

# 9

# Accounts of Companies

## CHAPTER



### LDR Questions

Q. 7   Q. 9   Q. 11   Q. 13   Q. 14   Q. 15   Q. 17   Q. 23   Q. 25

### ICAI Module Descriptive Questions

#### Section 128 Books of Accounts

1. The registered office of the Bharat Ltd. is situated in a classified backward area of Maharashtra. The Board wants to keep its books of account at its corporate office in Mumbai which is conveniently located. The Board seeks your advice about the feasibility of maintaining the accounting records at a place other than the registered office of the company. Advice.

#### Solution:

According to section 128(1) of the Companies Act, 2013, every company is required to prepare and keep the books of accounts and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.

The proviso to section 128(1) further provides that all or any of the books of account aforesaid and other relevant papers may be kept at such other place in India as the Board of Directors may decide and where such a decision is taken, the company shall, within seven days thereof, file with the Registrar a notice in writing giving the full address of that other place. Further company may keep such books of account or other relevant papers in electronic mode as per the Rule 3 of the Companies (Accounts) Rules, 2014.

Therefore, the Board of Bharat Ltd. can keep its books of account at its corporate office in Mumbai by following the above-mentioned procedure.

#### Section 128

2. (i) Ravi Limited maintained its books of account under Single Entry System of Accounting. Is it permitted under the provisions of the Companies Act, 2013?  
(ii) State the persons responsible for complying with the provisions regarding maintenance of Books of Account of a company.  
(iii) Whether a company can keep books of Account in electronic mode accessible only outside India?

### Solution:

- (i) According to Section 128(1) of the Companies Act, 2013, every company shall prepare “books of account” and other relevant books and papers and financial statement for every financial year. These books of account should give a true and fair view of the state of the affairs of the company, including that of its branch office(s). These books of account must be kept on accrual basis and according to the double entry system of accounting. Hence, maintenance of books of account under Singly Entry System of Accounting by Ravi Limited is not permitted.
- (ii) **Persons responsible to maintain books:** As per Section 128 (6) of the Companies Act, 2013, the person responsible to take all reasonable steps to secure compliance by the company with the requirement of maintenance of books of account etc. shall be:
- (a) Managing Director;
  - (b) Whole-Time Director, in charge of finance
  - (c) Chief Financial Officer
  - (d) Any other person of a company charged by the Board with duty of complying with provisions of section 128.
- (iii) A Company has the option of keeping such books of account or other relevant papers in electronic mode as per Rule 3 of the Companies (Accounts) Rules, 2014. According to such Rule,
- (a) The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India so as to be usable for subsequent reference.  
Provided that for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of account, 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 and ensuring that the audit trail cannot be disabled.
  - (b) 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 and such records shall not be disposed of or rendered unusable, unless permitted by law.
  - (c) The back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a periodic basis.

Hence, a company cannot keep books of account in electronic mode accessible only outside India.

### Section 129 Financial Statement (FS)

3. Herry Limited is a company registered in Thailand. SKP Limited (Registered in India), a wholly owned subsidiary company of Herry Limited decided to follow different financial year for the consolidation of its accounts outside India. State the procedure to be followed in this regard.

### Solution:

Where a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on an application made by that company or body corporate in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year. Any application pending

before the Tribunal as on the date of commencement of the Companies (Amendment) Ordinance, 2018, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement. Also, a company or body corporate, existing on the commencement of this Act, shall, within a period of two years from such commencement, align its financial year as per the provisions of this clause. SKP Limited is advised to follow the above procedure accordingly.

### Section 130 Revision on Financial Statement

4. The Income Tax Authorities in the current financial year 2023-24 observed, during the assessment proceedings, a need to re-open the accounts of Chetan Ltd. for the financial year 2012-13 and, therefore, filed an application before the National Company Law Tribunal (NCLT) to issue the order to Chetan Ltd. for re-opening of its accounts and recasting the financial statements for the financial year 2012-13. Examine the validity of the application filed by the Income Tax Authorities to NCLT.

