

Changes in Schedule III & S. 194R



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FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

Shared at

Faridabad Income Tax Bar Association

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SECTION 194 R

TDS – S. 194R

- Inserted from 1.4.2022 for providing to a **resident**, any **benefit or perquisite**, whether convertible into money or not, arising from carrying out of **business or profession by such resident**:
 - **before providing such benefit or perquisite** - TDS @ 10%
 - If value or aggregate of value exceeds Rs. 20000/- per person in FY.
 - If in kind, payer to **ensure tax is paid** before releasing benefit

APPLICABILITY

- Effective from 1.4.2022. TDS from 1.7.2022.
- Exceeding Rs. 20000/- in aggregate in a AY
- To resident arising from carrying out of business or profession.
- Benefit / perquisite if in kind may be capital / revenue, but the benefit would be income
- Person providing benefit/perquisite to deduct TDS @ 10% before providing such benefit or perquisite.
- Deposit:
 - If TDS – 7th of next month
 - If deposit by beneficiary – before receiving benefit

CIRCULAR

- Circular No. 12 of 2022 dt. 16th June 2022
- Benefit or perquisite provided may not be taxable u/s 28(iv) in the hands of the receiver, it could be covered u/s 41(1) too
- Benefit can be in cash or in kind??
- Benefit could be a capital asset in hands of the receiver.
- Cash discounts, sales discounts & rebates excluded.

Specifically Included

- Free samples
- Incentives (other than discount, rebate) in form of cash or kind such as Car, TV, Computers, Gold coin, Mobile phones, etc.
- Sponsorship of trip for recipient and his/her relative upon achieving certain targets.
- Free ticket for an event.
- Medicine samples free to medical practitioners.
- What if free display sample??

Indirect Coverage

- **Benefits/perquisites may be used by owner / director / employee of recipient entity or their relatives who in their individual capacity may not be carrying on business or exercising a profession . However, TDS required in name of recipient entity .**
- **Example - Free medicine sample provided by company to doctor who is employee of a hospital. TDS u/s 194R in hands of hospital as benefit is provided to doctor being employee of hospital. Hospital can treat it as a perquisite given to employee u/s 17 and TDS u/s 192.**

Indirect coverage

- Free medicine sample provided by a company to a doctor who is consultant in a hospital. TDS u/s 194R in hands of hospital and then hospital may again deduct tax u/s 194R as benefit to the consultant. To remove difficulty, as an alternative, the original benefit/perquisite may directly deduct tax in the case of consultant as a recipient.
- S. 194R shall not apply if benefit / perquisite is being provided to Government entity, like Government Hospital, not carrying on business or profession.

Benefit during promotion

- Social media influencer is given a product - to use and make audio/video to promote.
 - When Benefit/perquisite like car, mobile, outfit, etc. is returned to manufacturer after using it for purpose of rendering service – No s. 194R
 - When Benefit receiver has retained it - 194R
 - What if item consumed??

Valuation of benefit/perquisite

- FMV of the benefit or perquisite except:
 - When purchased - Purchase Price of benefit.
 - When manufactured - Price that it charges to its customers
- GST not be included for purpose of valuation of benefit for TDS u/s 194R.
- Date of benefit? Date of valuation???

Re-imbursements

- Expenditure which is liability of person carrying out business / profession, if met by other person – benefit / perquisite.
- Consultant X renders service to Co. Y. X travels & incur exp. for rendering service to Y:
 - (1) - X pays for expense which is part of his business expenditure – No benefit.
 - (2) - If travel expense is met by company Y:
 - (a)– Invoice of expenses obtained in name of Y and paid by X, is reimbursed by Y to X–No s 194R
 - (b)– If invoice is not in name of Y & payment made by Y directly or reimbursed –Y - 194R ??

