

The Institute of Chartered Accountants of India

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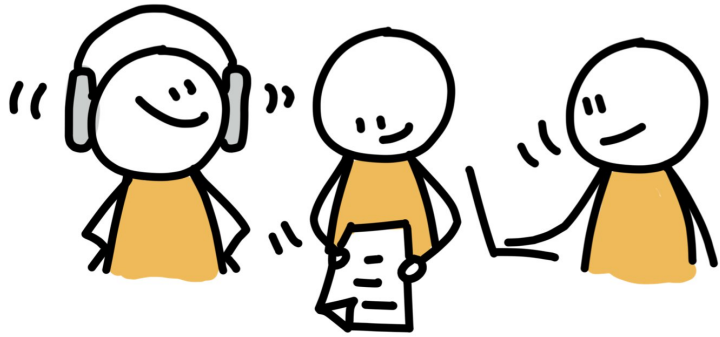
Seminar on New Format of Financial Statements for Non-Corporates and LLP

- Accounting Standards for Small and Medium Enterprises (SMEs)

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Before We Begin...

Quick quiz....

How many accounting standards (Non-Ind AS) are issued as of date?

Name first five accounting standards



"Jagaran Gondhal" refers to a traditional Hindu ritual and folk art form from Maharashtra, India, featuring all-night vigils, songs, and dances in honor of a deity, often performed during religious festivals or celebrations.

"Jagaran Gondhal"

"Gondhal i.e. Chaos"

Formalisation of MSME (MSMEs and Informal Micro Enterprises (IMEs))

Udyam

Total : 6,16,96,523
Udyam : 3,52,42,897
UAP : 2,64,53,626

MSME Udyam Registration Including UAP

R As on 24-03-2025



Udyam

Micro : 6,08,82,743
Small : 7,43,994
Medium : 69,786

MSME Registration By Enterprise Category

R As on 24-03-2025



Udyam

Male : 3,67,06,412
Female : 2,47,48,146
Others : 2,27,850

MSME Registration By Gender

R As on 24-03-2025



Udyam

SC : 64,87,337 , ST : 20,69,374
OBC : 1,92,68,707
Divyangjan : 5,30,067

MSME Registration By Special Focus Groups

R As on 24-03-2025



Udyam

Manufacturing : 1,28,71,820
Service : 2,14,85,530
Trading : 2,73,39,173

MSME Registration By Activity

R As on 24-03-2025



Udyam

Total : 26,27,09,711

Employment Generation

R As on 24-03-2025



Source: MSME Dashboard

Our canvas for today

Accounting Standards for Small and Medium Enterprises (SME)

SME thresholds:

An enterprise shall be classified as micro, small and medium enterprise on the basis of following criteria:

Nature of enterprise	Investment in Plant and Machinery or equipment (Amount in Rs.)	Turnover (Amount in Rs.)
Micro	Not exceeding Rs.1 crore	Not exceeding Rs.5 crore
Small	Not exceeding Rs.10 crore	Not exceeding Rs.50 crore
Medium	Not exceeding Rs.50 crore	Not exceeding Rs.250 crore

Type of entity:

- **Proprietorship**
- **Partnership**
- Limited Liability Partnerships
- Limited Liability Companies
- Other

Our canvas for today

At present, there are three sets of Accounting Standards:

- (i) Indian Accounting Standards (Ind AS) for specified class of companies;
- (ii) Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, for companies other than those following Ind AS;
- (iii) Accounting Standards (AS) prescribed by ICAI for entities other than companies.**

ICAI's classification of enterprises

Level I : Enterprises meeting any of the following :

- Listed or is in the process of listing (India or abroad)
- Banks and Financial Institutions
- Insurance companies
- Turnover exceeds INR 50 crore (excluding other income)
- Borrowing exceeds INR 10 crore (including public deposits)
- Holding/ subsidiary of any one of the above.

Level II : Enterprises meeting any of the following :

- **Turnover between INR 40 lakhs and INR 50 crore (excluding other income)**
- Borrowings between INR 1 crore and INR 10 crore (including public deposits)
- Holding/ subsidiary of any one of the above.

Level III

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

AS - Compliance requirements

Full Exemptions :

Certain standards primarily related to disclosures are fully exempted.

