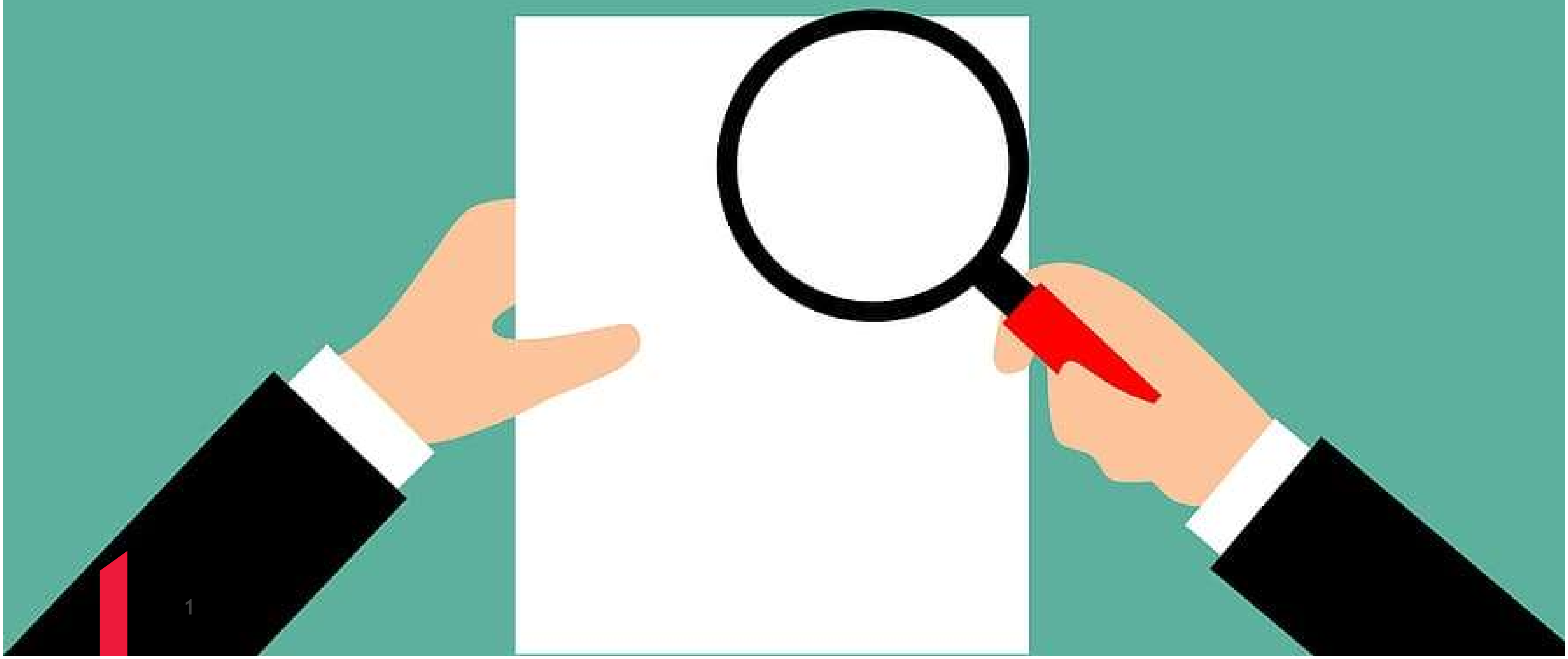
Accounting Standards for Non Company Entities

CA Padmashree Crasto



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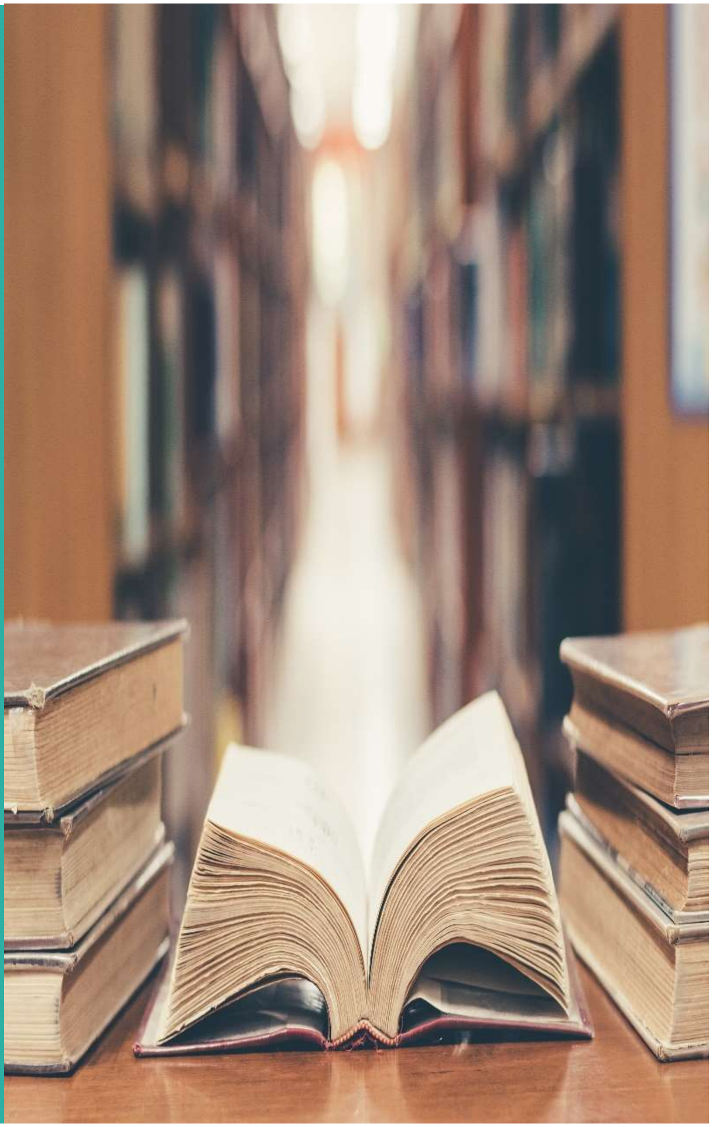
APPLICABILITY OF ACCOUNTING STANDARDS (AS) TO NON-COMPANY ENTITIES

