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Accounts of Companies

CHAPTER

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■ OVERVIEW & INTRODUCTION OF THE CHAPTER

- ❑ This chapter explains the provisions of Chapter IX of the Companies Act, 2013
- ❑ Consisting of sections 128 to 138 dealing with the accounts of companies.
- ❑ Directors who are agents of shareholders and acting in fiduciary capacity,
- ❑ So they are required to report in order to disclose financial results (financial performance and position through financial results)
- ❑ To shareholders so that the shareholders remain aware of the working and affairs of the company.

Following diagram depicts the arrangement of relevant sections -

BOA (128)	FS (129) & 129A	130 and 131	NFRA (132)	Circulation of FS (136)
What? - BOA are to be kept	How? - Forms of FS	Re-opening of Accounts	CG-AS (133)	Electronic mode Rule
Deemed to be kept (Manner)	Deviation from AS	Voluntary revision by company	FS and BR (134)	Contravention
Where? - Place	Laying of FS		Content of BR	Filing with ROC (137)
Rule 3 - Electronic form	Rule 6 - CFS		Authorisation of FS	Contravention
Books of branch office	Exception CFS		Signing of BR	CSR (135)
Inspection by whom	Exemptions and Non Applicability		DRS and content	Internal Audit (138)
Time ? - Period	Responsible persons & Penalty		Contravention	
Responsible persons & Penalty				

■ BOOKS OF ACCOUNT, ETC. TO BE KEPT BY COMPANY [SECTION 128]

<p>Books of Account [Section 2(13)]</p>	<ul style="list-style-type: none"> ❑ The “books of account” includes records maintained in respect of: <ul style="list-style-type: none"> ○ All sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place; ○ All sales and purchases of goods and services by the company; ○ The assets and liabilities of the company; and ○ The items of cost as may be prescribed under section 148 (Cost Audit) of the Companies Act, 2013 (“Act”) in the case of a company which belongs to any class of companies specified under that section.
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Book and Paper [Section 2(12)]	<input type="checkbox"/> The “book and paper” and “book or paper” include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.
Financial Statement [Section 2(40)]	<input type="checkbox"/> The “financial statement” in relation to a company, includes <ul style="list-style-type: none"> <input type="radio"/> A balance sheet as at the end of the financial year; <input type="radio"/> A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year; <input type="radio"/> Cash flow statement for the financial year with exception in case of one person company, small company, dormant company and private company (if such private company is a start-up and has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar); <input type="checkbox"/> A statement of changes in equity, if applicable; and <input type="checkbox"/> Any explanatory note annexed to, or forming part of, any document referred above.

Books of Accounts 2(13)	Financial Statements 2(40)	Book AND Paper Book OR Paper 2(12)
<input type="checkbox"/> All amounts received <input type="checkbox"/> All amounts expended <input type="checkbox"/> Assets and Liabilities And matter related to which <input type="checkbox"/> Sales and Purchases of Goods & Services <input type="checkbox"/> Cost items (Sec 148 applicability)	<input type="checkbox"/> Balance Sheet <input type="checkbox"/> Profit and Loss Account <input type="checkbox"/> Cash Flow Statement <ul style="list-style-type: none"> <input type="radio"/> N.A. to OPC, Small, Dormant, Start Up (No default-137/92) <input type="checkbox"/> Notes to Accounts <input type="checkbox"/> Statement of changes in equity, if applicable	<input type="checkbox"/> Minutes (BM and GM) <input type="checkbox"/> Registers (Statutory) <input type="checkbox"/> Vouchers. <input type="checkbox"/> Documents and Deeds. On paper or electronic mode

Financial Year [Section 2(41)]	<input type="checkbox"/> The Financial Year, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and <input type="checkbox"/> where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.
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What is a Financial Year for a Company?

Normal case

April to ending in March every year

Special case

If Co. incorporated between Jan to March
Then 31st March of Next year

If your HSA is Incorporated outside India

and

are required to maintain different FY

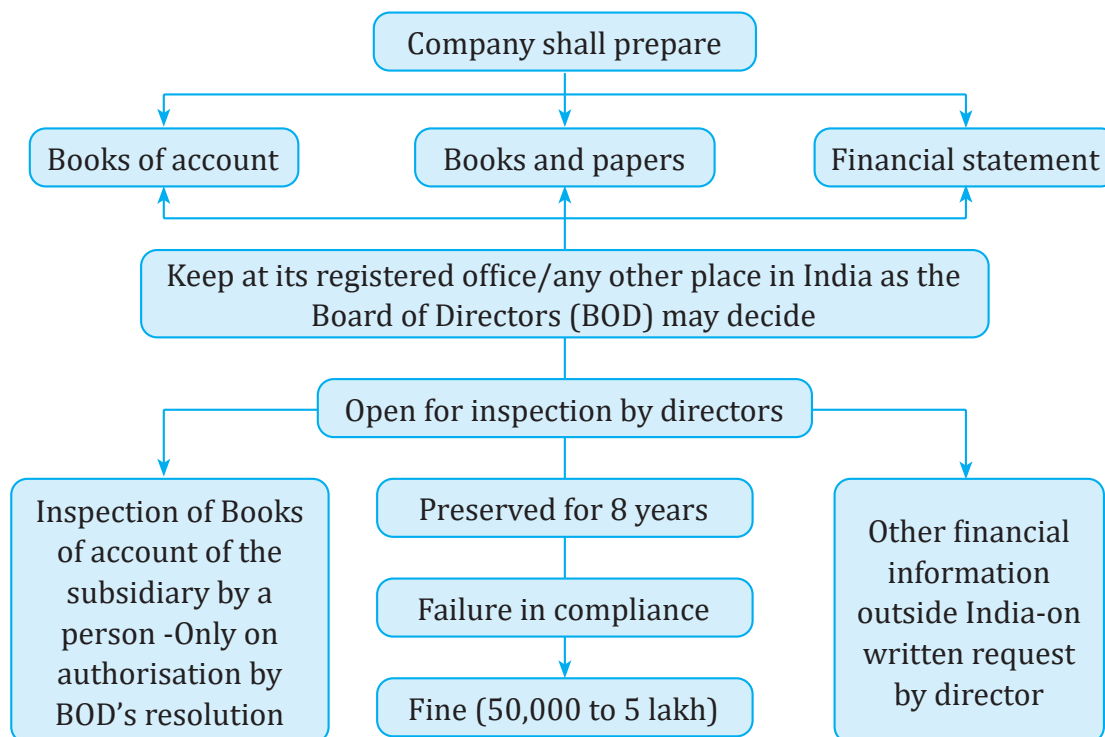
Then

Apply to CG (RD) Form RD-1 and approval in 30 days
and send the approval copy to ROC in 30 days in INC-28

Example: Mahindra Limited was incorporated as a company on 22nd February 2023. Its first financial year shall comprise of the period ending on the 31st day of the March of the following year i.e. 31st March 2024.

Two-year time from the date commencement -of this Act was given to corporates to align their financial year to the provisions contained in 2(41). [Transition period]

Summary



<p>Application for Different Financial Year</p>	<p><input type="checkbox"/> Provided that on an application made by a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and which is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on the basis of such application made in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year.</p>
<p>Books of account should give a true and fair view and must be kept on accrual basis and double-entry system of accounting</p>	
<p>Section 128(1)</p>	<p><input type="checkbox"/> Section 128(1) also requires such books of account shall be kept on accrual basis and according to the double entry system of accounting.</p>
<p>True and fair view</p>	<p><input type="checkbox"/> A True and fair view of the state of the affairs means that the financial statements are free from material misstatements and faithfully represents the financial performance and positioning of an entity.</p>
<p>Accrual basis of accounting</p>	<p><input type="checkbox"/> Accrual basis of accounting is an accounting assumption, or an accounting concept followed in preparation of the financial statements, which warrants recording income and expenses as they accrue (earned or incurred); opposite to cash system when they are received or paid.</p>
<p>Double entry system of accounting</p>	<p><input type="checkbox"/> Double entry system of accounting is a method of recording any transaction of a business in a set of accounts, in which every transaction has a dual aspect of debit and credit and therefore, needs to be posted in at least two accounts. Double aspect enables an effective control of business because all the books of account must balance.</p>
<p>Place of Keeping Books of Account</p>	<p><input type="checkbox"/> Section 128(1) further requires every company to prepare and keep -</p> <ul style="list-style-type: none"> <input type="radio"/> The books of account and <input type="radio"/> other relevant books and papers and <input type="radio"/> financial statements at its registered office <p><input type="checkbox"/> But first proviso to sub-section 1 provides that all or any of the books of account may be kept at such other place in India</p> <p><input type="checkbox"/> as the Board of directors may decide.</p> <p><input type="checkbox"/> Where such a decision is taken by the Board, the company shall within seven days thereof</p> <p><input type="checkbox"/> file with the registrar a notice in writing as per rule 2A of the Companies (Accounts) Rules, 2014 in form AOC-5</p> <p><input type="checkbox"/> giving full address of that other place.</p>

Location of BOA 128 (1)

At its registered office

At other place

In India

Outside India

Pass BR and notice to ROC within 7 days of BR giving full address of other place IN AOC-5

Not allowed

Maintenance of Books Of Account In Electronic Form

- Second proviso to section 128(1) allows company to keep books of account or other relevant papers in electronic mode as per manner specified in the Rule 3 of the Companies (Accounts) Rules, 2014.

Note: For the purposes of rule 3, the expression “electronic mode” includes electronic form and electronic record as defined in clause (r) and (t) respectively of sub-section (1) of section 2 of the Information Technology Act, 2000.

Remain accessible in India [Rule 3(1)]

- The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times, so as to be usable for subsequent reference.

Audit trail and edit log [Proviso to Rule 3(1)]

- In order to ensure audit trail, in case of company which uses accounting software for maintaining its books of account, the proviso to rule 3(1) requires that: For the financial year commencing on or after the 1st day of April, 2023:
- Every such company (which uses accounting software) shall use only such accounting software:
 - Which has a feature of recording audit trail of each and every transaction
 - Creating an edit log of each change made in books of account along with the date when such changes were made
 - Ensuring that the audit trail cannot be disabled

Retain in original or accurate form [Rule 3(2) and Rule 3(3)]

- Sub-rule 2 requires:
 - The books of account and other relevant books and papers referred to in sub-rule (1) shall be retained completely in the format in which they were originally generated, sent or received,
 - Or in a format which shall present accurately the information generated, sent or received
 - And the information contained in the electronic records shall remain complete and unaltered. Further sub-rule 3 requires:
 - The information received from branch offices shall not be altered
 - And shall be kept in a manner where it shall depict what was originally received from the branches.

<p>Proper storage, retrieval and legible display [Rule 3(4) and Rule 3(5)]</p>	<p><input type="checkbox"/> Sub-rule 4 requires:</p> <ul style="list-style-type: none"> <input type="radio"/> The information in the electronic record of the document shall be capable of being displayed in a legible form. Further sub-rule 5 requires: <input type="radio"/> There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate <input type="radio"/> Such records shall not be disposed of or rendered unusable, unless permitted by law. Proviso to sub-rule 5 requires: <input type="radio"/> The back-up of the books of account and other books and papers of the company maintained in electronic mode, <input type="radio"/> Including at a place outside India, if any, <input type="radio"/> Shall be kept in servers physically located in India on a daily basis.
<p>Intimation to Registrar - Information of Service Provider [Rule 3(6)]</p>	<p><input type="checkbox"/> The company shall intimate to the Registrar on an annual basis at the time of filing of financial statement following relevant information related to service provider:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The name of the service provider; <input type="checkbox"/> The internet protocol (IP) address of service provider; <input type="checkbox"/> The location of the service provider (wherever applicable); <input type="checkbox"/> Where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider. Where the service provider is located outside India: <input type="checkbox"/> The name and address of the person in control of the books of account and other books and papers in India.
<p>Books of Account - Branch Office [Sub-section 2]</p>	<p><input type="checkbox"/> Where a company has a branch office in or outside India, it shall be deemed to have complied with the provisions of sub-section (1) if-</p> <ul style="list-style-type: none"> <input type="radio"/> Proper books of account relating to the transactions effected at the branch office are kept at that office, and <input type="radio"/> Proper summarised returns are sent on periodical basis by branch office to the company at its registered office or other place (referred to sub-section 1). <input type="radio"/> As per Rule 4(1) of the Companies (Accounts) Rules, 2014, the summarised returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at quarterly intervals, which shall be kept and maintained at the registered office of the company and kept open to directors for inspection.

<p>Inspection By Directors [Sub-section 3 & 4]</p>	<ul style="list-style-type: none"> ❑ In case of books of account and other books and papers maintained by the company within India: ❑ Any director can inspect the books of account and other books and papers maintained by the company within India during business hours. ❑ Hence same shall be kept open for inspection at the registered office of the company or at such other place in India. ❑ In the case of financial information, if any, maintained outside the country: <ul style="list-style-type: none"> ○ Where any other financial information maintained outside the country is required by a director, the director shall furnish a request to the company setting out the full details of the financial information sought, the period for which such information is sought under Rule 4(2) of the Companies (Accounts) Rules, 2014. ○ Sub-rule 3 requires the company shall produce such financial information to the director within fifteen days of the date of receipt of the written request.
<p>Note: The financial information (referred in sub-rule 2 and 3 above) shall be sought for by the director himself and not by or through his power of attorney holder or agent or representative.</p> <p>Note: As per sub-section 4, where an inspection is made under sub-section 3, the officers and other employees of the company shall give to the person making such inspection all assistance in connection with the inspection which the company may reasonably be expected to give.</p>	
<p>Inspection in respect of any subsidiary company</p>	<p>The proviso to sub-section 3 provides that a person can inspect the books of account of the subsidiary, only on authorization by way of the board resolution.</p>
<p>Period for preservation of books [Sub-section 5]</p>	<ul style="list-style-type: none"> ❑ The books of account, ❑ together with vouchers relevant to any entry in such books, ❑ are required to be preserved in good order by the company for a period of not less than eight years ❑ immediately preceding the relevant financial year.
<p>Persons responsible and Penalty [Sub-section 6]</p>	<ul style="list-style-type: none"> ❑ Following shall be punishable with fine not less than fifty thousand rupees, which may extend to five lakh rupees; if duty-bound to comply with provisions of this section (Section 128 of this Act) but contravene such provisions: <ul style="list-style-type: none"> ○ Managing Director defined under section 2(54) ○ Whole-Time Director, in charge of finance defined under section 2(94) ○ Chief Financial Officer defined under section 2(19) ○ Any other person of a company charged by the Board with duty of complying with provisions of section 128.

Note:

- ❑ In case of a company incorporated less than eight years before the financial year, the books of account for the entire period preceding the financial year together with the vouchers shall be so preserved.
- ❑ As per proviso to sub-section 5, where an investigation has been ordered in respect of a company under Chapter XIV of the Act related to inspection, inquiry or investigation, the Central Government may direct that the books of account may be kept for such period longer than 8 years, as it may deem fit and give directions to that effect.

Example: Statement – Vouchers need not to be preserved as part of requirement of preserving books for period of 8 years.

Answer:

False

Reason: As per section 128(5) of the Companies Act, 2013, the books of account, together with vouchers relevant to any entry in such books, are required to be preserved in good order by the company for a period of not less than eight years immediately preceding the relevant financial year.

Example: Can XYZ Limited maintain its books of account on cash basis?

Answer:

The Companies Act, 2013 vide section 128(1) requires every company to prepare books of account and other relevant books and papers and financial statement for every financial year on accrual basis and according to double entry system of accounting. No exception has been given by the Act to any class or classes of companies from the above requirement. Hence XYZ Limited cannot maintain its books of account on cash basis.

