

Benefits of a Small Company

Version 2.0



CA. PRAMOD JAIN

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Namaste

The original article on the subject was published on 17th March 2021. Since then, there have been few changes, hence it was thought prudent to update this article as version 2.0.

A ‘Small company’ is defined under section 2(85) of the Companies Act, 2013. Ministry of Corporate Affairs has amended Rule 2(1)(t) of the Companies (Specification of definition Details) Rules, 2014 w.e.f. 15th September 2022 to give effect to higher monetary limits for a private company to be considered as a small company. The limit of maximum Paid-up capital has been increased from Rs. 2 crores to Rs. 4 Crores and the maximum turnover limit has been increased from Rs. 20 Crores to Rs. 40 Crores to be a small company. The definition effect of post-amendment and pre-amendment is given hereafter.

From 15th September 2022

From 15th September 2022, a company other than a Public Company, which is not a holding or subsidiary or section 8 company or a company governed by any special Act and having its paid-up capital not exceeding Rs 4 Crores **and** having turnover for the immediately preceding year not exceeding Rs 40 crores shall be a small company.

In other words, from 15th September 2022, a private company (which is not a holding or subsidiary or section 8 company or a company or body corporate governed by any special Act) would be a Small Company if it would be having its:

- Paid-up capital not exceeding Rs 4 Crores;
- AND**
- Turnover for the immediately preceding year not exceeding Rs 40 crores

Upto 14th September 2022

From 1st April 2013 till 31st March 2021, company other than a Public Company, which was not a holding or subsidiary or section 8 company or a company governed by any special Act and having its paid-up capital not exceeding Rs 50 lacs and having turnover for the immediately preceding year not exceeding Rs 2 crores was a small company.

From 1st April 2021 till 14th September 2022, company other than a Public Company, which was not a holding or subsidiary or section 8 company or a company governed by any special

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Act and having its paid-up capital not exceeding Rs 2 Crores and having turnover for the immediately preceding year not exceeding Rs 20 crores was a small company.

To summarise the limits, a chart is as under:

Period	Both limits to be complied for being Small Company	
	Paid-up Capital Not exceeding	Turnover Not Exceeding
1 st April 2013 to 31 st March 2021	Rs. 50 Lacs	Rs. 2 Crores
1 st April 2021 to 14 th September 22	Rs. 2 Crores	Rs. 20 Crores
15 th September 2022 onwards	Rs. 4 Crores	Rs. 40 Crores

Hence, the following would **NOT** be small company w.e.f. 15th September 2022:

- Listed Company
- Public Unlisted company
- Section 8 Company
- Holding Company
- Subsidiary Company
- Company or Body Corporate governed by any special Act.
- Private Company whose Paid up capital exceeds Rs 4 crores.
- Private Company whose Turnover for the immediately preceding year exceeds Rs 40 crores.

Benefits / Relaxations for a Small Company

Considering the change in the definition of a small company consequent to change in the paid-up capital and turnover limits, majority of companies could become a small company w.e.f. 15th September 2022.

For example, ABC P. Ltd. having paid-up capital of Rs. 1 Cr. and Turnover in FY 2020-21 and FY 2021-22 of Rs. 25 crores each year, would not be a small company in FY 2021-22. However, it would be a small company w.e.f. 15th September 2022 i.e., in FY 2022-23.

We should be aware of various benefits or relaxations which are available to a small company. The benefits / relaxations for a small company includes:

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- **No Cash Flow Statement:** – A small company need not include Cash Flow Statement as part of its Financial Statement. Proviso of Section 2(40) which relates to Financial Statement states that small company may not include the Cash Flow Statement in their financial statements.
- **No IFC:** – Auditors of small companies are not required to give report on Internal Financial Controls with reference to Financial Statements and the operating effectiveness of such controls in their audit report.
- **No CARO:** - Auditors of small companies are not required to give report on Companies Auditors Report Order 2020 [CARO].
- **No Rotation of company auditors:** – Section 139(2) exempts small company from the mandatory rotation of auditors after a term of 5 consecutive years in case of an individual auditor and two consecutive terms of 5 years in case of an audit firm.
- **Not to be counted for limit of No. of Audits:** - A small company is not to be included to count in the limit of 20 audits per auditor, as per notification dated 5th June 2015. However, a small company would be counted within the limit of 30 audits as per ICAI guidelines.
- **No Ind AS:** - A small company is not required to comply with Ind AS to prepare its financial statements. It has to only comply with Companies (Accounting Standards) Rules 2021.
- **No pre-certification by Professionals:** - In case of a small company, there is no requirement of pre-certification by Professionals for filing of Forms with ROC including Annual Return.
- **Abridged Board's Report:** – Certain matters to be included in Board's Report mentioned in Rule 8A of companies (Accounts) Rules, 2014 do not apply for small company. Further the Central Government has prescribed an abridged Board's report, for the purpose of compliance u/s 134(3A) by small company.

