

Accounts of Companies

[sec 128 - 138]

Important definitions:

1) Financial statement [sec 2(40)]:

- BS
- P & L (in case of NPO, income & expense)
- CFS*
- Statement of changes in equity (SOCI)
- Explanatory notes annex

* CFS is optional for → OPC, small co, Dormant co.
& Pvt. Co (Startup)

2) Books of accounts includes records w.r.t. :-

- a. money received and expended
- b. sales and purchase
- c. Assets and liabilities
- d. Items of cost vs inv.

3) Book and Paper / Books or Paper:

W = Writings

D = Deeds

A = BoA

V = Vouchers

R = Registers

D = Document

m = minutes

in **original** and unaltered form

L 4) Such records to be in **legible form**

S 5) Proper system for:
- Storage } e-records
- Retrieval }
- Display }
- Print out }

D 6) Such e-records not to be **disposed** unless permitted by law.

B 7) **Backup** → kept at servers located in India on daily basis.

R 8) Intimate ROC on annual basis:

N - Name of service Provider

I - IP address " "

L - Location of " "

(2) Where a co. has **branch office**
- in india
- outside india
↓

This section is deemed to be complied if:

- Proper BOA are kept at **branch office** and
- Proper summarized periodic returns are sent to co at RO or other place in India.

(3) Inspection of BOA:

In India



Director can inspect during **business hours**

Outside India



- Director $\xrightarrow{\text{Request}}$ Co
- such request to set out full details of info. sought.
- Co. to produce info \rightarrow 15 days of such req.

- such req. to be sought by director himself and not / through power of attorney holder or agent.

[Inspection of BOA of **subsy. co.** shall be done only by person authorised by BOD.

4) Where inspection is made, officers and employees of Co. to give all **necessary assistance**

5) Preserve BOA: (i.e. Keep BOA in good order)

- Not < 8 FY immediately preceding a FY
- Co. is in existence for < 8 FY \rightarrow All preceding FY.

If **investigation** is ordered \rightarrow CA may direct **longer period**.

6) Person responsible:

- MD

- CFO

- WTD (Finance)

- Person charged by BOD with such duty

↓
contravention → Fine → 50k to 5 lakh

Section 129: Financial statement:

1) FS — True & fair view
— AS
— schedule III

Nothing in this section shall apply to:

- Insurance Co.

- Banking Co.

- Electricity Co.

- Co. under any special Act.

2) FS to be laid before **AGM** of Co.

3) CFS → where Co. has more than 1 subsidiary

Attach a separate statement containing salient features [AOC-1] of — sub sy
— JV
— Associate.

Manner of consolidation:

AS ⊕ sch III } However, if CFS not required in AS, Prepare CFS as per sch-III

CFS not required if following conditions are met:

- Wholly / Partly owned subsidiary of another Co. and:
 - All members (including those otherwise not entitled to vote)
 - have been intimated in writing
 - **do not object** to Co. not presenting CFS
- Securities are not **listed** / in process of listing (in India / outside India)
- Ultimate or any intermediary holding Co. files CFS with ROC in compliance with **Ind AS**

* Where FS does not comply with AS, disclose:

- Deviation from AS
- Reason for deviation
- Financial effect of such deviation.

* Person responsible:

