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# UNDERSTANDING , SCRUTINY AND PREPARATION OF FINANCIAL STATEMENTS

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## A. Understanding of Financial Statements

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## **OBJECTIVE**

**“To emphasize on the learning and legal aspect and to understand the complexities involved in the Financial Statements .”**

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## **OBJECTIVE**

**“And to check the applicability of various provisions of the Companies Act, 2013 including limits, restrictions prescribed under the act, rules etc.”**

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# Applicability of the Companies Act, 2013

**Companies incorporated under the  
Companies Act, 2013.**

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# Company Secretary

- 1. Section 2(24) and 2 (25)**
- 2. Mandatory appointment**
- 3. Mandatory Audit**

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# Company Secretary

## **Mandatory appointment {Sec 203}**

### **Appointment of Key Managerial Personnel.-**

Every listed company and every other public company having a paid-up share capital of ten crore rupees or more shall have whole-time key managerial personnel.

Every private company which has a paid up share capital of ten crore rupees or more shall have a whole -time company secretary

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# Company Secretary

## Mandatory Audit

**204.** (1) Every listed company and a company belonging to other class of companies as may be prescribed shall annex with its Board's report made in terms of sub-section (3) of section 134, a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed.



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## Company Secretary

### **Secretarial Audit Report.**

- (1) For the purposes of sub-section (1) of [section 204](#), the other class of companies shall be as under-
- (a) Every public company having a paid-up share capital of fifty crore rupees or more; or
  - (b) Every public company having a turnover of two hundred fifty crore rupees or more; <sup>1</sup>[or]
  - <sup>1</sup>[(c) every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.]

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# Company Secretary

## **Mandatory Audit**

The annual return, filed by a listed company or, by a company having paid-up capital Rs. 10 crore and turnover Rs.50 crore shall be certified by a company secretary in practice in form MGT-8, stating that the annual return discloses the facts correctly and adequately and that the company has complied with all the provisions of this Act.

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## **Definitions and Meaning**

- 1. Paid-up Share Capital**
- 2. Turnover -2(91)**
- 3. Net Worth- 2(57)**
- 4. Net Profit**
- 5. Books of account- 2(13)**
- 6. Financial statement -2(40)**
- 7. Financial year-2(41)**

## WHO IS A COMPANY SECRETARY ?

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- **Key managerial personnel : Section 2 (51)**
- **Advisor to top management**
- **Compliance officer**
- **Liaison officer**
- **Signatory to the Financial Statement**
- **Signatory to Annual return**
- **Officer in default**

## **Financial Statement includes : Section 2 (40)**

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- **Balance sheet as at the end of financial year**
- **Statement of Profit and loss account/ Statement of Income and expenditure for the financial year**
- **Cash Flow Statement for the financial year (where applicable)**
- **Explanatory notes related to above (in any)**

## **FINANCIAL STATEMENTS**

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- **Section 2 (40) – Inclusions in Financial statement**
- **Section 12 (3) Registered Office of Company**
- **Section 96 Annual General meeting**
- **Section 101 Notice of meeting**
- **Section 102 Statement to be annexed to notice**
- **Section 129/129A Financial statement/ Periodical FS**
- **Section 134 Financial Statement, Board's Report, etc.**
- **Section 139 Appointment of Auditors**

# FINANCIAL STATEMENTS

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- **Section 160 (other than retiring director)**
- **Section 164 (2) Disqualifications of Director & Section 167 (1)(a) Vacation of office**
- **Section 179 Powers of Board**
- **Section 180 Restrictions on Powers of Board**
- **Section 185/186 Loan and Investment by company**
- **Section 188 Related Party Transactions**

# FINANCIAL STATEMENTS

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- **Companies Act , 2013**
- **Rules**
- **Notifications**
- **Circulars**
- **Removal of Difficulties Rules**
- **Amendment Acts**
- **Ministry of Corporate Affairs**
- **Secretarial Standards by ICSI**



# **ANNEXURES, ATTACHMENTS, ENCLOSURES TO FINANCIAL STATEMENTS**

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- **Chairman's Speech**
- **Notice of AGM**
- **Board's report**
- **Balance sheet**
- **Statement of Profit and loss**
- **Secretarial Audit Report**
- **Notes**

## **OTHER CONTENTS**

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- **Statement for subsidiaries**
- **Subsidiary /Joint Venture/ Associate companies financials**
- **General business profile**
- **Auditor's report**
- **Annexure to auditor's report**
- **Financial Analysis**

