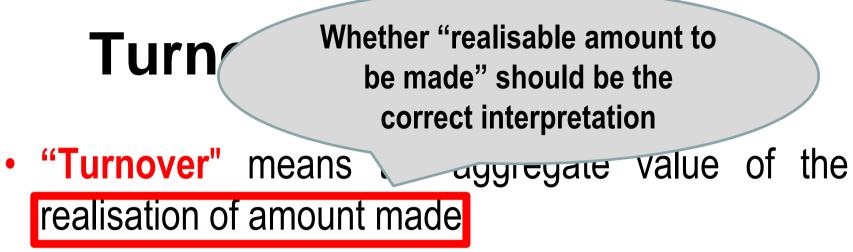
## CARO, 2015 (Notified on 10<sup>th</sup> April, 2015)

#### By: CA Kamal Garg [B. Com(H), FCA, DISA (ICAI), LLB]

## Applicability

- Applicable to foreign companies defined u/s 2(42);
- Not Applicable to:
  - 1. Banking Company
  - 2. Insurance Company
  - 3. Section 8 Company
  - 4. Private Company, if:
    - i. (Paid up Capital + Reserves) <= Rs. 50 Lacs; <u>AND</u>
    - ii. Outstanding Loan <= Rs. 25 Lacs; <u>AND</u>
    - iii. Turnover <= Rs. 5 Crores

at any point of time during the financial year.



- 1. from the sale, supply or distribution of goods; or
- 2. on account of **services** rendered; or

#### 3. both,

by the company during a financial year

# Question

- ABC Private Limited has provided the following information for the financial year 2014-2015:
  - 1. Total sales turnover6 cr.
  - 2. Amount realised from sales turnover 4.5 cr.
  - 3. Paid up share capital40 L
  - 4. Outstanding Loans from Bank/ F.I. 15 L Advise whether CARO, 2015 is applicable on ABC Private Limited

## Applicability

- Not Applicable to:
  - 5. One Person Company [Sec. 2(62)];
  - 6. Small Company [Sec. 2(85)]: a Company having:
    - a) Paid up share capital < 50 lakhs [5 cr.]; and
    - b) Turnover as per last P & L < 2 cr. [20 cr.]
- Following do not qualify as a Small Company:
  - a) Public company;
  - b) Holding or a subsidiary company;
  - c) Section 8 Company;
  - d) Co. or body corporate governed by any special Act

# Question

- ABC Private Limited has provided the following information for the financial year 2014-2015:
  - 1. Total sales turnover2 cr.
  - 2. Paid up share capital

40 L

## **Rule of Interpretation:**

Expressio unis est exclusio alterius

#### Clause 3(i): Fixed Assets

- Proper Record maintenance for quantity & location;
- Physical Verification at reasonable intervals
- Material discrepancies properly dealt in Books;
- Substantial part of fixed assets disposed, if yes, Whether Going Concern affected

**Clause 3(ii): Inventories** 

- Physical verification at Reasonable intervals
- Procedure of physical verification is Reasonable
- Proper records maintained
- Material discrepancies properly dealt in Books

## **CARO vis-à-vis Section 189 Parties**

- Clause 3(iii) [(a) (b)] : Loans (secured/ unsecured) Granted
- Number of parties covered u/s 189 register and amount involved
- Receipt of principal and interest whether regular
- Terms and conditions are prejudicial
- Reasonable steps taken to recover in case overdue amount > Rs. 1 lac.

Clause 4 (III) [(e) (g)] : Leans Taken

- Number of parties and amount involved
- Terms and Conditions Prejudicial

**Clause 4 (V) : Section 301 Contracts or Arrangement** 

- Completion of entries in Register
- Transaction > Rs. 5 lacs are Reasonable

## CARO vis-à-vis Internal Control and Internal Audit System

- **Clause 3(iv): Internal Control Procedures**
- In respect of:
  Purchase of inventory and fixed assets;
  Sale of goods and services;
- Commensurate with the size of the company and nature of its business – Identify major weaknesses, if any.
- Continuing failure to correct major weakness

#### Clause 4 (VII) : Internal Audit (Applicability??)

• Commensurate with nature & size of business

#### CARO vis-à-vis Statutory Dues and Financial Dues

#### Clause 3(vii): Undisputed Statutory Dues

- Statutory dues to be deposited regularly
- Identification of undisputed amount
- Amounts involved in dispute not deposited and the forum (mere representation before a Forum not a dispute)
- T/f to IEPF whether made in time
  Clause 3(ix): Default in repayment of dues
- What constitutes Default;
- Coverage: Financial Institutions, Banks, debenture holders;
- principal as well as interest