- MD
- WTD (Finance)
- CFO
- Person in charge

or in absence any officer

↓

ALL DIRECTORS

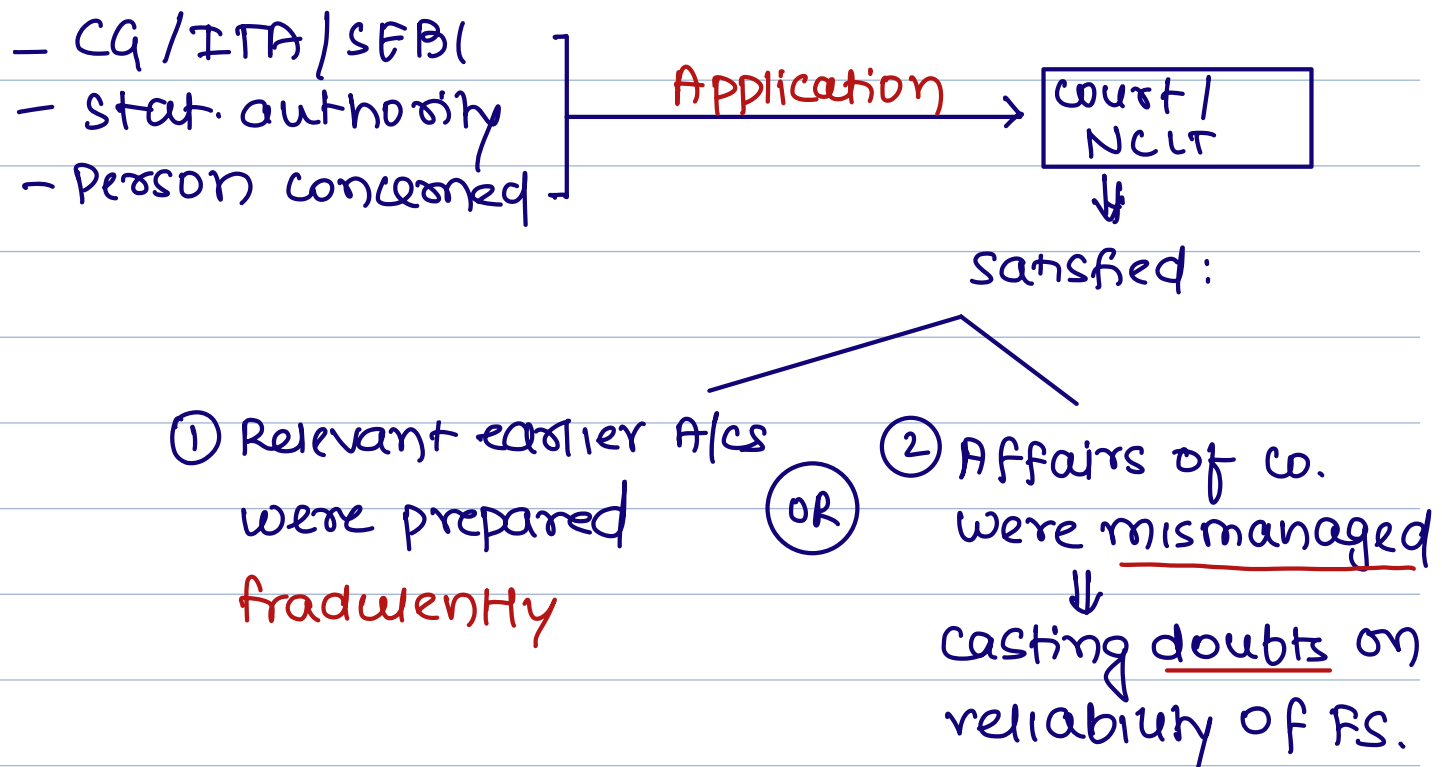
Contravention → Jail upto 1 year
OR
→ Fine 50k to 5lakh } or both

Section 129A: Periodical financial results

- Prescribed class of Cos.
- Prepare fin. results on such periodical basis as prescribed.
- Obtain approval of BOD
- Complete — Audit (or)
 - ↳ limited review
- File with ROC within 30 days of completion of relevant period.

Section 130: Re-opening of Accounts on Court/Tribunal order:

(1) A co. shall re-open BOA and restate FS if:



Note: Prior to such order, Court / Tribunal shall obtain representations from CQ/SEBI/ITA.

2) The accounts so revised or re-casted shall be **FINAL**.

3) Period for which BOA can be reopened:

upto 8 FY preceeding CY

[If CG directed to keep BOA \geq 8 years, then order to re-open **within such longer period**]

Section 131: Voluntary Revision of FS and BOD Report

1) If it appears to the directors of co FS do not comply 129
BOD Report do not comply 134

↓

It may, revise such FS/BOD Report

↓

for the preceding 3 FY → subject to approval of Tribunal [not court]

[Notice to CG
ITA]
↓
consider representation]

Imp: Such revised FS or BOD report shall not be prepared / filed more than once in a FY

Detailed reason for such revision - To be disclosed in BOD's report.

(2) How much alteration can be made?

Where copies of previous FY are sent to members or ROC, confine changes to:

(a) **corrections** as much as they do not comply with 129/134

(b) Necessary **consequential** alteration.

(3) Cg may make rules

- How previous FS/Report Supplement
- Auditor function
- Director steps.

