

Gandhidham Branch of WIRC of ICAI

Key Points to be considered while annual closing of accounts

*Also covering Audit aspects with focus on
Private Limited Companies*

13th March 2024

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RCM, WIRC of ICAI

Accounts Finalisation

- Review of Accounts
- Sec. 43B(h)
- Loans and Deposits
- Applicability

Audit Report, Notes

- Auditor Report
- CARO
- Notes on Accounts

Important Updates

- Audit Trail
- Others

Finalisation/Review of Accounts

Review of Accounts

- Reconciliation with GST
- Stock Documentation
- Revenue recognition – accrual
- 26AS reconciliation
- Cash expenses more than Rs. 10,000
- Balance Confirmation - Bank, Debtors, Creditors
- Current / Non-current Classification
- Prior period items

Review of Accounts

- Current Tax and Deferred Tax computation
- Debtors having credit balance, Creditors having debit balance
- Negative balances in stock/cash during the period
- Provision for interest/penalty for return/other non-compliance
- Loans / Interest to be crossed verified with Bank/Financial Inst. Statement
- Ledger Scrutiny of Loans Received - Deposit?
- Ledger Scrutiny of Loans and Advances Given

Disallowance of Expenses u/s. 43B(h)

Deposit : Definition

Sec. 2(31) 'Deposit' includes any receipt of money by way of deposit or loan or in any other form, by a company, but does not include (Rule 2(c)):

Received from CG/SG/LA/Stat. authority or others whose repayment guaranteed by CG/SG

Received from foreign (subject to FEMA)

Received as loan from banking co/ SBI group / co-op bank

Received from PFI, Regional FI, Ins. Co, Scheduled banks

Received against commercial paper/ other instruments (RBI)

Received from ANY OTHER COMPANY

Deposit : Definition..continue..

Share application money – if applied/ shares allotted within 60 days of receipt (*otherwise refund within 15 days*)

Received from DIRECTOR of Company or RELATIVE of director for Pvt Ltd. Co.– declaration not given money from amount borrowed from others and company to disclose in Board Report

Amount raised by bonds/ debentures secured by first/paripassu charge on assets or by CCD within 10 years

Received from EMPLOYEE not exceeding annual salary as non-interest bearing security deposit

Non-interest bearing amount received and held in trust

Deposit : Definition..continue..