MULTIPLE CHOICE QUESTIONS (MCQ)

1. Ganesh Company Ltd, a public company incorporated under the Companies Act, 2013 has Mr. Jay- Director, Mr. Sagar – Independent Director, Mr. Abhishek – Nominee Director and Mr. Yash – Whole time director. Mr. Abhishek wants to inspect the books of account of Shankar Company Limited, the subsidiary of Ganesh Company Limited. You are required to state whether Mr. Abhishek is eligible to inspect the books of accounts of Ganesh Company Limited?
 - (a) Yes, Mr. Abhishek can inspect the books of account of Shankar Company limited only on authorization of the public financial institution on whose behalf he has been so appointed in the board of the Ganesh Company Ltd.
 - (b) No. Mr. Abhishek being a nominee director can only inspect the books of account of Ganesh Company Ltd and not its subsidiary company.
 - (c) **Yes, Mr. Abhishek can inspect the books of account of Shankar Company limited only on authorization by way of resolution of the board of directors.**
 - (d) Yes, Mr. Abhishek can inspect the books of account of Shankar Company limited only on authorization by way of resolution of the members holding not less than 25% of the paid-up share capital of the company.

2. A company can prepare its books of account on:

(a) **Accrual basis and according to Double Entry system**

(b) Cash basis and according to Double Entry system

(c) Accrual basis and according to Single Entry system

(d) Cash basis and according to Single Entry system

3. The registered office of ABC Ltd. is situated in a classified backward area of Maharashtra. The company has its corporate office in Mumbai which is conveniently located. The company can maintain its books of account at:

(a) Corporate Office

(b) Registered Office

(c) **Any place in India as the Board of Directors may decide**

(d) Any place in world as the Board of Directors may decide

4. The Board of Directors of ABC Ltd. resolve to maintain its books of account at a place other than its registered office. It shall file a notice with the Registrar in Form No. _____ within of decision of the Board.

(a) **AOC-5, 7 Days** (b) AOC-3, 15 Days

(c) AOC-1, 7 Days (d) AOC-4, 30 Days

5. Where a company is maintaining its books in electronic mode, it shall intimate to Registrar the details of service provider on:

(a) **Annual basis at filing of financial statements**

(b) Quarterly basis

(c) Monthly basis

(d) Fortnightly basis

6. Mr. D is director of XYZ Ltd. and wants to inspect the books of account of the company through his agent. Decide the correct option from below:

(a) Mr. D has absolute right to inspect the books of account of company either personally or through his agent.

(b) **Mr. D can inspect through agent only if the company has no objection to the person chosen as agent.**

(c) Mr. D can inspect the books of account only himself and he cannot do so through his agent.

(d) Mr. D can inspect the books of account through his agent only if Court permits him to do so.

7. Mr. D is director of XYZ Ltd. and wants to inspect the books of account of the company for its branch office situated in London. Decide the correct option from below:

(a) The company shall provide summarized quarterly returns of the books of account of London branch, maintained at the registered office of the company.

(b) Any other financial information maintained outside the country shall be provided by the company within 15 days of receipt of request from director.

(c) The company shall provide above information for inspection only if the director himself makes the requisition and not through any agent or attorney.

(d) **All of the above.**

8. Mr. D is director of XYZ Ltd. and wants to inspect the books of account of ABC Ltd., a subsidiary company of XYZ Ltd., although Mr. D is not a director on the Board of ABC Ltd. Decide the correct option from below:

(a) The inspection of books of account of ABC Ltd. shall be allowed only if the Board of ABC Ltd. authorises such inspection.

(b) **The inspection of books of account of ABC Ltd. shall be allowed only if the Board of XYZ Ltd. authorises such inspection.**

(c) The inspection of books of account of ABC Ltd. cannot be allowed since Mr. D is not a director in the same company.

(d) The inspection of books of account of ABC Ltd. cannot be allowed since there is no provision in law for inspection of books of subsidiary.

9. Superb Limited is a company which has no specific regulation in its Articles of Association regarding inspection of books by its members. Mr. M, a member of the company wants to inspect the books of account of Superb Limited. Which of the following statement(s) is correct?

- (a) Mr. M can inspect the books of account in the manner determined by the Board.
- (b) Mr. M can inspect the books of account if authorised by the Board or by the company in general meeting.
- (c) Both (a) and (b)
- (d) **None of the above. A member of the company has no right of inspection of company's books of account.**

10. The books of account of every company together with the vouchers relevant to any entry in such books of account, shall be kept in good order:

- (a) **Relating to a period of not less than 8 financial years immediately preceding a financial year.**
- (b) Relating to a period of not less than 8 financial years including the current financial year.
- (c) Relating to a period of not less than 8 financial years immediately preceding the previous financial year.

(d) Relating to a period of not less than 8 calendar years immediately preceding a financial year.

11. XYZ Ltd., a pharmaceutical company was having its manufacturing plant in Dehradun, Uttarakhand. The address of its registered office as informed to the Registrar of Companies was of one of its director's office, situated at Mumbai, Maharashtra. To comply with the provisions of the Companies Act, 2013 it was keeping all its books of accounts, other relevant papers, and financial statements at its registered office. After some time, the Directors of the company found it difficult to maintain such books etc. at the registered office, so in a duly convened meeting of the Board of Directors, it was decided that the books of accounts and other relevant papers would be kept at the office situated in Dehradun. Within which time period the Registrar must be given notice about such decision of the Board? (Nov 23)

- (a) Within 30 days from the date of taking a decision by the board.
- (b) Within 15 days from the date it starts maintaining its books of accounts at the office situated at Dehradun.
- (c) Within 30 days from the date it starts maintaining its books of accounts at the office situated at Dehradun.
- (d) **Within 7 days from the date of taking such decision by the board.**

■ FINANCIAL STATEMENT [SECTION 129]

As per sub-section 1, the financial statement shall:

- Give a true and fair view of the state of affairs of the company or companies,
- Comply with the accounting standards notified under section 133, further the items contained in such financial statements shall be in accordance with the accounting standards and
- Shall be in the form or forms as may be provided for different class or classes of companies in Schedule III

<p>Divisions of Schedule III</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Schedule III has been divided into two divisions: <ul style="list-style-type: none"> <input type="radio"/> Division I deals with financial statement for a company whose financial statement are required to comply with the Companies (Accounting Standards) Rules, 2021. <input type="radio"/> Division II deals with financial statements for a company whose financial statement is required to comply with the Companies (Indian Accounting Standards) Rules, 2015.
<p>Exemptions from Section 128(1)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Nothing contained in sub-section 1 to section 128 shall apply to any: <ul style="list-style-type: none"> <input type="radio"/> Insurance company or <input type="radio"/> Banking company or <input type="radio"/> Company engaged in the generation or supply of electricity, or <input type="radio"/> Other class of company for which a form of financial statement has been specified in or under the Act governing such class of company.
<p>Disclosure exemption under other Acts</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Further, if matters which are not required to be disclosed by Act governing the companies specified at point 2 above such as: <ul style="list-style-type: none"> <input type="radio"/> Insurance Act, 1938; <input type="radio"/> Insurance Regulatory and Development Authority Act, 1999; <input type="radio"/> Banking Regulation Act, 1949; or <input type="radio"/> Electricity Act, 2003), then non-disclosure of such matters shall not be considered as not presenting a true and fair view of the state of affairs of such company.
<p>Reference to financial statements [Section 129]</p>	<p>For the purposes of section 129 -</p> <ul style="list-style-type: none"> <input type="checkbox"/> Any reference to the financial statement shall include any notes annexed to or forming part of such financial statement, <input type="checkbox"/> giving information required to be given and allowed to be given in the form of such notes under this Act.

Laying of FS-129(2)

- At every AGM
- Laid by the Board
- What? - Standalone FS (Branches) and **Consolidated FS** (HSA) if any.

CONSOLIDATED FINANCIAL STATEMENTS [SUB-SECTION 3]

<p>Requirement to prepare Consolidated Financial Statement (CFS)</p>	<p>Where a company has one or more subsidiaries or associate companies, it shall (in addition to financial statements provided under sub-section 2):</p> <ul style="list-style-type: none"> <input type="checkbox"/> Prepare a consolidated financial statement (CFS) of the company and of all the subsidiaries, associate companies and joint ventures in the same form and manner as that of its own and in accordance with applicable accounting standards, <input type="checkbox"/> Which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2).
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<p>Salient features of financial statement of Subsidiaries, Associates and JVs – Form [First proviso to Sub-section 3 read with Rule 5]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The statement containing the salient feature of the financial statement of a company's: <input type="checkbox"/> Subsidiary or subsidiaries, <input type="checkbox"/> Associate company or companies and <input type="checkbox"/> Joint venture or ventures under the first proviso to sub-section (3) of section 129 shall be in Form AOC-1 as per Rule 5 of the Companies (Accounts) Rules, 2014.
<p>Manner of consolidation of Accounts [Second proviso to Sub-section 3 read with Rule 6]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed under Rule 6 of the Companies (Accounts) Rules, 2014, as explained below: <input type="checkbox"/> Manner of consolidation of Accounts - The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.
<p>Exception to manner stated above</p>	<ul style="list-style-type: none"> <input type="checkbox"/> A company covered under sub-section (3) of section 129 which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions of consolidated financial statements provided in Schedule III of the Act. <input type="checkbox"/> For a company which does not have a subsidiary or subsidiaries but has one or more associate companies or Joint Ventures or both, will not be required to comply with this rule of consolidation of financial statements in respect of associate companies or joint ventures or both, as the case may be, only for the financial year commencing from the 1st day of April, 2014 and ending on the 31st day of March, 2015. <input type="checkbox"/> Nothing in this rule shall apply in respect of consolidation of financial statement by a company having subsidiary or subsidiaries incorporated outside India commencing on or after 1st April 2014.
<p>Exemptions from preparation of CFS</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The preparation of consolidated financial statements by a company is not required if it meets the following conditions: <input type="checkbox"/> It is a wholly owned subsidiary, or is a partially owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements; <input type="checkbox"/> It is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and <input type="checkbox"/> Its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

Preparation, Adoption and Audit of Consolidated Financial Statements

[Sub-section 4]

The provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the consolidated financial statements.

Disclosure of Deviation from Accounting Standards Along with Reason and Effect Thereof [Sub-section 5]

Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements:-

- The deviation from the accounting standards
- The reasons for such deviation
- The financial effects, if any, arising out of such deviation

Exemption by Central Government in Public Interest [Sub-section 6]

The Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any such class or classes of companies from complying with the provisions of this section or the rules made thereunder:

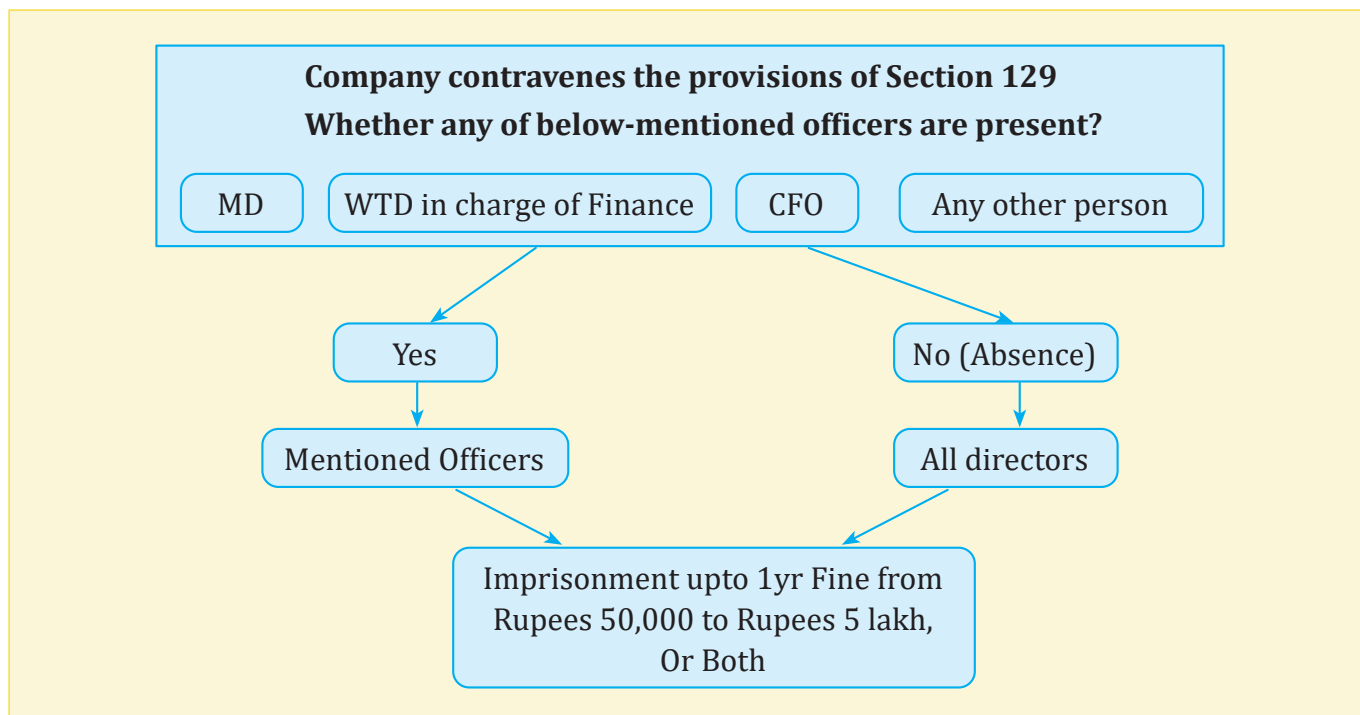
- If it is considered necessary in public interest
- Exemption may be unconditional or subject to such conditions as specified in the notification

Note: Section 129 shall not apply to the Government Companies engaged in defence production to the extent of application of relevant Accounting Standard on segment reporting

The exceptions, modifications and adaptations provided above shall be applicable only to those Government Companies which has not committed a default in filing its financial statements under section 137 of the said act or annual return under section 92 of the said act with the registrar

Penalty for Contravention [Sub-section 7]

- If a company contravenes the provisions of this section, the following persons shall be punishable:
 - Managing Director
 - Whole-time Director in charge of finance
 - Chief Financial Officer
- Any other person charged by the Board with the duty of complying with this section
- In their absence, all directors shall be liable Punishment:
 - Imprisonment: Up to 1 year OR
 - Fine: Not less than ₹50,000 but may extend to ₹5,00,000 OR
 - Both imprisonment and fine



Example: Modern Furniture Limited (MFL) is required to prepare the financial statement that comply with accounting standards and shall be in form specified in Schedule III. But the financial statement prepared and presented are not in compliance with applicable accounting standards, therefore MFL is required to disclose which of following:

- (i) Deviation
- (ii) Reason of deviation
- (iii) Financial effects arise out of such deviation.