Section 132: National Financial Reporting Authority

1) Who shall constitute NFRA? — **Cg**

2) FUNCTIONS of NFRA:

1) Recommend auditing & accounting standards or policies to Cg

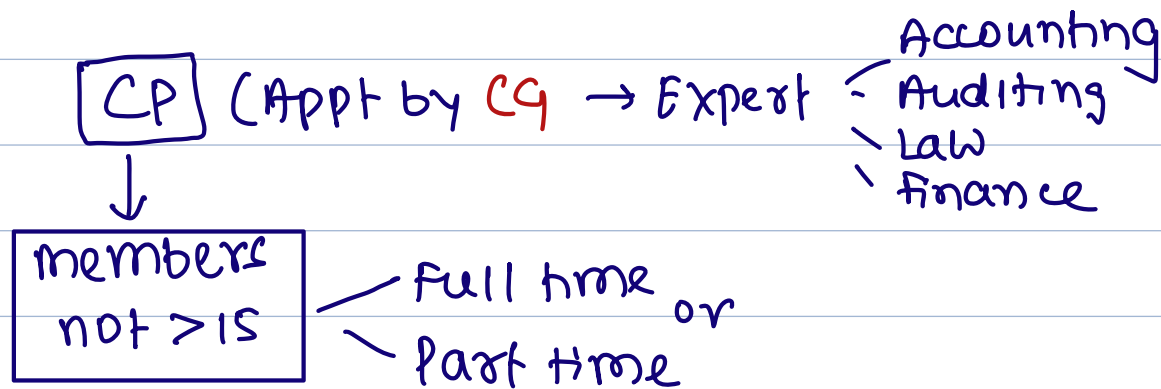
2) Monitor and **Enforce** compliance thereof

3) Oversee **Quality** of service of professionals & suggest improvement.

4) Other functions as prescribed

↳ **Inspection of auditors of large corporation**

3) Constitution:



Declaration by CP and member to CG:

- Regarding no conflict of interest or lack of **independence**
- Not associated with any **audit firm** during such appt. + 2 years after ceasing

4) Power to investigate:

(a) Either $\left. \begin{array}{l} \text{— suo motu} \\ \text{— on reference} \\ \text{by CG} \end{array} \right\}$ — into profession / other **misconduct** under **CA Act**

(b) Same power as civil court

- Product of BOA / DOCS.
- inspection of books, registers at any place
- **enforcing** attendance + Examination on oath

Note: When NPTA initiates investigation, other institution cannot initiate or proceed.

(c) Penalty in case where misconduct is proved:

Penalty:

Debar the member / firm:

Individual

Firm

₹ 1 lakh to

₹ 5 lakh to

5x of fees received

10x of fees received.

Appt. as

valuation

- Auditor
- Internal auditor

u/s 247

- Other assignment

For 6m - 10 year

as NFRA may decide.

Rule 3 of NFRA Rules:

NFRA may undertake investigation of auditors of following class of companies / BC:

Listed co
- India
- outside

①

Unlisted public co:-

②

- PUSC \geq 500 cr
- TIO \geq 1000 cr
- o/s Loan \geq 500 cr

- Insurance
- Banking
- Electricity
- Special Act

③

④ Any co/BC on reference made by CG - Public interest

⑤

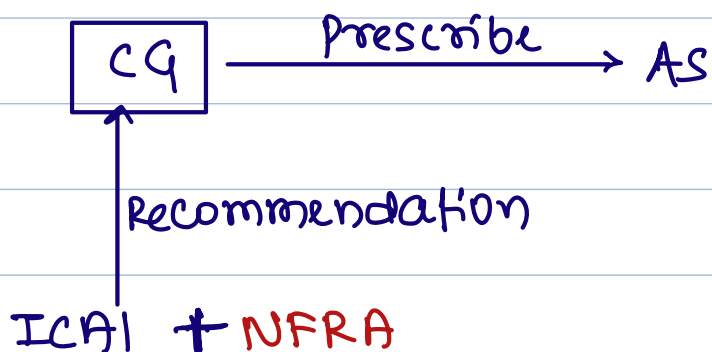
1-4

Of above 4 co./BC - Any subsidiary or associate Co. having income or networth $>$ 20% of consolidated income or networth

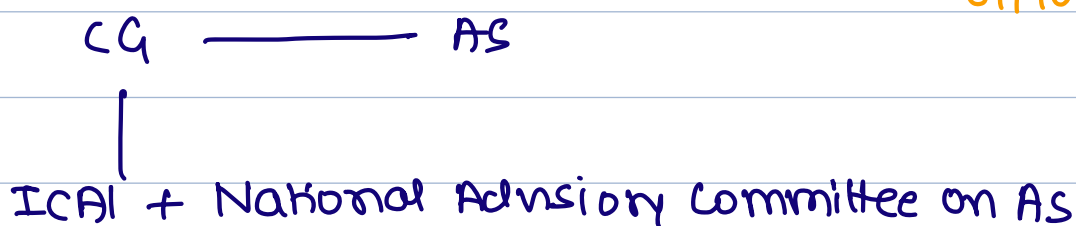
BC (other than co)

Appt. of auditor from NFRA 15 days \rightarrow NFRA

Section 133: CG to prescribe Accounting standard:



Until NFRA is constituted: (not relevant now as NFRA was constituted on 01/10/2018)



Section 134: Board Report, FS, etc..

