

**8.1 - APPLICABILITY OF COMPANIES (AUDITOR REPORT) ORDER, 2020****Application of CARO, 2020**

CARO, 2020 shall apply to every company including a foreign company as defined in Sec. 2(42) of the Companies Act, 2013, except:

- (i) a banking company;
- (ii) an insurance company;
- (iii) a company licensed to operate u/s 8 of the Companies Act;
- (iv) a One-Person Company as defined in Sec. 2(62) of the Companies Act and a Small Company as defined in Sec. 2(85) of the Companies Act; and
- (v) a private limited company, not being a subsidiary or holding of a public company,
  - having a Paid-up capital & Reserves & Surplus not more than ₹ 1 Cr. as on the balance sheet date, and
  - which does not have total borrowings exceeding ₹ 1 Cr. from any bank or financial institution at any point of time during the financial year, and
  - which does not have a total revenue as disclosed in Schedule III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding ₹ 10 Cr. during the financial year as per the financial statements.

**Every report made by the auditor u/s 143 of the Companies Act, 2013 on the accounts of every company examined by him to which this Order applies for the financial years commencing on or after 1st April, 2021, shall contain the matters specified in paragraphs 3 and 4, as may be applicable.**

**The Order shall not apply to the auditor's report on consolidated financial statements except Para 3(xxi).**

**Points to remember**

- (a) Provisions of CARO are equally applicable in case of branches also, because under sec. 143(8), a branch auditor has same duties as of company auditor.
- (b) A company if covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.  
**Note: As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:**
  - (i) paid-up share capital of which does not exceed ₹ 4 crore; and
  - (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.
- (c) Paid up capital includes equity as well as preference.
- (d) Amount originally paid up on forfeited shares should be added to the figure of paid-up capital.

- (e) Share Application money should not be considered as part of paid-up capital.
- (f) Reserves includes Capital reserves, revenue reserves as well as Revaluation Reserves.
- (g) Credit Balance of Profit and Loss Account will form part of reserve.
- (h) In case of debit balance of profit or loss, same shall be netted for computing reserves & surplus.
- (i) Loans from banks and financial institutions are to be considered in aggregate. Financial Institutions will include NBFC.
- (j) Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/discounted.
- (k) Non fund-based credit facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.
- (l) Long term loans as well as short term loans, secured as well as unsecured will be considered.
- (m) Outstanding dues in respect of credit cards will also be considered.
- (n) Interest accrued as well as due does form part of outstanding loan, whereas interest accrued but not due is not considered as loan.
- (o) Total revenue as disclosed in Schedule III comprises of Revenue from operations and Other Income.
- (p) In respect of a company other than a finance company revenue from operations shall consists of revenue from (a) Sale of products; (b) Sale of services; and (c) Other operating revenues, as reduced by Excise duty.
- (q) In respect of a finance company, revenue from operations shall consists of revenue from (a) Interest; and (b) Other financial services.
- (r) Other income shall consist of the followings:
  - Interest Income (in case of a company other than a finance company);
  - Dividend Income;
  - Net gain/loss on sale of investments;
  - Other non-operating income (net of expenses directly attributable to such income).

### IMPORTANT QUESTIONS

**Q. No. 1: Astha Pvt. Ltd. has fully paid capital of ₹ 140 lakh. During the year, the company had borrowed ₹ 15 lakh each from a bank and a financial institution independently. It has the turnover (Net of GST ₹ 50 lakhs which is credited to a separate account) of ₹ 475 lakhs during the immediately preceding financial year. Will CARO, 2020 be applicable to Astha Pvt. Ltd.?**

**HINT:** CARO is not applicable as Astha Pvt. Ltd. is a small company.

**Q. No. 2: E-Tech Pvt. Ltd., which has an aggregate outstanding loan of ₹ 20 lakhs from Banks and ₹ 30 lakhs from Financial Institutions, defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditor's Report) Order, 2020 is not applicable.**

**You are required to state the list of companies to which CARO is not applicable and state how would you deal with the given situation as an auditor of the company.**

**HINT:** Contention of the E-Tech Pvt. Ltd., is correct that CARO, 2020 will not be applicable on it as outstanding loan from banks and financial institution in aggregate does not exceeds ₹ 1 Cr.

**Q. No. 3:** A Pvt. Ltd., had issued shares (fully paid-up) of ₹ 80 lakhs, had borrowed ₹ 60 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 100 lakhs which is credited to a separate account) is ₹ 950 lakhs during immediately preceding financial year. Will Companies (Auditor's Report) Order, 2020 (CARO) be applicable to A Pvt. Ltd.?