Options

- (a) Only i
- (b) Only i and ii
- (c) Only i and iii
- (d) All of i, ii, and iii

Answer: (d)

Reason: Where the financial statements of a company, which required to but do not comply with the accounting standards, the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

MULTIPLE CHOICE QUESTIONS (MCQ)

12. Kanya Ltd. is incorporated on 3rd January, 2021. As per the Companies Act, 2013, what will be the financial year for the company: (Mar. 22) (2 Marks)

- (a) 31st March, 2021
- (b) 31st December, 2021
- (c) 31st March, 2022**
- (d) 30th September, 2022

13. Which of the following is not part of financial statements of a company?

- (i) A balance sheet as at the end of the financial year.
 - (ii) A profit and loss account or an Income and Expenditure account for the financial year.
 - (iii) Cash flow statement for the financial year.
 - (iv) A statement of changes in equity, if applicable.
 - (v) Any explanatory note annexed to, or forming part of (i) to (iv) above.
 - (vi) Report of the Auditor.
 - (vii) Report of the Board of Directors.
- (a) (i) to (v) (b) (i) to (iv)
(c) (iv) to (vii) (d) (vi) to (vii)

14. A cash flow statement need not be prepared as part of the financial statements of following company/companies:

- (a) One Person Company
- (b) Small Company
- (c) Dormant Company
- (d) **All of the above**

15. Which of the following company/companies need not prepare its financial statements according to Schedule III:

- (a) Insurance, Banking and Electricity companies
- (b) Company incorporate under special Act where form of financial statement is prescribed under that Act.
- (c) **Both (a) and (b)**
- (d) None of the above. All companies are required to follow Schedule III.

16. Avon Software Limited is a public listed company. The financial statements of the company do not comply with the accounting standards prescribed under Section 133. You as the CFO of the company should advise which of the following disclosures in the financial statements of the company?

- (a) **Reasons and financial effects (if any) of such non-compliance.**
- (b) Date of such non-compliance.
- (c) The person authorising such non-compliance.
- (d) Management discussion of such non-compliance.

■ PERIODICAL FINANCIAL RESULTS [SECTION 129A]

CG may require such class or classes of UNLISTED COMPANIES (LISTED - SEBI lays down rules for Quarterly declaring results) - So 129A is Not applicable to these companies

- Prepare Financial results** of the company on **PERIODIC BASIS**
- Periodic basis means **FOR LESS THAN A YEAR**
- BOD approval → Complete AUDIT → Limited Review (LR)
- COPY TO ROC WITHIN 30 DAYS OF COMPLETION OF THE RELEVANT PERIOD (Q)**

Note: Students are advised to take note:

At present there are approximately over 11 lakh unlisted companies actively operating in India. Some of these are really large enough with widely-spread interests, that make corporate governance critical issue in case of such unlisted companies as well. Hence this new section inserted vide Amendment Act of 2020 aims to improve corporate governance of certain class or classes of unlisted companies by requiring them to prepare financial results on 'periodic' basis in addition to annual submission of financial reports.

Mind it, no rule has been prescribed or notification has been made as on date (30.04.2024) under the said section.

■ RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL'S ORDERS [SECTION 130]

This section seeks to provide for the re-opening of books of account and recasting of financial statements.

Court/Tribunal Order for Re-opening of Accounts [Sub-section 1]

A company shall not:

- re-open its books of account and recast its financial statements,
- Unless an application in this regard is made by:
 - The Central Government,
 - The Income-tax authorities,
 - The Securities and Exchange Board of India (SEBI),
 - Any other statutory regulatory body or authority or
 - Any person concerned and an order is made by a court of competent jurisdiction or tribunal to the effect that the relevant earlier accounts were prepared in a fraudulent manner; or
 - The affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.
 - To the court or Tribunal in the form NCLT-9

GROUNDS

- Relevant earlier accounts were prepared in **fraudulent** manner

OR

- Affairs** were **mismanaged** during the relevant period.

Notice and Representation [Proviso to Section 130(1)]

This requires the Court or Tribunal, as the case may be, shall:

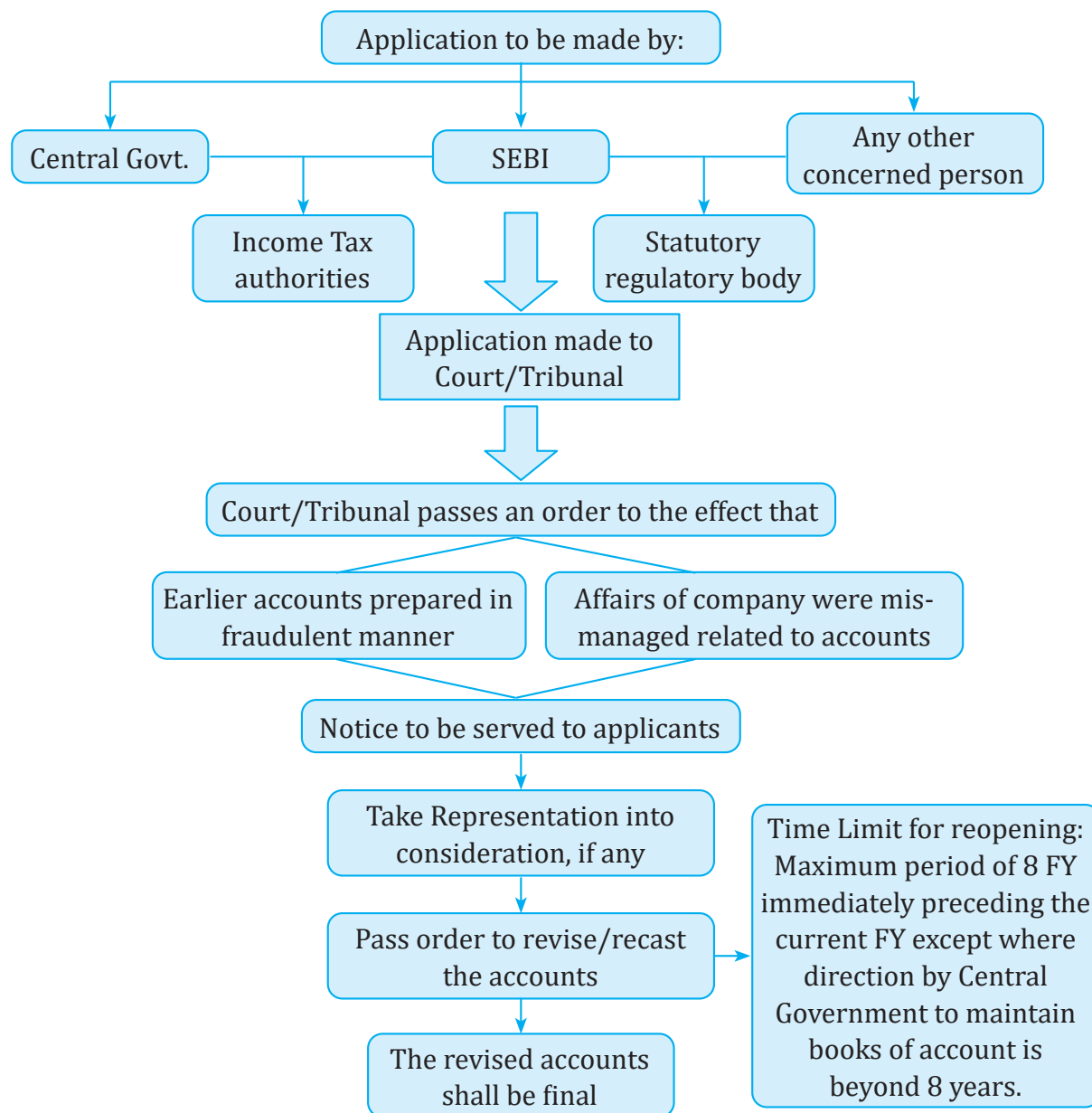
- Give notice to the Central Government, Income-tax authorities, SEBI, or any other statutory regulatory body or authority concerned, or any other person concerned; and
- Take into consideration the representations, if any, made by them before passing any order under this section.

Finality of Revised Accounts [Sub-section 2]

- This is a sort of saving clause that provides, without prejudice to the provisions of this Act, the accounts so revised or re-casted shall be final.

Time Limit [Sub-section 3]

- Order of re-opening of books of account shall only relate to 8 financial years immediately preceding the current financial year.
- But where a direction has been issued by the Central Government (under the proviso to section 128(5)) for keeping of books of account for a period longer than eight years,
- The books of account may be ordered to be re-opened within such longer period.



MULTIPLE CHOICE QUESTIONS (MCQ)

17. On application of Central Government, Tribunal may order to re-open books of accounts of a company for maximum
- (a) 3 years (b) 5 years
(c) 8 years (d) 10 years
18. Which one of the following person/authorities cannot make an application to Court/NCLT to reopen the books of accounts and financial statements of the Company?
- (a) Central Government
(b) Shareholder
(c) Income tax authorities
(d) Securities and Exchange Board of India
19. ABC Limited has its shares listed on a recognized stock exchange in India. During the current financial year ending on 31st March 2021, the securities and exchange board of India (SEBI) has found some

irregularities in the filings made by the company. Accordingly, SEBI proposes to make an application to the Tribunal for reopening of the books of accounts of the Company. You, as an expert, are called upon by SEBI to advise with which last financial year for reopening of books of accounts an application can be made?

(April 22)(2 Marks)

- (a) 2016-2017 (b) 2014-2015
 (c) 2011-2012 (d) **2012-2013**

20. The Court or Tribunal can make order under Section 130 for revision/recast in respect of

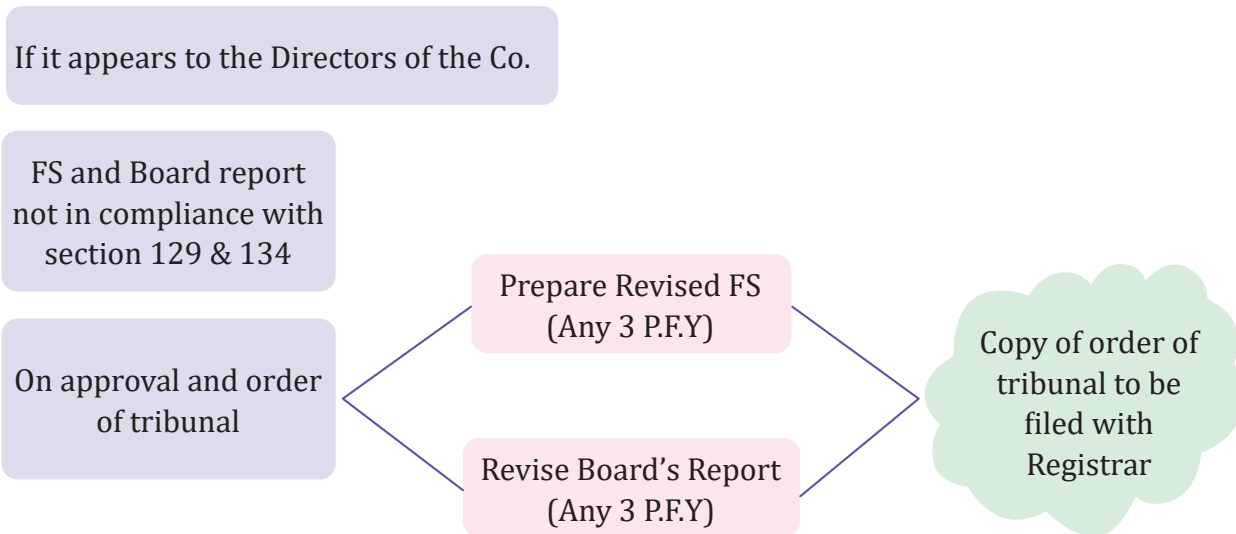
Books of account of a company. Relating to which period such order can be made?

- (a) Within 8 financial years immediately preceding the current financial year.
 (b) Earlier than 8 financial years immediately preceding the current financial year, if a direction has been issued by the Central Government under Section 128(5) for keeping of books of account for a period longer than 8 years.
 (c) **Both (a) and (b)**
 (d) None of the above

■ VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT [SECTION 131]

This section seeks to provide for the re-opening of books of account and recasting of financial statements.

Content of Board's Report



Applicability	<input type="checkbox"/> Section 131 is for voluntary revision on the opinion of the board (unlike Section 130 which deals with revision on court/tribunal orders).
When can revision be made?	<input type="checkbox"/> If it appears to the directors that: <input type="checkbox"/> The financial statement does not comply with Section 129; or <input type="checkbox"/> The Board's Report does not comply with Section 134.
What may be revised?	<input type="checkbox"/> Revised Financial Statement or <input type="checkbox"/> Revised Board's Report.

Period for which revision can be made	<input type="checkbox"/> Any of the three preceding financial years. <input type="checkbox"/> Disclosure of detailed reasons for revision : In BR
Restriction	<input type="checkbox"/> Such revised financial statement or report shall not be prepared or filed more than once in a financial year. <input type="checkbox"/> (एक FY का एक साल में एक बार)
Approval required from and in ?	<input type="checkbox"/> Tribunal (NCLT). <input type="checkbox"/> Form No. NCLT-1.
Timeline for application	<input type="checkbox"/> Within 14 days of the decision taken by the Board.
Filing of Tribunal order	<input type="checkbox"/> Certified copy of the Tribunal's order to be filed with Registrar of Companies (ROC) within 30 days of receipt.
Rule 77 – NCLT Rules, 2016: Details to be Included in Application	
Required Details in Application	
<input type="checkbox"/> Financial year or period to which such accounts relate <input type="checkbox"/> Name and contact details of Managing Director, CFO, Directors, CS, and officer responsible for books of account <input type="checkbox"/> If audited, name and contact details of auditor/former auditor <input type="checkbox"/> Copy of Board resolution authorising revision <input type="checkbox"/> Grounds for seeking revision <input type="checkbox"/> Disclosure if majority of directors or auditor changed before decision to apply under section 131	
Advertisement and Hearing Procedure	
Advertisement	<input type="checkbox"/> Company shall advertise the application at least 14 days before the date of hearing.
Notice to Auditor	<input type="checkbox"/> Tribunal shall issue notice to the auditor of the original financial statements and hear him.
Tribunal's Powers	<input type="checkbox"/> Tribunal may pass appropriate orders after considering: <input type="checkbox"/> Application <input type="checkbox"/> Hearing the auditor <input type="checkbox"/> Hearing other persons
Notice to Authorities	<input type="checkbox"/> As per first proviso to Section 131(1), Tribunal shall also give notice to: <input type="checkbox"/> Central Government <input type="checkbox"/> Income Tax Authorities And <input type="checkbox"/> consider their representations before passing the order.
Post Tribunal Approval Procedure	
General Meeting	<input type="checkbox"/> May be called to adopt revised financial statements.

Newspaper Notice	<input type="checkbox"/> Notice of general meeting + reasons for revision to be published: - <ul style="list-style-type: none"> <input type="radio"/> In English newspaper <input type="radio"/> In Vernacular language
Board's Report Disclosure	<input type="checkbox"/> As per third proviso to Section 131(1), detailed reasons for revision to be disclosed in Board's Report of the relevant financial year.
Documents for Consideration in GM	<input type="checkbox"/> Revised Financial Statements <input type="checkbox"/> Statement of Directors <input type="checkbox"/> Statement of Auditors
Filing after GM	<input type="checkbox"/> Revised financial statements/Board's Report to be filed with ROC within 30 days of GM approval.
Scope of Revisions – Sub-section (2)	
<p>If previous financial statements or Board's Report have already been:-</p> <input type="checkbox"/> Sent to members <input type="checkbox"/> Delivered to Registrar <input type="checkbox"/> Laid before GM	
<p>Revisions must be confined to:</p> <input type="checkbox"/> Corrections for non-compliance with Section 129 <input type="checkbox"/> Corrections for non-compliance with Section 134 <input type="checkbox"/> Necessary consequential alterations only	

MULTIPLE CHOICE QUESTIONS (MCQ)

21. During the half year ended September 2021, the board of directors (BOD) of New Era Limited has made an application to the Tribunal for revision in the accounts of the company for the financial year ended on March 2019. Further during the year ended March 2022, the BOD has again made an application to the Tribunal for revision in the board's report pertaining to the year ended March 2021. You are required to state the validity of the acts of the Board of directors.
(2 Marks) (MTP Oct. 22)

- (a) The act of the BOD is valid only to the extent of application made for revisions in accounts as board's report are not eligible for revision.
- (b) The act of the BOD is valid as application made for revision in the accounts and board's report pertains to two different financial year.**

- (c) The act of the BOD is invalid as the law provides for only one time application to be made in a financial year for revision of accounts and boards report.
- (d) The act of the BOD is invalid as to the application made for revision in accounts pertains to a period beyond 2 years immediately preceding the year 2022. The application made for revision in the Board report is however valid in law.