Amount received in the course of or for the purpose of business

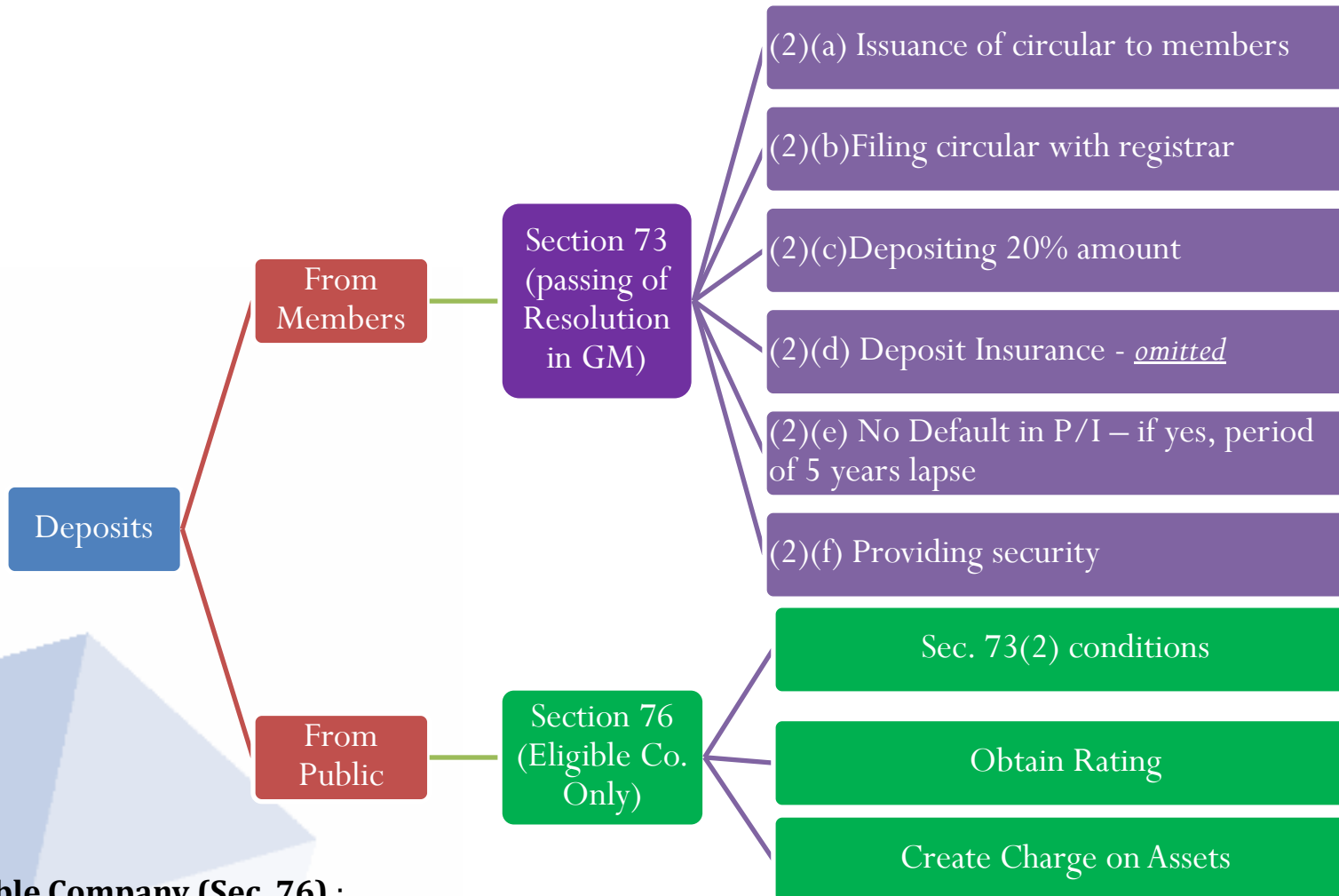
- (a) as ADVANCE for goods/ services – adjusted within 365 days
- (b) as Advance for property
- (c) as SECURITY DEPOSIT for performance
- (d) as Advance for long term projects or capital goods except (b)
- (e) as Advance for providing future services in the form of warranty or maintenance contract (not exceeding 5 years)
- (f) as Advance received/allowed by sectoral regulator
- (g) as Advance for subscription towards publication (print/online)

Amount by PROMOTERS

- Stipulation imposed by lending institution
- Loan by promoters or their relatives
- Exemption till loan repaid and not thereafter

Amount accepted by Nidhi Company

Acceptance of Deposits



Eligible Company (Sec. 76) :

- Networth not less than 100 crore or turnover not less 500 crore;
- Obtained prior consent in GM by SR
- Filed resolution with ROC before invitation to public

Deposit from Members : Relaxation to Pvt. Ltd. Co.

Notification dated 13th June, 2017

- ❑ Section 73(2)(a) to (e) not apply
 - Receipt from members upto 100% of PC+FR+SP or
 - Start up company (upto 5 years of incorporation) or
 - All conditions fulfilled
 - Borrowing from Bank/FI/Company less than 2 PC or 50 Cr. Whichever is lower
 - Not defaulted in repayment of borrowings
 - Not Subsidiary or Associate of any other company

Filing of details with ROC is mandatory

Sec. 185
Summary

Prohibition on Loan/G/S
by Company *To*

Individual

Director

Director of
Holding Co.

Any Partner
of Director

Any Relative
of Director

Partnership Firm, where
Director or Relative of
Director is a partner.

L/G/S Allowed to

- (a) Pvt. Ltd. Co. (If Director is a director or member)
- (b) Body Corporate (If Director/s having atleast 25% voting power) or
- (c) Body Corporate (If BOD, MD or manager accustomed to act as per directions of director/s, board of lending co.)

Subject to following Conditions:

- (a) Special Resolution passed by the company in general meeting
AND
- (b) Loans utilised by borrowing company for its principal business activities

Section 186 Loans and Investments by the Company



01

LIMIT ON LAYERS OF INVESTMENT

- Investment not through more than 2 layers of investment companies

02

APPROVAL OF SHAREHOLDERS

- Amount exceeds threshold 60% of PC + FR + SP or 100% PC+SP w.e.i. more
- Prior approval by special resolution in GM
- Resolution to specify the limit to which BOD authorised