#### Solution:

As per section 130 of the Companies Act, 2013, a company shall not re-open its books of account and not recast its financial statements, unless the Central Government makes an application in this regard, the Income-tax authorities, the Securities and Exchange Board, any other statutory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that:

- (i) The relevant earlier accounts were prepared fraudulently; or
- (ii) The affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements:

However, no order shall be made in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year.

In the given instance, an application was filed for re-opening and re-casting of the financial statements of Chetan Ltd. for the financial year 2012-2013 which is beyond 8 financial years immediately preceding the current financial year.

Though application filed by the Income Tax Authorities to NCLT is valid, its recommendation for reopening and recasting of financial statements for the period earlier than eight financial years immediately preceding the current financial year i.e. 2023-2024, is invalid.

### Section 134 Signing of Financial Statement

5. The Board of Directors of Vishwakarma Electronics Limited consists of Mr. Ghanshyam (Director), Mr. Hyder (Director) and Mr. Indersen (Managing Director). The company has also employed a Company Secretary.

The financial statements of the company were signed by Mr. Ghanshyam and Mr. Hyder. Examine whether the authentication of financial statements of the company was in accordance with the provisions of the Companies Act, 2013?

#### Solution:

According to section 134(1) of the Companies Act, 2013, the financial statements, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

In the instant case, the Balance Sheet and Profit and Loss Account have been signed only by Mr. Ghanshyam and Mr. Hyder, the directors. In view of Section 134(1) of the Companies Act, 2013, Mr.

Indersen, the Managing Director should be one of the two signing directors. Since, the company has also employed a Company Secretary, he should also sign the financial statements.

### Section 137 Filing of F.S. with ROC

6. A Housing Finance Ltd. is a housing finance company having a paid-up share capital of ₹11 crore and a turnover of ₹145 crore during the financial year 2023-24. Explain with reference to the relevant provisions and rules, whether it is necessary for A Housing Finance Ltd. to file its financial statements in XBRL mode.

#### Solution:

As per Rule 3(1) of the Companies (Filing of Documents and forms in Extensible Business Reporting Language) Rules, 2015, following class of companies shall file their financial statements and other documents under section 137 of the Act with the Registrar in e-form AOC-4 XBRL as per Annexure-I:

- (i) Companies listed with stock exchanges in India and their Indian subsidiaries;
- (ii) Companies having paid up capital of five crore rupees or above;
- (iii) Companies having turnover of one hundred crore rupees or above;
- (iv) All companies which are required to prepare their financial statements in accordance with Companies (Indian Accounting Standards) Rules, 2015.

Provided further that non-banking financial companies, housing finance companies and companies engaged in the business of banking and insurance sector are exempted from filing of financial statements under these rules.

Hence A housing Finance Ltd., being a housing finance company, is exempted from filing its financial statement in XBRL mode.

### Section 137

7. The Government of India is holding 51% of the paid-up equity share capital of Sun Ltd. The Audited financial statements of Sun Ltd. for the financial year 2022-23 were placed at its annual general meeting held on 31st August 2023. However, pending the comments of the Comptroller and Auditor General of India (CAG) on the said accounts the meeting was adjourned without adoption of the accounts. On receipt of CAG comments on the accounts, the adjourned annual general meeting was held on 15th October, 2023 whereat the accounts were adopted. Thereafter, Sun Ltd. filed its financial statements relevant to the financial year 2022-23 with the Registrar of Companies on 12th November, 2023. Examine, with reference to the applicable provisions of the Companies Act, 2013, whether Sun Ltd. has complied with the statutory requirement regarding filing of accounts with the Registrar?

#### Solution:

According to first proviso to section 137(1) of the Companies Act, 2013, where the financial statements are not adopted at annual general meeting or adjourned annual general meeting, such un-adopted financial statements along with the required documents shall be filed with the Registrar within thirty days of the date of annual general meeting and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned annual general meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements adopted in the adjourned AGM shall be filed with the Registrar within thirty days of the date of such adjourned AGM with such fees or such additional fees as may be prescribed. In the instant case, the accounts of Sun Ltd. were adopted at the adjourned AGM held on 15th October, 2023 and filing of financial statements with Registrar was done on 12th November, 2023 i.e. within 30 days of the date of adjourned AGM. But Sun Ltd. has not filed its un-adopted financial statements within 30 days of the date of the annual general meeting held on 31st August 2023.