**HINT:** CARO is not applicable as A Pvt. Ltd. is a small company.

**Q. No. 4:** As an auditor, how would you deal with the following: L Private Ltd., which has outstanding loan of more than ₹ 100 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditors Report) Order is not applicable.

**HINT:** Contention of L Pvt. Ltd. is not correct as borrowings from financial institution exceeds ₹ 1 Cr., and auditor is required to report the period and amount of default in repayment of dues under Para 3(viii) of CARO, 2020.

**Q. No. 5:** T Pvt. Ltd.'s paid up Capital & Reserves are less than ₹ 1 Cr. and it has no outstanding loan exceeding ₹ 1 Cr. from any bank or financial institution. Its sales for the immediately preceding financial year was ₹ 12 Crores before deducting Trade discount ₹ 20 lakhs and Sales returns ₹ 90 Cr. The services rendered by the company amounted to ₹ 20 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss.

**HINT:** CARO is not applicable as T Pvt. Ltd. is a small company.

**Q. No. 6:** A Private limited company reports the following position as at end of current financial year:

Paid up capital	60 Lacs
Revaluation reserves	20 Lacs
Capital reserves	22 Lacs
P & L A/c (Dr. Balance)	4 Lacs.

The management of the company contends that CARO, 2020 is not applicable to it.

**HINT:** CARO is not applicable as company falls under the category of small company. It is assumed that turnover of the company for immediately preceding financial year does not exceed ₹ 40 crore.

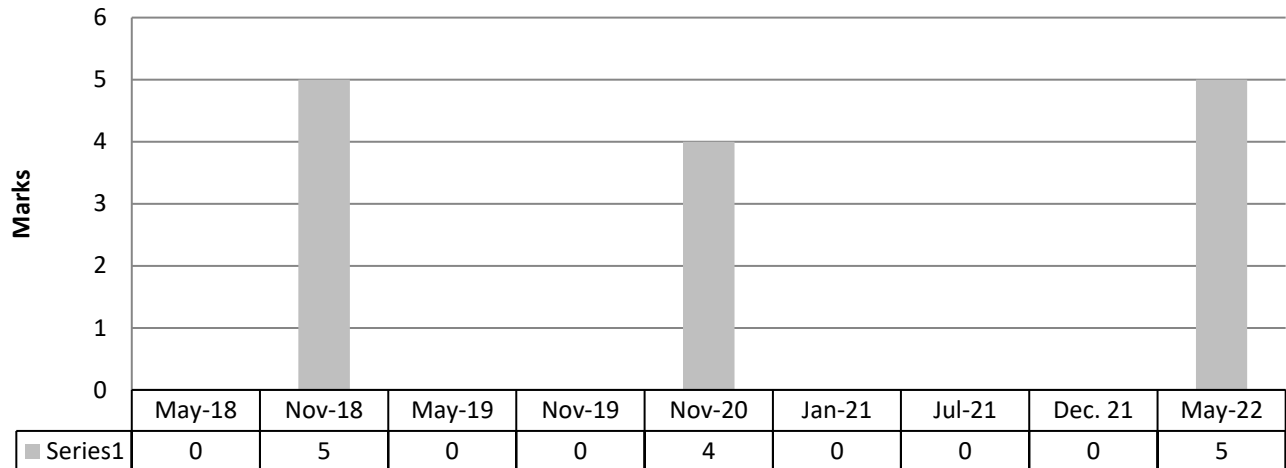
**Q. No. 7:** Under CARO, 2020, how as a statutory auditor would you comment on the following: X Pvt. Ltd. is a subsidiary of a listed entity. The management of the company believes that since X Pvt. Ltd. is a private company and satisfies all conditions under CARO, 2020, reporting under CARO is not applicable.

**HINT:** CARO is applicable as exemption is not available to a private company which is a subsidiary or holding of a public company.

**Q. No. 8:** H Private Ltd. had taken overdrafts from two banks with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 36 lacs. The said loans were outstanding as at the end of current financial year. The paid-up capital and reserves of the company as at the end of financial year was ₹ 80 lacs and its revenue for the immediately preceding financial year was ₹ 6 crores. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.