1) Who shall sign FS?

Before it is approved by BOD, sign by!

- Chairperson if so auth. by BOD. Else 2 direct. (IMD)

AND

- CEO (+) CFO (+) CS

2) BOD report shall include:

[92] Annual Return - web address

→ [173] No. of BOD meeting

[134] Director's Responsibility statement [DRS]

[143(12)] Details of fraud reported u/s 143(12)

[-] Explanation & comments on auditor's opinion

149(6) Declaration by ID

186 Particulars of LGS/Investment

188 RPT

[-] Amt proposed to reserve

→ 123 Dividend

[-] Policy — Risk mgt. policy

— Director appt & Rem policy

— CSR policy

imp [-] Annual evation of performance of BOD/
committee:

• Listed co. and

• Other public co. → PUSC \geq 25 Cr.

Note:

• If disclosure made in FS already, refer the same in BOD report

• If policy is put up on website, BOD report to only disclose **salient features**.

• In case of **OPC/small co.** - CA may prescribe **abridged BOD report**

3) Director's responsibility Statement:

[AS AP CARE GC Control legally]

- In prep. of annual account → AS has been complied with + proper explanation of departure.

- AP has been applied consistently and judgement & estimates are reasonable & prudent — so as to give a T&F view

- Directors had taken proper & sufficient care:



- Annual accounts are prepared on Going concern basis

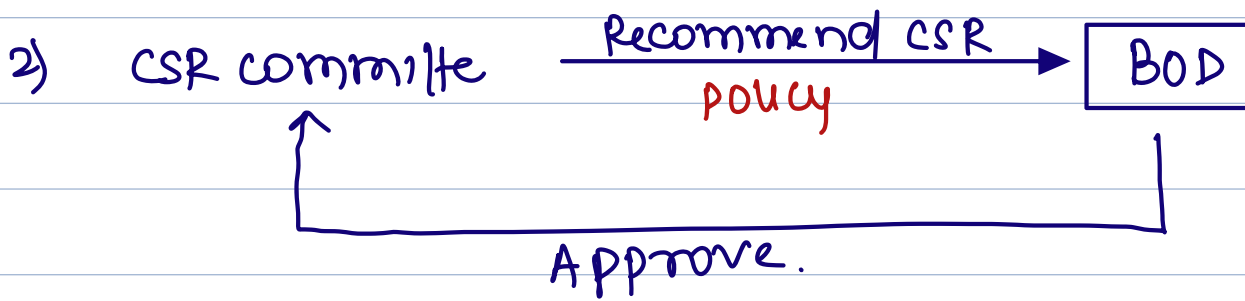
- In case of listed co → IFC $\left\{ \begin{array}{l} \text{Adequate} \\ \text{operative} \\ \text{\&effective} \end{array} \right.$

- Proper system is devised for compliance with law. Such system $\left\{ \begin{array}{l} \text{Adequate} \\ \text{operating \&effective} \end{array} \right.$

4) Sign of BOD's report:

CP, if authorised. Else 2 Dir. (IMD)