03

DISCLOSURE IN FS

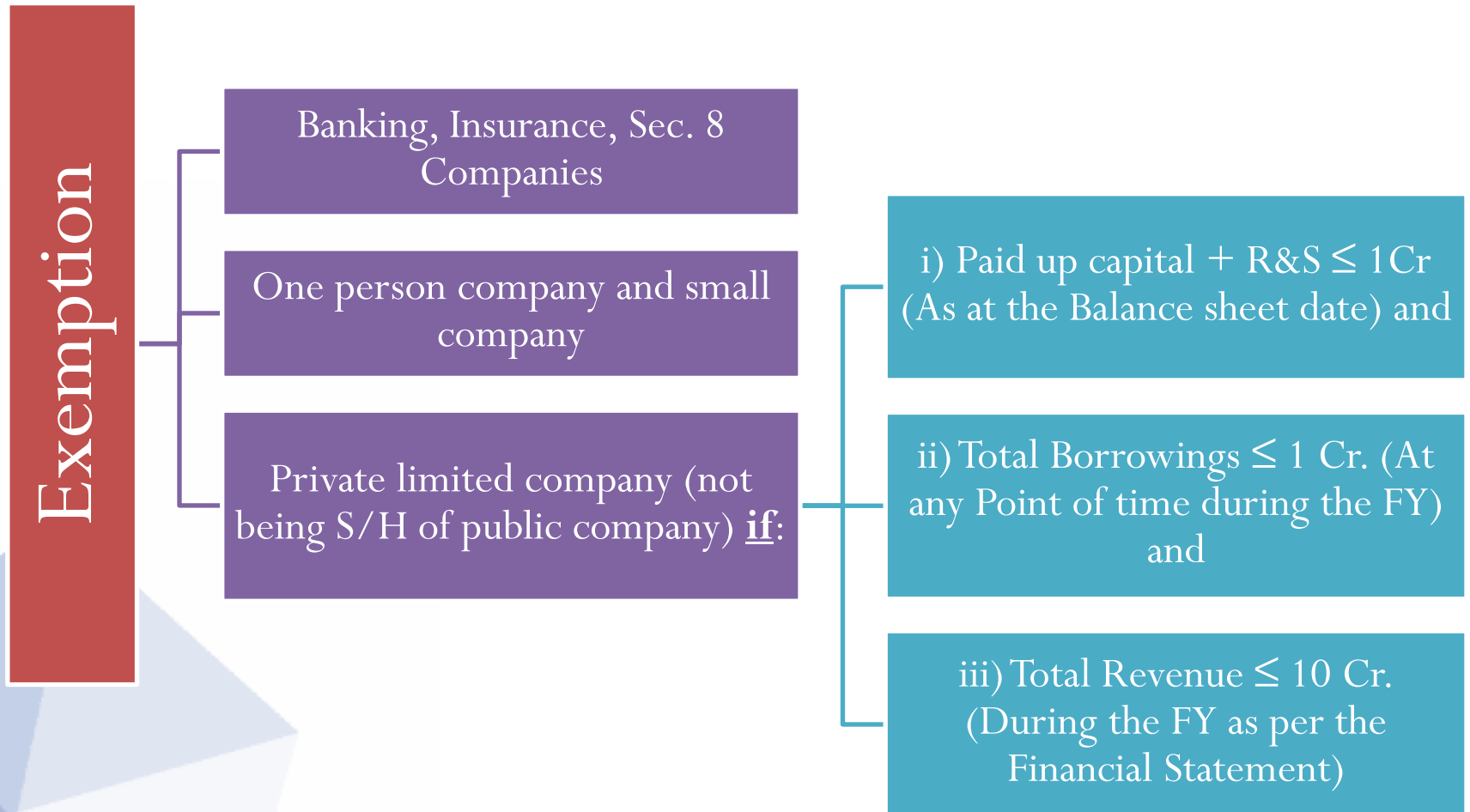
Disclosure of full particulars in BOD report and notes to accounts

04

PRIOR APPROVAL OF PFI

- If Term Loan exists
- Default in payment of loan or interest

CARO Applicability



Internal Financial Control

Applicable to All Companies except:-

Small company

One person company and

Private Company which is :-

- Having turnover less than 50 Crores as per latest audited financial statements; and
- Aggregate borrowings from banks, Financial institution and body corporate at any point in time during the financial year is less than 25 crores.

