

CRITICAL ASPECTS- COMPANY ACCOUNTS



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BASIC ELEMENTS OF COMPANY ACCOUNTS

WHAT IS ACCOUNTING AND WHAT DOES COMPANY ACCOUNTS MEAN?

- ❑ Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business, and it also refers to the process of summarizing, analyzing and reporting these transactions to oversight agencies and tax collection entities. Accounting is one of the key functions for almost any business.
- ❑ A set of financial records that a company must produce at the end of a business year in which details of the company's profits and losses and Company's current financial positions are reflected

Who handles the Company Accounts?

- ❑ Every Company must maintain its books of accounts and allied documents such as cash book, electronic records etc.
- ❑ These books may be internally maintained by an accountant however, the books are audited by a Statutory Auditor at regular intervals.

WHEN ARE THE COMPANY ACCOUNTS FINALISED OR AUDITED?

- Every business activity or every company must get their company accounts finalized by a Statutory Auditor at the end of every Financial year i.e. 31st March of every year.

WHY IS IT IMPORTANT TO GET THEIR ACCOUNTS FINALISED OR AUDITED?

- The purpose of a statutory audit to determine whether an organization is providing a fair and accurate representation of its financial position by examining information such as bank balances, book-keeping records and financial transactions.

TYPES OF AUDITS AND THEIR APPLICABILITY

TYPES OF AUDIT AND CONCERNED AUTHORITY

TYPE OF AUDIT AND ITS IMPORTANCE	CONCERNED AUTHORITY	APPLICABILITY
<p><u>Internal Audit-</u> Section 138 of the Companies Act 2013 read with Rule 13 Of Companies (Accounts) Rules, 2014</p>	<p>Internal Auditor</p>	<ol style="list-style-type: none"> 1. Every Listed Company 2. Every unlisted public company having: <ul style="list-style-type: none"> • <i>paid up share capital of 50 crores rupees or more during the preceding financial year</i> <u>OR</u> • <i>turnover(income) of 200 crores rupees or more during the preceding financial year</i> <u>OR</u>

TYPES OF AUDIT AND CONCERNED AUTHORITY

TYPE OF AUDIT AND ITS IMPORTANCE	CONCERNED AUTHORITY	APPLICABILITY
<p><i>Internal Audit-</i> Section 138 of the Companies Act 2013 read with Rule 13 Of Companies (Accounts) Rules, 2014</p>	<p>Internal Auditor</p>	<ul style="list-style-type: none"> • <i>outstanding loans or borrowings from banks or public financial institutions exceeding 100 crores rupees or more at any point of time during the preceding financial year</i> <u>OR</u> • <i>outstanding deposits of 25 crores rupees or more at any point of time during the preceding financial year.</i>


TYPES OF AUDIT AND CONCERNED AUTHORITY

TYPE OF AUDIT AND ITS IMPORTANCE	CONCERNED AUTHORITY	APPLICABILITY
<p><i>Internal Audit-</i> Section 138 of the Companies Act 2013 read with Rule 13 Of Companies (Accounts) Rules, 2014</p>	<p>Internal Auditor</p>	<p><i>3. Every Private Companies:</i></p> <p><i>Turnover of Rs.200 Crore or more during preceding financial year.</i></p> <p><i>Outstanding loans or borrowings from banks or public financial institutions exceeding Rs.100 Crore or more at any point of time during the preceding financial year.</i></p>

TYPES OF AUDIT AND CONCERNED AUTHORITY

TYPE OF AUDIT AND ITS IMPORTANCE	CONCERNED AUTHORITY	APPLICABILITY
<u>Statutory Audit-</u> Sections 139 to 147 of the Companies Act, 2013 contain provisions regarding audit and auditors	Statutory Auditor	Mandatory to all the companies, irrespective of the turnover, the paid up capital etc.