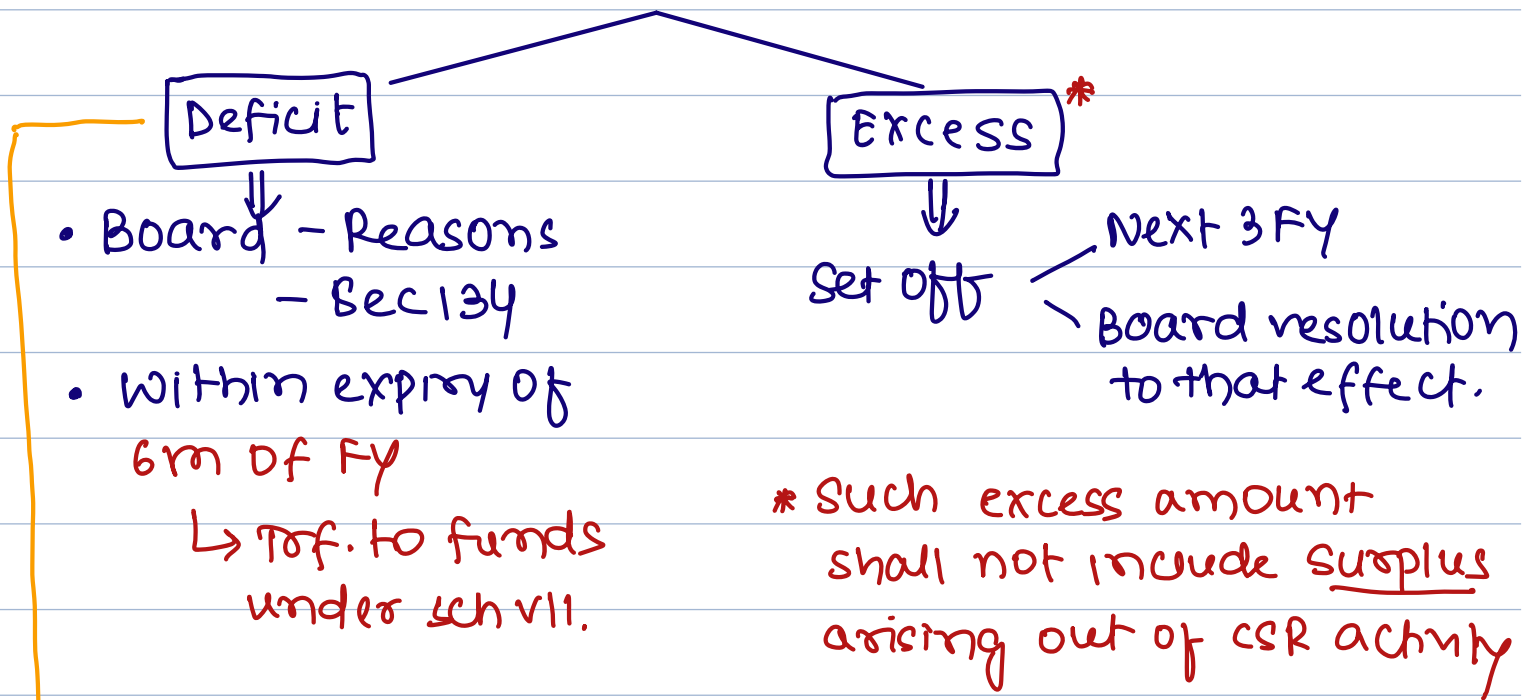
NO CS
NO CEO
NO CFO



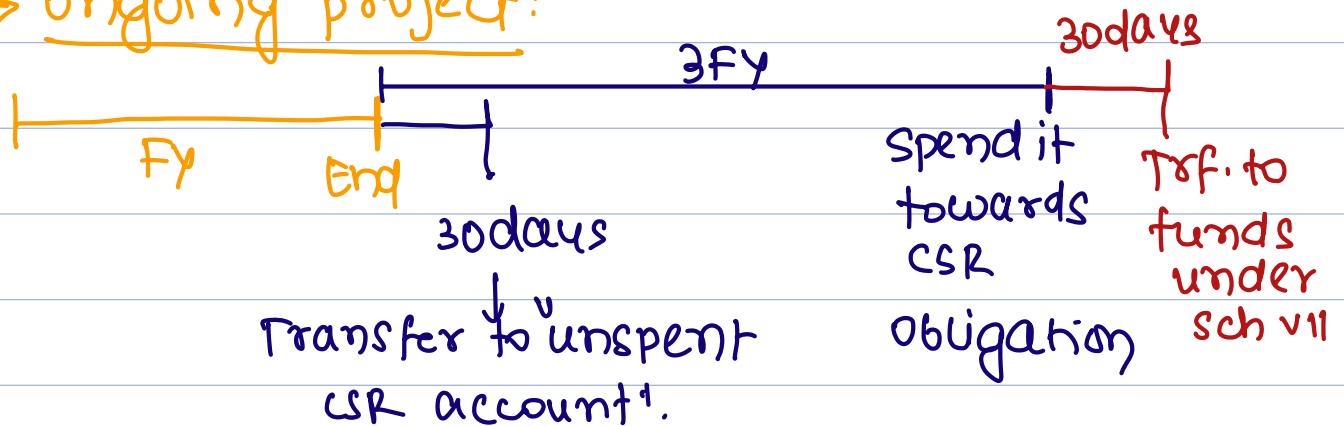
3) CSR expense:

