Taken from **Handbook on Company Balance Sheet and Profit & Loss Account**
published by Bharat Law House Private Limited

CHAPTER 27: REPORTING UNDER MSMED ACT, 2006

Section 22 of the Micro Small and Medium Enterprises Development Act, 2006 (MSMED Act) prescribes the requirement to specify unpaid amount with interest in the annual statement of accounts. The provisions of this section are as follows:

Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:-

(i) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;

(ii) the amount of interest paid by the buyer in terms of section 18, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;

(iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;

(iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under Income Tax Act.

CLASSIFICATION OF ENTERPRISES FOR MSMED ACT:

"Enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services;

As per Section 7 of the MSMED Act, 2006, the Central Government may, for the purposes of this Act, by notification classify any class or classes of enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership firm, company or undertaking, by whatever name called:

(A) In the case of the enterprises engaged in the manufacture or production of goods as:

(i) a **micro enterprise**, where the investment in plant and machinery does not exceed twenty five lakh rupees;

(ii) a **small enterprise**, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or

(iii) a **medium enterprise**, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(B) In the case of the enterprises engaged in providing or rendering of services as:

(i) a **micro enterprise**, where the investment in equipment does not exceed ten lakh rupees;

(ii) a **small enterprise**, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or

(iii) a **medium enterprise**, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees

For the removal of doubt, it is hereby clarified that in calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items as may be specified, by notification, shall be excluded.

Classification at a glance

Category of Enterprises	**Enterprises engaged in manufacturing or producing goods**	**Enterprises engaged in providing or rendering services**
	Investment in Plant & Machinery	Investment in Equipments
Micro Enterprises	<= Rs. 25 Lakhs	<= Rs. 10 Lakhs
Small Enterprises	> Rs. 25 Lakhs <= Rs. 5 Crores	> Rs. 10 Lakhs <= Rs. 2 Crores
Medium Enterprises	> Rs. 5 Crores <= Rs. 10 Crores	> Rs. 2 Crores <= Rs. 5 Crores

Where a buyer contravenes the provisions of section 22, he shall be punishable with a fine which shall not be less than rupees ten thousand [Section 27 (2)].

MSMED ACT VIS-À-VIS AUDITOR:

MSMED Act requires the buyers to make disclosures in the annual accounts. *Does this mean that the Auditor has no duty to verify these disclosures?* Obviously, the auditor is very much required to ensure the compliance of various provisions (for example, provision of interest under section 16, disclosures required under section 22, etc.) of the MSMED Act. This is evident from Auditing and Assurance Standard (AAS) 21, “Consideration of Laws and Regulations in an Audit of Financial Statements.” The salient features of this AAS are given below:

When planning and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognise that the *non-compliance* by the entity with the laws and regulations may materiality affect the financial statements. The term ‘**non-compliance**’ as used in this AAS refers to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws or regulations. However, non-compliance does not include personal misconduct of the employees or management of the entity. It is to be noted that sometimes, non-compliance of relevant rules and regulations may be subject to different interpretations and in such a case the auditor may take help of legal experts.

This AAS applies to audits of financial statements and does not apply to other engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

It is the management’s responsibility to ensure that the entity’s operations are conducted in accordance with the laws and regulations. The responsibility for the prevention and detection of non-compliance rests with the management.

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The auditor is not, and cannot be held responsible for preventing non-compliance. The fact that an audit is carried out, may, however, act as a deterrent. The auditor should plan and perform the audit recognising that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with the laws and regulations. In order to plan the audit, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with the framework.

The auditor should also obtain sufficient appropriate audit evidence about the compliance with those laws and regulations generally recognised by the auditor to have an effect on the determination of material amounts and disclosures in the financial statements. The auditor should obtain a written representation from the management that it has disclosed all the known actual or possible non-compliance with the laws and regulations whose effects should be considered when preparing financial statements. In the absence of the evidence to the contrary, the auditor is entitled to assume that the entity has complied these laws and regulations.

The auditor should document the findings as to non-compliance and discuss them with the management. When adequate information about the suspected non-compliance cannot be obtained, the auditor should consider the effect of lack of audit evidence on the auditor's report. The auditor should also consider the implications of no-compliance in relation to other aspects of the audit, particularly regarding management representations.