Hence, Sun Ltd. has not complied with the statutory requirement regarding filing of un-adopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

## RTP, MTP and PYQ Descriptive Questions

### Section 128 Books of Accounts

8. (i) K Ltd. in its first year of incorporation maintained its books of account under Single Entry System of Accounting. Is it permitted under the provisions of the Companies Act, 2013?  
(ii) State the person responsible for complying with the provisions regarding maintenance of Books of Accounts, etc. of a Company. **(RTP Sep 24)**

#### Solution:

- (i) According to section 128(1) of the Companies Act, 2013, every company shall prepare books of account and other relevant books and papers and financial statement for every financial year, which give a true and fair view of the state of the affairs of the company, including that of its branch office(s) if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting. Hence, maintenance of books of account under Singly Entry System of Accounting by K Ltd. is not permitted.
- (ii) Persons responsible to maintain books  
As per section 128 (6) of the Companies Act, 2013, the person responsible to take all reasonable steps to secure compliance by the company with the requirement of maintenance of books of accounts etc. shall be:
- (a) Managing Director,
  - (b) Whole-Time Director, in charge of finance
  - (c) Chief Financial Officer
  - (d) Any other person of a company charged by the Board with duty of complying with provisions of section 128

### Section 2(40) Financial Statement

9.  Sriram Private Limited is a start-up company. Mr. Lovely has been appointed as Accounts Manager of Sriram Private Limited. The Board meeting for approval of accounts is to be held on 1st August, 2024 and he has to prepare the financial statements for approval by the Board. Referring to section 2(40) of the Companies Act, 2013, advise Mr. Lovely about the statements that are required to be prepared. **(MTP May 25)(MTP Jan 25)**

#### Solution:

**Law:** As per section 2(40) of the Companies Act, 2013, Financial Statement in relation to a company, includes—

- (i) a balance sheet as at the end of the financial year;
- (ii) 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;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and

(iv) any explanatory note annexed to, or forming part of, any document referred to in sub- clause (i) to sub-clause (iv):

**Exemption:** As per the proviso to section 2(40), the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement.

**Conclusion:** In the instant case, Mr. Lovely has to prepare the above financial statements except Cash Flow Statement; since Sriram Private Limited is a start-up private company.

## Section 2(40)

**10.** Vishal Limited is an unlisted public company, having five directors in its board which includes two independent directors.

Sam (P) Limited, is subsidiary company of Vishal Limited, actively carrying on its business, having paid up capital of ₹1.5 crore with 40 members and turnover of ₹18 crore, respectively and the said company is not a start-up company.

It is also provided that Sam (P) Limited is not a start-up company.

In the context of aforesaid case-scenario, please answer to the following question(s):-

Whether Sam (P) Limited is mandatorily required to prepare cash flow statement for the financial year as a part of its financial statements?

Provide your answer by analyzing Sam (P) Limited into following category of companies:-

- (i) Small company, and
- (ii) Dormant company, respectively.

(RTP Jan 25)

### Solution:

**Law:** According to section 2(40) of the Companies Act, 2013, Financial statement in relation to a company, includes:

- (i) a balance sheet as at the end of the financial year;
- (ii) 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;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement.

### Conclusion:

For considering the applicability of preparation of cash flow statement in case of Sam (P) Limited, it is required first to analyze that Sam (P) Limited does not fall in the following categories:

- (i) Small company – A company which is a subsidiary company cannot be categorized as a small company as per proviso to section 2(85). Thus, even though its paid up capital and turnover are within the prescribed limits, as Sam (P) Limited is a subsidiary company of Vishal Limited, it cannot be considered as small company.
- (ii) Dormant company – It is given that the company is actively carrying on its business, so it cannot be also categorized as a dormant company based upon the facts given.

So, Sam (P) Limited shall be deemed to be a public company as it is subsidiary of Vishal Limited, an unlisted public company and so it will not fall into this category of exemption as well.

Thus, it can be concluded that Sam (P) Limited is mandatorily required to prepare cash flow statement for the financial year as a part of its financial statements as it does not fall in any of the categories of companies mentioned under proviso to section 2(10) of the Companies Act, 2013.