22. A company shall not reopen its books of account and not recast its financial statements, unless an application in this regard is made by:

- (a) Central Government or Income tax authorities or SEBI or any other statutory regulatory body
- (b) Court or Tribunal
- (c) Both (a) and (b)
- (d) Either (a) or (b)

23. A company may voluntarily revise its financial statements or the Board's Report under Section 131 of the Companies Act, 2013. Relating to which year such revision can be made?

- (a) Any 3 financial years immediately preceding the current financial year.
- (b) Any 8 financial years immediately preceding the current financial year.
- (c) Any financial year earlier than 8 financial years immediately preceding the current financial year, if a direction has been issued by the Central Government under Section 128(5) for keeping of books of account for a period longer than 8 years.
- (d) None of the above

■ CONSTITUTION OF NATIONAL FINANCIAL REPORTING AUTHORITY - NFRA [SECTION 132]

CONSTITUTION OF NFRA - [Sub-section 1]	
The Central Government may, by notification, constitute the National Financial Reporting Authority (NFRA) to provide for matters relating to accounting and auditing standards under this Act.	
NFRA was constituted on 1st October 2018, with its head office at New Delhi (as per sub-section 12).	
<p style="text-align: center;">Applicability (Rule 3 of NFRA Rules, 2018)</p>	<p>NFRA's powers to monitor, enforce, oversee, and investigate apply to auditors of the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Listed companies (India or abroad) <input type="checkbox"/> Unlisted public companies with: <ul style="list-style-type: none"> <input type="radio"/> Paid-up capital ≥ ₹500 crore, OR <input type="radio"/> Turnover ≥ ₹1,000 crore OR <input type="radio"/> Loans/Debentures/Deposits ≥ ₹500 crore (as on 31st March of previous FY) <input type="checkbox"/> Insurance, banking, electricity, or companies under special Acts or incorporated by an Act (Sec 1(4)(b)-(f)) <input type="checkbox"/> Any body-corporate/company/person referred by Central Government in public interest <input type="checkbox"/> Foreign subsidiaries/associates of above entities if income/net worth > 20% of consolidated income/net worth of the Indian parent
<p style="text-align: center;">Functions & Duties [Sub-sections 1A and 2]</p>	<p>NFRA performs its functions through divisions (as prescribed). As per Section 132(2) and Rules 4, 6 to 9 of NFRA Rules, 2018, NFRA shall:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Protect public interest and interests of investors, creditors, etc. by ensuring high quality accounting and auditing standards. <input type="checkbox"/> Maintain auditor details of companies governed by NFRA

- Recommend accounting/auditing standards to CG
- Monitor and enforce compliance with such standards
- Oversee quality of audit services and suggest improvements
- Promote awareness about standards
- Cooperate with national and international audit regulators
- Perform other related or necessary duties

Note on NERA Rules & Provisions

Rule 6 – Recommending Accounting/Auditing Standards

For recommending standards to the Central Government:

- NFRA shall receive proposals from ICAI (new standards or amendments).
- NFRA may ask ICAI for more details, if needed.
- NFRA will review ICAI’s inputs and then make its recommendation to the Central Government.

Rule 7 – Monitoring Compliance with Accounting Standards

NFRA may:

- Review financial statements of companies/bodies corporate.
- Ask for documents, explanations, or personal presence of company officers/auditors.
- Publish its findings of non-compliance on its website — unless public interest requires keeping it confidential (reasons to be recorded in writing).
- Start investigations or enforcement if a violation of accounting standards is found or suspected.

Rule 8 – Monitoring Compliance with Auditing Standards

NFRA may:

- Review audit working papers, plans, and communications.
- Check quality control systems of auditors and how they are documented.
- Test audit and supervisory procedures, if needed.
- Ask auditors to report on their internal governance, reputation safeguards, and risk management.
- Seek more info or personal presence of auditors.
- Carry out these tasks through qualified officers/experts.
- Publish findings unless it’s against public interest (reasons must be recorded).
- Keep confidential info private unless disclosure is in public interest.
- Send confidential reports directly to the Central Government.
- Investigate violations of law or professional standards by auditors

Rule 9 – Audit Quality Improvement Measures

NFRA may:

- Direct auditors to improve audit quality (e.g., change in processes, controls, reports) and give deadlines.
- Auditors must comply and send a report to NFRA explaining how they followed the directions.

	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA will monitor progress and take action based on the improvements. <input type="checkbox"/> NFRA may refer cases to Quality Review Board (QRB) or ask for reports/information from QRB. <input type="checkbox"/> NFRA may take help from experts for oversight and monitoring. <p>Power of Central Government</p> <ul style="list-style-type: none"> <input type="checkbox"/> The Central Government can delegate any of its powers/functions to NFRA except the power to make rules. <input type="checkbox"/> This delegation is done by notification, and may include conditions, limits, or restrictions. <p>Section 132(2) – Overriding Effect</p> <ul style="list-style-type: none"> <input type="checkbox"/> The provisions of NFRA override any other law, in case of conflict.
<p style="text-align: center;">Composition [Sub-sections 3, 3A, 3B]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA shall consist of a Chairperson (expert in accountancy/auditing/finance/law) and up to 15 members (part-time or full-time) <input type="checkbox"/> Each division shall be led by the Chairperson or a full-time member authorized by him/her <input type="checkbox"/> An executive body shall include the Chairperson and full-time members <input type="checkbox"/> Appointments made by CG as per NFRA (Appointment & Terms) Rules, 2018 <input type="checkbox"/> Chairperson/members must declare no conflict of interest or lack of independence <input type="checkbox"/> Full-time members cannot associate with any audit/consulting firm during term and for 2 years after leaving office
<p style="text-align: center;">Part-Time Members (Ex-officio and Others)</p>	<p>Following are appointed as part-time members:</p> <ul style="list-style-type: none"> <input type="checkbox"/> MCA – Officer not below Joint Secretary (ex-officio) <input type="checkbox"/> CAG – Officer not below Accountant General or Principal Director (ex-officio) <input type="checkbox"/> RBI – Officer not below Executive Director (ex-officio) <input type="checkbox"/> SEBI – Officer not below Executive Director (ex-officio) <input type="checkbox"/> President, ICAI (ex-officio) <input type="checkbox"/> Chairperson, ICAI Accounting Standards Board (ex-officio) <input type="checkbox"/> Chairperson, ICAI Auditing and Assurance Standards Board (ex-officio) <input type="checkbox"/> Two experts in accountancy, auditing, finance or law
<p>Note: No other institute or body shall initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation under this section.</p> <p>For the purposes of this sub-section, the expression “professional or other misconduct” shall have the same meaning assigned to it as given under section 22 of the Chartered Accountants Act, 1949.</p> <p>Sub-section 4 has overriding effects anything contained in any other law for the time being in force.</p>	

<p>Support Staff [Sub-section 11]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The Central Government may appoint a Secretary and other employees as needed for NFRA's efficient functioning. <input type="checkbox"/> Their terms of service shall be as prescribed.
<p>Power to Investigate [Sub-section 4]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA can investigate professional or other misconduct by any CA or CA firm registered under the Chartered Accountants Act, 1949. <input type="checkbox"/> It may act suo moto or on a reference from the Central Government (as per Rule 10 of NFRA Rules, 2018).
<p>Quasi-Judicial Powers [Section 132(4)(b)]</p>	<p>NFRA has powers of a civil court under CPC, 1908, including:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Discovery/production of documents <input type="checkbox"/> Summoning and examining persons on oath <input type="checkbox"/> Inspection of books/documents <input type="checkbox"/> Issuing commissions for examination of witnesses/documents
<p>Order by NFRA [Section 132(4)(c)]</p>	<p>If misconduct is proved, NFRA may:-</p> <ul style="list-style-type: none"> <input type="checkbox"/> Impose Penalty: <ul style="list-style-type: none"> <input type="radio"/> Individual – Min ₹1 lakh; Max 5× audit fees <input type="radio"/> Firm – Min ₹5 lakh; Max 10× audit fees <input type="checkbox"/> Debar Auditor/Firm from being appointed or performing audit/valuation: <ul style="list-style-type: none"> <input type="radio"/> Min: 6 months <input type="radio"/> Max: 10 years
<p>Appeal [Sub-section 5]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Any person aggrieved by an order passed under Section 132(4)(c) may file an appeal before the Appellate Tribunal, <input type="checkbox"/> in the prescribed manner and on payment of prescribed fee.
<p>Meetings of NFRA [Sub-section 10]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA shall meet at times/places and follow procedures as per Rule 3 of NFRA (Meetings) Rules, 2019 <p>Note: It may also meet at other places in India as deemed fit.</p>
<p>Books of Account & Audit [Sub-sections 13 & 14]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA shall maintain books of account in a form/manner prescribed by CG in consultation with CAG <input type="checkbox"/> NFRA's accounts shall be audited by CAG at prescribed intervals <input type="checkbox"/> The certified accounts and audit report shall be sent annually to CG
<p>Annual Report [Sub-section 15]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> NFRA shall prepare an Annual Report for each financial year in the prescribed form and timeline. <input type="checkbox"/> CG shall lay this report, along with CAG's audit report, before both Houses of Parliament.

Note: Every existing body corporate other than a company governed by these rules, shall inform the NFRA within 30 days of the commencement of NFRA rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.

A company or a body corporate other than a company governed under NFRA Rules shall continue to be governed by the NFRA for a period of 3 years after it ceases to be listed or its paid-up capital or turnover or aggregate of loans, debentures and deposits falls below the limit stated therein [i.e. mentioned in points (a) to (e) above].

Punishment in case of non-compliance - If a company or any officer of a company or an auditor or any other person contravenes any of the provisions of NFRA Rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of section 450 of the Act.

MULTIPLE CHOICE QUESTIONS (MCQ)

24. The Chairperson and members of National Financial Reporting Authority shall not be associated with any audit firm during the course of their appointment and ____ year(s) after ceasing to hold such appointment
- (a) 1 (b) 2 (c) 3 (d) 8

■ CENTRAL GOVERNMENT TO PRESCRIBE ACCOUNTING STANDARDS - [SECTION 133]

- Section 133 of the Companies Act, 2013 empowers the Central Government
- to prescribe the accounting standards or any addendum thereto,
- as recommended by the ICAI
- in consultation with and after examination of the recommendations made by the NFRA.
- Proviso to section 133 suggests, until the NFRA is constituted under section 132 of the Companies Act, 2013,
- the Central Government may prescribe the standards of accounting or any addendum thereto,
- as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Advisory Committee on Accounting Standards (NACAS) constituted under the previous company law.
- Since NFRA constituted in 2018, hence this proviso lost its operating effects.

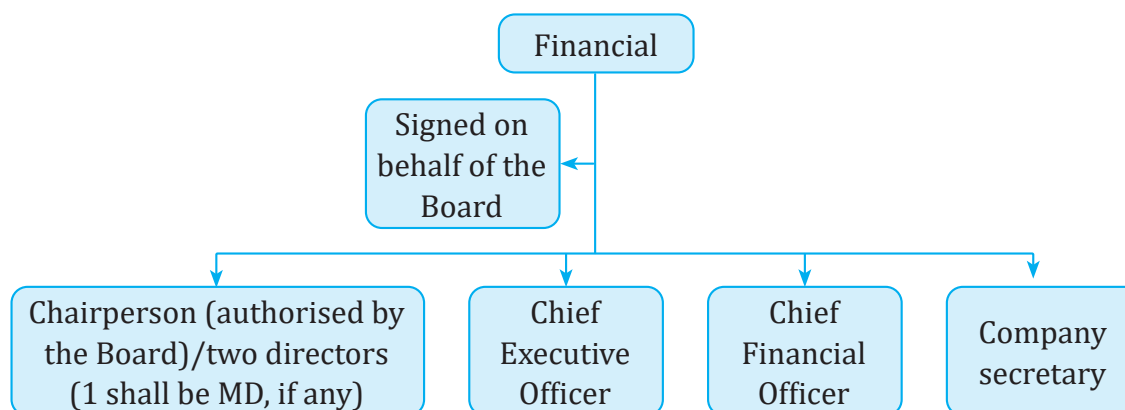
Note:

Exercising the powers conferred under section 133, the MCA on behalf of Central Government so far has notified:

- Companies (Accounting Standards) Rules, 2021 and
- Companies (Indian Accounting Standards) Rules, 2015.

Regulation 48 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 supplement the provisions to section 133 of this Act by providing that, the listed entity shall comply with all the applicable and notified Accounting Standards from time to time.

■ FINANCIAL STATEMENT, BOARD'S REPORT, ETC. [SECTION 134]



Approval of Financial Statement - [Sub-section (1)]

Before submitting financial statements to the auditor, they must be **approved by the Board of Directors**, and signed **at least by** the following:

- The **Chairperson** of the company – if authorized by the Board OR
- Two directors**, out of which **one shall be the Managing Director (if any)**;
- AND ALSO BY:**
 - The **Chief Executive Officer (CEO)** – *if appointed*
 - The **Chief Financial Officer (CFO)** – *if appointed*
 - The **Company Secretary (CS)** – *if appointed*

Attachment of Auditor's Report – [Sub-section (2)] - The **auditor's report** must be **attached to every financial statement**.

Circulation or Publication of Signed Copy – [Sub-section (7)] - A **signed copy** of every financial statement (including consolidated financial statements, if applicable) must be **issued, circulated, or published along with:**

- Any **notes** annexed to or forming part of the financial statement The **auditor's report**
- The **Board's Report** as referred to in **Sub-section (3)**

Note: Consolidated financial statement, if any also need to be approved in similar manner.

In the case of one person company financial statements shall be approved only by one director.

Example: The Board of Directors of ABC Ltd. wants to circulate unaudited accounts before the Annual General Meeting of the shareholders of the Company. Whether such an act of ABC Ltd. is tenable?

Answer: Section 129(2) of the Companies Act, 2013 provides that at every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year. Further section 134(7) provides that signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of:

- Any notes annexed to or forming part of such financial statement;
- The auditor's report; and

- ❑ The Board's report.

It, therefore, follows that unaudited accounts cannot be sent to members or unaudited accounts cannot be filed with the Registrar of Companies. So, such an act of ABC Ltd., is not tenable.