ICAI has announced on 31st March 2021 the matter relating to applicability of AS, to Non-company entities (Enterprises).

The announcement supersedes the earlier Announcement of the ICAI on 'Harmonisation of various differences between the AS issued by the ICAI and the AS notified by the Central Government' issued in February 2008, to the extent it prescribes the criteria for classification of Non-company entities and applicability of AS to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-company entities' issued in January 2013.

The scheme for applicability of AS to Non-company entities shall come into effect in respect of accounting periods commencing on or after **April 1, 2020.**

CRITERIA FOR CLASSIFICATION OF NON-COMPANIES ENTITIES



CRITERIA FOR CLASSIFICATION OF NON-COMPANIES ENTITIES

Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV			
Level I entities are large size entities	Level II entities are medium size entities (MSME)	Level III entities are small size entities (MSME)	Level IV entities are micro entities (MSME)
The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively.			

CLASSIFICATION OF NON-COMPANIES ENTITIES

Level I Entities

Non-company entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees 250 crore in the immediately preceding accounting year.

All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees 50 crore at any time during the immediately preceding accounting year.

Holding and subsidiary entities of any one of the above.

CLASSIFICATION OF NON-COMPANIES ENTITIES

Level II Entities

Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees 50 crore but does not exceed rupees 250 crore in the immediately preceding accounting year

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All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees 10 crore but not in excess of rupees 50 crore at any time during the immediately preceding accounting year.

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Holding and subsidiary entities of any one of the above.

CLASSIFICATION OF NON-COMPANIES ENTITIES

Level III Entities

Non-company entities which are not covered under Level I and Level II but fall in any one or more of the following categories are classified as Level III entities:

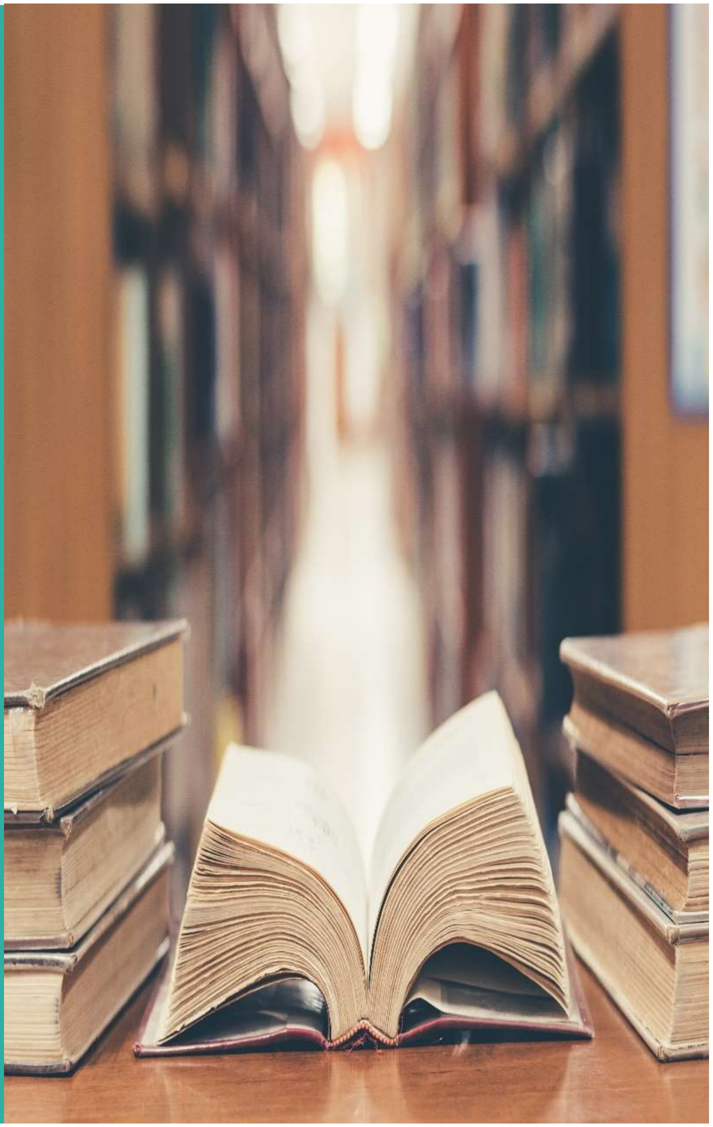
All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees 10 crore but does not exceed rupees 50 crore in the immediately preceding accounting year.