Internal Audit

All listed companies

Unlisted public companies that meet either of the below criteria:

- Have outstanding deposits of Rs. 25 crores or more at any point of time during the immediately preceding financial year
- Have a paid-up share capital of Rs. 50 crores or more during the immediately preceding financial year, or
- Have outstanding loans or borrowings from banks or financial institutions with a balance exceeding Rs. 100 crores at any point of time during the immediately preceding financial year; or Have a turnover of Rs. 200 crores or more during the immediately preceding financial year.

Private companies that meet either of the below criteria:

- Have a turnover of Rs. 200 crores or more during the immediately preceding financial year; or
- Have outstanding loans or borrowings from banks or financial institutions with a balance exceeding Rs. 100 crores at any point of time during the immediately preceding financial year

❑ Cash flow Statement

- Not required for One Person Company, Small company and Dormant company

Dormant Company:

Where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant company.

Small Company?

A small company is a company which satisfies all following conditions:-

1. It is not a public company;

2. It is not a holding and subsidiary company of any company;

3. Not a company under section 8 or is not governed by special Act like insurance act 1938, Banking regulation act 1949 etc.

4. And whose:-

- Paid up share capital as on reporting date; does not exceed 2 crores and
- Turnover for immediately preceding financial year does not exceed 20 crores

Applicability of Secretarial Audit (Sec. 204 of the CA 2013)

Every Listed Company

Public Company having Paid up share capital 50 crore or more or

Public Company having turnover 250 crore or more

Every company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more

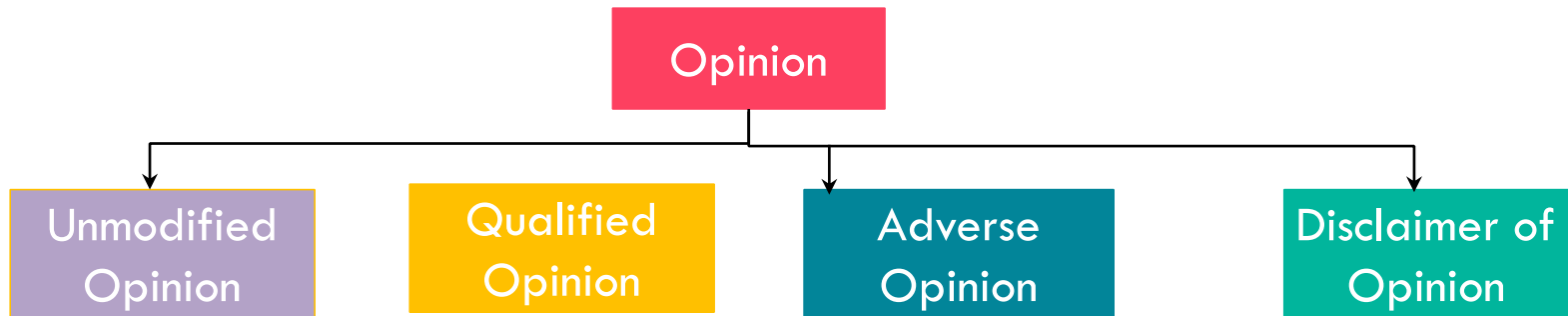
Vigil Mechanism (Whistle Blower Policy)

- ❑ Every Listed Company
- ❑ Other Companies:
 - *(a) the Companies which accept deposits from the public;*
 - *(b) the Companies which have borrowed money from banks and public financial institutions in excess of 50 crore rupees.*

Auditor Rotation

- ❑ Listed Companies
- ❑ Unlisted Companies
 - Paid up capital Rs. 10 crore or more
- ❑ Private Companies
 - Paid up capital Rs. 50 crore or more
- ❑ For Unlisted or Private Companies, if paid up capital is less than prescribed limit (as above) but borrowings from FI, banks and public deposit is Rs. 50 crore or more.

Audit Report



Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

CARO 2020

□ Important points:

- PPE and Intangible Assets Records
- Title deeds of immovable properties
- Loan - WCL statement submission to bank
- Evergreening of loan
- Use of Term Loan for the purpose
- Use of Short term Loan for long term purpose
- Internal Audit System, Report of Internal Auditor
- Meeting current financial liability

Notes on Accounts

Important Considerations

- Significant Accounting Policies
- AS-15 Employee Benefits
- AS-18 Related Party Transactions
- AS-22 Accounting for Income Taxes
- AS- 11 Accounting for Foreign Exchanges
- AS – 7 Construction Contracts
- AS 18 Segment Reporting

AS Applicability

Accounting standards are ***applicable to all Entities except*** Exemptions/Relaxations as specified in below table.