**HINT:** CARO is not applicable as H Pvt. Ltd. is a small company.

Marks Distribution of Past Exams



*\*From May 2019, Marks are given only for Descriptive Questions.*

### 8.1 - Applicability of CARO, 2020

**Q.1** Astha Pvt. Ltd. has fully paid capital of ₹ 140 lakhs. During the year, the company had borrowed ₹ 15 lakhs each from a bank and a financial institution independently. It has the turnover (Net of GST ₹ 50 lakhs which is credited to a separate account) of ₹ 475 lakhs during the immediate preceding financial year. Will Companies (Auditor's Report) Order, 2020 be applicable to Astha Pvt. Ltd.?

**Ans.: Applicability of CARO over a Private Company:**

- The Companies (Auditor's Report) Order, 2020, exempts a Small Company as defined in Sec. 2(85) of the Companies Act, 2013.
- As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:
  - (i) paid-up share capital of which does not exceed ₹ 4 crore; and
  - (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.
- In the present case, both paid-up capital and turnover of the company is within the threshold limits as specified above, hence Astha Pvt. Ltd. will be classified as a small company.

**Conclusion:** CARO is not applicable over Astha Pvt. Ltd. as it is a small company.

**Q.2** E-Tech Pvt. Ltd., which has an aggregate outstanding loan of ₹ 20 lakhs from Banks and ₹ 30 lakhs from Financial Institutions, defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditor's Report) Order, 2020 is not applicable.

**You are required to state the list of companies to which CARO is not applicable and state how would you deal with the given situation as an auditor of the company.**

**Ans.: Applicability of CARO, 2020:**

- The Companies (Auditor's Report) Order (CARO), 2020, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfils all the following conditions:
  - (i) its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and
  - (ii) its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and
  - (iii) its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements.
- In the instant case the total borrowings do not exceed ₹ 100 Lakhs during the year, reporting under CARO is not required.

**Conclusion:** Contention of the E-Tech Pvt. Ltd., is correct that CARO, 2020 will not be applicable on it as outstanding loan from banks and financial institution in aggregate does not exceeds ₹ 1 Cr.

**Note:** It is assumed here that company is not a small company within the meaning of Sec. 2(85) of Companies Act, 2013.

**Q.3 A Pvt. Ltd., had issued shares (fully paid-up) of ₹ 80 lakhs, had borrowed ₹ 60 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 100 lakhs which is credited to a separate account) is ₹ 950 lakhs during immediately preceding financial year. Will Companies (Auditor's Report) Order, 2020 (CARO) be applicable to A Pvt. Ltd.?**

**Ans.: Applicability of CARO, 2020:**

- The Companies (Auditor's Report) Order, 2020, exempts a Small Company as defined in Sec. 2(85) of the Companies Act, 2013.
- As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:
  - (i) paid-up share capital of which does not exceed ₹ 4 crore; and
  - (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.
- In the present case, both paid-up capital and turnover of the company is within the threshold limits as specified above, hence A Pvt. Ltd. will be classified as a small company.

**Conclusion:** CARO is not applicable over A Pvt. Ltd. as it is a small company.

**Q.4 As an auditor, how would you deal with the following: L Private Ltd., which has outstanding loan of more than ₹ 100 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditor's Report) Order (CARO) is not applicable.**

**Ans.: Applicability of CARO, 2020:**

- The Companies (Auditor's Report) Order (CARO), 2020, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfils all the following conditions:
  - (i) its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and
  - (ii) its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and