All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees 2 crore but does not exceed rupees 10 crore at any time during the immediately preceding accounting year.

Holding and subsidiary entities of any one of the above.

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

AS APPLICABILITY CHARTS



AS APPLICABILITY CHART

Level I entities are required to comply with all the AS.

AS No.	Level II	Level III	Level IV
AS 1	Applicable	Applicable	Applicable
AS 2	Applicable	Applicable	Applicable
AS 3	Not Applicable	Not Applicable	Not Applicable
AS 4	Applicable	Applicable	Applicable
AS 5	Applicable	Applicable	Applicable
AS 7	Applicable	Applicable	Applicable
AS 9	Applicable	Applicable	Applicable
AS 10	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption

AS APPLICABILITY CHART

Level I entities are required to comply with all the AS.

AS No.	Level II	Level III	Level IV
AS 11	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 12	Applicable	Applicable	Applicable
AS 13	Applicable	Applicable	Applicable with disclosures exemption
AS 14	Applicable	Applicable	Not Applicable (Refer Note 2(C)
AS 15	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions
AS 16	Applicable	Applicable	Applicable
AS 17	Not Applicable	Not Applicable	Not Applicable
AS 18	Applicable	Not Applicable	Not Applicable

AS APPLICABILITY CHART

Level I entities are required to comply with all the AS.

AS No.	Level II	Level III	Level IV
AS 19	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	Not Applicable	Not Applicable	Not Applicable
AS 21	Not Applicable (Refer Note 2(D))	Not Applicable (Refer Note 2(D))	Not Applicable (Refer Note 2(D))
AS 22	Applicable	Applicable	Applicable only for current tax related provisions (Refer note 2(B)(vi))
AS 23	Not Applicable (Refer Note 2(D))	Not Applicable (Refer Note 2(D))	Not Applicable (Refer Note 2(D))
AS 24	Applicable	Not Applicable	Not Applicable

AS APPLICABILITY CHART

Level I entities are required to comply with all the AS.

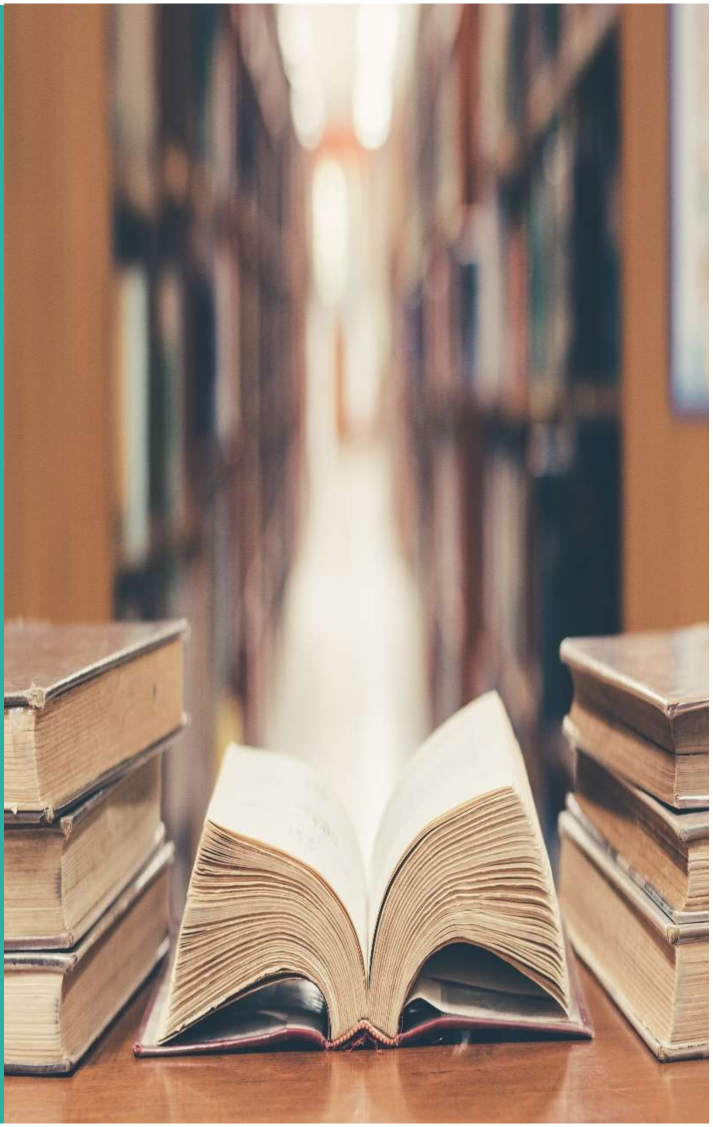
AS No.	Level II	Level III	Level IV
AS 26	Applicable	Applicable	Applicable with disclosures exemption
AS 27	Not Applicable (Refer Note 2(C) and 2(D))	Not Applicable (Refer Note 2(C) and 2(D))	Not Applicable (Refer Note 2(C) and 2(D))
AS 28	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