TYPES OF AUDIT AND CONCERNED AUTHORITY

TYPE OF AUDIT AND ITS IMPORTANCE	CONCERNED AUTHORITY	APPLICABILITY
<p><u>Cost-Audit</u>-the Companies (Cost Record and Audit) Amendment Rules 2016</p> <p>Applicable to the class of companies including foreign companies engaged in the production of the goods or providing services</p>	<p>Cost Auditor</p> 	<p><u>MAINTENANCE OF COST RECORDS</u></p> <p>Company's overall turnover from all its products and / or services shall be 35 crore or more during the immediately preceding financial year.</p> <p><u>COST AUDIT</u></p> <p>Overall annual turnover from all products / services is of Rs. 50 crore or more and aggregate turnover from individual product / services for which cost records are required to be maintained is Rs. 25 crore or more</p>

**APPLICABLE PROVISIONS
AND
COMPONENTS
OF
COMPANY AUDIT REPORT**

Provisions applicable while preparation of Company Accounts report

- Every Auditor while preparing the Company Audit report shall comply with various provisions as prescribed under various acts and the same are mentioned as follows:
 - Schedule III of the Companies Act, 2013
 - The Income Tax Act, 1961
 - Applicability of Ind AS
 - Consolidation of Accounts

Components of a Company Accounts Report

- The Company Accounts/Audit report comprises of the following:
 - The Independent Auditor's report which includes the Companies (Auditor's Report) Order (CARO) and Internal Financial Control
 - The Financial Statements which further includes the Balance Sheet, Profit and Loss account, Cash Flow.
 - The Accounting Policies and Notes to Accounts

IMPORTANT SECTIONS

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- While preparing the Company Accounts certain sections are to be kept in mind and details of which are presented as below:

Section	Brief Description
2 (2)	Definition of accounting standards
2 (6)	Definition of associate company
2 (7)	Definition of auditing standards
2 (8)	Definition of authorised capital or nominal capital
2 (13)	Definition of books of account
2 (17)	Definition of Chartered Accountant
2 (35)	Definition of Dividend

IMPORTANT SECTIONS

Section	Brief Description
2 (40)	Definition of Financial Statements
2 (41)	Definition of Financial Year
2 (46)	Definition of Holding Company
2 (57)	Definition of Networth
2 (62)	Definition of One Person Company
2 (68)	Definition of Private Limited Company
2 (71)	Definition of Public Limited Company
2 (72)	Definition of Public Financial Institutions
2 (76)	Definition of Related Party Transactions
2 (78)	Definition of remuneration
2 (85)	Definition of Small Company

IMPORTANT SECTIONS

Section	Brief Description
123 to 127	Disclosure of Dividend and Investor Education and Protection Fund (IEPF) provisions
128 to 138	Financial Statements and allied provisions
139 to 141	Appointment of Auditors

**PREPARATION OF
COMPANY ACCOUNTS
REPORT**

**THE INDEPENDENT
AUDITOR'S REPORT**

The Independent Auditor's Report

□ **BASIC ELEMENTS OF INDEPENDENT AUDITOR'S REPORT**

- Report title
- Introductory paragraph
- Scope paragraph
- Executive summary
- Opinion paragraph

The Independent Auditor's Report

□ **FACTORS DETERMINING THE TRUE AND FAIR VIEW OF THE BUSINESS ACTIVITIES**

- The Companies (Auditor's Report) Order (CARO): Considering the financial year under review, the CARO, 2016 is applicable to the Companies
- The Internal Financial Control

The Companies (Auditor's Report) Order (CARO)

- The Companies (Auditor's Report) Order (CARO) is applicable to all Companies however few companies are exempt:
 - Banking Companies
 - Insurance Company
 - Section 8 Companies
 - One Person company
 - Small Company

The Companies (Auditor's Report) Order (CARO) Continued.....

- Private company not being a holding or a subsidiary company of a public company:-
 - with a paid up capital and reserves and surplus (not set apart) not more than INR 1 crore
 - does not have total borrowings exceeding INR 1 crore from any bank or any financial institution at any point of time during the FY
- AND**
- does not have total revenue as defined in schedule III, to the 2013 Act (including revenue from discontinuing operations) exceeding INR 10 crore during the financial year as per the financial statements.