## **OTHER CONTENTS**

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- Cash Flow Statement**
- Route Map of venue of AGM**
- Attendance Slip and Proxy Form**
- Form AOC-1 ( Subsidiaries/Associate/JV Companies)**
- Form MGT-9 (Extract of Annual Return)**
- Form AOC-2 (Particulars of Related Party Transactions)**
- Annual Report on CSR activities**

## **OTHER CONTENTS**

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- **Product portfolio/ range**
- **Customer views about the company**
- **Awards received**
- **Photographs of events**
- **Stock market information**
- **Interviews of senior management**

# Signatories to Financial Statements

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- **Notice**
- **Board's Report { Ref Section 134 (6)}**
- **AOC-1**
- **CSR Report**
- **Financial Statement { Ref Section 134(1)}**
- **Auditors report { Section 145}**
- **Notes to accounts**

## Others related to Financial Statements

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- **MR-3 Secretarial Audit Report**
- **MGT-8 Certificate by PCS on Annual Return**
- **MGT-7 Annual Return**
- **Secretarial Standards**
  - SS-1 Board meetings**
  - SS-2 General meetings**
  - SS-3 Dividend**
  - SS-4 Report of Board of Directors**
- **ICSI Auditing Standards**
- **Extension of AGM**

## Others related to Financial Statements

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- **Standalone Financial Statements**
- **Consolidated Financial Statements**
- **Cost Records and Accounts**
- **Cost Audit**
- **Cost Auditor**

# FORMAT OF FINANCIAL STATEMENTS

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## **Schedule –III of the Companies Act, 2013**

- Division I- the Companies (Accounting Standards) Rules, 2006
- Division II- INDIAN Accounting Standards – rounded off figures
- Division III- NBFCs with INDIAN Accounting Standards



# SCHEDULE-III – EQUITY & LIABILITIES

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- Share Holders Fund – Share capital/Reserves and surplus
- Share Application money pending allotment
- **Non-current liabilities**
  - Long term borrowings,
  - Deferred Tax Liabilities,
  - Other Long term Liabilities
  - Long term provisions
- **Current Liabilities**
  - Short term borrowings
  - Trade payables- to micro and small enterprises & to others
  - Other current liabilities
  - Short term provisions

## **SCHEDULE-III - ASSETS**

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- **Non Current Assets**

- Property, Plant and Equipment , Intangible assets and Capital Work in Progress
- Non-current investments
- Deferred tax assets (net)
- Long-term loans and advances
- Other non-current assets

- **Current Assets**

- Current investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short-term loans and advances
- Other current assets

## SCRUTINY OF BALANCE SHEET

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- Paid up Share Capital of the Company
- Borrowings made from Banks and Financial Institutions
- Total Borrowings of the Company
- Investments made by the Company
- Loans given to by the Company
- Net worth of the Company

## SCRUTINY OF STATEMENT OF PROFIT AND LOSS

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- Revenue from operations should be as per the clauses of MOA
  - Undisclosed income
  - Directors remuneration
  - Dividend payment
  - Payment to the relatives of Directors /related parties
  - Insurance
  - CSR expenditure
  - Crypto Currency or Virtual Currency
  - Related Party transactions -Notes to accounts (AS-18 disclosure)
- Tax Audit report

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## **B. Drafting and Preparation of Financial statements and Accompanying Documents**

## Status of the Company

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- Small Company
- Private Limited
- Public Limited
- Listed Company
- Section 8
- One Person company (OPC)
- Holding or Subsidiary or Associate
- Foreign company [Project/ Branch/ Liaison office]

## Applicability of Various Limits

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- Audit Committee
- CARO
- Cash Flow Statement
- Company Secretary
- CSR
- Cost Audit
- KMP

## Applicability of Various Limits

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- Internal Auditor
- Companies (Indian Accounting Standards) Rules, 2015.**
- MGT-8
- Statutory Auditor
- Secretarial Auditor
- Woman Director
- Vigil Mechanism



## Key references for Company Secretary

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- Memorandum of Association & Articles of Association
- Audited Balance Sheet
- Duly Signed Minutes
- Duly Updated Statutory Registers
- All Disclosures from Directors
- Industry Specific requirements

## Key references for Company Secretary

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- Basic Knowledge of accounts
- Income Tax
- Depreciation Schedule
- Directors Form 16 to calculate remuneration
- View Signatory Details
- Other Companies in which directors are interested

## Notice for AGM

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- SS-2
- Amended Copy of MOA/AOA
- Route Map
- Copy of attendance Slip
- Proxy form
- Company's Website
- Remuneration of Cost Auditor, if applicable

## Board's Report

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- Financial results
- Transfer to reserves
- Internal Financial Controls
- State of company's affairs
- Dividend
- Material changes affecting financial position
- Changes in composition of the Board and Key Managerial personnel
- Dates and attendance at Meetings