AS APPLICABILITY CHART - NOTES

Note 2(C) - In case of Level IV Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Level IV Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

Note 2(D) - AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

AS RELAXATIONS / EXEMPTIONS LISTS



AS 10 PROPERTY PLANT & EQUIPMENTS

Paragraph 87 - Encouraged Disclosure: An enterprise is encouraged to disclose the following:

- the carrying amount of temporarily idle PPE;
- the gross carrying amount of any fully depreciated PPE that is still in use;
- for each revalued class of PPE, the carrying amount of the assets if they are carried under cost model;
- the carrying amount of PPE retired from active use and not held for disposal.

The above disclosure is not applicable to Level III and Level IV Non-Company Entities.

AS11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Para 44 - Encouraged disclosure for enterprise's foreign currency risk management policy - The enterprise are required to disclose foreign currency risk management policy.
However, this disclosure is not applicable to level III and Level IV Non-company entities.

AS 13- ACCOUNTING FOR INVESTMENTS

Para 35(f) - Other disclosures as specifically required by the relevant statute governing the enterprise - Entities are required to make other specific disclosure as required by relevant statute, laws etc.
However, this disclosure is not applicable to level IV Non-company entities.

AS 15 EMPLOYEE BENEFITS

Level II and Level III Non-company entities whose average number of employee during the year is 50 or more are exempted from the applicability of:

a. Para 11 to 16 – (Recognition and measurement of short-term accumulating compensated absences which are non-vesting),

b. Para 46 to 139 – (Discounting of amounts that fall due more than 12 months after the balance sheet date),

c. Para 50 to 116 – (Recognition and measurement of post employment defined benefit obligation) and Para 117 to 123 – (Presentation and disclosure requirement of post employment defined benefit obligation, asset and cost)

d. Para 129 to 131 – (Recognition and measurement of other long term employee benefits).

AS 15 EMPLOYEE BENEFITS

Level II and Level III Non-company entities whose average number of employee during the year is less than 50 and Level IV Non-company entities irrespective of number of employees are exempted from the applicability of:

a. Para 11 to 16 – (Recognition and measurement of short-term accumulating compensated absences which are non-vesting),

b. Para 46 to 139 – (Discounting of amounts that fall due more than 12 months after the balance sheet date),

c. Para 50 to 116 – (Recognition and measurement of post employment defined benefit obligation) and Para 117 to 123 – (Presentation and disclosure requirement of post employment defined benefit obligation, asset and cost)

d. Para 129 to 131 – (Recognition and measurement of other long term employee benefits).

AS 19 LEASES - PARAGRAPH 22 :

The lessee is required to make the following disclosures for finance leases:

c. Reconciliation between minimum lease payments at the balance sheet date and their present value.

In addition, an enterprise should disclose the above reconciliation for each of the following periods:

i. not later than 1 year

ii. later than year not later than 5 years

iii. later than 5 years

e. The total of future minimum sublease payments expected to be received under non cancellable subleases at the balance sheet date

f. A general description of the lessee's significant leasing arrangements including but not limited to the following:

i. the basis on which contingent rent payments are determined

ii. the existence and terms of renewal or purchase options and escalation clause restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing

The above disclosures are not applicable to Level II, Level III and Level IV entities.

AS 19 LEASES - PARAGRAPH 25 :

The lessee is required to make the following disclosures for operating leases:

a. the total of future minimum lease payments under non cancellable operating lease for each of the

following periods:

i. not later than 1 year

ii. later than year not later than 5 years

iii. later than 5 years

b. The total of future minimum sublease payments expected to be received under non cancellable subleases at the balance sheet date

f. A general description of the lessee's significant leasing arrangements including but not limited to the following:

i. the basis on which contingent rent payments are determined

ii. the existence and terms of renewal or purchase options and escalation clause

iii. restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing

The above disclosures are not applicable to Level II, Level III and Level IV entities.

