

Chapter 5C

NOTES TO FINANCIAL STATEMENTS

Auditing & Ethics | CA Ankit Oberoi

NOTES TO ACCOUNTS

1. CORPORATE SOCIAL RESPONSIBILITY (CSR)

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities:-

- amount required to be spent by the company during the year,
- amount of expenditure incurred,
- shortfall at the end of the year,
- total of previous years shortfall,
- reason for shortfall,
- nature of CSR activities,

(g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,

(h) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.

2. DETAILS OF BENAMI PROPERTY HELD

Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-

- Details of such property, including year of acquisition,
- Amount thereof,
- Details of Beneficiaries,

(d) If property is in the books, then reference to the item in the Balance Sheet,

(e) If property is not in the books, then the fact shall be stated with reasons,

(f) Where there are proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided,

(g) Nature of proceedings, status of same and company's view on same. 4. Relationship with Struck off Companies

3. RELATIONSHIP WITH STRUCK-OFF COMPANIES:- Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the following details:-

NAME OF STRUCK-OFF COMPANY	NATURE OF TRANSACTIONS WITH STRUCK-OFF COMPANIES	BALANCE OUTSTANDING	RELATION WITH STRUCK-OFF COMPANY. IF ANY, TO BE DISCLOSED
	Investments in Struck off companies		
	Receivables		
	Payables		
	Shares held by Struck-Off Company		
	Other Outstanding Balances (to be disclosed)		

4. FOLLOWING RATIOS TO BE DISCLOSED

- (a) Current Ratio,
- (b) Debt-Equity Ratio,
- (c) Debt Service Coverage Ratio,
- (d) Return on Equity Ratio,
- (e) Inventory turnover ratio,
- (f) Trade Receivables turnover ratio,
- (g) Trade payables turnover ratio,
- (h) Net capital turnover ratio,
- (i) Net profit ratio,
- (j) Return on Capital employed,
- (k) Return on investment.

The company shall explain the items included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

5. DETAILS OF CRYPTO CURRENCY OR VIRTUAL CURRENCY

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

- (a) profit or loss on transactions involving Crypto currency or Virtual Currency
- (b) amount of currency held as at the reporting date,
- (c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency/virtual currency.

ADDITIONAL NOTES

UTILISATION OF BORROWED FUNDS AND SHARE PREMIUM

(A) Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall

(i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or

(ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries;

the company shall disclose the following:-

- ✓ date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
- ✓ date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.
- ✓ date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- ✓ declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).;

(B) Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall

(i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or

(ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:-

- ✓ date and amount of fund received from Funding parties with complete details of each Funding party.

- ✓ date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.
- ✓ date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- ✓ declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).]

BORROWINGS FROM BANK/FINANCIAL INSTITUTIONS

1. Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:-

- (a) whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
- (b) if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

2. Wilful Defaulter*

Where a company is a declared wilful defaulter by any bank or financial institution or other lender, following details shall be given:

- (a) Date of declaration as wilful defaulter,
- (b) Details of defaults (amount and nature of defaults)

Wilful defaulter" here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India.

3. Registration of charges or satisfaction with Registrar of Companies

Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

4. Utilisation of Borrowed funds and share premium:

(A) Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall

- (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
- (ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries;

the company shall disclose the following:-

- ✓ date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
- ✓ date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries.
- ✓ date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- ✓ declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).;

(B) Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall:

(i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or

(ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:-

- ✓ date and amount of fund received from Funding parties with complete details of each Funding party.
- ✓ date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries alongwith complete details of the other intermediaries' or ultimate beneficiaries.
- ✓ date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- ✓ declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).]

5. Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.