	<p>(iii) its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements.</p> <ul style="list-style-type: none"> <li>• In the instant case the total borrowings exceed ₹ 100 Lakhs out of which company defaults in repayment to the extent of 50%. As borrowings exceeds ₹ 1 Cr. during the year, reporting under CARO is required.</li> <li>• Para 3(ix) of CARO, 2020 requires the auditor to comment whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and amount of default to be reported.</li> </ul> <p><b>Conclusion:</b> Contention of L Pvt. Ltd. is not correct as borrowings from financial institution exceeds ₹ 1 Cr., and auditor is required to report the period and amount of default in repayment of dues under Para 3(viii) of CARO, 2020.</p> <p><b>Note:</b> It is assumed here that company is not a small company within the meaning of Sec. 2(85) of Companies Act, 2013.</p>								
Q.5	<p><b>T Pvt. Ltd.'s paid-up Capital &amp; Reserves are less than ₹ 1 cr. and it has no outstanding loan exceeding ₹ 1 Cr. from any bank or financial institution. Its sales for the immediately preceding financial year was ₹ 12 crores before deducting Trade discount ₹ 20 lakhs and Sales returns ₹ 1.90 Cr. The services rendered by the company amounted to ₹ 20 lakhs. The company contends that reporting under Companies (Auditor's Report) Order (CARO) is not applicable. Discuss.</b></p> <p><b>Ans.: Applicability of CARO, 2020:</b></p> <ul style="list-style-type: none"> <li>• The Companies (Auditor's Report) Order, 2020, exempts a Small Company as defined in Sec. 2(85) of the Companies Act, 2013.</li> <li>• As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company: <ul style="list-style-type: none"> <li>(i) paid-up share capital of which does not exceed ₹ 4 crore; and</li> <li>(ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.</li> </ul> </li> <li>• In the present case, both paid-up capital and turnover of the company is within the threshold limits as specified above, hence A Pvt. Ltd. will be classified as a small company.</li> </ul> <p><b>Conclusion:</b> CARO is not applicable over T Pvt. Ltd. as it is a small company.</p>								
Q.6	<p><b>A Private limited company reports the following position as at end of current financial year:</b></p> <table> <tr> <td><b>Paid-up capital</b></td><td><b>60 Lacs</b></td></tr> <tr> <td><b>Revaluation reserves</b></td><td><b>20 Lacs</b></td></tr> <tr> <td><b>Capital reserves</b></td><td><b>22 Lacs</b></td></tr> <tr> <td><b>P &amp; L A/c (Dr. Balance)</b></td><td><b>4 Lacs</b></td></tr> </table> <p><b>The management of the company contends that CARO, 2020 is not applicable to it.</b></p> <p><b>Ans.: Applicability of CARO, 2020:</b></p> <ul style="list-style-type: none"> <li>• The Companies (Auditor's Report) Order, 2020, exempts a Small Company as defined in Sec. 2(85) of the Companies Act, 2013.</li> <li>• As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:</li> </ul>	<b>Paid-up capital</b>	<b>60 Lacs</b>	<b>Revaluation reserves</b>	<b>20 Lacs</b>	<b>Capital reserves</b>	<b>22 Lacs</b>	<b>P &amp; L A/c (Dr. Balance)</b>	<b>4 Lacs</b>
<b>Paid-up capital</b>	<b>60 Lacs</b>								
<b>Revaluation reserves</b>	<b>20 Lacs</b>								
<b>Capital reserves</b>	<b>22 Lacs</b>								
<b>P &amp; L A/c (Dr. Balance)</b>	<b>4 Lacs</b>								



	<ul style="list-style-type: none"> <li>(i) paid-up share capital of which does not exceed ₹ 4 crore; and</li> <li>(ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.</li> </ul> <ul style="list-style-type: none"> <li>• In the present case, paid-up capital is within the threshold limits as specified above.</li> </ul> <p><b>Conclusion:</b> Assuming that that turnover of the company for immediately preceding financial year does not exceed ₹ 40 crore, CARO is not applicable over A Pvt. Ltd. as it will be covered within the exceptions being a small company.</p>
Q.7	<p><b>Under CARO, 2020, how as a statutory auditor would you comment on the following: X Pvt. Ltd. is a subsidiary of a listed entity. The management of the company believes that since X Pvt. Ltd. is a private company and satisfies all conditions under CARO, 2020, reporting under CARO is not applicable.</b></p> <p><b>Ans.: Applicability of CARO, 2020:</b></p> <ul style="list-style-type: none"> <li>• The Companies (Auditor's Report) Order (CARO), 2020, applies to all companies including foreign companies except certain companies which are specifically exempted.</li> <li>• CARO, 2020 exempts private limited companies not being a subsidiary or holding of a public company, from its application which fulfils certain conditions.</li> <li>• In the present case M/s X Pvt. Ltd. is a subsidiary of a listed entity and its management believes that the company satisfies all conditions as required under CARO, 2020.</li> </ul> <p><b>Conclusion:</b> Exemption from CARO is not available to a private company which is a subsidiary of a public company. Hence contention of the management that company being a private limited company and satisfies all the conditions required for exemption, is not correct.</p>
Q.8	<p><b>H Private Ltd. (not a small company) had taken overdrafts from two banks with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 36 lacs. The said loans were outstanding as at end of current financial year. The paid-up capital and reserves of the company as at the end of financial year was ₹ 80 lacs and its revenue for the immediately preceding financial year was ₹ 6 crores. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.</b></p> <p><b>Ans.: Applicability of CARO, 2020:</b></p> <ul style="list-style-type: none"> <li>• The Companies (Auditor's Report) Order, 2020, exempts a Small Company as defined in Sec. 2(85) of the Companies Act, 2013.</li> <li>• As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:             <ul style="list-style-type: none"> <li>(i) paid-up share capital of which does not exceed ₹ 4 crore; and</li> <li>(ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.</li> </ul> </li> <li>• In the present case, both paid-up capital and turnover of the company is within the threshold limits as specified above, hence A Pvt. Ltd. will be classified as a small company.</li> </ul> <p><b>Conclusion:</b> CARO is not applicable over H Private Ltd. as it is a small company.</p>