AS 19 LEASES - PARAGRAPH 37 :

The lessor is required to make the following disclosures for finance leases:

a. Reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date.

In addition, an enterprise should also make the above disclosure for each of the following periods:

i. not later than 1 year

ii. later than year not later than 5 years

iii. later than 5 years

f. a general description of significant leasing arrangements of the lessor

g. Accounting policy adopted in respect of initial direct costs

Level II entities is not required to comply with 37 (a) and (f).
Level III and Level IV entities are not required to comply with above disclosures.

AS 19 LEASES - PARAGRAPH 46 :

The lessor is required to make the following disclosures for operating leases:

b. the future minimum lease payments under non cancellable operating leases in the aggregate for each of the following periods:

i. not later than 1 year

ii. later than year not later than 5 years

iii. later than 5 years

d. a general description of lessor's significant leasing arrangements

e. Accounting policy adopted in respect of initial direct costs

Level II entities is not required to comply with 46 (b) and (d).
Level III and Level IV entities are not required to comply with above disclosures.

AS 22 ACCOUNTING FOR TAXES ON INCOME

Following requirements of AS 22 are applicable to Level IV Non-Company entities

Para 4.4 which defines current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.

Recognition as per Para 9 - Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.

Measurement as per Para 20 - Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.

Presentation and disclosure as per Para 27 to 28 which states, An enterprise should setoff assets and liabilities representing current tax.

Transitional Requirement

On the first occasion when a Non-company entity gets classified as Level IV entity, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves.

AS 26 INTANGIBLE ASSETS

Para 90. The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible asset:

(d) a reconciliation of the carrying amount at the beginning and end of the period showing:

(iii) Impairment losses recognised in the statement of profit and loss during the period (if any);

(iv) Impairment losses reversed in the statement of profit and loss during the period (if any);

Para 98. An enterprise is encouraged, but not required, to give a description of any fully amortised intangible asset that is still in use.

The above disclosure is not applicable to Level IV entities.

AS 28 IMPAIRMENT OF ASSETS

(a) Level II and Level III Non-company entities are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if Level II or Level III Non-company entity chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(b) Para 121(c)(ii): If an impairment loss for an individual asset or a cash generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose: the reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in AS 17, Segment Reporting)

AS 28 IMPAIRMENT OF ASSETS

(c)Para 121(d): for a cash generating unit:

a description of the cash generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in AS 17 or other);

(ii) the amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprise's primary format (as defined in AS 17);

(d) An enterprise is encouraged to disclose key assumptions used to determine the recoverable amount of assets (cash generating units) during the period.

The above (b), (c) and (d) disclosures are not applicable to Level III and Level IV entities.

AS 29 PROVISIONS CONTINGENT LIABILITIES AND CONTINGENT ASSETS

66. An enterprises should disclose for each of provision

a. The carrying amount at the beginning and end of the period

b. Additional provision made during the year

c. Amount used against the provisions

d. Unused amount reversed during the year

67. An enterprise shall also disclose for each class of provisions:

a. A brief description of nature of obligation and the expected timing of any resulting outflows of economic benefits

b. an indication of the uncertainties about those outflows and any major assumptions made concerning future events (if necessary)

c. The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected Reimbursement

The above disclosures are not applicable to Level II, Level III and Level IV entities.

FREQUENTLY ASKED QUESTIONS

FREQUENTLY ASKED QUESTIONS

1. What is the date from which new scheme of classification of non-company entities announced by ICAI as on 31st March 2021 is applicable?

The new scheme of classification will apply from accounting periods commencing from 1st April 2020

2. Whether any changes in applicable Accounting Standards has been done?

No, The ICAI has changed the criteria basis on which a non-company entity will be classified as level I, II, III or IV entity. There has not been any revision to Accounting Standards

3. Whether each non-company entity is required to comply with all Accounting Standards issued by ICAI?

The level of compliance will be dependent on the level under which the respective entity is classified. For e.g., Level I entities are required to comply with all Accounting Standards in entirety whereas level II, III & IV enjoy certain relaxations and exemptions in some Accounting Standards.

4. For the purpose of applicability of Accounting Standards, Non-company entities are classified into how many categories?

For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories viz., Level I, Level II, Level III and Level IV. Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities.

FREQUENTLY ASKED QUESTIONS

5. Whether this classification criteria is applicable to Non-company entities who may be required to follow Indian Accounting Standards (Ind AS) as per relevant regulatory requirements applicable to such entities?

No, the classification criteria are not relevant for entities who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.

6. Whether exemptions given to Level II, III and IV can be applied partially?

The entities are allowed to choose the exemptions they intend to avail. However, such partial availing of exemption should not be misleading. The entity should disclose that the entity has chosen the exemptions and not availed all the exemptions granted to such level.