Conferences

- Expenditure pertaining to dealer / business conference – no benefit/perquisite if for any of following or similar aspects :
 - New product launch.
 - Discussion on how product is better than others
 - Obtaining orders from dealers/customers.
 - Teaching them sales techniques.
 - Addressing their queries.
 - Reconciliation of Accounts with theirs.
- However, it should not be for select dealers /customers who achieved particular targets

Conferences

- Covered u/s 194R if such conference is:
 - Attributable to leisure trip or leisure component, even if it is incidental to dealer / business conference ??
 - Incurred for family members accompanying the person attending conference.
 - On participants of such conference for days which are on account of prior stay or over stay beyond the dates of such conference ???

Deposit of tax when in kind

- Requirement is – person is required to ensure that tax required to be deducted has been paid by the recipient.
- Recipient would pay tax in form of Advance Tax.
- Deductor may rely on declaration along with a copy of advance tax challan provided by recipient confirming that such tax is deposited.
- Report in TDS Return along with Challan No.
- Form 26Q contains provision for same.
- Alternatively, benefit provider may deduct tax u/s 194R and pay to govt.

???

- Employees training and excursions?
 - No
- Scheme for dealers?
 - Yes
- Car on purchasing residential immovable property by Mr. X?
 - No
- Diwali gift to customers and suppliers?
 - Yes
- Diwali gift to employees?
 - No

???

- Donation to Charitable Trust?
 - No
- Selling immovable property at less than FMV?
 - No
- Trip with family to Non-resident suppliers?
 - No
- Company incurs expense of Boarding & Lodging for its customers to visit their office?
 - No
- Free medical samples to Hospitals registered u/s 12A / 10(23C)?
 - ???

???

- Will the recipient have to record the benefit?
 - Yes
- Would depreciation be allowed if any capital asset like mobile received?
 - Yes
- Diwali gift of Rs. 1000/- each to 30 employees in purchase department of the customer?
 - Yes
- Free insurance on sale of car?
 - ???
- Interest free loans?
 - ???

???

- Schemes from Company to Distributor to Dealer
 - Yes
- Bad Debts w/o?
 - ???
 - S. 194 R–provided; s.41(1)–obtained

S. 28 / 41

- S. 28(iv) – value of any benefit or perquisite, whether convertible into money or not Arising from carrying out of business or profession
- S. 41(1) (a) - has obtained, whether in cash or in any other manner whatsoever, any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount obtained by such person or the value of benefit accruing to him

S. 194R

- Any person
- Responsible for providing
- To a resident
- Any benefit or perquisite, whether convertible into money or not
- Arising from carrying out of business or profession by such resident

Financial Statements Including Changes in Schedule III

AS

- **Companies (Accounting Standards) Rules, 2021 notified vide notification dated 23.06.2021**
- **These have replaced Companies (Accounting Standards) Rules, 2006**
- **Effective for accounting periods commencing on or after 1st April, 2021**

AS Applicability for Companies other than Ind AS

- Effective for Accounting Periods from 1.4.2021

Conditions	SMC			Other than SMC	
	Existing	Revised		Existing	Revised
Turnover (excluding other Income) in PY	< 50 Cr	< 250 Cr		> 50 Cr	> 250 Cr
Borrowing (including public deposit)	< 10 Cr	< 50 Cr		>10 Cr	> 50 Cr

SMC Disclosure

- **For FS upto 31.3.2021** - "The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 2013. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company."
- **For FS from 1.4.2021** - "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."
- Two year wait period if change from Non-SMC to SMC

AS Applicability for Non-Companies

- Effective for Accounting Periods from 1.4.2020
- Instead of 3 levels.. Now 4 levels

Level	Turnover			Borrowing	
	Existing	Revised		Existing	Revised
I (Large)	> 50 Cr	> 250 Cr		> 10 Cr	> 50 Cr
II (Medium)	1-50Cr	50-250 Cr		1-10 Cr	10-50 Cr
III (Small)	< 1 Cr	10-50 Cr		< 1 Cr	2-10 Cr
IV (Micro)		< 10 Cr			< 2 Cr