■ BOARD'S REPORT AND ITS CONTENT [SECTION 134 AND RULE 8]

Board's report shall be attached to statements laid before a company in general meeting.	
Content of Board's Report	
<p>Contents of Board's Report [Section 134(3) read with Rule 8]</p>	<ul style="list-style-type: none"> ❑ The web address, if any, where annual return referred to in sub-section (3) of section 92 (i.e., Annual Return) has been placed ❑ Number of meetings of the Board ❑ Directors' responsibility statement ❑ Details in respect of frauds reported by auditors under sub-section (12) of section 143 (i.e. Powers and duties of auditors....), other than those which are reportable to the Central Government ❑ A statement on declaration given by independent directors under sub-section (6) of section 149 (i.e., Company to have board of directors in relation to independent director) ❑ In case of a company covered under sub-section (1) of section 178 (i.e., Nomination and Remuneration Committee and Stakeholders Relationship Committee), company's policy on directors' appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under sub-section (3) of section 178 ❑ Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made: <ul style="list-style-type: none"> ○ By the auditor in his report; and ○ By the company secretary in practice in his secretarial audit report; ❑ Particulars of loans, guarantees or investments under section 186 ❑ Particulars of contracts or arrangements with related parties referred to in section 188 (1) (i.e., Related Party Transactions) in the form AOC-2; ❑ The state of the company's affairs ❑ The amounts, if any, which it proposes to carry to any reserves ❑ The amount, if any, which it recommends should be paid by way of dividend ❑ Material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report

	<ul style="list-style-type: none"> ❑ The conservation of energy, technology absorption, foreign exchange earnings and outgo, in such manner as may be prescribed ❑ A statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company ❑ The details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year ❑ In case of a listed company and every other public company having such paid-up share capital of twenty five crore rupees or more calculated at the end of the preceding financial year shall include, in the report by its Board of directors, a statement indicating the manner in which formal annual evaluation of the performance of the Board, its Committees and of individual directors has been made;
<p style="text-align: center;">Other Matters as Prescribed [Rule 8 of the Companies (Accounts) Rules, 2014]</p>	<ul style="list-style-type: none"> ❑ The financial summary or highlights ❑ The change in the nature of business, if any ❑ The details of directors or key managerial personnel who were appointed or have resigned during the year ❑ A statement regarding opinion of the Board with regard to integrity, expertise and experience (including the proficiency) of the independent directors appointed during the year. <p>Explanation: For the purposes of this clause, the expression “proficiency” means the proficiency of the independent director as ascertained from the online proficiency self-assessment test conducted by the institute notified under sub-section (1) of section 150 (i.e., Manner of selection of Independent Directors and maintenance of databank of independent directors)</p> <ul style="list-style-type: none"> ❑ The names of companies which have become or ceased to be its subsidiaries, joint ventures or associate companies during the year ❑ The details relating to deposits such as accepted during the year; remained unpaid or unclaimed as at the end of the year; whether there has been any default in repayment of deposits or payment of interest thereon during the year and if so, number of such cases and the total amount involved at the beginning of the year, maximum during the year, and at the end of the year ❑ The details of deposits which are not in compliance with the requirements of Chapter V (i.e., Acceptance of Deposits by Companies) of the Act ❑ The details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company’s operations in future

- The details in respect of adequacy of internal financial controls with reference to the Financial Statements
- A disclosure, as to whether maintenance of cost records as specified by the Central Government under sub-section (1) of section 148 of this Act, is required by the Company and accordingly such accounts and records are made and maintained
- A statement that the company has complied with provisions relating to the constitution of Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013;
- The details of application made or any proceeding pending under the Insolvency and Bankruptcy Code, 2016 during the year along-with their status as at the end of the financial year
- The details of difference between amount of the valuation done at the time of one-time settlement and the valuation done while taking loan from the Banks or Financial Institutions along with the reasons thereof.

Note: Rule 8 of the Companies (Accounts) Rules, 2014 shall not apply to One Person Company or Small Company. Instead rule 8A is applicable upon them that is detailed on next page.

**Abridged Board's
Report for One Person
Company and Small
Company
[Section 134(3A) read
with Rule 8A]**

- The Board's Report of One Person Company and Small Company shall be prepared based on the stand-alone financial statement of the company, which shall be in abridged form and contain the following:-
- The web address, if any, where annual return referred to in sub-section (3) of section 92 has been placed
 - Number of meetings of the Board;- Directors' Responsibility Statement as referred to in sub-section (5) of section 134
 - Details in respect of frauds reported by auditors under sub-section (12) of section 143 other than those which are reportable to the Central Government
 - Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report
 - The state of the company's affairs
 - The financial summary or highlights
 - Material changes from the date of closure of the financial year in the nature of business and their effect on the financial position of the company
 - The details of directors who were appointed or have resigned during the year
 - The details or significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future
 - The particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the Form AOC-2.

**Board's Report in case
of OPC**
[Section 134(4)]

- In case of a One Person Company, the report of the Board of Directors to be attached to the financial statement under this section shall,
- mean a report containing explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report.
- Note: After insertion of sub-section 3A to section 134 and rule 8A to the Companies (Accounts) Rules, 2014 the importance of sub-section 4 reduced substantially.

Notes:

1. Exemptions for Government Companies:

- Clause (e) (related to policy on appointment/remuneration of directors) does NOT apply to Government Companies.
- Clause (p) (related to annual evaluation of Board's performance) does NOT apply to Government Companies.
- Government Companies engaged in producing defence equipment are exempted from disclosures under Clause (m) (related to CSR policy)

2. Conditions for availing these exemptions:

- The Government Company must NOT have defaulted in filing:
 - Financial statements under Section 137, or
 - Annual return under Section 92 of the Act

3. Disclosures in Financial Statement = No Repetition in Board's Report:

- If required disclosures under Section 134(3) are already included in the financial statements, then they need not be repeated in the Board's Report — only a reference is sufficient.
- Note: This benefit was earlier only for IFSC public/private companies, but from 31.07.2018, it applies to all companies.

4. Policies under Clause (e) or (o): Website Disclosure Simplification

- If the policy under Clause (e) or Clause (o) is available on the company's website, then:
 - The Board's Report needs to mention only:
 - A brief summary of the policy or changes, and
 - The web address where the full policy can be accessed.

5. Board's Report to be Based on Standalone Financials:

- The Board's Report must be prepared based on standalone financial statements.
- It should also highlight:
 - The performance of subsidiaries, associates, and joint ventures, and
 - Their contribution to the overall performance of the company during the reporting period

**Directors’
Responsibility
Statement
[Section 134(5)]**

The Directors’ Responsibility Statement referred to in 134(3)(c) shall state that:-

- In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- The directors had prepared the annual accounts on a going concern basis;
- The directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively; and
- The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Note: The term “internal financial controls” for clause e specified above means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Example: Modern Furniture Limited a listed entity has internal financial controls in place, during the financial year a failure in control system has been reported; controls were reinstated soon after such incident. Whether directors in Director’s Responsibility Statement can state that controls are adequate and operating efficiently?

Answer: Adequacy refers to the design of the control/system and signify whether the control/system that is in place, is fit for purpose or not.

Operating effectively refers to whether the control/system in place has the desired effect of mitigating the risk or not.

Here, adequacy and operating effectively together shall be read as adequate, operating effectively and applicable throughout also.

Therefore, directors of Modern Furniture Limited in Director’s Responsibility Statement can’t state that controls are adequate and operating efficiently.

<p>Signing of Board's Report [Section 134(6)]</p>	<p>The Board's report and any annexures thereto shall be signed by:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Chairperson of the company if he is authorised by the Board; and <input type="checkbox"/> Where he is not so authorised, shall be signed by: - <ul style="list-style-type: none"> <input type="radio"/> At least two directors, one of whom shall be a managing director, or <input type="radio"/> The director where there is one director. 						
<p>Contravention and Penalty [Section 134(8)]</p>	<p>If a company is in default in complying with the provisions of this section:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The company shall be liable to a penalty of ₹3,00,000; and <input type="checkbox"/> Every officer of the company who is in default shall be liable to a penalty of ₹50,000. <table border="1" data-bbox="574 721 1531 902"> <thead> <tr> <th>Person liable</th> <th>Punishment</th> </tr> </thead> <tbody> <tr> <td>Company</td> <td>Rs. 3,00,000</td> </tr> <tr> <td>Every officer of the company who is in default</td> <td>Rs.50,000</td> </tr> </tbody> </table>	Person liable	Punishment	Company	Rs. 3,00,000	Every officer of the company who is in default	Rs.50,000
Person liable	Punishment						
Company	Rs. 3,00,000						
Every officer of the company who is in default	Rs.50,000						

Example: ABC Company is a one-person company and has only one director. Who shall authenticate the balance sheet and statement of profit & loss and the Board's report?

Answer: In case of a One Person Company, the financial statements shall be signed by only one director, for submission to the auditor for his report thereon. So, the financial statements signed by one director shall be considered in order.

MULTIPLE CHOICE QUESTIONS (MCQ)

- 25.** The financial statements of the company needs to be authenticated by:
- (i) Chairperson of the company, if he is authorised by the Board
 - (ii) Any 2 directors out of which one shall be Managing Director, if any
 - (iii) Chief Executive Officer, wherever he is appointed
 - (iv) Chief Financial Officer, wherever he is appointed
 - (v) Company Secretary, wherever he is appointed
- (a) (i) or (ii), (iii), (iv) and (v)**
(b) (i), (iii), (iv), (v)
(c) (ii), (iii), (iv), (v)
(d) (i) to (v)
- 26.** Which of the following statements/ documents is/are required to be attached to the financial statements when circulated to company's members?
- (a) Notes annexed to or forming part of such financial statements
 - (b) The Auditor's Report
 - (c) The Board's Report
 - (d) All of the above**
- 27.** The Board's Report and any Annexure thereto under Section 134(3) shall be signed by:
- (a) Chairperson of the company, if he is authorised by the Board
 - (b) At least two directors, one of whom shall be a Managing Director
 - (c) Both (a) and (b)
 - (d) Either (a) or (b)**

■ CORPORATE SOCIAL RESPONSIBILITY [SECTION 135]

The provisions under Section 135 of the Companies Act, 2013 relating to CSR must be read along with the Companies (Corporate Social Responsibility Policy) Rules, 2014, also referred to as the CSR Rules.

<p>Corporate Responsibility Beyond Shareholders</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The corporate (as a legal person) uses a variety of other capitals along with economic capital (provided by shareholders) to generate revenue, earn profits, survive, and grow. <input type="checkbox"/> So, it is not only responsible to fund providers but to a wider range of stakeholders, including society and the environment (as per the Triple Bottom Line concept).
<p>India as a Global Leader</p>	<ul style="list-style-type: none"> <input type="checkbox"/> India became a torchbearer for the rest of the world by giving a legal mandate to CSR. <input type="checkbox"/> It introduced Section 135 in the Companies Act, 2013, making it mandatory for companies to spend a prescribed percentage of their profits on specified areas of social upliftment as part of their social responsibility.
<p>Meaning of CSR (Broadly)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> CSR broadly implies a concept where companies choose to contribute to <ul style="list-style-type: none"> <input type="radio"/> A better society, and <input type="radio"/> A cleaner environment. <input type="checkbox"/> It is a concept where companies integrate social and useful concerns into their business operations for the benefit of stakeholders and society in general.
<p>Corporate Social Responsibility (CSR) (Rule 2(d))</p>	<ul style="list-style-type: none"> <input type="checkbox"/> CSR means activities done by a company as part of its statutory obligation under Section 135 and in accordance with CSR Rules. <input type="checkbox"/> But CSR does not include: <ul style="list-style-type: none"> <input type="radio"/> Activities in normal course of business <input type="radio"/> Activities outside India (except training of Indian sports personnel at national/international level) <input type="radio"/> Contribution to any political party u/s 182 <input type="radio"/> Activities benefiting employees (as defined in Code on Wages, 2019) <input type="radio"/> Sponsorship-based activities for marketing <input type="radio"/> Activities done to fulfil any other statutory obligation under any law in India

Note: Any company engaged in research and development activity of new vaccine, drugs and medical devices in their normal course of business may undertake research and development activity of new vaccine, drugs and medical devices related to COVID-19 for financial years 2020-21, 2021-22, 2022-23 subject to the conditions that;

- Such research and development activities shall be carried out in collaboration with any of the institutes or organisations mentioned in item (ix) of Schedule VII to the Act;
- Details of such activity shall be disclosed separately in the Annual report on CSR included in the Board's Report.

<p>CSR Policy (Rule 2(f))</p>	<p>CSR Policy means a statement that includes:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The approach and direction given by the Board, based on CSR Committee recommendations, and <input type="checkbox"/> Guiding principles for selection, implementation, monitoring, and annual action plan.
<p>Administrative Overheads (Rule 2(b))</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Administrative overheads are the general management and administration expenses of CSR functions. <input type="checkbox"/> It does not include costs directly related to designing, implementing, monitoring, or evaluating a specific CSR project.
<p>Net Profit (Rule 2(h) read with Explanation to Section 135)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Net profit means profit as per company's financial statements, calculated under Section 198. <input type="checkbox"/> It excludes: <ul style="list-style-type: none"> <input type="radio"/> Profits from any overseas branch <input type="radio"/> Dividends from other Indian companies already complying with Section 135
<p>Ongoing Project (Rule 2(i) read with Explanation to Section 135)</p>	<p>Ongoing Project means:</p> <ul style="list-style-type: none"> <input type="checkbox"/> A multi-year CSR project (not exceeding 3 years excluding the starting FY) <input type="checkbox"/> A project initially not multi-year but later extended beyond 1 year by the Board with valid reasons
<p>Example: Modern Furniture Limited (MFL) undertake a CSR project in light of its CSR policy; of placing and installing benches as public parks and gardens in supervision of district administration. Initially it was estimated that project will be completed in a span of 8-10 months; but due to renovation of half a dozen of parks the task of installing benches there postponed till the construction is completed (which was expected to take further couple of quarters). Board of MFL considering the circumstances declare the project an ongoing project, extend the duration beyond one year; and also provided reasonable justification. Whether board of MFL correctly re-categories the project as ongoing project or not?</p> <p>Rule 2(i) of the CSR rules provides that projects which are initially of less than a year's time (therefore not registered as multi-year project) but duration of which extended beyond the one-year period, by board based on reasonable causes or justification; shall be re-categories as ongoing project. Hence, decision of board of MFL is legal and valid.</p>	
<p>Public Authority (Rule 2(j))</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Public Authority means as defined in Section 2(h) of the Right to Information Act, 2005.
<p>CSR COMMITTEE</p> <p>A. Applicability – When CSR Committee is Required [Section 135(1), Rule 3(1)]</p> <p>B. Composition of CSR Committee [Section 135(1), Rule 5(1)]</p> <p>C. Duties of CSR Committee [Section 135(3) & Rule 5(2)]</p>	

Applicability – When CSR Committee is Required

CSR Committee - Rule 2(e)

CSR Committee means the Corporate Social Responsibility Committee of the Board as referred in Section 135(1) of the Companies Act, 2013.

When is CSR Committee required?	<input type="checkbox"/> If in the immediately preceding financial year, the company has: <ul style="list-style-type: none"> <input type="radio"/> Net worth \geq ₹500 crore, OR <input type="radio"/> Turnover \geq ₹1,000 crore, OR <input type="radio"/> Net profit \geq ₹5 crore
Who is covered?	<p>As per Rule 3(1):</p> <input type="checkbox"/> Every company, including its holding or subsidiary company, and <input type="checkbox"/> Every foreign company (defined in Section 2(42)) with branch/project office in India, if it meets the above financial criteria.

Note: Net-worth and Turnover is defined in clause (57) and (91) to section 2 of the Act, respectively; same are stated under chapter 1 of this module. Whereas Net Profit is defined under the Rule 2(h) of the CSR Rules read with explanation to section 135 of the Act.

The net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

Example: ABC Ltd is a company with a turnover of more than ₹1000 crore in each of the preceding three financial years and have incurred a loss in one of the preceding three financial years. Will it be required to constitute CSR committee?

Answer: As per section 135(1) of the Act, if any one of the three criteria (whether net worth, or turnover or net profit) gets satisfied then the company is mandatorily required to constitute CSR committee and comply with other CSR provisions. Hence, ABC Ltd. will be required to constitute CSR committee and comply with other CSR provisions based on its turnover. The mere fact that company has incurred loss in one of the preceding three financial years will not be considered for determining the applicability of CSR to the companies.

