

Accounting Standards Applicability for Non- company entities

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ICAI Announcement dated 31.03.21

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ICAI Announcement dated 31.03.21

Applicability of AS to Non-Company Entities (NCEs)

Classification of NCEs

- Level – 1 Large Size Entities
- Level – 2 Medium Size Entities
- Level – 3 Small Size Entities
- Level – 4 Micro Size Entities

Applicability: Accounting period commencing on or after 1st April, 2020

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

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

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

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

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

(v) **Holding and subsidiary** entities of any one of the above.

Level – II Entities

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

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

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

(iii) Holding and subsidiary entities of any one of the above.

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

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

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

(iii) **Holding and subsidiary** entities of any one of the above.

Level 4 Entities: Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

AS Applicability Summary

| | Level 1 | Level 2 | Level 3 |
|--|-----------|--------------------------|-----------------------|
| | Large | Medium | Small |
| Listed | Yes | - | - |
| Banks, FI, Insurance | Yes | - | - |
| Turnover | > 250 Cr. | > 50 Cr. upto 250 Cr. | >10 Cr upto 50 Cr |
| Borrowings | > 50 Cr. | > 10 Cr. upto 50 Cr. | >2 Cr. upto 10 Cr. |
| Holding or Subsidiary of any one of above | Yes | Yes | Yes |

Level 4 Micro : Entities not covered in any of the above level.

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

Para 10.9 of Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961:

AS also apply 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.

FAQ

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

Taxation Audit Quality Review Board

Scope

- Tax Audit
- GST Audit

Selection

- Suo moto
- Reference by regulatory
- Serious irregularities highlighted by media

Accounting Standards Applicability

Level-1: To comply in full with all Accounting Standards

| AS | Particulars | Level II | Level III | Level IV |
|----|--|----------|-----------|----------|
| 1 | Disclosure of Accounting Policies | Yes | Yes | Yes |
| 2 | Valuation of Inventories | Yes | Yes | Yes |
| 3 | Cash Flow Statements | NA | NA | NA |
| 4 | Contingencies and Events Occurring After the Balance Sheet Date | Yes | Yes | Yes |
| 5 | Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies | Yes | Yes | Yes |
| 7 | Construction Contracts | Yes | Yes | Yes |
| 9 | Revenue Recognition | Yes | Yes | Yes |

Accounting Standards Applicability

| AS | Particulars | Level II | Level III | Level IV |
|-----|--|----------|-----------|----------|
| 10 | Property, Plant and Equipment | Yes | Yes (DE) | Yes (DE) |
| 11. | The Effects of Changes in Foreign Exchange Rates | Yes | Yes (DE) | Yes (DE) |
| 12 | Accounting for Government Grants | Yes | Yes | Yes |
| 13 | Accounting for Investments | Yes | Yes | Yes (DE) |
| 14 | Accounting for Amalgamations | Yes | Yes | NA * |
| 15 | Employee Benefits | Yes (E) | Yes (E) | Yes (E) |
| 16 | Borrowing Costs | Yes | Yes | Yes |
| 17 | Segment Reporting | NA | NA | NA |
| 18 | Related Party Disclosures | Yes | NA | NA |
| 19 | Leases | Yes (DE) | Yes (DE) | Yes (DE) |
| 20 | Earnings Per Share | NA | NA | NA |

Accounting Standards Applicability

| AS | Particulars | Level II | Level III | Level IV |
|----|---|----------|-----------|----------|
| 21 | Consolidated Financial Stat. | NA * | NA * | NA * |
| 22 | Accounting for Taxes on Income | Yes | Yes | Yes (R) |
| 23 | Accounting for Investments in Associates in Consolidated FS | NA * | NA * | NA * |
| 24 | Discontinuing Operations | Yes | NA | NA |
| 25 | Interim Financial Reporting | NA * | NA * | NA * |
| 26 | Intangible Assets | Yes | Yes | Yes (DE) |
| 27 | Financial Reporting of Interests in Joint Ventures | NA * | NA * | NA * |
| 28 | Impairment of Assets | Yes (DE) | Yes (DE) | NA |
| 29 | Provisions, Contingent Liabilities and Contingent Assets | Yes (DE) | Yes (DE) | Yes (DE) |

Snapshot of Number of AS Applicable

| Accounting Standards (Nos.) | Level 1 | Level 2 | Level 3 | Level 4 |
|---|-----------|-----------|-----------|-----------|
| Fully Applicable | 27 | 16 | 12 | 8 |
| Not Applicable | 0 | 7 | 9 | 11 |
| Applicable with Disclosure exemptions (DE) | 0 | 3 | 5 | 6 |
| Applicable with exemptions (E) (AS-15) | 0 | 1 | 1 | 1 |
| Applicable for specific provision (R) (AS-22) | 0 | 0 | 0 | 1 |
| Total | 27 | 27 | 27 | 27 |

