

Amendments to Schedule III of Companies Act, 2013 (Format of Financial Statements)

Background

The Ministry of Corporate Affairs ("MCA") vide notification dated 11 October 2018 has amended Schedule III to the Companies Act, 2013. All amendments will be applicable to the financial statements prepared in accordance with Schedule III after the said date. In other words, the amendments will be applicable from FY 2018-19 onwards.

Impact on Companies

The notification has amended both Division I and Division II of Schedule III. Accordingly,

- Companies preparing financial statements in accordance with Accounting Standards (AS) shall ensure compliance with changes in Division I of Schedule III
- Companies preparing financial statements in accordance with Indian Accounting Standards (Ind AS) shall ensure compliance with changes in Division II of Schedule III

Further the notification has also provided a separate format for Financial statements to be prepared by NBFC's under IND AS as part of newly introduced division in Schedule III - "Division III".

This alert seeks to summarize only the changes in Division I and Division II and does not deal with the Division III applicable to NBFC's

Summary of changes made

Particulars	Significant changes/Remarks
A) Division I Financial Statements	
Change of nomenclature 'Fixed Assets' to 'Property Plant & Equipment'	AS-10 was revised w.e.f. 30 March 2016 and was renamed as 'Property Plant & Equipment'. The amendment is basically to give effect to this change and accordingly the nomenclature used in the financial statements shall be 'Property Plant & Equipment' instead of 'Fixed Assets' henceforth.
Securities Premium	The word 'reserve' has been omitted from the term Securities Premium Reserve. Accordingly, under the Reserves & Surplus schedule it shall be presented as 'Securities Premium' and not as 'Securities Premium Reserve'.
B) Division II Financial Statements	
Securities Premium	The word 'reserve' has been omitted from the term Securities Premium. Accordingly, in the Other Equity schedule presented under the Statement of Changes in Equity, the item shall be presented as 'Securities Premium' and no longer as 'Securities Premium Reserve'.

Particulars	Significant changes/Remarks
Disclosure of Trade Payables	<p>Amount of trade payables needs to be classified into -</p> <ul style="list-style-type: none"> • total outstanding dues of micro enterprises and small enterprises; and • total outstanding dues of creditors other than micro enterprises and small enterprises. <p>This classification needs to be disclosed on the face of balance sheet (both for current and non-current trade payables) Similar disclosure is already being provided in financial statements prepared in accordance with IGAAP.</p>
Disclosure on details/breakup of MSME dues as a part of notes to accounts	<p>In respect of Trade Payables, the following details relating to MSMEs shall be disclosed in the notes:-</p> <ul style="list-style-type: none"> • Principal and interest due remaining unpaid to any supplier at the end of each accounting year; • Interest paid by the buyer in accordance with MSMED Act, 2006, along with the amount of payment made to the supplier beyond the appointed day during each accounting year; • Interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED Act, 2006 • Interest accrued and remaining unpaid at the end of each accounting year; and • Further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. <p>Similar disclosure is already being provided in financial statements prepared in accordance with IGAAP. While this clarification was already available in the Guidance Note on Division II- Ind AS Schedule III, released by ICAI, the MCA has explicitly amended the Schedule to avoid ambiguity.</p>
Notes on Reserves & Surplus – Other Equity	Henceforth, a description of the purposes of each reserve that is created within other equity shall be disclosed as a part of the Notes.
Classification of Trade Receivables and Loans	<p>The sub-classifications of both Non-current & Current portions of Trade receivables and loans receivables shall be made in the following manner :-</p> <ol style="list-style-type: none"> a) considered good - Secured; b) considered good - Unsecured; c) which have significant increase in Credit Risk; d) credit impaired <p>In other words, the earlier sub-classification of “doubtful” has now been removed and modified to “which have significant increase in Credit Risk” and “credit impaired”</p>

M2K Remarks

Certain amendments in Schedule III is to bring parity in certain disclosures between financial statements prepared in accordance with two different streams. Further, some of the changes are in the nature of an improvement carried out to align the disclosures in accordance with the applicable reporting framework.

Contact us at:

M2K Advisors Pvt Ltd

Alsa Mall, 1st Floor,
149 Montieth Road,
Egmore, Chennai – 600008
Email: manish@m2k.co.in,
info@m2k.co.in
www.m2k.co.in

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