

MSME Reporting

Disclosure Requirements relating to Micro, Small and Medium Enterprises

In the recent years, there has been numerous reporting requirements / compliances / disclosures made mandatory with regard to the transactions with MSME's and many benefits/concessions have been provided to MSME's. In this regard, let us understand how to classify MSME's, reporting/disclosure requirements under the Companies Act, 2013 and Income-tax Act, 1961.

ABOUT MSMEs

The role of a business is to produce and distribute goods and services to satisfy a public need or demand. It also provides jobs enabling more people to buy the goods and services with the money they make.

In India, MSMEs contribute nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports. It won't be wrong to refer them as the 'Backbone of the country.'

MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas.

So, let us first understand about MSMEs and then look at the various reporting requirements.

Understanding MSMEs:

MSMEs are not a type of business organization such as sole-proprietorship, partnership or startup or a company, but a generic term that includes **any organization** when its numbers show that it is of a **smaller scale** and is **registered** as an MSME. So, it is like grouping grapes, oranges & small watermelons (grouping all small businesses of different kinds together).

MSME Definition:

Under the Aatmanirbhar Bharat Abhiyan (ABA), the government revised the MSME classification by inserting composite criteria of both investment and annual turnover. Also, the distinction between the manufacturing and the services sectors under the MSME definition has been removed. This removal will create parity between the sectors. The following is the revised MSME classification, where the investment and annual turnover, both are to be considered for deciding an MSME.

The following table throws light on it:

Revised MSME Classification			
Composite Criteria : Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs 1 cr. And Turnover < Rs 5 cr.	Investment < Rs 10 cr. And Turnover < Rs 50 cr.	Investment < Rs 50 cr. And Turnover < Rs 250 cr.

Importance of MSMEs:

MSMEs account for nearly 95% of all the industrial units of our country and 50% of our total exports. When they grow, the economy of the country also grows as a whole and flourishes. Out of the 6.33 crore MSMEs in our country, 99.4% are micro, 0.52% are small and only 0.007% are medium enterprises as per 2019 data. The Union Ministry of MSME with an annual budget of Rs 7572 crores, provides facilities for testing, entrepreneurship development and export assistance for MSMEs. **The MSME Development Act, 2006 specifies 45-day credit period for the recipient of any goods or services, to pay the MSME supplier.**

MSME Registration:

- MSME registration is not mandatory. However, registration is easy and offers a lot of benefits to grow the business.
- Only manufacturing and service-oriented businesses can register, while some specified entities are not allowed to get registered as MSMEs.
- Those specified entities not eligible for registration are:
 - Forest & Logging
 - Fishing & Aquaculture
 - Wholesale, retail trade and repair of motor vehicles & motorcycles.
 - Wholesale Trade except for motor vehicles & motorcycles.
 - Retail Trade except for motor vehicles & motorcycles.
 - Activities of households as employees for domestic personnel
 - Undifferentiated goods & services producing activities of private households for own
 - Activities of extraterritorial organization and bodies.
- Registration can be done online or offline by filling a single form, on self-declaration basis, with Aadhaar, PAN card, and GSTIN, if applicable.
- The website for registration is udyamregistration.gov.in and there is no fees for registration. Registration for more than one industry can also be done.
- There is no expiry of the Udyam Certificate provided, as long as the entity is ethical and financially healthy.

Benefits of Registration:

- ✓ Bank loans become cheaper. Also, various tax rebates are offered to MSMEs.
- ✓ The cost of getting a patent done, or the cost of setting up the industry reduces as many rebates and concessions are available.
- ✓ There are many government tenders which are only open to the MSME industries.
- ✓ Businesses registered under MSME are given higher preference for government license and certification.
- ✓ **TReDS** (Trade Receivables Discounting System) is a platform that allows bidding of discount rates that ensures that the MSME gets the best discounting price in the market.
- ✓ MSME Delayed Payment Portal or **MSME Samadhan** was launched to enable the MSMEs to directly register cases about delayed payments by Central Ministries/ CPSEs/ State Govts.

- ✓ **CHAMPIONS** Portal (Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength) is a one-stop-shop solution of MSME Ministry launched recently.

REPORTING ASPECTS:

The MSMED Act, 2006 aims at protecting the interest of MSMEs by giving them privilege to get their payments with in time. The Act is not only giving them a shelter for getting payment but also facilitates them to get many privileges in different areas.

In protecting the interest of MSMEs the Government has made certain compliances/ reporting requirements / disclosures in financial statements and mandatory filings under the Ministry of Corporate Affairs and under the Income-tax Act.