MSME Disclosure - Non Corporate


- **“The Entity is a Micro Small and Medium Sized Enterprise (MSME) as per the announcement made by ICAI and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.”**
- **Two year wait period if change from Level I to II or II to III or III to IV**

AS Applicability

AS No.	Short Title	Companies		Non - Companies			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
1	Accounting Policies	Y	Y	Y	Y	Y	Y
2	Inventories	Y	Y	Y	Y	Y	Y
3	Cash Flow	Y	N/Y	Y	N	N	N
4	Events after Balance Sheet date	Y	Y	Y	Y	Y	Y
5	Prior Period Items & Policies	Y	Y	Y	Y	Y	Y
6	Depreciation (Omitted w.e.f. 30.3.16)	NA	NA	NA	NA	NA	NA
7	Construction	Y	Y	Y	Y	Y	Y
9	Revenue	Y	Y	Y	Y	Y	Y
10	Property, Plant & Equipment	Y	Y	Y	Y#	Y#	Y#
11	Foreign Exchange	Y	Y	Y	Y	Y#	Y#
12	Government Grants	Y	Y	Y	Y	Y	Y
13	Investments	Y	Y	Y	Y	Y	Y#
14	Amalgamations	Y	Y	Y	Y	Y	N
15	Employee Benefits	Y	Y#	Y	Y#	Y#	Y#

AS Applicability

AS No.	Short Title	Companies		Non - Companies			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
16	Borrowing Cost	Y	Y	Y	Y	Y	Y
17	Segment	Y	N	Y	N	N	N
18	Related Party	Y	Y	Y	Y	N	N
19	Leases	Y	Y#	Y	Y#	Y#	Y#
20	Earning Per Share	Y	Partly	N	N	N	N
21	Consolidation	N/Y	N/Y	(listed)	N	N	N
22	Deferred Taxes	Y	Y	Y	Y	Y	Partly
23	Consolidated Statements	N/Y	N/Y	(listed)	N	N	N
24	Discontinuing Operation	Y	Y	Y	Y	N	N
25	Interim Reporting	Y (listed)	N*	N	N	N	N
26	Intangible Assets	Y	Y	Y	Y	Y	Y#
27	Interest in Joint Ventures	N/Y	N/Y	(listed)	N	N	N
28	Impairment	Y	Y#	Y	Y#	Y#	N
29	Contingency	Y	Y#	Y	Y#	Y#	Y#



Formats of Financial Statements for Non-corporate Entities

Balance Sheet

Name of the Non-Corporate Entity.....

Balance Sheet as at

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) (DD/MM/YYYY)
	1	2	3	4
I.	EQUITY AND LIABILITIES			
	(1) Owners' Fund			
	(a) Owners Capital Account			
	(b) Reserves and surplus			
(2)	Non-current liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) _____ (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) _____ (DD/MM/YYYY)
	(c) Other Long Term Liabilities			
	Long-term provisions			
(3)	Current liabilities			
	(a) Short-term borrowings			
	(b) Trade payables:- (A) total outstanding dues of micro, small and medium enterprises and (B) total outstanding dues of creditors other than micro, small and medium enterprises .			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
II.	ASSETS			
(1)	Non-Current Assets			
	(a) Property, Plant and Equipment & Intangible assets			
	(i) Property, Plant and Equipment			
	(ii) Intangible assets			

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) _____ (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) _____ (DD/MM/YYYY)
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investment			
	(c) Deferred tax assets (net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
(2)	Current assets			
	(a) Current investments			
	(b) Inventories			
	(c) Trade receivables			
	(d) Cash and bank balances			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

STATEMENT OF PROFIT AND LOSS

CA. Pramod Jain

Name of the Non-Corporate Entity.....

Statement of Profit and loss for the year ended

(Rupees in.....)