7. Whether the entity can decide not to avail any exemptions/relaxations available to it?

If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to the said level in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

8. What is the authority attached to the model non-company Financial Statements?

Currently there is no statute which provide for format of Financial Statements of non-company entities. The model non-company Financial Statements are prepared in accordance with generally accepted accounting principles and financial reporting framework applicable in India.

FREQUENTLY ASKED QUESTIONS

9. If the entity was covered in Level II, Level III or Level IV previously but now it has been transited to Level I, in such case, what are the disclosures obligations?

Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.

10. Who can use the model financial statements provided in the publication ?

Any entity which is a non-company entity, to whom the format for preparation of financial statements are not prescribed under any law may prepare the financial statements using these Model Financial Statements. These model financial statements are illustrative in nature, the user can modify it suit specific compliance with laws or regulations or specific requirement.

11. Which are the types of non-company entities who can make use of the Model financial statements for non corporate FS?

Non-Company commercial entities like proprietorship concerns, partnership firm, LLP can make use of the format provided in Model financial statements for non corporate FS.

FREQUENTLY ASKED QUESTIONS

12. Whether it is compulsory to follow the non-company Financial Statements models?

It is not mandatory for an entity to use the Model Financial Statements, but it is advisable to use it since it will facilitate transparency, comparability.

13. Disclosure requirement if the Entities' Turnover reduces and ceased to be that level of entity.

Where an entity has been covered in Level I and subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.

14. Can Entity follow the accounting standards on Voluntary basis even if Exemption has been given for particular clause of the Accounting standards to the entity, i.e., Para No 44 of AS -11- The Effects of Changes in Foreign Exchange Rates?

If an entity desires to disclose information not required to be disclosed pursuant to exemptions or relaxations available to the entity, it shall disclose that information in compliance with the relevant accounting standards.

15. What are the disclosures as per AS 27?

A venturer should disclose the information required in para 51, 52 and 53 in its separate financial statements as well as consolidated financial statements.

FREQUENTLY ASKED QUESTIONS

16. Whether AS 27 Financial Reporting of Interests in Joint Ventures is applicable to Level IV Non-Company Entity?

In case of Level IV Non-Company entities, generally there are no such transactions that are covered under AS 27, therefore, this standard is not applicable to Level IV Non-Company entity. However, if there are any such transactions, these entities shall apply the requirements of the standard.

17. Whether Non-Company entity is required to prepare consolidated or interim financial statements?

AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-Company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-Company entity is required or elects to prepare and present consolidated financial statements or interim financial reporting.

18. Does the non-company entity which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME?

An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it 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.

FREQUENTLY ASKED QUESTIONS

19. What is the duty of an Auditor in case Financial Statements prepared on a basis other than accrual?

With regard to the fundamental accounting assumption of accrual, the Council has made a specific announcement that in respect of (a) Sole proprietary concerns/individuals, (b) Partnership firms, (c) Societies registered under the Societies Registration Act, (d) Trusts, (e) Hindu undivided families and (f) Association of persons, the auditor should examine whether the financial statements have been prepared on accrual basis.

In case where the statute governing the enterprise requires the preparation and presentation of financial statements on accrual basis but the financial statements have not been so prepared, the auditor should qualify his report.

On the other hand where there is no statutory requirement for preparation and presentation of financial statements on accrual basis, and the financial statements have been prepared on a basis other than 'accrual', the auditor should describe in his audit report, the basis of accounting followed, without necessarily making it a subject matter of a qualification. In such a case the auditor should also examine whether those provisions of the AS which are applicable in the context of the basis of accounting followed by the enterprise have been complied with or not and consider making suitable qualifications in his audit report accordingly. (Paragraph 10.18 of Guidance Note on Tax Audit under section 44AB of the Income Tax Act, 1961)

FREQUENTLY ASKED QUESTIONS

20. Who can use the Cash Accounting System ?

As per the "Framework for Preparation and Presentation of Financial Statements" issued by Accounting Standards Board of the ICAI the financial statements are required to be prepared on accrual basis. However, Professionals who have been using a cash accounting system as per section 145 of the Income Tax, 1961 can prepare the books of account based on such a system.

21. What depreciation rates can a non - corporate entity use for preparation of books of accounts or can the rates differ from those given under Income Tax Act 1961?

A non-corporate entity can use the rates of depreciation provided as per income tax act, 1961 or can use the useful life provided under schedule II of the Companies Act, 2013 or it can use any rate of depreciation derived based on internal assessment or technical assessment of useful life of individual assets. However, for income tax return purposes, the rates as specified under Income Tax Act, 1961 are required to be used.

22. Whether UDIN is required for Non-Corporate entities which are not subject to Audit?

UDIN is required to be generated for the Audit Report of the Financial Statements of Non-Corporate entities which are not subject to Audit, prepared in accordance with General Purpose Compliance Framework.