The non-compliance may be communicated by the auditor to (i) the management; (ii) the users of the auditor's report on the financial statements; and (iii) the regulatory and enforcement authorities.

The auditor may either seek legal advice or consider withdrawal from the engagement if he concludes that the highest authority of the entity is involved in the non-compliance (this will effect the reliability of management's representation) or the entity does not take the remedial action that is necessary in the circumstances.

SPECIMEN DISCLOSURES:

- *Maruti Udyog Limited (Year ending March 31st, 2007)*

The Balance due to Small Scale Enterprises as at March 31, 2007 is Rs. 176 Million (Amount due less than 30 days). A sum of Rs. 1 Million due to these enterprises is under reconciliation as at March 31, 2007. The Company pays its vendors within 30 days and no interest during the year has been paid or is payable under the terms of The Micro, Small and Medium Enterprises Development Act, 2006.

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- *TATA Steel (Year ending March 31st, 2007)*

a) Sundry creditors [Item No. (a)(i) and (iii) to Schedule K - Page 140] include **Rs. 4.99** crores *(31.3.2006 : Rs. 2.50 crores)*, due to small scale and ancillary undertakings.

b) The list of small scale undertakings to whom amount is outstanding for more than 30 days is as follows :

A.S. GABRI AND SONS
ACHARYA SAFETY SPARES CORPORATION
AIRAUTO INDUSTRIES
ALLIED RUBBER INDUSTRIES
AMBICA ELECTRICALS
AMIN PRINTING PRESS
ANAND ENGG. WORKS
ANANT & COMPANY
ANIL ENGINEERING CO.
APEX ENTERPRISES
ASIAN ENGINEERING CO.
ASSOCIATED CHEMICAL INDUSTRIES
B.C. ENGINEERING WORKS
BALAKRISHNA & CO.
BANSAL ELECTRONICS
BENGAL TECHNOCRATS PVT. LTD.
BHARAT ELECTRICAL REPAIRING WORKS
BHARAT ENGG. CO.
BHARAT ENGINEERS
BHARAT STEEL & METAL INDUSTRIES
BHAVYA INDUSTRIAL CHEMICALS
BHOGAL ENGG. CO.
BIHAR ELECTRIC & REFRIGERATION CO.
BIZEL ELECTROTEC (INDIA) PVT. LTD.
BMC METALCAST LIMITED
BRIJ AUTOMOBILE & GENERAL
CALCUTTA ANODIZING WORKS
CALCUTTA PETRO CHEMICALS
CBC POWER SYSTEM
CONCORD ARAI PVT. LTD.
CONCORD STEEL WORKS
DARSHANLAL & CO.
DARSSHAN PLASTIC
DAS & DAS
DAS ENTERPRISE
DEEPSUN INDUSTRIAL CORPORATION
DHANJAL ENGINEERING WORKS
DIAMOND AUTO & ELECTRIC WORKS
DINESH & CO.
EASTERN DIAMOND PRODUCTS PVT. LTD.
EASTERN MACHINERY WORKS
ELASTOMER LINING WORKS
ELECTRO CHEMICALS
EMPIRE INDUSTRIES
EMPIRICAL TECHNO CRAFT
FOURESS ENGG. (INDIA) LTD.
G.S. CONSTRUCTION CO.
G.S. ENGINEERING WORKS
GENERAL ENGINEERING CO.
GOLCHHA CHEMICAL INDUSTRIES
GOPAL INDUSTRIES
GOURI SHANKAR & CO.
GURUNANAK ENGINEERING WORKS
H. GURU INSTRUMENTS P. LTD.
HANS ENGINEERING CO.
HIND ELECTRICAL AND GENERAL INDUSTRIES
HINDUSTAN ENGINEERING WORKS