• 2% of average NP of preceding 3f

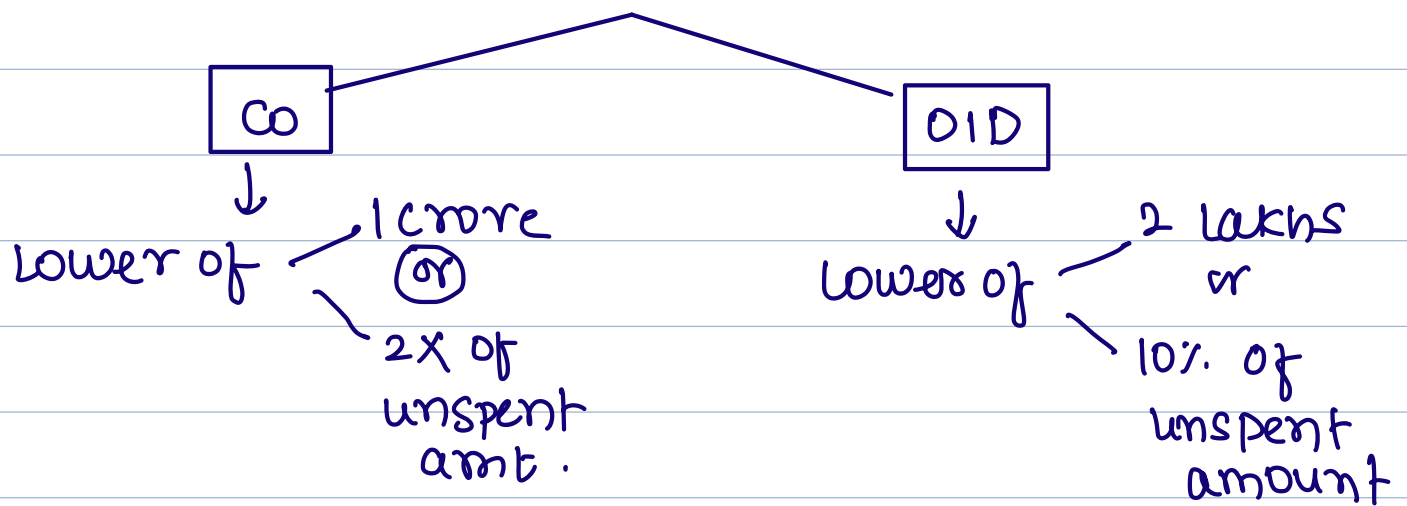
• Preference - local areas where it operates.



Ongoing project:



* Default in CSR expense:



CSR Rules:

Important definitions:

1) "CSR" means activities undertaken by co. by virtue of sec 135.

Exclude: [SPEL FB]

- 1) Sponsorship expense for marketing benefits.
- 2) Political contribution
- 3) Activities benefitting employees
- 4) Expense for any statutory obligation
- 5) Foreign - Activities undertaken outside India

Except: Training of Indian sportsman of national level or international level.

6) Activities in OCOB (ord. course of business)

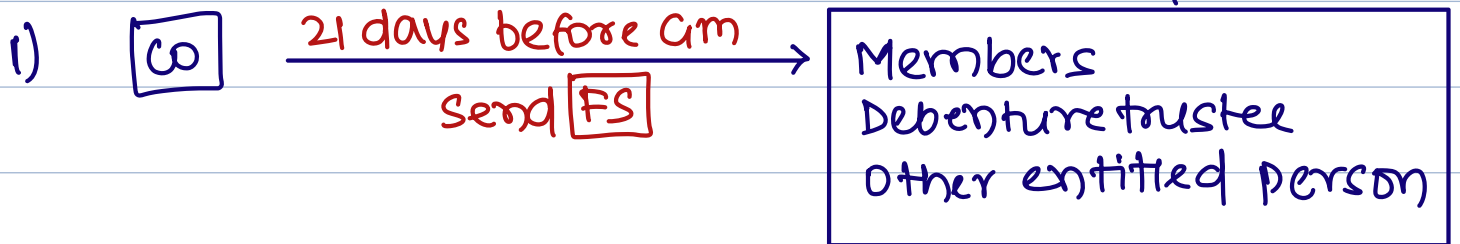
Except: R&D co. undertaking R&D activity related to COVID for FY 20-21, 21-22, 22-23.