CSR Committee still required if Unspent CSR balance exists	<p>As per Proviso to Rule 3(1):</p> <input type="checkbox"/> If a company has any balance in Unspent CSR Account (Sec 135(6)), <input type="checkbox"/> it must form a CSR Committee and comply with Sub-sections (2) to (6) of Section 135.
Exception (No CSR Committee Required)	<p>Under Section 135(9):</p> <input type="checkbox"/> If the total amount required to be spent under Section 135(5) is \leq ₹50 lakh, then: <input type="checkbox"/> CSR Committee is not mandatory, and <input type="checkbox"/> Board of Directors will perform the CSR Committee's duties.

Composition of CSR committee

General Rule	<input type="checkbox"/> CSR Committee must have \geq 3 directors, and at least 1 independent director.
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If no Independent Director is required u/s 149(4)	<input type="checkbox"/> Committee shall have ≥ 2 directors, <input type="checkbox"/> even if no independent director is present.
Private company with only 2 directors	<input type="checkbox"/> CSR Committee shall consist of those 2 directors.
<p>Note: Independent Director is defined under section 2(47) of the Act, same is stated under chapter 1 of this module.</p> <p>As per section 135(2), the Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.</p>	
Foreign company	<p>Committee shall include:</p> <input type="checkbox"/> One person under Sec 380(1)(d) (i.e., resident authorized representative), and <input type="checkbox"/> One nominee of the foreign company.
Duties of CSR Committee - CSR Committee Must :	
Formulate and recommend CSR Policy	Policy should specify activities to be undertaken in areas listed in Schedule VII.
Recommend CSR expenditure	Recommend the amount to be spent on CSR activities.
Monitor CSR Policy	Ensure regular monitoring of CSR Policy implementation.
Prepare and recommend Annual Action Plan (Rule 5(2))	<p>Plan must include:</p> <input type="checkbox"/> List of approved projects/programmes in Schedule VII areas <input type="checkbox"/> Manner of execution (company itself/via Sec 8 co., etc.) <input type="checkbox"/> Fund usage and implementation schedule <input type="checkbox"/> Monitoring and reporting mechanism <input type="checkbox"/> Need and impact assessment details, if applicable
<p>Note: Board may alter such plan at any time during the financial year, as per the recommendation of its CSR Committee, based on the reasonable justification to that effect.</p>	
Duties of the Board (Section 135(4) read with Rule 9)	<input type="checkbox"/> After taking into account recommendations of CSR Committee, approve the CSR Policy. <input type="checkbox"/> Disclose contents of such Policy in its report. <input type="checkbox"/> Place CSR Policy, composition of CSR Committee and projects approved by Board on the company's website. <input type="checkbox"/> Ensure CSR activities as per the Policy are undertaken by the company.
CSR Expenditure Requirement (Section 135(5))	<input type="checkbox"/> Minimum 2% of average net profits <input type="checkbox"/> made during 3 immediately preceding financial years to be spent on CSR activities.

If Company < 3 Years Old	Spend 2% of average net profits of such immediately preceding financial years.
<p>Note: Company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities The board shall ensure that the administrative overheads shall not exceed five percent of total CSR expenditure of the company for the financial year.</p>	
<p>Example: Compute the minimum amount that Modern Furniture Limited is required to spend on account of Corporate Social responsibility year 2022-2023. MFL was incorporated in August 2020. Net-profit made during the financial years 2020-2021 and 2021-2022 are Rs. 20 crore, and Rs. 38 crore respectively.</p> <p>Options Rs. 76 lakh Rs. 1.16 crore Rs. 58 lakh</p> <p>Since the company has not completed the period of three financial years since its incorporation, hence no CSR spending is required.</p> <p>Answer: c Reason: Section 135(5).</p>	
<p>Surplus from CSR Activities [Rule 7(2)]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Shall not form part of business profit. <input type="checkbox"/> Be ploughed back into the same project, or <input type="checkbox"/> Transferred to Unspent CSR Account and spent in pursuance of CSR policy and action plan, or <input type="checkbox"/> Transferred to a Fund in Schedule VII within 6 months of expiry of FY.
<p>Excess CSR Expenditure [Second proviso to Sec 135(5) read with Rule 7(1)]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> May set off excess against future CSR obligation for next 3 FYs. <input type="checkbox"/> Surplus arising out of CSR cannot be included in excess amount. <input type="checkbox"/> Board resolution to that effect is required.
<p>Failure to Spend CSR Amount [Section 135(6) and provisos to 135(5)]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Board to specify reasons in Board Report (Sec 134(3)(o)). <input type="checkbox"/> If not related to ongoing project:- <ul style="list-style-type: none"> <input type="radio"/> Transfer to Fund in Schedule VII within 6 months of end of FY. <input type="checkbox"/> If related to ongoing project: <ul style="list-style-type: none"> <input type="radio"/> Transfer to Unspent CSR Account within 30 days from end of FY.
<p>Notes: Unspent Corporate Social Responsibility Account (referred as to Unspent CSR Account) shall be operated with Scheduled bank. Any sum transferred to Unspent CSR Account, shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer.</p>	

In case of failure in spending the amount transferred in Unspent CSR Account in pursuance of its obligation towards the CSR Policy within a period of three financial years from the date of such transfer, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

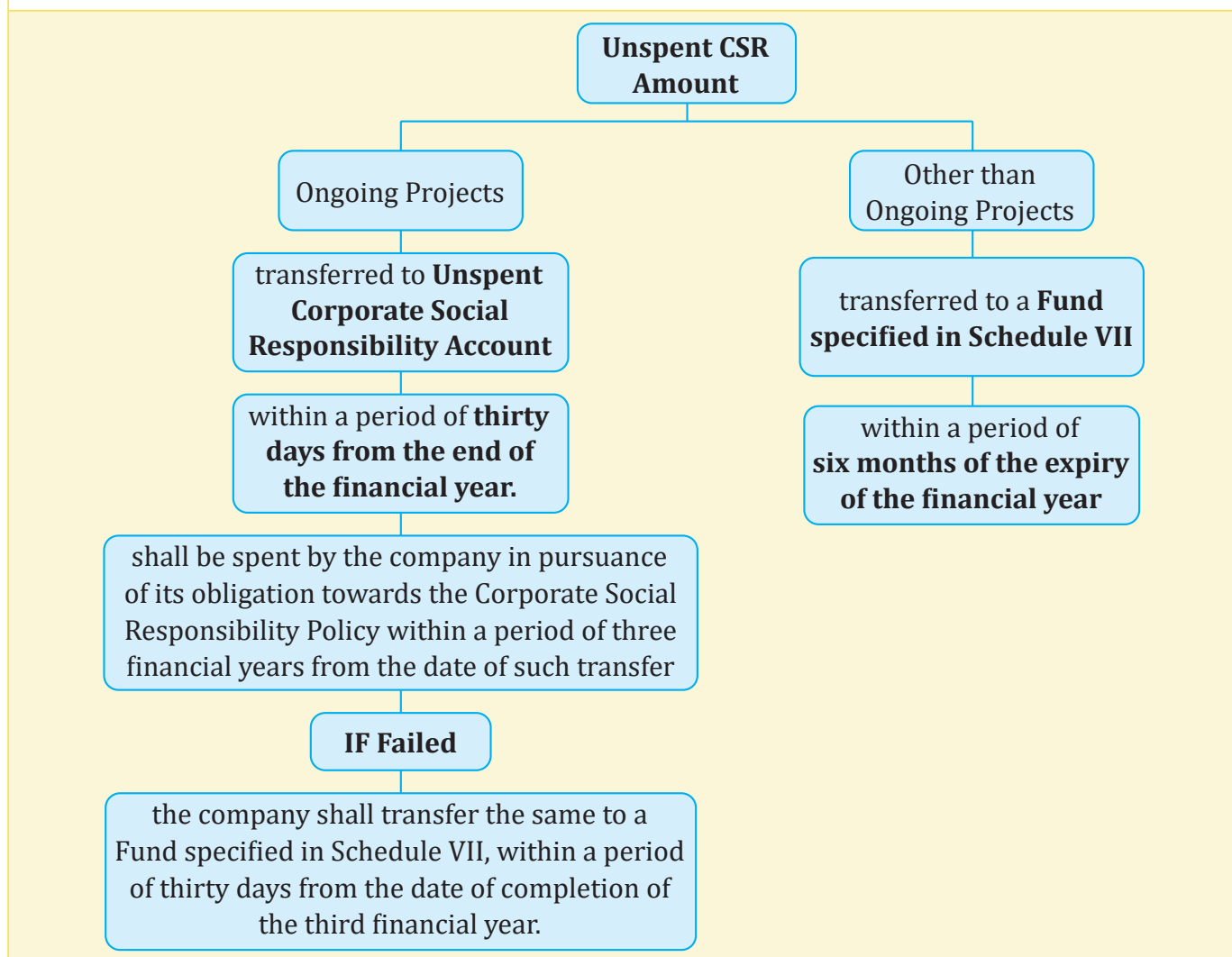
As per rule 10 of CSR Rules, until a fund is specified in Schedule VII for the purposes of subsection (5) and (6) of section 135 of the Act, the unspent CSR amount, if any, shall be transferred by the company to any fund included in schedule VII of the Act.

CSR expenditure for creation or acquisition of a capital Asset [Rule 7(4)]

CSR amount may be spent by a company for creation or acquisition of a capital asset, which shall be held by :-

- Section 8 Company/Registered Trust/Registered Society with CSR Registration Number, or
- Beneficiaries (e.g. self-help groups, collectives), or
- Public authority.

Note: Any capital asset created by a company prior to the commencement of the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, shall within a period of 180 days from such commencement comply with the requirement of this rule, which may be extended by a further period of not more than 90 days with the approval of the Board based on reasonable justification.



<p>Implementation of CSR [Rule 4]</p>	<p>CSR may be undertaken:-</p> <ul style="list-style-type: none"> <input type="checkbox"/> By the company itself, or <input type="checkbox"/> Through: <ul style="list-style-type: none"> <input type="radio"/> Section 8 Co./Trust/Society (exempted under Sec 10(23C)(iv-via) or 12A and approved under 80G), established by company <input type="radio"/> Section 8 Co./Trust/Society established by CG/SG. <input type="radio"/> Statutory body under Act of Parliament/State Legislature. <input type="radio"/> Entity under (1) above with minimum 3 years of track record.
<p>Note:</p> <ol style="list-style-type: none"> 1. CSR activities should be undertaken by the companies in project/programme mode. One-off events such as marathons/awards/charitable contribution/advertisement/sponsorships of TV programmes etc. would not be qualified as CSR expenditure. 2. Expenses incurred by companies for the fulfillment of any Act/Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act. 3. Registered Trust would include Trusts registered under Income Tax Act 1961, for those states where registration of Trust is not mandatory. 4. Contribution to Corpus of a Trust/society/section 8 companies etc. will qualify as CSR expenditure as long as (a) the Trust/society/section 8 companies etc. is created exclusively for undertaking CSR activities or (b) where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act. 	
<p>Registration Requirement [Rule 4(2)]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Entities to file Form CSR-1 electronically. <input type="checkbox"/> Applicable from 01st April 2021. <input type="checkbox"/> Not applicable to projects approved prior to 01st April 2021. <input type="checkbox"/> CSR-1 to be digitally verified by a CA/CS/CMA in practice. <input type="checkbox"/> CSR Registration Number generated automatically.
<p>International Organisations [Rule 4(3)]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> May be engaged for designing, monitoring, evaluation of CSR projects and capacity building.
<p>Note: Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spending of the Indian subsidiary, if, the CSR expenditures are routed through Indian subsidiaries and if the Indian subsidiary is required to do so as per section 135 of the Act</p>	
<p>Collaboration [Rule 4(4)]</p>	<p>Companies may collaborate on projects, ensuring CSR Committees can report separately.</p>

Onus on Board [Rule 4(5)]	Board to ensure proper utilisation of funds and CFO or responsible person to certify.
Ongoing Projects [Rule 4(6)]	Board to monitor implementation with reference to approved timelines and year-wise allocation.- Competent to modify for smooth implementation.
<p>Example: Can an international organisation be engaged for implementation of CSR project?</p> <p>Answer: Yes, an international organisation may be engaged for implementation of CSR projects; but engagement shall be restricted to the designing, monitoring and evaluation of the CSR projects or programmes as per its CSR policy as well as for capacity building of their own personnel for CSR, as per rule 4(3) of CSR rules.</p>	
CSR Reporting [Rule 8(1), (2)]	<input type="checkbox"/> Annual report on CSR to be included in Board's Report. <input type="checkbox"/> For foreign company: Balance Sheet filed u/s 381(1)(b) to include annual CSR report.
<p>Note: Annexure I and II are provided to the CSR rules as format for such annual reporting. Annexure I provides the format for the annual report on CSR activities to be included in the board's report for financial year commencing before the 1st day of April, 2020. While Annexure II prescribes the format for the annual report on CSR activities to be included in the board's report for financial year commencing on or after the 1st day of April, 2020.</p>	
Impact Assessment [Rule 8(3)]	<input type="checkbox"/> Mandatory if:- <input type="checkbox"/> Average CSR obligation \geq ₹10 Cr in 3 preceding FYs, for projects \geq ₹1 Cr completed \geq 1 year prior. <input type="checkbox"/> Report to be placed before Board and annexed to annual CSR report. <input type="checkbox"/> Expense towards impact assessment can be booked as CSR expenditure up to 2% of total CSR expenditure or ₹50 Lakhs, whichever is higher.
Penal Provisions [Section 135(7)]	<p>Company: Penalty = lesser of:</p> <input type="checkbox"/> Twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be or <input type="checkbox"/> ₹1 crore. <p>Officer in default: Penalty = lesser of:</p> <input type="checkbox"/> one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be or <input type="checkbox"/> ₹2 lakhs.
Central Government Directions [Section 135(8)]	<input type="checkbox"/> CG may issue general or special directions to ensure compliance, which must be followed.