List of Accounting Standards applicable to All 4 categories of Non-company entities

| Sr. No. | Accounting Standard |
|---------|---|
| 1. | AS 1 Disclosures of Accounting Policies |
| 2. | AS 2 Valuation of Inventories |
| 3. | AS 4 Contingencies and Events Occurring After the Balance Sheet Date |
| 4. | AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies |
| 5. | AS 7 Construction Contracts |
| 6. | AS 9 Revenue Recognition |
| 7. | AS 12 Accounting for Government Grants |
| 8. | AS 16 Borrowing Cost |

List of Accounting Standards entirely not applicable to Level II, III and IV categories of NCEs

| Sr. No. | Accounting Standard |
|---------|---|
| 1. | AS 3 Cash Flow Statement |
| 2. | AS 17 Segment Reporting |
| 3. | AS 20 Earnings Per Share |
| 4. | AS 21 Consolidated Financial Statements |
| 5. | AS 23 Accounting for Investments in Associates in Consolidated Financial Statements |
| 6. | AS 25 Interim Financial Reporting |
| 7. | AS 27 Financial Reporting of Interests in Joint Ventures |

| AS | Particulars | Level II | Level III | Level IV |
|----|-------------------|----------|-----------|----------|
| 15 | Employee Benefits | Yes (E) | Yes (E) | Yes (E) |

(A) Entities whose average number of persons employed during the year is 50 or more

| S. N. | Recognition and Measurement of | Level II and III | Level IV |
|-------|---|------------------|-----------------------|
| 1. | Short term accumulating compensated absences which are not vesting | Exempted | Exempted |
| 2. | - Payment to Defined Contribution Plan - Termination Benefits that falls due more than 12 months after BS date | No Discounting | No Discounting |
| 3. | Post employment: Defined Benefit Plans | PUC Method | Other Rational method |
| 4. | Other long term employee benefits | PUC Method | Other Rational method |

| AS | Particulars | Level II | Level III | Level IV |
|----|-------------------|----------|-----------|----------|
| 15 | Employee Benefits | Yes (E) | Yes (E) | Yes (E) |

(B) Entities whose average number of persons employed during the year is less than 50

| S. N. | Recognition and Measurement of | Level II, III and IV |
|-------|---|-----------------------|
| 1. | Short term accumulating compensated absences which are not vesting | Exempted |
| 2. | - Payment to Defined Contribution Plan - Termination Benefits that falls due more than 12 months after BS date | No Discounting |
| 3. | Post employment: Defined Benefit Plans | Other Rational method |
| 4. | Other long term employee benefits | Other Rational method |

| AS | Particulars | Level II | Level III | Level IV |
|----|--------------------------------|----------|-----------|----------|
| 22 | Accounting for Taxes on Income | Yes | Yes | Yes (R) |

Level IV:

Apply the requirements of AS 22 for Current tax

As defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

Transitional requirements

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 | Particulars | Level II | Level III | Level IV |
|----|----------------------|----------|-----------|----------|
| 28 | Impairment of Assets | Yes (DE) | Yes (DE) | NA |

Level II and III:

- 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.
- If entity opts to measure value in use by not using present value technique, relevant provisions thereof not applicable.

Level III:

- Paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures are not applicable

Disclosure in FS if availed exemptions/relaxations

Fact of being MSME and level

Compliance with Accounting Standards as applicable

Upgrade:- In case entities no longer eligible for exemption that availed in previous period

Downgrade: Entities becoming eligible for relaxation/exemption

Availment of exemption / relaxation for selective Accounting Standard

Availment of selective exemption/relaxation of Accounting Standard

FAQ: Auditor Responsibility

What is the duty of an Auditor in case the accounting standards are not complied with?

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

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

Coming Soon

WIRC Publication on Accounting Standards Applicability for NCEs

Covering:

- o Accounting Standards Applicability
- o Exemptions/Relaxation List
- o Frequently Asked Questions
- o Model Auditor's Report and FS
 - o Model Auditor Report
 - o Model Financial Statements
 - o Balance Sheet
 - o Profit & Loss Account
 - o Cash flow statements
 - o Notes on Accounts
- o Appendix - ICAI Announcement of AS Applicability

Resources

| Sr. No. | Particulars | Location |
|---------|--|---|
| 1. | ICAI Announcement of applicability of Accounting Standards of Non-company entities | https://resource.cdn.icai.org/64269asb51535.pdf |
| 2. | Accounting Standards Quick Referencer for Micro Non-company entities | https://resource.cdn.icai.org/64842asb52105.pdf |
| 3. | Model Financials of Non-corporate entities | https://wirc-icai.org/images/publication/Model-Financial-Statement-Final-Book.pdf |
| 4. | Accounting Standards: Quick Referencer | https://resource.cdn.icai.org/55939asb45327.pdf |
| 5. | Compendium of Accounting Standards | https://resource.cdn.icai.org/56169asb45450.pdf |

Thanks

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