(read balance 135 from books)

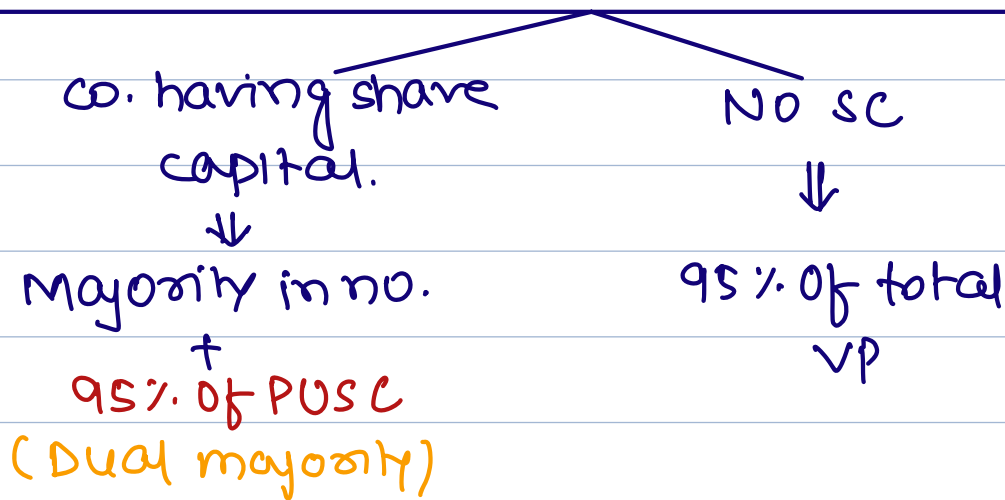
Section 136: Rights of members to audited F.s.

In this section FS =

- FS
- CFS
- Auditor's report
- Every other document attached.



FS can be sent less than 21 days before GM:

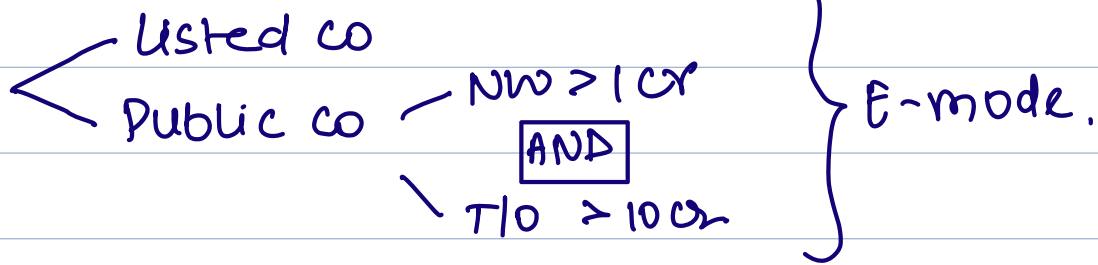


In case of Listed companies, it is sufficient compliance if:

① FS are made avl. for inspection (+) at least 21 days before GM.

② Statement containing salient features sent 21 days before GM Form AOC-3 (or AOC-3A where and as applies).

Mode of sending:



Place FS on website:

- Listed cos. → Place audited standalone FS of each subsidiary → website



Where such sub^{sy}. is incorporated o/s India (foreign sub^{sy}), in such case:

Statutorily required
to make CFs as
per outside law

↓
Upload CFs

Audit not required



upload unaudited f.s.