## Chapter - 8 "CARO, 2020"

① Applicability of CARO, 2020: CARO, 2020 — shall apply to — Every Company + Foreign company

↓ Exceptions

- (i) Banking companies
- (ii) Insurance company
- (iii) Sec. 8 Company
- (iv) OPC and Small company
- (v) Pvt. Ltd. Co. [Hls - x - Public Company]

- ✓ → PUC + RES  $\leq$  1 Cr ; and (Bls date)
- ✓ → Aggregate - lts Borrowings  $\leq$  1 Cr ; and (any point of time)
- ✓ → Total Revenue - Sch III  $\leq$  10 Cr (during the FY)

Small Company: 2(85) of Companies Act, 2013

↳ A company other than a public company.

PUC → upto 4 Cr. ✓

+

Tlo for immediate → upto 40 Cr.  
preceding FY ✓

✓ Once a company is classified as a small company, reporting under CARO, 2020 will not be required even if it falls under any of the criteria specified for Private Company.



Example - FY 2022-23 ✓

PUC	PUC	R&S	Borrowings	Tlo for immediate	Total Revenue
31.03.22	31.03.2023	31.03.2023	↓ FY 2022-23	preceding FY	for the year ↓ (FY 2022-23)
↓	↓	↓	↓	2021-22 ↓	↓
3 Cr.	3 Cr.	0.50 Cr.	2 Cr.	25 Cr.	11 Cr.

Sol: As PUC and Tlo are within the threshold limits, company will be a Small Company for FY 2022-23

Conditions as specified for Private limited company are not fulfilled.

Reporting under CARO, 2020 will not be required as it is a small company.

Situation

Info. is given only for <u>Current year</u>	Info. is given for <u>preceding FY</u>	Info. is given for <u>Both years</u>
↓	↓	↓
$PUC + R \leq 1 Cr.$	Answer to be based on	Answer → <u>Prt. Ltd. Concept</u>
$Borrowings \leq 1 Cr.$	Concept of small company	<u>+ Small co.</u>
✓ Total Revenue > 10 Cr.		↓
↓		[Conclusion → Small co.]

Answer: CY → CARO applicable

Note: Concept of small company is not

applied as info. for preceding year is not given.

CY 2022-23				CARO	FY 2021-22		whether small co.	CARO applicability.
PUC	RES	Borrowings	Total Revenue		PUC	T/o		
① 40 lakh	30 lakh.	(2 Cr)	9 Cr	Applicable	3 Cr.	30 Cr.	YES	CARO Not applicable. - Small company
② 2 Cr.	2 Cr.	90 lakh.	9.90 Cr.	Applicable	5 Cr.	35 Cr.	No	CARO Applicable
③ 5 Cr.	2 Cr.	8 Cr.	35 Cr.	Applicable	3.90 Cr. PUC-CY 5 Cr.	39 Cr.	YES	CARO not applicable - Small company
④ -	-	-	-	-	< 4 Cr	< 40 Cr	YES	CARO Not applicable
					< 4 Cr	> 40 Cr	NO	CARO applicable
⑤ 90 lakh.	20 lakh.	120 lakh.	11 Cr.	Applicable	-	-		

May 2022 (Inter) →

2(a)

CARO applicable.

$$PUC + R = 31.03.2021 \rightarrow 1.20 Cr$$

FY 21-22 → loss 25 lakh.

Borrowings : 55 lakh each - Bank and a F.I. | During the year

T/o : 850 lakh [ 250 lakh - Discontinuity op ]

Small co. - data not available. FY PUC < 4 Cr T/o < 40 Cr

Sep. 22 (MTP-Final) - MCQ-3 -

$$PUC + R = 150 lakh [ PUC = 90 lakh : FY 20-21 ]$$

FY 21-22 : 80 lakh (A)

FY 20-21 → 1850 lakh.

140 lakh (B) - Repaid -

Small co. ✓