Members are also advised to refer Illustrative 5 given in SA 700 in this regard. (FAQ No. 78 of FAQs on UDIN is

FREQUENTLY ASKED QUESTIONS

23. Is tax auditor required to comply with Accounting Standards while carrying out Tax Audit u/s. 44AB of Non-company entities?

Accounting standards are also applicable in respect of financial statements audited under section 44AB of the Income-tax Act, 1961. Accordingly, members should examine compliance with the mandatory accounting standards when conducting such audit. Therefore, in case of non-compliance with the AS, the chartered accountant should make appropriate qualifications/ disclosures in the audit report. However, such qualifications/disclosures may or may not have any impact on the computation of total income for the purpose of the Act. Similarly, section 145 provides that the AS (IT) notified under that section should be followed by the assessees to whom they are made applicable. It should be noted that the tax auditor auditing accounts under section 44AB is not computing the income but is - (a) reporting on accounts, and (b) reporting on the relevant information furnished in Form No. 3CD. Form No. 3CD vide clause 11(d) requires reporting of the details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss. (Paragraph 10.9 and 10.23 of Guidance Note on Tax Audit under section 44AB of the Income Tax Act, 1961)

FREQUENTLY ASKED QUESTIONS

24. Is Accounting Standards applicable in case of Charitable or religious organisations?

Accounting Standards shall apply in respect of commercial, industrial or business activities of an enterprise. In the case of charitable or religious organisations, AS will not apply if all activities of such organisations are not of commercial, industrial or business nature (e.g. an activity of collecting donations and giving them to flood affected people). In other words, exclusion of an entity from the applicability of the AS would be permissible only if no part of the activity of such entity is commercial, industrial or business in nature.

Even if a very small portion of the activities of an entity is considered to be commercial, industrial or business in nature, then it cannot claim exemption from the application of AS. The AS would apply to all its activities including those which are not commercial, industrial or business in nature. (Paragraph 10.10 of Guidance Note on Tax Audit under section 44AB of the Income Tax Act, 1961)

The publication of Accounting Standards for Non-Company Entities can be accessed on below mentioned path:

http://flipbook.finesse.co.in/books/swiz/mobile/index.html

References

Technical Guide on Financial Statements of Limited Liability Partnerships

https://resource.cdn.icai.org/70861asb56826.pdf

Excel File -

LLP FS

Technical Guide on Financial Statements of Non-Corporate Entities

https://resource.cdn.icai.org/70614asb56545.pdf

Excel File -

Non Co FS

Model Financial Statement for Non- Co. Entitities

https://www.wirc-icai.org/images/publication/Model-Financial-Statement-Final-Book.pdf

Standard on Auditing – AUDIT DOCUMENTATION

Content of the presentation

- SCOPE
- MEANING OF AUDIT DOCUMENTATION
- IMPORTANCE OF DOCUMENTATION
- NATURE & PURPOSE
- FORM CONTENT & EXTENT OF DOCUMENTATION
- TYPE OF AUDIT FILE
- NATURE TIMING & EXTENT OF AUDIT PROCEDURE
- AUDIT DOCUMENTATION OF SMALL ENTITIES
- OWNERSHIP & RETENTION
- REFRENCES TO OTHER SA’s
- POINTS TO BE CONSIDER
- THINGS TO BE KEPT IN MIND

Scope

Auditor's responsibility to prepare audit documentation for an audit

To be adapted to audits of other historical financial information.

Laws & Regulations may establish additional requirements.

Specific documentation requirements of other SA's do not limit application of this SA's.

Meaning of audit documentation

It is maintained at three stages of audit work :

- Audit Planning
- Audit Implementation
- Audit Reporting

It means
record of audit procedures performed,
relevant audit evidence obtained,
conclusions the auditor reached

Essentials of Documentation

Helps in Planning an audit

Assist Supervision and review

Results in Better conceptual clarity, clarity of thought and expression

Facilitates Better understanding and avoid misconception

Supports & evidences work performed and compliance with standards.

Nature & purpose

- Assist engagement team in planning & performing
- Assist in supervision & direction
- Evidence of audit planning & performance as per SAs & LR
- Assist QC review
- Create Accountability
- Record matters of continuing significance

Form & Content of documentation

The size and complexity of the entity	The nature of the audit procedures to be performed	The identified risks of material misstatement. The significance of the audit evidence obtained	The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained	The audit methodology and tools used

Permanent Audit File

Contains those documents, the use of which is not restricted to one time period, and extends to subsequent audits also.

Includes

- MOA & AOA/ Deed/ Bye laws & Regulations in case of Company/ Firm/ Co-operative Society,
- Engagement letter, Communication with previous auditor,
- Organizational Structure of the Client,
- Analytical review, and management letters,
- Legal documents such as prospectuses, leases, sales agreement,
- minutes of the meeting, Copy of audited financial statements along with audit report for the previous 3 years

Current Audit file

Contains those documents which are relevant for that time period of audit.