## Section 129 Financial Statement

**11.** Madan Pvt. Ltd. is a partially owned subsidiary of Puri Ltd., holding 90% of its shares. The company does not have any listed securities and is not in the process of listing on any stock exchange. Puri Ltd., the holding company, prepares and files consolidated financial statements (CFS) with the Registrar in compliance with applicable Accounting Standards.



Considering the above, analyze and examine the following situations:

1. Is Madan Pvt. Ltd. required to prepare its own consolidated financial statements? What are the requisite conditions for the same?
2. How does it matters, if Madan Pvt. Ltd. had securities listed on a recognized stock exchange?  
(RTP May 25)

### Solution:

**Law:** As per section 129 of the Companies Act, 2013, where a company has one or more subsidiaries or associate companies, it shall (in addition to financial statements 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. Such CFS shall also be laid before the annual general meeting of the company along with the laying of its financial statement.

Exemptions from preparation of CFS

According to section 129(3), the preparation of consolidated financial statements by a company is not required if it meets the following conditions:

- (i) 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;
- (ii) 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
- (iii) Its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

**Conclusion:** In line with stated legal requirements, following are the answers:

- (i) Madan Pvt. Ltd. may qualify for an exemption from preparing consolidated financial statements because:
  - (a) It is a partially owned subsidiary (90% ownership by Puri Ltd.).
  - (b) It does not have any listed securities and is not in the process of listing on any stock exchange i.e., have no publicly trading of securities.
  - (c) Its holding company, Puri Ltd., prepares and files consolidated financial statements with the Registrar in compliance with applicable Accounting Standards.

Since Madan Pvt. Ltd. is a partially owned subsidiary, it must ensure that all its members, including remaining shareholders (10% in this case), are informed in writing about the decision not to present CFS, and it must maintain proof of delivery of such communication. No member should object to this exemption.

- (ii) If Madan Pvt. Ltd. had its securities listed on a recognized stock exchange or was in the process of being listed, it would not qualify for the exemption and would be required to prepare and present its own consolidated financial statements as per the applicable provisions.

## Section 2(41) Financial Year

**12.** SKP Limited (Registered in India), a wholly owned subsidiary company of Herry Limited decided to follow different financial year for consolidation of its accounts outside India. State the procedure to be followed in this regard. (NOV 2019)

### Solution:

- (i) F.Y. in relation to any company or body corporate, means the period ending on the 31st March every year.
- (ii) In case a company is incorporated on or after 1st January of a year, the period ending on the 31st March of the next year, shall be the F.Y. of the F.S. of such shall company or body corporate.
- (iii) In case a holding or subsidiary or associate company of a company incorporated outside India is required to follow a different F.Y for consolidation of its accounts outside India, the company or body corporate shall apply to C.G; the C.G may allow any period as its F.Y, whether or not that period is year.
- (iv) Application for change in FY to Regional Director SKP Limited is advised to follow the above procedure accordingly.

[Note: This answer is based on the assumption that Herry limited is a foreign Company registered outside India as inferred from part (i) of the question].

## Section 129A Periodic Financial Statement

**13.** Crystal Limited recently received a communication from the Central Government requesting the preparation of periodical financial results along with the completion of either a full audit or a limited review of these financial results. The Board of Directors, however, has raised an objection, arguing that Crystal Limited, being an unlisted company, are not obligated to prepare periodical financial results.

Analyze the situation, citing relevant provisions of the Companies Act, 2013, with respect to the company's obligation regarding the preparation of periodical financial results.

(MTP May 24) (PYQ May 2022)

### Solution:

**Law:** Periodical Financial Results [Section 129A of the Companies Act, 2013]

The Central Government may, require such class or classes of unlisted companies, as may be prescribed:

- (i) to prepare the financial results of the company on periodical basis and in prescribed form
- (ii) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in the prescribed manner; and
- (iii) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

**Conclusion:** Therefore, the objection of the Board of Directors on the ground that as Crystal Limited is an unlisted company, periodical financial results need not be prepared, is not correct. Section 129A clearly specifies that even unlisted company has to prepare Periodical Financial Results.