## Board's Report

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- Disclosure of all committees
- Statutory auditor, Secretarial auditor , Cost auditor
- Frauds reported by Directors
- Cost records
- Explanation to remarks of Statutory Auditors & Secretarial Auditors
- Directors responsibility statement

## Board's Report

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- Significant or material orders
- Vigil mechanism
- Conservation of Energy, technology Absorption and Foreign Exchange Earnings and Outgo
- Deposits and unsecured loans accepted
- Particulars of employees
- Details of subsidiaries/ associate companies/ Joint Venture
- Disclosure under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

## Board's Report

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- Adherence to Secretarial Standards
- Annexures/enclosures
  - MGT-9 (if required)
  - AOC-1 Salient features of subsidiaries, JVs and Associate
  - AOC-2 related party transactions
  - CSR report- Annexure I or II of rules
  - MR-3 Secretarial Audit Report

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## **C. Financial Statements**

**And**

**Listed Companies**



## Listed Company Financial Statements

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- Listing agreement
- Class of Company for various limits
- Audit Committee
- Woman Director
- Corporate Governance Report
- Scrutinizer in AGM
- Subsidiary of Listed companies

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## **D. Financial Statements**

**And**

**Filing under Ministry of Corporate Affairs**

## FILING RELATED TO FINANCIAL STATEMENTS

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1. Valid Digital Signature duly registered
2. Valid and Active DIN
3. Proper authority for signing e-forms.
4. Duly Signed Notice of AGM
5. Duly Signed Board's report alongwith annexures
6. Duly Signed Financial Statements
7. Qualified Directors under the Act.
8. Updated Devices like Computer, internet etc with required software

## **FILING RELATED TO FINANCIAL STATEMENTS**

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1. MGT-14 approval of Board's report and financial statements and appointment of secretarial auditors
2. ADT-1 appointment of auditors
3. MGT-8 Certificate on Annual Return
4. MR-3 Secretarial Audit Report
5. Report on AGM by listed companies

## FILING RELATED TO FINANCIAL STATEMENTS

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1. All documents must be duly signed physically
2. Standalone Financial Statements
3. Consolidated financial Statements
4. Foreign Subsidiaries
5. Accounting Standards

## **FILING - ATTACHMENTS AND CERTIFICATION**

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1. MGT-14 ( if VC )
2. AOC-4 and AOC-4 XBRL
3. AOC-4 CFS
4. MGT-7
5. MGT-7A (Small and OPC) 2020-21 onwards.

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## **E. Financial Statements**

**And**

**Other Compliances**

## FEMA COMPLIANCES

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- FDI allowed or not
- FIRC
- Allotment of Shares
- FCGPR
- FLA- annual return on Foreign Liabilities and Assets (FLA)
- Transfer of shares- FCTRS
- FIRMS- Foreign Investment Reporting and Management System



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## **F. Financial Statements**

**And**

**LLP Act, 2008**

## Annual Return of LLP Form-11

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- Yearly Return.
- Due date 31<sup>st</sup> May.
- Digital Signature of 2 designated partners.
- Certification by practising professional when contribution Rs. 50 lacs and above or turnover Rs. 5 crores and above.
- Attachment to the forms

## Balance Sheet of LLP Form-8

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- Within one month of completion of 6 months from the end of Financial year.
- If contribution exceeds Rs. 25 lacs or turnover exceeds Rs. 40 lacs, audited accounts by Chartered Accountant.
- Digital Signature of 2 designated partners and auditor (UDIN to be generated)
- Certification by practising professional when audit is not required
- In case of secured loan, interim form 8
- Attachment to the forms

## PLEASE NOTE

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- financial statements carry image of the company
- good to have basic knowledge of accounting standards
- you are going to sign the financial statements
- you are the compliance officer of the company
- you are representing company to government authorities .

## Recent Amendments and Changes

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- The Companies ( Amendment ) Act, 2019 & 2020
  - CSR rules
  - Small Company
  - Recent Relaxations

# To conclude

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Section 173 read with rule 4 of The Companies (Meeting of Board and its Powers) Rules 2014: **Matters not to be dealt with in a meeting through video conferencing or other audio visual means.**

- Approval of financials- Directors allowed to attend through VC where physical quorum is present
- Relaxation in view of COVID-19 –upto 30<sup>th</sup> June, 2021

# Finally study study & study

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*Be Careful while investing your time,  
Nothing is worse than wasted time .*

# Q & A

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*All the best Friends and  
wish you all good health  
and illustrious career as  
a CS*

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# ***Thanks !***

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