview of the revised MD issued for banks and for NBFCs (including HFCs) and highlights the key changes as compared with the erstwhile master directions which they have been superseded.

To access the First Note, please click [here](#)



### KPMG in India is pleased to present Voices on Reporting (VOR) – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 8 July 2024, KPMG in India hosted a webinar to discuss the key updates from the Securities and Exchange Board of India (SEBI) and the International Accounting Standards Board (IASB).

To access the recording of the webinar, please click [here](#)

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