## Section 131 Voluntary Revision on Financial Statement

- 14.** The directors of Ninu Ltd. want to voluntarily revise the Financial statements of the company. They have approached you to state to them the provisions of the Companies Act, 2013 regarding voluntary revision of financial statements. **(MTP MAY 2018)**

### Solution:

According to section 131 of the Companies Act, 2013,

- (i) Preparation of revised financial statement or revised report on the approval of Tribunal: If it appears to the directors of a company that—
- (a) the financial statement of the company; or
  - (b) the report of the Board,
- do not comply with the provisions of section 129 or section 134, they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar:
- Tribunal to serve the notice: Provided that the Tribunal shall give notice to the Central Government and the Income tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:
- Number of times of revision and recast: provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:
- Reason for revision to be disclosed: Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.
- (ii) Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to—
- (a) the correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134; and
  - (b) the making of any necessary consequential alternation.
- (iii) Framing of rules by the Central Government in relation to revised financial statement or director's report: The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular—
- (a) make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;
  - (b) make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;
  - (c) require the directors to take such steps as may be prescribed.

## Section 134 Signing of Financial statement

- 15.** Altar Limited has on its Board, four Directors viz. W, X, Y and Z. In addition, the company has Mr. D as the Managing Director. The company also has a full time Company Secretary, Mr. Wise,

on its rolls. The financial statements of the company for the year ended 31st March, 2017 were authenticated by two of the directors, Mr. X and Y under their signatures.

(RTP MAY 2018) (MTP MAY 2020)

Referring to the provisions of the Companies Act, 2013:

- (i) Examine the validity of the authentication of the Balance Sheet and Statement of Profit & Loss and the Board's Report.
- (ii) What would be your answer in case the company is a One Person Company (OPC) and has only one Director, who has authenticated the Balance Sheet and Statement of Profit & Loss and the Board's Report?

**Solution:**

**Law:** In accordance with the provisions of the Companies Act, 2013, as contained under section 134 (1), the financial statements, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by at least:

- (i) The Chairperson of the company where he is authorized by the Board; or
- (ii) Two directors out of which one shall be the managing director and other the Chief Executive Officer, if he is a director in the company
- (iii) The Chief Financial Officer and the Company Secretary of the company, wherever they are appointed.

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.

The Board's report and annexures thereto shall be signed by its Chairperson of the company, if he is authorized by the Board and where he is not so authorized, shall be signed by at least two directors one of whom shall be a managing director or by the director where there is one director.

**Conclusion:**

- (i) In the given case, the Balance Sheet and Profit & Loss Account have been signed by Mr. X and Mr. Y, the directors. In view of the provisions of Section 134 (1), the Managing Director Mr. D should be one of the two signatories. Since, the company has also employed a full time Secretary, he should also sign the Balance Sheet and Profit & Loss Account. Therefore, authentication done by two directors is not valid.
- (ii) In case of OPC, the financial statements should be signed by one director and hence, the authentication is in order.

**Section 134 Contents of Directors Responsibility Statement**

- 16. State any four contents of a Directors Responsibility Statement as required under Section 134 of the Companies Act, 2013.** (MAY 2018) (MTP May 24)

**Solution:**

Contents of Directors Responsibility Statement [Section 134(5) of the Companies Act, 2013]: The Directors' Responsibility Statement referred to in 134(3) (c) shall state that—

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) 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;

- (iii) 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;
- (iv) the directors had prepared the annual accounts on a going concern basis;
- (v) 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.

Here, the term “internal financial controls” 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; and

- (vi) 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.

### Section 135 Corporate Social Responsibility

**17.** Tirupati Limited, a listed company has made the following profits, the profits reflect eligible profits under the relevant section of the Companies Act, 2013.



Financial year	Amount (In ₹)
2012-13	20
2013-14	40
2014-15	30
2015-16	70
2016-17	50

- (i) Calculate the amount that the company has to spend towards CSR for the financial year 2017-18.
- (ii) State the composition of the CSR committee unlisted company and a private company.

**(RTP MAY 2018)**

#### Solution:

**Law:** Section 135 read with Companies (Corporate Social Responsibility Policy) Rules, 2014 of the Companies Act, 2013 deals with the provisions related to the Corporate Social Responsibility.