#### CARO vis-à-vis Term Loans and Other Loans

#### Clause 3(xi) : Application of Term Loans

- Generally beyond 36 months and predetermined purpose (capital expenditure)
- Actual utilisation of term loans
- One to One correlation not necessary
- Purpose to be stated (actual (+) pending utilisation)

Clause 4 (XVII): Application of Funds – Short-Term

Preparing movement of funds – Source and

**Application** 

# CARO vis-à-vis Sick Company

#### Clause 3(viii): Sick Company

- Reporting about following required if company has been registered 
   <u>> 5 years</u>;
- Accumulated Losses > 50% of Net Worth
  - Computation of Accumulated Losses

Computation of Net Worth & Adjust Qualification

• Cash Losses in C.Y. and P.Y.

#### Clause 3(v) : Public Deposits

- Compliance with RBI Directives, Sec 58A, 58AA -Examination of System;
- Order if any issued by NCLT/ CLB/ RBI whether complied with

#### Clause 3(vi) : Cost Records

• Proper cost records as prescribed u/s 148(1)

**Clause 4 (XII) : Adequacy of Documents w.r.t. shares/** 

debentures/ other securities

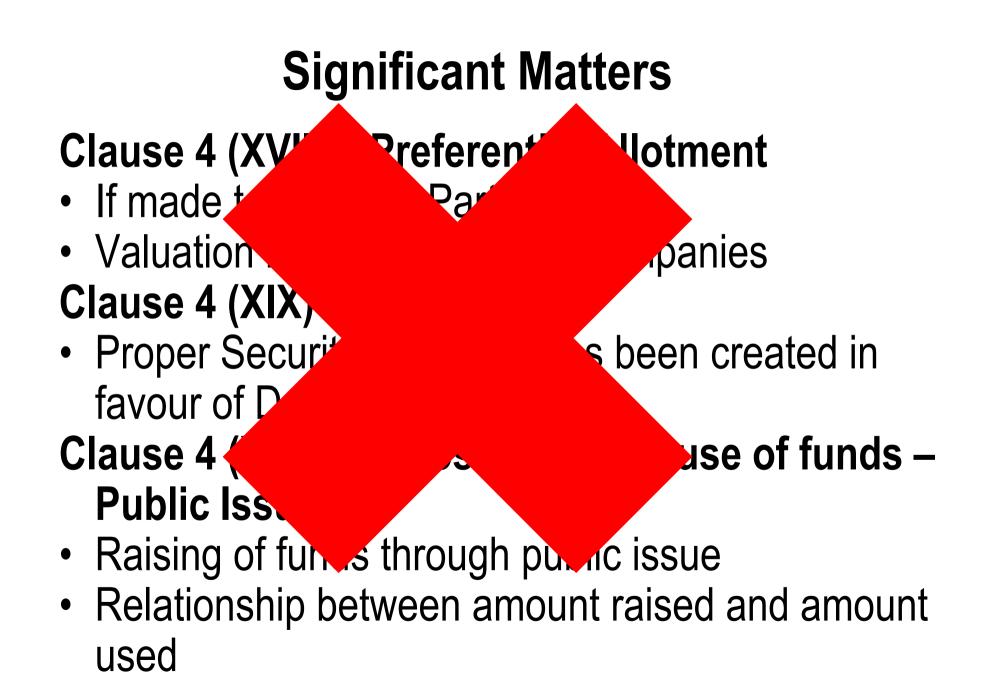
 Maintaining adequate records for loans and advances given on security of above

#### Clause 4 (XIII) : Chit Fund Companies

- NOF/ Deposits Liability > 1:20;
- Compliance with Prudential Norms
- Adequate procedures for credit worthiness appraisals;
- Repymt Schedule vis-à-vis borrower's repymt capacity
- Clause 4 (XIV) : Companies dealing in shares, etc.
- Proper records

# Clause 3(x): Guarantees for loans taken by others from bank or financial institutions

- All guarantees are recorded properly
- Terms and conditions are not prejudicial to interests of company



#### Clause 3(xii): Frauds

- Fraud on or by the Company noticed or reported during the year;
- If yes, then indicate the nature and the amount involved
- Audit Plan to conform with SA 240;
- Reports of Internal Audit;
- Enquiries made to management

# **Thank You**

## CA Kamal Garg cakamalgarg@gmail.com, 9811054015