HOME INDUSTRIES
HYDROKRIMP A.C. (P) LTD.
INDIA CONSTRUCTION CO.
INDRA ENGINEERS
J.N. MARSHALL ENGG. PVT. LTD.
J.S.T. PLASTS
J. WALTER THOMSON
JAI SUPRABHA PROTECTIVE PRODUCTS
JAIPUR STEEL STRIPS
JAMSHEDPUR SPRING & ENGG. CO. (P) LTD.
JYOTSHNA PRINTING PRESS
KALIMATI INDUSTRIES
KASHMIRA CERAMIC PRODUCTS PVT. LTD.
KWALITY ENGINEERING
L. MADANLAL (ALUMINIUM) LTD.
LAWRENCE & MAYO (INDIA) P. LTD.
LAXMI ENGINEERING & CO.
LECHLER (INDIA) PVT. LIMITED
M.K. ENGINEERS & TRADERS
M.R. ENGINEERING WORKS
MADRAS CUPPRUM METAL
MAHARASHTRA MACHINE
MALLABHUM POLYPACKS (P) LTD.
MANOJ ENTERPRISES
MATHUR ENGG. WORKS
MECHANO RUBBER & ALLIED INDUSTRIES
MICRON ENGG. INDUSTRIES
MIM PACKS
MIM PLASTICS
MODERN PRINTERS.
NAMITA ELECTRIC WORKS
NASCENT DATA AID
NAT STEEL EQUIPMENT PVT. LTD.
NATIONAL INDUSTRIAL APPARELS
NEW ALLENBY ENGG. WORKS
NEW EMPIRE INDUSTRIES
NEW FURNITURE WORKS
NIMPS AGRO FARMS
NORTHERN ENGINEERING COMPANY
OM ENGINEERING WORKS (I) PVT. LTD.
OSTA ENTERPRISES
P.R.T.N. ENGINEERING & CO.
PAL ENGINEERING WORKS
PAPPU ARTS
PEST CONTROL (INDIA) LTD.
PINAK INDUSTRIES
POLY PACK INDIA MANUFACTURING
PURAN SINGH & SONS
QUADRANT EPP SURLON INDIA LTD.
QUALITY ENGINEERING WORKS
R.K. METALICKS PVT. LTD.
M/s. R.N. PANDEY
R.S. ENGINEERING WORKS
RAGHUNATH ENGINEERING INDUSTRIES
RAJ INDUSTRIAL & ENGG. CO.
RAJ TECHNICAL WORKS
REGULAR ENGINEERING COMPANY
REINOL OBSTFELD INDIA
S.K. BHATTACHARJEE & CO.
S.R. ENGINEERING WORKS
S.R. UDYOG
SANDEEP INDUSTRIES
SARAFF RUBBER INDUSTRIES
SARAIWALA SINGH ENTERPRISES
SATISHREE PRESS
SCIENTIFIC & SURGOCA
SERVO INDIA
SHANTI ENTERPRISE
SHERPA FRUIT PRODUCTS
SHILP UDYOG
SHREE PUROHIT ENGINEERING WORKS
SINGH ELECTRIC CO.
SINGHBHUM REFRACTORY
SOLAR DIAMOND
SOUTH BIHAR PLASTICS (P) LTD.
SREE DURGA ELECTRICAL ENGG. WORKS
SUDHIR MFG. CO.
SUNRAJ INDUSTRIES
SUTLEJ ENGINEERING WORKS
SVEDALA INDUSTRIES INDIA
SWARN ENGINEERING WORKS
SYSTEMS AND CONTROLS
TATANAGAR COLD STORAGE CO. PVT. LTD.
TECHNICO
TECHNO ENTERPRISE
TECMEC AND COMPANY
THE WAXPOL INDUSTRIES LTD.
THEJO ENGINEERING SERVICES (P) LTD.
THYRISTORAGE
TOSHNIWAL INDUSTRIES PVT. LTD.
TRANSDUCERS AND ALLIED PRODUCTS
UNITED INDUSTRIES
USHA ENTERPRISE
VIBRO SCREEN INDUSTRIES
VINYAS ENGINEERS
VISHWAKARMA ENGG. & MFG. CO.

The above information has been compiled in respect of parties to the extent to which they could be identified as small scale and ancillary undertakings on the basis of information available with the Company.

c) The Company has not received any memorandum (as required to be filed by the suppliers with the notified authority under the Micro, Small and Medium Enterprises Development Act, 2006) claiming their status as micro, small or medium enterprises. Consequently the amount paid/payable to these parties during the year is nil.