- (i) Amount that Company has to spend towards CSR: According to section 135 of the Companies Act, 2013, the Board of every company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy.

**Conclusion:** As per the given facts, following are the answers in the given situations-

- (i) Accordingly, net profits of Tirupati Ltd. for three immediately preceding financial years is 150 crores (30+70+50) and 2% of the average net profits of the company made during these three immediately preceding financial years will constitute 1 crore, can be spent towards CSR in financial year 2017-2018.
- (ii) Composition of CSR Committee: The CSR Committee shall be consisting of 3 or more directors, out of which at least one director shall be an independent director.

- (a) an unlisted public company or a private company covered under section 135(1) which is not required to appoint an independent director, shall have its CSR Committee without such director;
- (b) a private company having only two directors on its Board shall constitute its CSR Committee with two such directors;

### Section 135

**18.** Rera Ltd., a company incorporated under the Companies Act, 2013 having turnover of ₹100 crore, net profit ₹3 crore, accumulated loss of ₹50 crore and securities premium ₹300 crore as per the audited accounts of the company for the Financial Year 2016-17.

The CFO of the company informed the directors of the company that the Corporate Social Responsibility (CSR) committee is required to be constituted as per the Companies Act, 2013. The directors seek your advice as a professional regarding the criteria required to constitute CSR committee and whether it is applicable to Rera Ltd or not, (MAY 2018)

#### Solution:

**Law:** Corporate Social Responsibility Committee: According to Section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under section 2(42) of the Companies Act, 2013, having its branch office or project office in India, having -

- (i) net worth of rupees 500 crore or more, or
- (ii) turnover of rupees 1000 crore or more or
- (iii) a net profit of rupees 5 crore or more

during any financial year shall constitute a Corporate Social Responsibility Committee of the Board. "Net worth" [Section 2(57)] means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

**Conclusion:** In the present case,

- turnover of Rera Ltd. is ₹100 crore,
- net profit of ₹3 crore and
- net worth of ₹253 crore (Net profit + securities premium - accumulated loss = 3 + 300 - 50 = 253 crore).

Hence, RERA Ltd. is not fulfilling any criteria prescribed for constitution of CSR committee. So, it is not obligatory for Rera Ltd. to constitute CSR Committee.

**[Note 1:** It can also be presumed that net profit of the current year has already been considered while calculating accumulated losses.]

**[Note 2:** Since paid-up share capital value is not given in the question, it has been presumed that accumulated losses as stated in the question is given after taking into consideration the paid-up share capital, i.e. net of accumulated losses less paid-up share capital].

### Section 135

**19.** Quick Money Limited attracts the provisions of section 135 of the Companies Act, 2013 and it has minimum average obligation to spend Corporate Social Responsibility (CSR) amount of ₹15

crore during each of the preceding five years. In this connection, the Board of Directors of the company needs your expert views on the following matters:

- (i) What is the meaning of “impact assessment”?
- (ii) Whether impact assessment is required to be taken by all the companies?
- (iii) Who can conduct impact assessment?

(PYQ Jan 2025)

**Solution:**

**Law:** Rule 8(3) of the Companies (Corporate Social Responsibilities Policy), 2014 provides the class of companies that are required conduct an impact assessment.

Every company having average CSR obligation of ten crore rupees or more in pursuance of section 135(5) of the Companies Act, 2013, in the three immediately preceding financial years, shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of one crore rupees or more, and which have been completed not less than one year before undertaking the impact study.

**Conclusion:**

- (i) Meaning of Impact Assessment:
  - (a) The impact assessment is an exercise to assess the social, economic and environmental impact of a particular CSR project.
  - (b) It is the exercise of taking a retroactive view of the Corporate Social Responsibility (CSR) activities completed by the entity and assess the effects of these activities on various stakeholders like employees, customers, communities and the environment.
  - (c) Impact assessment is seemingly another step to encourage companies to make considered decisions before deploying CSR amounts and assess the impacts of their investments to capture the impact being generated by them.
  - (d) This shall not only serve as feedback for companies to plan and better allocate resources, but shall also deepen the impact of CSR.
- (ii) Applicability of Impact assessment on Companies  
Accordingly, Rule 8(3) of the Companies (Corporate Social Responsibilities Policy), 2014 Every company having average CSR obligation of ₹10 crore or more in the three immediately preceding financial years of their CSR projects having outlays of 1 crore rupees or more, and which have been completed not less than 1 year before undertaking impact assessment.
- (iii) Who can conduct an impact assessment?  
The impact assessment shall be conducted by an independent agency.