Routine Audit:

- Opening TB,
- Sales/ purchase vouching,
- Expense/ income vouching,
- Cash/ Bank vouching,
- Debit & credit notes,

ROC Documents:

- Appointment letter of auditors,
- Audit engagement letter, List of directors and shareholders in case of company, List of partners and their PSR in case of firm,
- Statutory Register

Current Audit file (Continued)

Balance Sheet Items:

Share capital- any fresh issue/ buy back/ bonus issue,

Loans- Secured/ unsecured loans,

Statutory liabilities- PF, PT, TDS, VAT/CST, GST,

Fixed assets- additions/deletions of invoices,

Investments- current/ non-current,

Outstanding and prepaid expenses- invoices,

Finalization Papers:

Inter company balance details & confirmation,

CARO checklist,

Tax audit clauses & their working,

Audit adjustment sheet,

Partner review,

Management representation letter,

Signed closing TB,

Current Audit file

Contains those documents which are relevant for that time period of audit.

- Opening Trial Balance
- Sales / Purchase Vouching evidence
- Income / Expenses Vouching Evidence
- Cash and Bank Confirmations as well as tracing
- Debit and Credit Notes
- Any other supporting documents obtained during the course of Audit

Current Audit file (Continued)

- Appointment letter of auditors
- List of directors and shareholders in case of company, List of partners and their Profit Sharing Ratios in case of firm
- Statutory Register
- Forms filled by the Company for creation if Charge
- Forms filled by the Company for appointment / resignation / removal of any Key Managerial Personnel
- Any other correspondence with the ROC

Current Audit file (Continued)

- Share capital- any fresh issue/ buy back/ bonus issue
- Loans sanction letters / approval documents- Secured/ unsecured loans
- Statutory liabilities - PF, PT, TDS, VAT/CST, GST
- Fixed assets- additions/deletions of invoices
- Investments supportings- current/ non-current
- Outstanding and prepaid expenses- invoices

Current Audit file (Continued)

- Inter company balance details & confirmation
- CARO checklist
- Tax audit clauses & their working
- Audit adjustment entries and explanations provided
- Partner review comments and documents
- Management representation letter
- Signed Financial Statements along with Audit Report
- Signed closing TB

Nature timing & extent of audit procedures - documentation

Identifying characteristics of specific items & matter tested

- Create accountability
- Facilitates Investigation of exceptions/ inconsistencies

Who performed and date of completion

Reviewer, date & extent of review

- Does not imply that each working paper should have evidence of review (SA-220).

do’s & Don'ts

Do’s	Don’ts
Enable the conduct of quality control reviews and inspections	Notes that reflect incompleteness
Enable the engagement team to be accountable for its work	Duplicates of documents
Enable analysis of various account balances through comparatives and corroborative.	Previous copies of documents corrected for typographical or other errors
Retain a record of matters of continuing significance to future audits	Oral explanations by the auditor
Enable conduct of external inspections in accordance with applicable legal and regulatory requirements	

Audit documentation of Small Entities

Generally less Extensive

Record various aspects of the audit together in a single document, with cross references to supporting working papers as appropriate

Examples: Understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality

Ownership & Retention

Documentation is the property of the auditor.

He may at his own discretion, make portions of, or extracts from audit documentation available to client.

The auditor must retain engagement documentation for a period of seven years from the date of audit report.

Mandatory things to be documented

- Engagement Letters
- Laws & Regulation applicable to the entity
- Audit committee presentation
- Tracing test
- Client acceptance/ Reacceptance procedures performed
- Critical issues identified and subsequent discussions with the Management
- Management Representation Letter

Mandatory things to be documented
(continued)

- Checklist complying various laws and regulations applicable to the entity
- Documents reviewed by the Seniors
- Risk Assessment documents including Fraud Assessment checklist
- Materiality calculations
- Independence declarations and documents
- Abstracts or copies of significant contracts / agreements
- Minutes of the meeting (Management/ TCWG)

References to other sa's

- SA 220 Quality Control for an Audit of FS
- SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
- SA 260 Communication of Audit Matters with Those Charged with Governance
- SA 299 Responsibility of Joint Auditors
- SA 300 Planning an Audit of Financial Statements
- SA 320 Audit Materiality
- SA 330 The Auditor's Responses to Assessed Risks
- SA 450 Evaluation of Misstatements Identified during the Audit
- SA 610 Using the Work of Internal Auditors
- SA 701 Communicating Key Audit Matters in the Independent Auditor's Report

"Documentation is all pervasive"

Things to be kept in mind

- Audit documentation maybe recorded on paper or on electronic or other media, filing of working papers
- Proper numbering/sequencing of working papers
- Writing of queries in details
- Documentation of resolution of queries - at staff/ senior/ partner Level
- Discussing with seniors on matter of importance
- Working paper to be signed, dated, and approved by relevant level of audit staff
- Importance of depicting the client’s name, file number, accounting period, areas to be checked, audit staff involved.

THANK YOU