<p>Schedule VII – CSR Activities</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Eradicating hunger, poverty, malnutrition, health care, sanitation, safe drinking water <input type="checkbox"/> Education, skill development, livelihood <input type="checkbox"/> Gender equality, women empowerment, homes/hostels for orphans, old age homes etc. <input type="checkbox"/> Environmental sustainability, protection of flora and fauna, Clean Ganga Fund <input type="checkbox"/> Protection of national heritage, art, culture; libraries, arts & handicrafts <input type="checkbox"/> Armed forces veterans, CAPF & CPMF, dependents <input type="checkbox"/> Rural and Olympic sports promotion <input type="checkbox"/> PMNRF, PM CARES, Funds for SC/ST/OBC/minorities/women welfare <input type="checkbox"/> R&D contributions to approved Govt. incubators & institutions (e.g., IITs, DRDO, CSIR) <input type="checkbox"/> Rural development projects <input type="checkbox"/> Slum area development(xii) Disaster management, including relief, rehabilitation and reconstruction
<p>Note: The statutory provision and provisions of CSR Rules, 2014, is to ensure that while activities undertaken in pursuance of the CSR policy must be relatable to Schedule VII of the Companies Act, 2013, the entries in the said Schedule VII must be interpreted liberally so as to capture the essence of the subjects enumerated in the said Schedule. The items enlisted in the amended Schedule VII of the Act, are broad-based and are intended to cover a wide range of activities</p>	
<p>COVID-19 Clarifications (MCA Circulars)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> 23 March 2020 (10/2020): COVID-related healthcare and disaster mgmt. activities under items (i) & (xii) eligible. <input type="checkbox"/> 13 Jan 2021 (01/2021): Awareness/public outreach on vaccination covered under (i), (ii), (xii). <input type="checkbox"/> 22 Apr 2021 (05/2021): Setting up COVID hospitals/temporary care – eligible under (i), (xii). <input type="checkbox"/> 05 May 2021 (09/2021): Creation of health infra, oxygen plants etc. covered under (i), (xii). <input type="checkbox"/> 28 Mar 2021 (OM): Contribution to PM CARES qualifies as CSR.6. 30 Jul 2021 (13/2021): Vaccination for non-employees is CSR under (i), (xii).
<p>‘Har Ghar Tiranga’ Campaign (Circular 08/2022)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Mass-scale production/supply of national flag, outreach & awareness under item (ii) – promotion of education relating to culture.
<p>Note: In case of specified IFSC public company²⁰ and specified IFSC private company²¹ the section 135 shall not apply for period of 5 years from the commencement of business of a specified IFSC public company and specified IFSC private company</p>	

MULTIPLE CHOICE QUESTIONS (MCQ)

28. As per the provisions of the Companies Act, 2013, which of the following statement is correct with respect to the surplus arising out of the CSR activities: (Mar. 22) (1 Mark)
- (a) The surplus cannot exceed five percent of total CSR expenditure of the company for the financial year.
 - (b) The surplus shall not form part of the business profit of a company**
 - (c) The surplus cannot exceed 10 percent of total CSR expenditure of the company for the financial year.
 - (d) The surplus shall form part of the business profit of a company
29. CSR Committee of the Board of shall consist of:
- (a) Directors forming 1/3rd of the total no of directors.
 - (b) At least 2 directors out of which one shall be independent director.
 - (c) 3 or more directors out of which one shall be managing director.
 - (d) 3 or more directors, out of which at least 1 director shall be an independent director.**
30. Provisions of CSR are applicable to:
- (a) Companies with net worth of ₹250 crore or more but less than 500 crore.
 - (b) Companies with turnover of ₹1000 crore or more.**
 - (c) Companies with net profit of ₹1 crore or more but less than ₹5 crore in any financial year
 - (d) Companies having aggregate outstanding loans and deposits Exceeding ₹50 crore or more in any financial year.
31. Ayush Power Limited has reported a net profit of ₹6 crore, ₹7.5 crore and ₹3 crore for the financial year(s) ended on March 2017, March 2018 and March 2019 respectively. The board's report of the company for the year ended March 2020 did not disclose the composition of the CSR Committee on the grounds that company is not required to constitute CSR committee as net profit during the immediately preceding financial year is less than the statutory requirements laid down in section 135. You are required to examine in the given scenario whether the act of non-composition and non-disclosure of the composition of CSR committee in the Board's Report is valid in law?
- (a) No, the act of the company is not valid in law as every company is required to constitute a CSR committee and disclose the constitution of same in the board's report in every financial year irrespective of the profits earned by the company.
 - (b) Yes, the act of the company is valid in law as the net profit of the company is less than ₹5 crore in the immediately preceding financial year.**
 - (c) No, the act of the company is not valid in law as composition and disclosure of composition of CSR Committee will be required only if the profits of the company are not less than ₹5 crore for a consecutive period of 3 financial years.
 - (d) The act of the company is valid only to the extent of nondisclosure of the composition of CSR committee as the net profit of the company is less than ₹5 crore in the immediately preceding financial year.
32. The activities which may be included by companies in their Corporate Social Responsibility Policies are provided in:
- (a) Schedule III to Companies Act, 2013
 - (b) Schedule VII to Companies Act, 2013**
 - (c) Annexure-1 to Companies (CSR Policy) Rules, 2014
 - (d) As notified by Ministry of Company Affairs from time to time

33. It is mandatory for a company to constitute a CSR Committee of the Board if during any financial year, it is having:

- (a) Net Worth of 500 Crore or more
- (b) Turnover of 1,000 Crore or more
- (c) Net Profit of 5 Crore or more

(d) Any one of above

34. The turnover of KLM Private Limited has been on the declining trend and it has been making losses for last 5 years. For the financial year 2017-2018, 2018-2019 and 2019-2020, its turnover was 1,200 Crores, 1,050 Crores and 700 Crores, respectively. The company is of the opinion that for the financial year 2020-2021, it does not require the CSR Committee. Which of the following statements given below is correct?

- (a) The company need not constitute CSR Committee since its turnover in the preceding financial year is below 1,000 Crores.
- (b) The company need not constitute CSR Committee since its average turnover in the preceding 3 financial years is below 1,000 Crores.
- (c) The turnover in financial year 2017-18 and 2018-19 exceed 1,000 Crores and therefore CSR committee constituted earlier would be required**

to continue till the company ceases to be covered under Section 135(1) for 3 consecutive financial years.

- (d) None of the above. The requirement of CSR committee is not applicable to Private Companies.

35. Which of the following company/companies is/are not required to constitute CSR Committee?

- (a) A company which ceases to be a company covered under Section 135(1) of the Act for 3 consecutive financial years.**
- (b) A foreign company defined under Section 2(42) of the Act having its branch office or project office in India.
- (c) A Private Limited Company
- (d) All of the above

36. Which of the following amounts shall not qualify as CSR Expenditure?

- (a) Salaries and wages paid to employees and workers during the National lockdown declared during COVID-19 pandemic
- (b) Expenditure incurred for eradication of poverty and slum rehabilitation in Syria
- (c) Amount contributed to the ruling political party at Centre
- (d) All of the above**

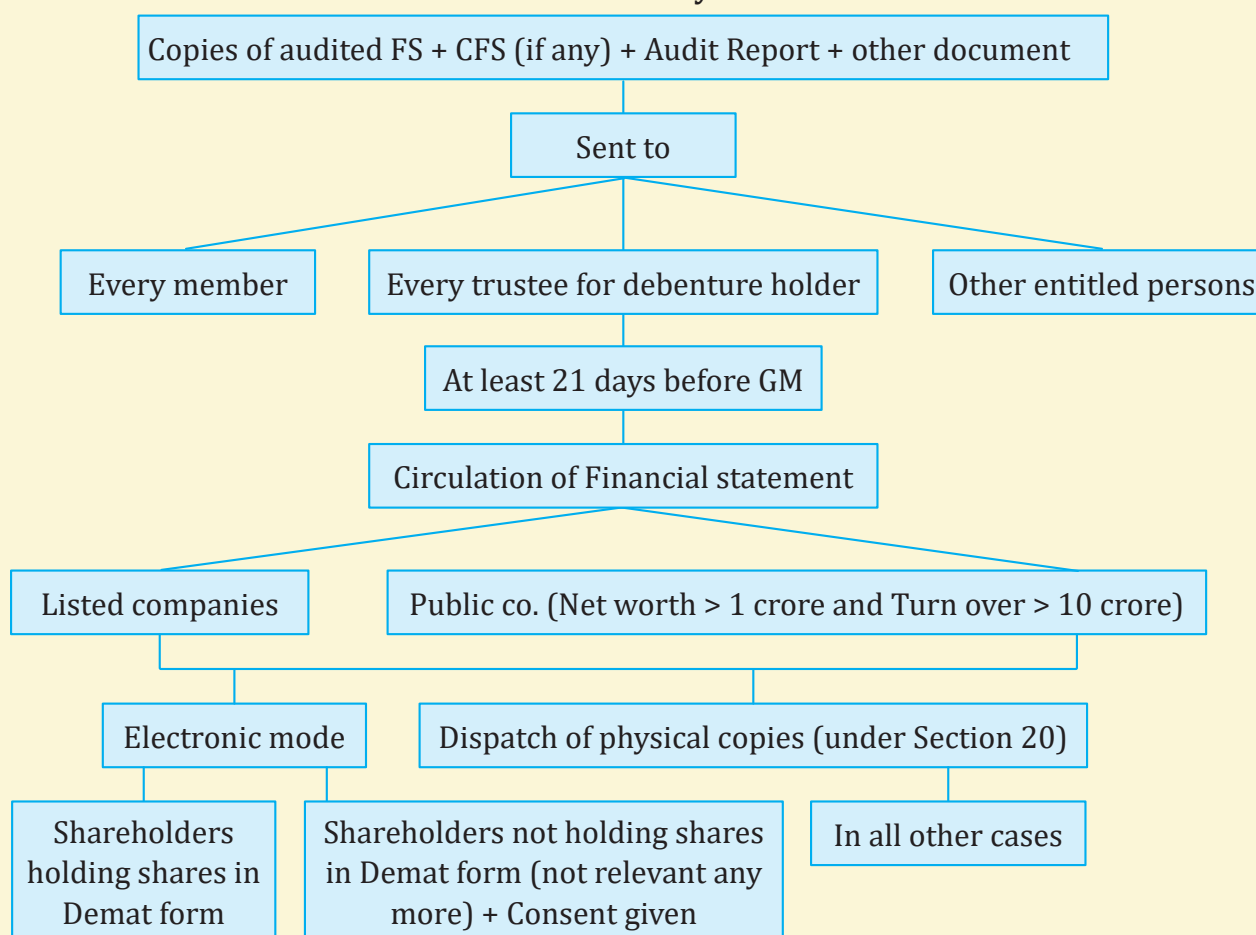
■ RIGHT OF MEMBERS TO COPIES OF AUDITED FINANCIAL STATEMENT [SECTION 136]

Section 136 read with Rule 10 & 11 of Companies (Accounts) Rules, 2014	
What to Circulate?	Financial statements including: <ul style="list-style-type: none"> <input type="checkbox"/> Consolidated Financial Statement (if any) <input type="checkbox"/> Auditor's Report <input type="checkbox"/> All documents required by law to be annexed to the financial statements <input type="checkbox"/> Also, separate audited/unaudited financials of each subsidiary (on request by any member).
To Whom?	<ul style="list-style-type: none"> <input type="checkbox"/> Every member of the company <input type="checkbox"/> Every trustee for debenture holders <input type="checkbox"/> Any other person entitled to receive (Example: legal heir, bankers, lenders, institutes etc.)

<p>When to Send?</p>	<ul style="list-style-type: none"> <input type="checkbox"/> At least 21 days before the meeting <input type="checkbox"/> Shorter notice - If agreed by: <ul style="list-style-type: none"> <input type="radio"/> Members holding 95% of voting power (in case of no share capital) <input type="radio"/> Majority in number holding 95% of paid-up share capital (in case of share capital) <p>Note: For Section 8 Companies, replace “21 days” with “14 days”.</p>
<p>Note: In case of section 8 company the words “twenty-one days”, shall be substituted by the words “fourteen days”.</p>	
<p>Mode of Circulation [Rule 11]</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Listed Companies & public companies with Net worth > ₹1 Cr AND Turnover > ₹10 Cr: <ul style="list-style-type: none"> <input type="radio"/> By electronic mode to members whose emails are available <input type="radio"/> Others: → Physical copies via recognised delivery modes under Section 20
<p>Shareholding is in dematerialized format</p>	<p>Whose email are registered with Depository for communication purposes</p>
<p>Shareholding is in Otherwise than by dematerialized format</p>	<p>But they have positively consented in writing for receiving by electronic mode (this may not be relevant considering that shareholding is not held otherwise than by dematerialized form anymore)</p>
<p>Listed Company – Summary Statement Option</p>	<p>Provisions deemed complied if:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Full documents available for inspection at Registered Office during working hours for 21 days before meeting <input type="checkbox"/> A summary (Form AOC-3 or AOC-3A) or copy of documents is sent to members & debenture trustees 21 days before meeting <input type="checkbox"/> Full financial statements shall be sent only if demanded by shareholders
<p>Mandatory Website Upload (Listed Company)</p>	<p>Upload full financial statements including:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Consolidated Financials (if any) <input type="checkbox"/> Separate audited accounts of each subsidiary <input type="checkbox"/> All other attached documents <input type="checkbox"/> For foreign subsidiaries: → <ul style="list-style-type: none"> <input type="radio"/> If law requires consolidated FS: Upload on company website <input type="radio"/> If audit not required & not done: Upload unaudited FS <input type="radio"/> If in another language: Upload translated English version
<p>Inspection Rights</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Members and debenture trustees can inspect all documents at the company’s registered office during business hours

Penalty for Contravention	<input type="checkbox"/> Company: ₹25,000 penalty <input type="checkbox"/> Officer in Default: ₹5,000 penalty
MCA Circular Clarification	<input type="checkbox"/> Financials may be circulated at shorter notice if meeting is held at shorter notice under Section 101 <input type="checkbox"/> Format of foreign subsidiary accounts should follow Companies Act, 2013 as far as possible; else give reason for deviation

Summary



Example: RELM Industries Limited, a company incorporated under the Companies Act, 2013, has its shares listed on a recognized Stock Exchange in India. One of the subsidiaries of RELM Industries Limited is a foreign company incorporated outside India. In the annual general meeting of the company, RELM Industries Limited has placed its audited financial statement including consolidated financial statement on its website. RELM Industries Limited has also placed on its website separate audited accounts of all its subsidiaries located in India except one subsidiary, which is a foreign company and located outside India on the grounds that such foreign company is not required to get its financial statement audited under the company law of its country of incorporation. You are required to examine whether RELM Industries Limited has complied with the provisions of section 136?

Answer: No, RELM Industries Limited has not complied with the provisions of section 136 because RELM Industries Limited is also required to place unaudited financial statement of its foreign subsidiary on its website even if such foreign subsidiary is not required to get its financial statement audited as per the provisions of section 136.

The holding Indian listed company (RELM Industries Limited in this case) may place such unaudited financial statement on its website and where such financial statement is in a language other than English, a translated copy of the financial statement in English shall also be placed on the website.

Note: In case of Nidhi company²⁴

Section 136 (1) shall apply, subject to the modification that, in the case of members who do not individually or jointly hold shares of more than one thousand rupees in face value or more than one per cent, of the total paid-up share capital, whichever is less, it shall be sufficient compliance with the provisions of the section if an intimation is sent by public notice in newspaper circulated in the district in which the Registered Office of the company is situated stating the date, time and venue of AGM and the financial statement with its enclosures can be inspected at the registered office of the company and the financial statement with enclosures are affixed in the notice board of the company and a member is entitled to vote either in person or through proxy.