**Section 135**

**20. “CSR can mean different things to different people”, explain.**

(MTP NOV 2017)

**Solution:**

Corporate Social Responsibilities (CSR) is an integrated combination of policies, programs, education, and practices which extend throughout a corporation’s operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall positive impact on society. CSR can mean different things to different people:

- (i) for an employee it can mean fair wages, no discrimination, acceptable working conditions etc.

- (ii) for a shareholder it can mean making responsible and transparent decisions regarding the use of capital.
- (iii) for suppliers it can mean receiving payment on time.
- (iv) for customers it can mean delivery on time, etc.
- (v) for local communities and authorities it can mean taking measures to protect the environment from pollution.
- (vi) for non-governmental organisations and pressure groups it can mean disclosing business practices and performance on issues ranging from energy conservation and global warming to human rights and animal rights, from protection of the rainforests and endangered species to child and forced labour, etc.

For a company, however, it can simply be seen as responding to the needs and concerns of people who can influence the success of the company and/or whom the company can impact through its business activities, processes and products.

### Section 135

#### 21. What is Corporate Social Responsibility? Why it is needed in Indian Business environment?

(MTP NOV 2017)

##### Solution:

The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders' expectations and enhancing shareholders' values. Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment.

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Need for social responsibility:

- (i) The iron law of responsibility
- (ii) To fulfil long term self-interest
- (iii) To establish a better public image
- (iv) To avoid government regulation and control
- (v) To avoid misuse of National Resources and Economic Power
- (vi) To convert Resistances into Resources
- (vii) To minimise Environmental damage.

### Section 135

#### 22. Explain the following in brief with reference to Companies Act 2013:

- (i) National Financial Reporting Authority (NFRA)
- (ii) Corporate Social Responsibility (CSR) Committee

(3 + 3 = 6 Marks)(Nov 2020)

### Solution:

(i) National Financial Reporting Authority (NFRA)

According to section 132 of the Companies Act, 2013, 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.

Notwithstanding anything contained in any other law for the time being in force, the NFRA shall—

- (a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
- (b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;
- (c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed; and
- (d) perform such other functions relating to clauses (a), (b) and (c) as may be prescribed.

(ii) Corporate Social Responsibility (CSR) Committee:

According to section 135(1) of the Companies Act, 2013, every company having

- (a) net worth of rupees 500 crore or more, or
- (b) turnover of rupees 1000 crore or more or
- (c) a net profit of rupees 5 crore or more

during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.


Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

(iii) Duties of CSR Committee [Section 135(3)]:

The CSR Committee shall-

- (a) formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and monitor the CSR Policy of the company from time to time.

### Section 137 Filing of F.S. with ROC

 **23.** The Government of Rajasthan and Haryana are jointly holding 58% of the paid-up Equity Share Capital of Moon Ltd. The Audited financial statements of Moon Ltd. for the financial year 2021-22 were placed at its Annual General Meeting held on 31st August, 2022. However, pending the comments of the Comptroller and Auditor General of India (CAG) on the said accounts the meeting was adjourned without adoption of the accounts. Therefore, the company did not file its financial statements to the Registrar, Afterwards, on receipt of CAG comments on the accounts, the adjourned annual general meeting was held on 5th October, 2022 whereat the accounts were adopted. Thereafter, Moon Ltd. filed its financial statements relevant to the financial year 2021-22 with the Registrar of Companies on 25th October, 2022.