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- **Abridged Annual Return:** – Annual Return of a Small Company is an abridged Annual Report u/s 92 in Form MGT 7A instead of detailed annual report in Form MGT 7.
- **Relaxation for Remuneration details in Annual Return:** – According to Section 92(1)(g), small companies are required to provide only “aggregate amount of remuneration drawn by directors” instead of providing details of remuneration of directors and key managerial personnel of the company, which is required for other companies.
- **Fewer Board Meetings:** – Small companies are not required to hold 4 Board meetings in year, they may hold only 2 board meetings in a calendar year, i.e., one Board Meeting in each half of the calendar year with a minimum gap of 90 days between the two meetings.
- **Fast Track Merger** - Section 233 of the Companies Act deals with time-consuming process for mergers. However, for certain mergers like merger between two small companies, it lays down a simple a fast-track merger procedure without applying to NCLT in s. 233(1).
- **Lesser Penalties:** - Section 446B deals with the lesser penalty provision where a small company is under default. According to it, if a small company fails to comply with any provisions of the Companies Act 2013, such company and officer in default of such company shall be punishable with penalty, which shall not be more than ½ of the penalty, specified in such sections subject to maximum of Rs. 2 lacs in case of a company and Rs. 1 lac in case of an officer who is in default and other person as the case may be.
- **Low Filing Fee** - Pursuant to Section 403 read with Rule 12 of the Companies (Registration of Offices and Fees) Rules, 2014, a relaxation has been given to small companies with respect to reduction in their filing fees with Registrar of Companies as compared to other companies.

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- **Other Relaxations** – Apart from above, a small company is also eligible for all other relaxations and advantages which are available to any other private company pursuant to various provisions of the Act / Rules and various MCA Notifications like notification dated 5th June 2015 (as amended from time to time).

I hope this document is of use to you. Your suggestions and comments would be highly appreciated.

Best Regards

CA. PRAMOD JAIN

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(Disclaimer: Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omissions)

ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL.B). He has qualified Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Certificate Course on CSR of ICAI. He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT and post qualification certificate course on Valuation of ICAI.

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He is elected as Central Council Member of ICAI for the period 2019 to 2022 and from 2022 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 2022-23, 2023-24 and 2024-25
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for the year 2021-22.
- Member of Quality Review Board (QRB) from 2020 to 2023 and again from 2023 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 yrs from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for year 2019-20 and 2020-21.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for Year 2019-20.
- Member of ICAI Disciplinary Committee for the year 2020-21.

He is the conceptualizer of the portal www.expertspanel.in which is a one stop solution for all professional queries which has given more than 36000 answers since its launch in mid of year 2018.

He has delivered more than 1700 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from www.lunawat.com and from 2018 at www.expertspanel.in also.

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He is Senior Partner of **M/s LUNAWAT & CO.**, Chartered Accountants. He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with FFRB and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on *“Chartered Accountant’s Documentation and Compliance for Audits and Reviews”*, *Limited liability Partnership – A Complete Resource Book*, *“Chartered Accountant’s Documentation and Compliance for Audits and Reviews”*, *“Importance of LLP after Companies Act, 2013”*, *“Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”*, *“Limited Liability Partnership – Law, Procedures and Taxation”*, *“Documentation for Chartered Accountants”*, *“Limited Liability Partnership – Law and Procedures with Ready Reckoner”*, *“Fringe Benefit Tax & Banking Cash Transaction Tax”*, *“Documentation for Audits”* and *“Accounting Standards and CARO”*.

He has written various articles on taxation, company law and audit in various journals. He has a vast practical experience in income tax, audit, corporate laws and LLP.