Particulars	Exemptions
Non SMC	Nil
SMC	Full Exemptions: AS 3 & AS 17 Partial Exemptions: AS 15, 19, 20, 28, 29

What is SMC ?

Non- SMC:

Listed or in the process of listing

Banking company or insurance company

Turnover more than 250 crore

Borrowing any time in year exceeds Rs. 50 crore

H/S of above companies

AS Applicability Summary

	Level 1	Level 2	Level 3
	Large	Medium	Small
Listed	Yes	-	-
Banks, FI, Insurance	Yes	-	-
Turnover	> 250 Cr.	> 50 Cr. upto 250 Cr.	>10 Cr upto 50 Cr
Borrowings	> 50 Cr.	> 10 Cr. upto 50 Cr.	>2 Cr. upto 10 Cr.
H / S of any one of above	Yes	Yes	Yes

Level 4 Micro : Entities not covered in any of the above level.

Disclosures concerning exemption

- ❑ The company is a Small and Medium sized Company (SMC) as defined in the Companies (Accounting Standards) Rules 2021 notified under the Companies Act, 2013. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.

Important updates for FY 2023-24

*Audit Trail applicable
from 1st April, 2023*



Companies (Accounts) Amendment Rules, 2021

Mandatory use of Accounting Software having Audit Trail

3(1) Provided that for the financial year commencing on or after ~~01.04.2021~~ **01.04.2023**, every Company which uses accounting software for maintaining its books of accounts, 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 the books of account along with the date when such changes were made and
- ensuring that the **audit trail cannot be disabled**.

Companies (Audit and Auditors) Second Amendment Rules, 2021

New clause (g)- whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

Audit Trail meaning

Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source. Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded. Records maintained as audit trail may include the following information:

- when changes were made i.e., date and time (timestamp)
- who made the change i.e., User Id
- what data was changed i.e., data/transaction reference; success/failure

Accounting Software

- Accounting Software is a computer program or system that enables recording, maintenance and reporting of books of account and relevant ecosystem applicable to business requirements.

"Books of Account" as per Section 2(13) of the Act includes records maintained in respect of—

- (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) all sales and purchases of goods and services by the company;
- (iii) the assets and liabilities of the company; and
- (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Points – Audit trail

- ❑ To retain audit trail for a minimum period of eight years
- ❑ Use of specialist or expert in the field of information technology to assist in evaluation of management controls and configurations in the accounting software regarding audit trail.
 - Ultimate responsibility lies with the auditor only
- ❑ No Materiality
 - Audit trail required for each and every transaction, creating an edit log of each change made in books of account. So, the reporting will apply for all transactions irrespective of the amount involved.
- ❑ MRL
 - Cannot simply rely on representation from the management.

Points – Audit trail

- ❑ Management needs to design and implement specific internal controls (predominantly IT controls) - to be evaluated by the auditors
- ❑ Spreadsheet / Excel
 - If a company uses end-user computing tools, like spreadsheets, then those tools may be classified as accounting software *if the same provides direct and auto feed to the accounting software*
 - If used for preparing working of foreign exchange gain/loss or amortization or tax liability not classified as accounting software
 - *Property, plant and equipment / intangible assets register may be classified as accounting software, if the same provides direct and auto feed to the accounting software*

Useful Resources in Practice

Sr. No.	Particulars	Location
1.	Audit Working Templates (PDF and Word)	https://www.icai.org/post/audit-working-paper-templates
2.	Checklist on Standards on Auditing (PDF and Word)	https://www.icai.org/post/checklist-on-standards-on-auditing
3.	Guidance Note on Division –I Non-Ind AS Schedule III	https://resource.cdn.icai.org/68981clcgc55147-gnd1.pdf
4.	Guidance Note on Division –II Ind AS Schedule III	https://resource.cdn.icai.org/68982clcgc55147-gnd2.pdf
5.	Excel File for Illustrative Financial Statements of Limited Liability Partnerships	https://resource.cdn.icai.org/70916asb56902.xlsx
6.	Excel File for Illustrative Financial Statements of Non-Corporate Entities	https://resource.cdn.icai.org/70697asb56660.xlsx

Key Takeaways

- Plan well in advance
- Keep Templates Ready
- Audit Documentation
- Communication with the Client
- GN on FS of NCEs – mandatory from 1st April, 2024

THANK YOU

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