Examine, with reference to the applicable provisions of the Companies Act, 2013, whether, Moon Ltd. has complied with the statutory requirement regarding filing of accounts with the Registrar. (PYQ Nov 2022)

**Solution:**

**Law:** According to first provision to Section 137(1) of the Companies Act, 2013, where the financial statements are not adopted at Annual General Meeting (AGM) or adjourned AGM, such unadopted financial statements along with the required documents shall be filed with the Registrar within thirty days of the date of Annual General Meeting and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned Annual General Meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements adopted in the adjourned AGM shall be filed with the Registrar within thirty days of the date of such adjourned AGM with such fees or such additional fees as may be prescribed.

**Conclusion:** In the instant case, the accounts of Moon Ltd. were adopted at the adjourned AGM held on 5th October, 2022 and filing of financial statements with Registrar was done on 25th October, 2022 i.e. within 30 days of the date of adjourned AGM. However, Moon Ltd. has not filed its unadopted financial statements within 30 days of the date of the Annual General Meeting held on 31st August 2022.

Hence, Moon Ltd. has not complied with the statutory requirement regarding filing of unadopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

### Section 137

24. Form Limited is engaged in the business of manufacturing shoes for kids. It is required to hold its Annual General Meeting (AGM) for the financial year ending 31st March 2024 by 30th September 2024. However, due to internal disputes among the directors, the company was unable to convene the AGM by the due date.

Explain the relevant provisions of the Companies Act, 2013, with respect to the filing of the financial statements with the Registrar in this case. (MTP Jan 25)

**Solution:**

As per section 137 of the Companies Act, 2013, where the Annual General Meeting of a company for any year has not been held, the financial statements along with the documents required to be attached, duly signed along with the statement of facts and reasons for not holding the AGM shall be filed with the Registrar within 30 days of the last date before which the AGM should have been held and in such manner, with such fees or additional fees as may be prescribed.

### Section 138 Internal Audit

25. PQR Private Limited operates as a manufacturing company, generating a turnover of ₹150 crore and holds an outstanding loan of ₹75 crore from a public financial institution solely in the previous financial year (with a total loan availed of ₹110 crore, but ₹35 crore were repaid during the same year). The company's Board has delegated the authority to Chief Executive Officer (CEO) to designate an internal auditor to conduct internal audit. However, the CEO believes that the company is not legally obligated to have an internal auditor.

Analyse the accuracy of the CEO's perspective by referring to the provisions outlined in the Companies Act, 2013. What would be your response if the Board of Directors wanted to appoint the Mr. Nagendra (an ex-employee who is a qualified Chartered Accountant) as an internal auditor? (RTP May 24)

### Solution:

**Law:** According to the provisions of section 138 of the Companies Act, 2013, read with Rule 13 of the Companies (Accounts) Rules, 2014, every private company having—

- (a) turnover of 200 crore rupees or more during the preceding financial year; or
- (b) outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate.

Internal Auditor shall either be a Chartered Accountant or a Cost Accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

The internal auditor may or may not be an employee of the company.

**Conclusion:** Thus, PQR Private Limited is required to appoint an internal auditor as the outstanding loans from public financial institutions during the year have exceeded 100 crore (irrespective of the fact that the outstanding loan during the year is 75 crore rupees).

Hence, the advice of CEO is not correct.

Internal Auditor may be any professional as decided by the Board and may be even an employee of the company. Hence, the Board of Directors may appoint Mr. Nagendra, an ex- employee who is a qualified Chartered Accountant, as an internal auditor.

### Section 138

- 26.** ABC Private Limited was incorporated on 30th September 2020. It has a paid-up share capital of ₹45 crore. The company had a turnover of 250 crore for the financial year 2023-24. The accounts manager of the company has intimated to the company that they are not required to appoint internal auditor for the financial year 2024-25. The management of the company have approached you to advise them about the appointment of internal auditor, as per the provisions of the Companies Act, 2013. (MTP May 25)

### Solution:

**Law:** According to section 138 read along with Rules of the Companies Act, 2013, every private company having:

- (A) turnover of 200 crore rupees or more during the preceding financial year; or
- (B) outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate.

**Conclusion:** In the given question, the company has a paid-up capital of ₹45 crore and turnover of ₹250 crore for the financial year 2023-24.

Since, the company is fulfilling the criteria of turnover (i.e. more than ₹200 crore), hence, it is required to appoint an internal auditor for the financial year 2024-25.