MULTIPLE CHOICE QUESTIONS (MCQ)

37. Rema formed and occupied the office of director in Rem Stationers (OPC) Private Limited which deals in manufacturing and trading of various items of stationery. Rema noticed a changed provision which mandates that from the Financial Year 2020-21 onwards, an OPC shall file its Annual Return in MGT - 7A. Rema is also one of the directors in another company which too is required to file its Annual Return in MGT - 7A. Which is that 'other company' where Rema also occupies the office of director in addition to OPC.
- (a) That other company is a 'small company' where Rema also occupies the office of director in addition to OPC.
- (b) That other company is an 'associate company' where Rema also occupies the office of director in addition to OPC.
- (c) That other company is a 'subsidiary company' where Rema also occupies the office of director in addition to OPC.
- (d) That other company is a 'dormant company' where Rema also occupies the office of director in addition to OPC.
38. A copy of the audited financial statements, including CFS, along with any notes, Auditor's Report etc. is required to be circulated to the members not less than before the date of the meeting in which the financial statements are to be laid.
- (a) 21 days (b) 15 days
(c) 14 days (d) 30 days
39. In case of Section 8 Company, the financial statements etc. are required to be circulated to the members not less than before the date of the meeting in which the financial statements are to be laid.
- (a) 21 days (b) 15 days
(c) 14 days (d) 30 days
40. A company can circulate its financial statements to its members at a shorter notice if:
- (a) Majority of members in number, who are entitled to vote agree
(b) Members having not less than 95% of paid up capital which gives right to vote at the meeting agree
(c) Either (a) or (b)
(d) Both (a) and (b)
41. Which of the following companies can circulate its financial statements by electronic mode?
- (a) All listed companies
(b) Public companies having a Net Worth of more than 1 Crore and Turnover of more than 10 Crore
(c) Both (a) and (b)
(d) None of the above

■ COPY OF FINANCIAL STATEMENT TO BE FILED WITH REGISTRAR [SECTION 137]

Section 137 read with Rule 12 of Companies (Accounts) Rules, 2014 and Rule 3 of Companies (Filing of Documents and Forms in XBRL) Rules, 2015.	
What needs to be filed?	<ul style="list-style-type: none"> <input type="checkbox"/> A copy of the financial statements <input type="checkbox"/> including consolidated financial statement (if any), <input type="checkbox"/> along with all documents required to be attached under the Act, <input type="checkbox"/> duly adopted at the AGM.
Due Date of Filing	<ul style="list-style-type: none"> <input type="checkbox"/> Within 30 days of AGM (except for OPC) <input type="checkbox"/> OPC (no AGM required): <input type="checkbox"/> Within 180 days from the closure of the financial year.
If Financial Statements Not Adopted in AGM	<ul style="list-style-type: none"> <input type="checkbox"/> Unadopted financials to be filed within 30 days of the AGM. <input type="checkbox"/> Will be considered provisional till adoption in adjourned AGM. <input type="checkbox"/> If adopted in adjourned AGM, file within 30 days of that date.
If AGM Not Held	<ul style="list-style-type: none"> <input type="checkbox"/> File signed financial statements and documents <input type="checkbox"/> with reasons <input type="checkbox"/> for not holding AGM within 30 days of <input type="checkbox"/> the last date by which AGM should have been held.
<p>Example: The AGM of R Ltd., for laying the Annual Accounts there at for the year ended 31 March 2024, was not held. What remedy is available with the company regarding compliance of the provisions of section 137 of the Companies Act, 2013 for filing of copies of financial statements with the Registrar of Companies?</p> <p>Answer: In the present case, though AGM was not held, it ought to be held by 30 September 2024 under sections 96 of the Companies Act, 2013.</p> <p>Therefore, under the provisions of section 137(2), the financial statements along with the documents required to be attached under this Act, duly signed along with the statement of facts and reasons for not holding the AGM shall be filed with the Registrar within thirty days of the last date before which the AGM should have been held i.e. by 30 October 2024 along with such fees or additional fees as may be prescribed.</p> <p>Example: (In continuation to above illustration)</p> <p>Will it make any difference in case the Annual Accounts were duly laid before the AGM held on 27 September 2024 but the same were not adopted by the shareholders?</p> <p>Answer: Since the AGM has been held in time on 27 September 2024, the un-adopted financial statements along with the required documents under sub-section (1) of section 137 shall be filed with the Registrar within thirty days of the date of AGM and the Registrar shall take them in his records as provisional till the financial statements are filed with him after its adoption in the adjourned AGM for that purpose.</p>	
Filing Forms and Mode	<p>File with prescribed forms and fees:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Form AOC-4 (Standalone) <input type="checkbox"/> Form AOC-4 CFS (Consolidated FS)

	<ul style="list-style-type: none"> <input type="checkbox"/> Form AOC-4 NBFC (Ind AS) <input type="checkbox"/> Form AOC-4 CFS NBFC (Ind AS) <input type="checkbox"/> CSR-2 (as addendum for companies under Sec 135 from FY 2020-21 onward)
XBRL Filing (Rule 3 of XBRL Rules, 2015)	<p>The following companies shall file in AOC-4 XBRL:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Companies listed with stock exchanges in India and their Indian subsidiaries <input type="checkbox"/> Every public company - <ul style="list-style-type: none"> <input type="radio"/> paid-up capital \geq ₹5 crore or <input type="radio"/> turnover \geq ₹100 crore or <input type="radio"/> Companies preparing financials as per Ind AS
<p>Note: The companies which have filed their financial statements under Rule 3(1) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015 and erstwhile rules (i.e., the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011) shall continue to file their financial statements and other documents though they may not fall under the class of companies specified therein in succeeding years. Meaning thereby once company started reporting in XBRL format shall continue to report in XBRL format in succeeding years also, even if criteria mentioned above is not met in succeeding years.</p>	
<p>Example: Amazon Company Limited, a company incorporated under the Companies Act, 2013, has a turnover of 150 crore and 90 crore during the financial year ended 31st March 2023 and 31st March 2024 respectively. Now Amazon Company Limited shall continue to file the financial statements and other documents under section 137 in e-form AOC-4 XBRL for the financial year ended 31st March 2024 even if the company does not fall in the class of companies provided under Rule 3 of the Companies (Filing of documents and forms in Extensible Business Reporting Language) Rules, 2015.</p>	
In case of Foreign Subsidiary	<ul style="list-style-type: none"> <input type="checkbox"/> If a company has a foreign subsidiary not having business in India: <input type="checkbox"/> Attach its accounts with Indian company's financials. <input type="checkbox"/> If no audit is done as per foreign laws, then unaudited accounts can be filed with a declaration. <input type="checkbox"/> If not in English, a translated English version must be attached. <input type="checkbox"/> Accounts format should follow Companies Act, 2013 as far as possible; if not, provide reason for deviation.
<p>Example: Vandana Ltd., based in India, has many subsidiaries in India and outside India. It also had associates and joint ventures. For the purpose of finalization of the consolidated financial statements of the company for the year ended 31st March 2024, the company's management requested its foreign subsidiary, based out of Italy, to provide its standalone financial statements. The Italian subsidiary company prepares its financial statements in the local language of the country and the same is provided to the Indian parent company as unaudited as the audit is not required by the Italian subsidiary company. Please advise how the Indian parent should deal with this financial statement.</p>	

Answer: Vandana Ltd. would have to get the standalone financial statements of Italian subsidiary company translated in English language and also get those aligned as per its accounting policies for the purpose of consolidation.

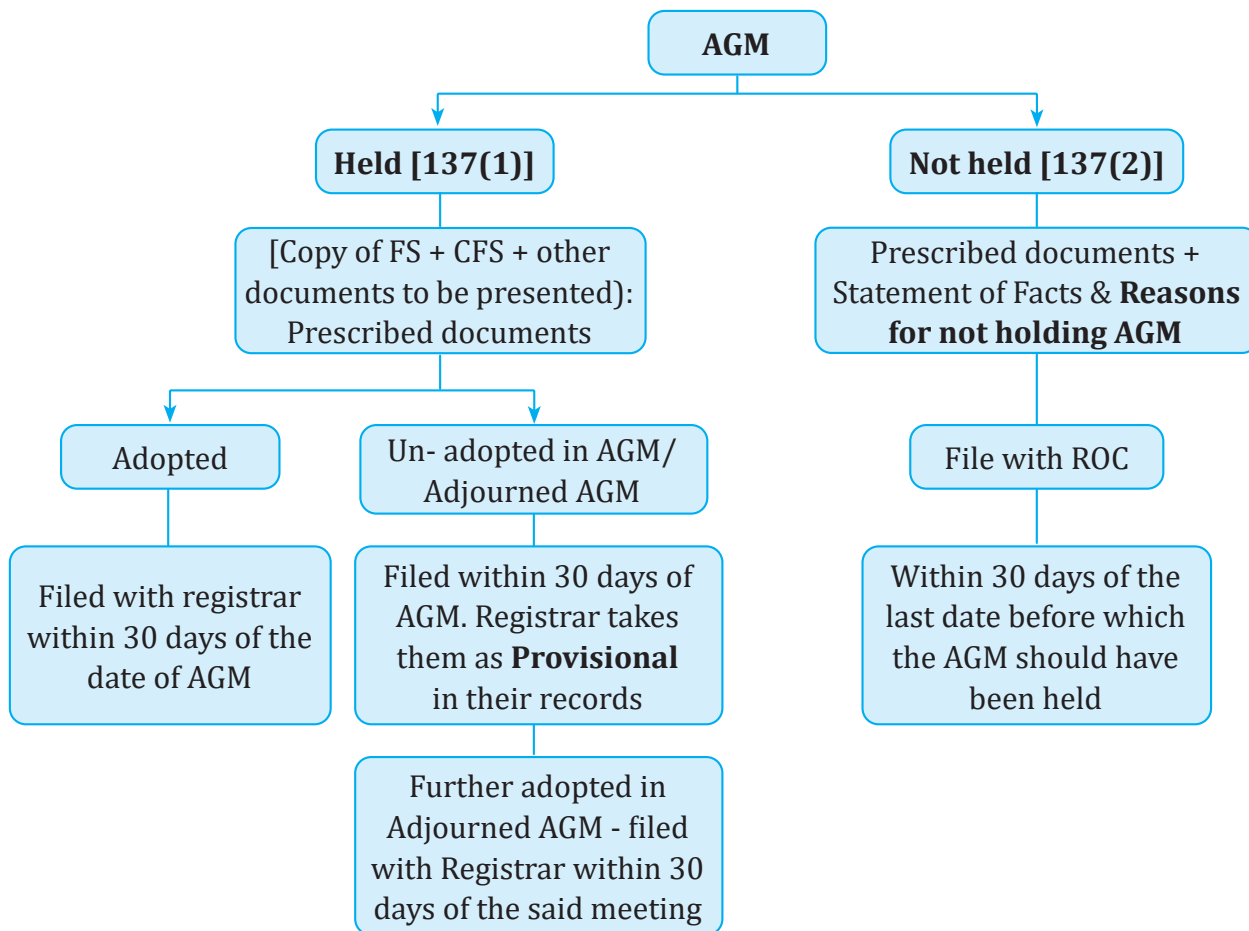
Further, as per the requirements of section 137(1) of the Companies Act, 2013, Vandana Ltd. would need to file such unaudited financial statement of Italian subsidiary company along with a declaration to this effect along with a translated copy of the financial statement in English.

Further, the format of accounts of Italian subsidiary company should be, as far as possible, in accordance with requirements under the Companies Act, 2013. In case this is not possible, a statement indicating the reasons for deviation may be placed/filed along with such accounts.

Penalty for Non-Compliance (Sub-section 3)

- ❑ Company:
 - Penalty of ₹10,000 + ₹100/day (max ₹2,00,000)
- ❑ MD and CFO of the company, if any;
 - In their absence - Any other director who is charged by the Board with the responsibility;
 - In its absence - All the directors of the company.
 - ₹10,000 + ₹100/day (max ₹50,000)

Summary of Sub-section 1 and 2 to section 137



MULTIPLE CHOICE QUESTIONS (MCQ)

- 42.** The financial statements must be filed with Registrar within _____ days they are adopted.
- (a) 15 **(b) 30**
 (c) 60 (d) 90
- 43.** OPC shall file a copy of the duly adopted financial statements to registrar in-
- (a) 30 days of the date of meeting in which it was adopted
 (b) 90 days of the date of meeting in which it was adopted
 (c) 90 days from the closure of the financial statements
(d) 180 days from the closure of the financial statements

■ INTERNAL AUDIT [SECTION 138]

Legal Provision - Section 138 read with Rule 13 of the Companies (Accounts) Rules, 2014, deals with the requirement of internal audit in certain companies.	
<p>Companies Required to Appoint an Internal Auditor (Section 138(1) read with Rule 13(1))</p>	<div style="border: 1px solid #000; padding: 5px;"> <ul style="list-style-type: none"> <input type="checkbox"/> Appointed by Audit committee if any otherwise BOD <input type="checkbox"/> Every Listed Company <input type="checkbox"/> Every Unlisted Company: Any one out of 4 conditions in the preceding FY - (Read as - Or more) <ul style="list-style-type: none"> A. 25-O/S Deposits at any point of time B. 50-PSC as on 31st March or end of the year C. 100-O/S Loans and Borrowings at any point time D. 200-Turnover as on 31st March or end of the year <input type="checkbox"/> In the case of Private company - Check Point C and D only </div> <div style="border: 1px solid #000; padding: 5px; margin-top: 5px; text-align: center;"> <p>IF falling in such class of companies then Within 6 months of applicability appoint Internal Auditor</p> </div>
<p>Who Can Be Appointed as Internal Auditor? (Section 138(1) read with Rule 13(1))</p>	<ul style="list-style-type: none"> <input type="checkbox"/> CA, Cost Accountant and other professionals <input type="checkbox"/> May or may not be in practice <input type="checkbox"/> May or may not be an employee <input type="checkbox"/> Give consultation to Audit Committee and Board <input type="checkbox"/> To formulate scope and functioning etc.
<p>Manner and Frequency of Internal Audit (Section 138(2) read with Rule 13(2))</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Central Government may prescribe rules for how and how often internal audits are to be done and reported to the Board. <input type="checkbox"/> Rule 13(2) states that the Audit Committee or Board (in consultation with the internal auditor) must decide the: <ul style="list-style-type: none"> <input type="radio"/> Scope of audit <input type="radio"/> Working method <input type="radio"/> Frequency (periodicity) <input type="radio"/> Audit methodology

IFSC Companies

- For specified IFSC public and private companies, Section 138 shall apply only if their Articles provide for internal audit.

Illustration: Perfect Ltd is a listed company. The company is in the business of manufacturing of steel and had its head office at Karnataka. The company's operations are spread out across India. The company appointed a firm of Chartered Accountants, N & Co. LLP, as its internal auditors for the year ended 31st March 2024. However, for the financial year 2024-25, the company is planning to have an in-house internal audit system commensurate with its size and operations. If the company does that then it is planning not to continue with N & Co. LLP as its internal auditors. Please advise.

Answer: In the given situation, if the internal audit function of the company is fine as per its size and operations then it may decide not to continue with N & Co. LLP.

MULTIPLE CHOICE QUESTIONS (MCQ)

- 44. Which of the following persons cannot be appointed as an internal auditor of the company?**
- (a) A Chartered Accountant
 - (b) A Cost Accountant
 - (c) A Company Secretary
 - (d) None of the above**
- 45. Which of the following persons cannot be appointed as an internal auditor of the company?**
- (a) Statutory Auditor of the company**
 - (b) Cost accountant who is not engaged in practice
 - (c) Chartered Accountant holding a part-time certificate of practice
 - (d) All of the above
- 46. The following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:**
- (a) Every listed company.
 - (b) Every unlisted public company having paid up capital of '50 Crore or more or Turnover of 200 Crore or more during the preceding financial year.
 - (c) Every unlisted public company having outstanding loans from banks or public financial institutions exceeding 100 Crore or more or outstanding deposits of 25 Crore or more at any point of time during the preceding financial year.
 - (d) All of the above**
- 47. A private company does not require to appoint an internal auditor provided:**
- (a) The turnover of the company is below 200 Crores during the preceding financial year.
 - (b) Outstanding loans or borrowings from banks or public financial institutions does not exceed 100 Crore at any point of time during the preceding financial year.
 - (c) Either (a) or (b)
 - (d) Both (a) and (b)**

Form No.	Purpose	Time Limit
E-form AOC-1	Statement containing Salient features of subsidiary/ associate/JV financial details	To be attached with AOC-4
E-form AOC-2	Disclosure of related party transactions	Attached with Board's Report
AOC-3	Statement of salient features of financial statements (AOC-3A for AS applicable companies)	As applicable
AOC-4	Filing of financial statements (BS, P&L, Notes, etc.)	Within 30 days of AGM
AOC- 4 CFS/ XBRL/NBFC	Filing of financial statements in XBRL format (for specified companies), CFS & NBFC in the respective form	
AOC-5	Notice of address where BOA are kept (other than RO)	Within 7 days of decision
AOC-6	Filing of CFS (Consolidated Financial Statements) by foreign subsidiaries (where applicable)	As prescribed