The Internal Financial Control

The Internal Financial Control is applicable to all Companies however few companies are exempt:

- One Person company
- Small Companies
- Turnover of less than INR 50 crore as per the latest audited financial statements
- The borrowings of such a company from banks or financial institutions or any body corporate at any point of time during the FY is less than INR 25 crore.

THE FINANCIAL STATEMENTS

Three components of a Financial Statement

- Balance Sheet.
- Income statement or Profit and Loss account.
- Cash flow statement.

Balance Sheet and Profit and Loss account

The Balance Sheet and Profit and Loss statement shall be prepared by an Statutory Auditor in accordance with **Schedule II** i.e. useful lives to compute depreciation and **Schedule III** i.e. Preparation Of Balance Sheet and Statement of Profit and Loss of A Company.

Further the provision of the Income Tax Act, 1961 shall also be applicable wherever necessary.

Applicability of Cash Flow Statement

- The cash flow statement shall be prepared for every company except for the following:
 - One Person Company
 - Dormant Company
 - Small Company (Subsidiary of a Holding company which has applicability to mandatory preparation of Consolidated Financial Statements shall mandatorily prepare Cash Flow Statements)

Latest Notifications circulated by the Ministry of Corporate Affairs

- In the said Schedule, in Part I- Balance Sheet,-
 - (i) Under the heading “Equity and Liabilities”, in para (4), for “(b) Trade payables” the following shall be substituted, namely:—“(b) Trade Payables:-
 - (A) total outstanding dues of micro enterprises and small enterprises; and
 - (B) total outstanding dues of creditors other than micro enterprises and small enterprises.”.

ACCOUNTING POLICIES

APPLICABILITY OF ACCOUNTING POLICIES/STANDARDS

- ▣ Various Accounting Policies shall be applicable however, the Indian Accounting Standards (IND AS) shall be applicable to the following class of the companies and be exempted for few companies

APPLICABILITY OF ACCOUNTING POLICIES/STANDARDS

- ❑ The following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-
 - The companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 crore;

APPLICABILITY OF ACCOUNTING POLICIES/STANDARDS

- unlisted companies having net worth of rupees 250 crore or more but less than rupees 500 crore.
- holding, subsidiary, joint venture or associate companies of companies

LATEST NOTIFICATION

- Under the heading “Notes: General Instructions for preparation of Balance Sheet”, in para 6, after sub-para F the following shall be inserted, namely:—
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“FA. Trade Payables

- The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes:-
 - (a)** the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;
 - (b)** the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
 - (c)** the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

LATEST NOTIFICATION

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

ROLES AND RESPONSIBILITIES OF A CHARTERED ACCOUNTANTS

- As per Section 143 (12) of the Companies Act, 2013; the Auditor in the course of the performance of his duties has reason to believe that an offence of fraud is involved in any transaction, then it is the duty of an Auditor to report such fraud
 - In case of fraud committed amounting to rupees one crore or above then the matter has to be reported to the Central Government
 - In case of fraud committed amounting to less than one crore or above then the matter has to be reported to the Audit Committee.

PENAL PROVISIONS

- If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section 12 of Section 143, he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

CONTINUED.....

CONTRAVENTION OF SECTION 139 TO 146

➤ BY COMPANY

- Fine of INR 25,000 to INR 5,00,000

➤ EVERY OFFICER OF THE COMPANY

- Imprisonment upto one year **OR**
- Fine INR 10,000 to INR 1,00,000 **OR BOTH**

➤ AUDITOR-WILFULLY WITH THE INTENTION TO DECEIVE THE COMPANY OR ITS SHAREHOLDERS OR CREDITORS OR TAX AUTHORITIES

- Imprisonment upto one year **AND**
- Fine INR 50,000 to INR 25,00,000 **OR**
- Eight times the remuneration of the auditor, whichever is less
- In case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

USE OF COMPANY ACCOUNTS REPORT

- The Income Tax Department-Filing purpose
- Banking Matters
- Mergers and Amalgamations
- Loan Purpose
- Business Transactions
- Foreign Exchange Department
- Project report

THANK YOU

Wise or otherwise, it's your choice. |