	Particulars	Note	Figures for the current reporting period (in rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)	Figures for the previous reporting period (in Rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)
	1	2	3	4
I.	Revenue from operations		xxx	Xxx
II.	Other income		xxx	Xxx
III.	Total Income (I + II)		xxx	Xxx
IV.	Expenses			
(a)	Cost of Goods Sold			
(b)	Employee benefits expense		xxx	Xxx
(c)	Depreciation and amortization expense		xxx	Xxx
(d)	Finance Cost		xxx	Xxx
(e)	Other expenses		xxx	xxx

	Particulars	Note	Figures for the current reporting period (in Rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)	Figures for the previous reporting period (in rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)
	Total expenses		xxx	xxx
V	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI	Exceptional items		xxx	xxx
VII	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII	Extraordinary Items		xxx	xxx
IX	Profit before tax (VII- VIII)		xxx	xxx
X	Tax expense:			
(i)	Current tax		xxx	xxx
(ii)	Deferred tax		xxx	xxx
XI	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII	Profit/(loss) from discontinuing operations		xxx	xxx
XIII	Tax expense of discontinuing operations		xxx	xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)		xxx	xxx
XV	Profit/ (Loss) (XI + XIV)		xxx	xxx

SCHEDULE III

- ❖ **Division I**
 - ❖ **Companies (Accounting Standard) Rule 2021**
- ❖ **Division II**
 - ❖ **Ind AS**
- ❖ **Division III**
 - ❖ **NBFC – Ind AS**

CHANGES – B/S

- ❖ Rounding-Off – Turnover to Total Income
- ❖ Heading of PPE corrected
 - II. ASSETS
 - Non-current assets
 - (1) (a) Property, Plant & Equipment and Intangible assets
 - (i) ~~Tangible assets~~ Property, Plant & Equipment
- ❖ Promoters' shareholding & changes during the year
- ❖ “Current Maturities of Long term borrowings” reclassified as Short Term Borrowings instead of Current Liabilities

CHANGES – B/S

- ❖ Security Deposits reclassified as Other Non-current assets instead of Long-Term Loans & advances
- ❖ Ageing:
 - ❖ Trade Payables – MSME / Disputed / Unbilled dues
 - ❖ Trade Receivable – Disputed / Doubtful / Unbilled Dues
 - ❖ CWIP / Intangible Asset under Development – In Progress / temporarily suspended - overdue or has exceeded its cost compared to its original plan CWIP separately (ageing of to be completed)
- ❖ PPE / Intangible Asset Reco. - amt of change due to revaluation (if change is 10% or more in aggregate of net carrying value of each class of PPE) added

CHANGES – B/S

- ❖ Title deeds of Immovable Property not held in name of the Company – Includes ...if held in name of promoter, director or relative of promoter / director or employee of promoter / director – **CARO – Cl. – 1(c)**
 - ❖ PPE
 - ❖ Investment Property
 - ❖ PPE held for sale
 - ❖ Stock in trade not covered

CHANGES – B/S

- ❖ In case of revaluation of PPE – valuation by a registered valuer – **CARO – Cl. – 1(d)**
- ❖ Benami Property – to be given only where any proceedings have been initiated or pending against the company – **CARO – Cl. – 1(e) – whether co. disclosed**

CHANGES – B/S

- ❖ Where Company has borrowings from banks or FIs against current assets- **CARO – Cl. 2(b) – 5 Cr sanctioned WC**
 - ❖ Quarterly returns filed are in agreement with books of accounts
 - ❖ If not, summary of reconciliation & reasons of material discrepancies –
 - ❖ Sanctioned but not utilized.. Still to be given
 - ❖ To be given ..even if security of Current asset is of other entity

CHANGES – B/S

- ❖ Loans or Advances **in nature of loans granted** to promoters, directors, KMPs & related parties (Companies Act) either severally or jointly– **CARO – Cl. – 3(f)**:
 - ❖ Repayable on demand or
 - ❖ Without specifying any terms / period of repayment...
 - ❖ Along with % to total advances – AS 18, S. 186(4)
 - ❖ Consider relationship on date of loan – show in aggregate
 - ❖ Outstanding amount on date of B/s