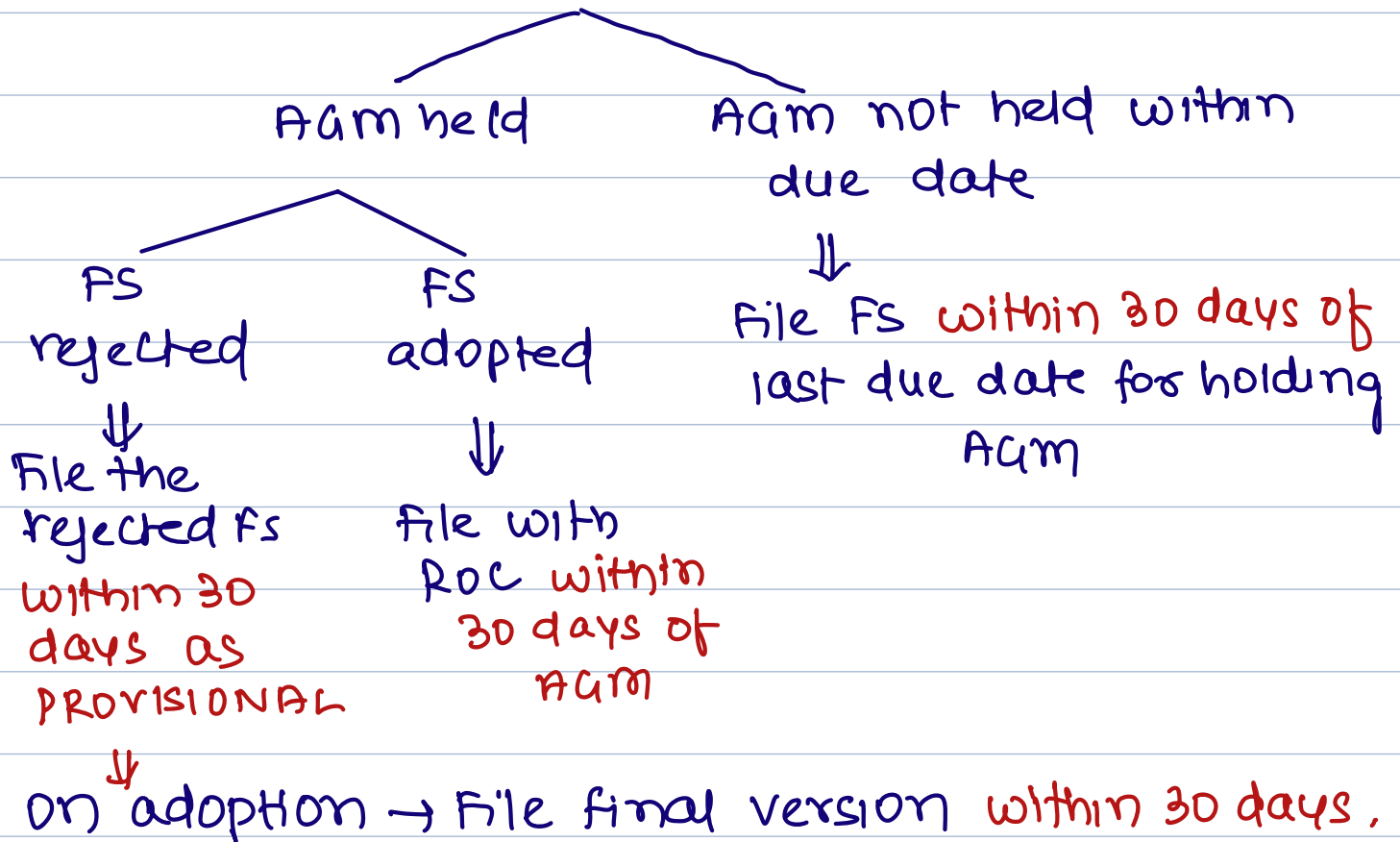


if not in english →
upload translated copy.

- * Member can inspect FS → Business hours. at RO.
Ask for copies

- * Default
 - CO — 25000
 - OID — 5000.

Section 137: Copy of F.S. to be filed with ROC:



* Forms for filing:

AOC-4

FS

AOC-4 CFS

CFS

AOC-4 NBFC (Ind AS)

NBFC - FS

AOC-4 CFS NBFC (Ind AS)

NBFCs - CFS

AOC-4 XBRL

→ for listed co and their Indian subssy



NBFCs, HFCs are exempted.

→ PUSC ≥ 50%
→ TIO ≥ 100Cr
→ FS - 3rd AS

imp

* OPC → File FS with ROC within 180 days of closure of FY.

i.e., For FY 22-23, file FS with ROC by 31/03/2023
+180 days

* Person responsible for FS filing:

MD + CFO

↓ Absence

Director charged with such responsibility

↓ Absence

All directors

Contravention:

Co → 10000 + 100/day
→ max 2 lakh

Person resp. → 10,000 + 100/day
→ max 50,000.

Section 138: Internal audit:

1) Applicable to:

- Listed cos.
- Unlisted public co:
 - Deposit > 25 cr
 - PUSC > 50 cr
 - Loan/Borrowing > 100 cr
 - TLO > 200 cr
- Private co:
 - Loan > 100 cr
 - or
 - TLO > 200 cr

2) Who can become internal auditor:

— individual

}

• CA

~~CS~~

- Partnership firm

- BC



• Cost Accountant

• Professional as BOD
may decide.

Note: internal auditor may/may not be Employee