Let us go through the reporting aspects of transactions with MSMEs which are being categorically divided into 3 areas:

As per Ministry of Corporate Affairs:**1. Disclosure to MCA through filing of Forms with Registrar of Companies (ROC):**

MSME Form 1 is a mandatory compliance for specified companies. Specified Companies are types of companies as defined in Section 9 of the Micro, Small and Medium Enterprises Development Act, 2006 {MSMED Act}. These Specified Companies need to fill the MSME Form 1 on a half-yearly basis to the Ministry of Corporate Affairs {MCA}. A half-yearly disclosure of amount due and reason of delay in payment to be filed by all **companies** vide MSME-I form. As per a notification issued by the MCA it has been mandated to file disclosures through Form MSME I by all companies - that satisfy the following two conditions:

Condition 1: Company must have received Goods and/or Services from Micro or Small Enterprise (not Medium Enterprises)

Condition 2: Payment must have been due/not paid, to such Micro or Small Enterprise for 46 days from the date of acceptance or date of deemed acceptance* (*explained at the end of this note*)

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Reporting Requirement:

Under the MCA order, there is a requirement to file initial return and half yearly return. Initial return was one time return required to be filed within 30 days from deployment of form MSME I. The half yearly return is to be filed as follows-

For the half year	Due date
April to September	October 31
October to March	April 30

In the form, for each MSME supplier for whom payment is not made beyond 45 days, the following details are to mentioned, along with reasons for delay:

FY from, FY to, Name of the Supplier, PAN of the Supplier, Amount due, Specify the date from which amount due.

2. Disclosure about Trade Payable vide Schedule-III of Companies Act, 2013:

A detailed disclosure is required under the Schedule to Trade Payable (Creditors) head in Balance Sheet as well as on Notes to Account regarding dues of MSMEs.

The recent amendment made in Schedule III require companies to provide ageing schedule for trade payables due, for the periodicity of 1 year, 1-2-year, 2-3 year & more than 3 years. These include trade payables to MSMEs, disputed dues to MSMEs, and other dues and disputed dues.

For companies, in addition to the disclosures mentioned in the schedule III of the Companies Act, 2013, the following disclosures are to be given in the notes to the financial statements of company, for both current and previous financial years:

1. Principal and Interest amount due to suppliers registered under the MSMED Act and remaining unpaid as at year end.
2. Principal amounts paid, Interest u/s 16 paid (for late payment), Interest other than u/s 16 paid, to suppliers registered under the MSMED Act, beyond the appointed day during the year.
3. Interest due and payable towards suppliers registered under MSMED Act, for payments already made.
4. Further interest remaining due and payable for earlier years.

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As per Central Board of Direct Tax:**3. Disclosure required in Tax Audit Report:**

The Interest paid on delayed payment under section 16 of the MSME act, to be disallowed while calculating income of the assessee and the same to be reported in clause 22 of part B in Form 3CD of Tax audit report.

Provisions of MSMED Act, for protecting the rights of MSMEs:**1. Date of Acceptance or Date of Deemed Acceptance:**

Day of acceptance is defined under explanation to Section 2(b) of the MSMED Act to mean as:

- (a) the day of the actual delivery of goods or the rendering of services;
- (b) where any objection is made in writing by the buyer regarding acceptance of goods or services within 15 days from the day of the delivery of goods or the rendering of services, the day on which such objection is removed by the MSME supplier.

Further, the day of deemed acceptance means where no objection is made in writing by the buyer regarding acceptance of goods or services within 15 days from the day of the delivery of goods or the rendering of services, the day of the actual delivery of goods or the rendering of services.

2. Maximum credit period allowed to the buyer: (Section 15 of the MSMED Act)

S.No.	Particulars	Maximum credit period allowed
1.	Where there is no agreement between buyer and MSME supplier.	Payment of amount shall be made before appointed day. (Appointed day is the day following immediately after expiry of 15 days from the day of acceptance or deemed acceptance of goods or services.)
2.	Where the credit period agreed upon in writing is 45 days or less.	Payment shall be made on or before the date agreed in writing.
3.	Where the credit period agreed upon in writing is more than 45 days	Payment shall be made within 45 days from the date of acceptance or deemed date of acceptance.

3. Interest on Delayed Payments: (Section 16 of the MSMED Act)

In case, buyer fails to make payment of amount to the MSME supplier, then the buyer shall be liable to pay compound interest with monthly rest to such supplier at **three times** the bank rate notified by the RBI, from the date of expiry of credit period (as in the above table) to the date of payment. This provision has an overriding effect on the agreement, if any, between the buyer and the MSME supplier.

Also, such interest paid or payable by buyer to the MSME supplier shall not be allowed as deduction under the provisions of Income Tax Act, 1961.

Conclusion:

The Government is emphasizing more on monitoring the financial health of MSME by introducing very stringent rules in respect of transactions entered with MSME. Hence, given the importance of on-time payment to MSME vendors, all enterprises entering into transactions with MSMEs must maintain the same on record in a systematic manner. Also, in the master details of vendors maintained, 'Udyam Registration Number' must be captured for easy reference, by obtaining declaration from all vendors, if they are an MSME or not.