CARO – CL- 3

- (f) whether co. has granted any loans or advances in nature of loans **either repayable on demand or without specifying any terms or period of repayment**, if so,
 - specify aggregate amount,
 - % thereof to total loans granted,
 - aggregate amt of loans granted to Promoters, related parties as defined in s. 2(76) –
- **Check in Notes to Schedule III**

CHANGES – B/S

- ❖ Details where a company is a declared wilful defaulter by any bank / FI / other – **CARO – Cl. - 9(b)**
- ❖ Where company has not used borrowings from banks & FIs for specific purpose for which it was taken at B/S date - Details of where used – **CARO – Cl. – 9(c)**
– **For TL only**
 - ❖ To disclose when such borrowings are outstanding at B/s date
 - ❖ One to one relationship not to be established

CHANGES – B/S

- ❖ Details of utilisation of Borrowed funds & share premium – **CARO – Cl. 9(e) + Rule 11(e)**
 - ❖ Where company has advanced.. 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:
 - ❖ 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
 - ❖ provide any guarantee, security or the like to or on behalf of Ultimate Beneficiaries
- ❖ Similar – where company has borrowed....

CHANGES – B/S

❖ Ratios along with line items included in numerator & denominator - explanation variation > 25% - CARO (19)

1. Current Ratio
2. Debt-Equity Ratio
3. Debt Service Coverage Ratio
4. Return on Equity Ratio
5. Inventory turnover ratio
6. Trade Receivables turnover ratio
7. Trade payables turnover ratio
8. Net capital turnover ratio,
9. Net profit ratio,
10. Return on Capital employed
11. Return on investment.

CL. 19 – CARO 2020

- ❖ Whether auditor is of opinion that **no material uncertainty exists as on date of audit report that company is CAPABLE OF MEETING ITS LIABILITIES EXISTING AT DATE OF B/S as and when they fall due within a period of 1 year from b/s date**
- ❖ On basis of:
 - ❖ Financial ratios
 - ❖ Ageing and Expected dates of realisation of financial assets & payment of financial liabilities
 - ❖ Other information accompanying FS
 - ❖ Knowledge of BOD & Management plans

CHANGES – B/S

- ❖ Relationship with struck-off Company – Investment, Drs, Crs, Shareholders, Others
 - ❖ If restored before approval of FS – not to be given
- ❖ Any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof.
- ❖ Compliance with number of layers of companies
- ❖ Compliance with approved Scheme(s) of Arrangements – accounting in books of account 'in accordance with the Scheme' and 'in accordance with accounting standards' and deviation, if any

CHANGES – PL

- ❖ Total Revenue – Total Income
- ❖ Revenue from operations to include - Grants or donations received (relevant in case of s. 8 co. only)
- ❖ Undisclosed income - not recorded in books of a/cs which are surrendered or disclosed as income during the year under Income Tax, unless immunity under scheme - also whether previously unrecorded income & related assets have been properly recorded in books of a/c during the year. – **CARO – Cl. (8)**
- ❖ Details where the Company has traded or invested in Crypto currency or Virtual Currency

CHANGES – PL

✦ Corporate Social Responsibility (CSR) – CARO – Cl. 20

1. Amount required to be spent during the year,
2. Amount of expenditure incurred,
3. Shortfall at the end of the year,
4. Total of previous years shortfall,
5. Reason for shortfall,
6. Nature of CSR activities,
7. Details of related party transactions
8. 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.

CHANGES – DIV II & III

- ❖ Mostly same as Division I
- ❖ In Financial Liabilities – addition of Lease Liabilities
- ❖ Statement for Changes in Equity substituted – additional disclosure in changes in equity due to prior period errors and restated balance at the beginning of the reporting year – also disclose the same for the previous reporting period. Also details of other equity for prior reporting period.
- ❖ Fair Value of Investment Property, Revaluations by RV only – **CARO – Cl.- 1**

CHANGES – III

- Ratios for NBFCs :
 1. Capital to risk-weighted assets ratio (CRAR)
 2. Tier I CRAR
 3. Tier II CRAR
 4. Liquidity Coverage Ratio

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