Partial Exemptions :

Some standards have reduced disclosure requirements for SMEs

Exemptions and Relaxations to SMEs

For Level I Enterprises

Required to comply fully with all accounting standards issued by ICAI

For Level II and Level III Enterprises

- Recognition and measurement : No relaxation, full compliance required
- Disclosure requirements : Certain relaxations provided to reduce the reporting burden

List of fully exempted standards for SMEs

Accounting Standards not applicable to Level II and Level III enterprises in their entirety:

- AS 3, Cash Flow Statements
- AS 17, Segment Reporting
- AS 18, Related Party Disclosures
- AS 24, Discontinuing Operations.

Accounting Standards not applicable to Level II and Level III enterprises since the relevant Regulators require compliance with them only by certain Level I enterprises

- 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)

Standards with partial relaxation for SMEs

Accounting Standards in respect of which relaxations from certain disclosure requirements have been given to Level II and Level III enterprises:

- **AS 19, Leases**

Paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e), of AS 19 are not applicable to Level II and Level III enterprises.

- **AS 20, Earnings Per Share (EPS)**

Diluted EPS and information required by paragraph 48 are not required to be disclosed by Level II and Level III enterprises.

- **AS 29, Provisions, Contingent Liabilities and Contingent Assets**

- Paragraph 67 is not applicable to Level II enterprises

- Paragraphs 66 and 67 are not applicable to Level II and Level III enterprises

Compliance needs for SMEs

- GST, TDS, Advance Tax, Provident Fund, Profession Tax – compliance requirements with penal clauses

Vs

- Application of accounting standards

What is our time and attention towards accounting standards?

Relaxations out of exempted / less disclosure requirements

- AS 18, Related Party Disclosures is only applicable to Level I entities
- **AS 1 – Disclosure of Significant Accounting Policies**
 - **Prudence, Substance over form and materiality**
 - 27. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. **If a fundamental accounting assumption is not followed, the fact should be disclosed.**

Typical accounting set up for Proprietorship and partnerships

- Chartered Accountants helping in book-keeping
- Entities have own department working with the help of Chartered Accountants
- Fully outsourced

Challenges ???

- AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 4 Contingencies and Events Occurring After the Balance Sheet Date
- AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- AS 7 Construction Contracts
- AS 9 Revenue Recognition
- AS 10 Property, Plant and Equipment
- AS 11 The Effects of Changes in Foreign Exchange Rates
- AS 12 Accounting for Government Grants

- AS 13 Accounting for Investments
- AS 14 Accounting for Amalgamations
- AS 15 Employee Benefits
- AS 16 Borrowing Costs
- AS 19 Leases
- AS 20 Earnings Per Share
- AS 22 Accounting for Taxes on Income
- AS 25 Interim Financial Reporting
- AS 26 Intangible Assets
- AS 28 Impairment of Assets
- AS 29 Provisions, Contingent Liabilities and Contingent Assets

Challenges for entitiesi.e. opportunities for the Chartered Accountants

- As an employee
- As a virtual CFO or equivalent profiles
- As an outsourced book-keeping agencies
- As an auditor

Going little deeper.... beyond accounting standards

- Pre-transaction role
- Role while transaction is getting entered into
- Post transaction is entered into

Case Study (1)

- Entity is an auto component manufacturer and has a turnover of Rs. 28 Cr.
- It supplies parts to OEMs – domestic and exports
- Retrospective rate changes due to global changes in metal rates is inherent and frequent.
- Rate changes happen sales side as well as buy side
- Domestic supplies are using Direct-on-Line (DOL) mechanism and mostly with Ex-works basis
- Exports are on door delivery basis and using duty drawback schemes
- Rejections in exports are directly scrapped at the customers' sites with an intimation to the entity and appropriate adjustment in the money payable.

Requirement – Assess Accounting Standards implications

Case Study (2)

- Entity is a technology Company having turnover of Rs. 30 Cr.
- It employs 30 people
- Payroll processing is outsourced to an outside agency
- Company has following salary structure mentioned in the appointment letter:
 - Basic
 - Allowances
 - Bonus / incentives (payable annually)
 - Provident Fund
 - Gratuity
 - LTA
 - Mediclaim premium payment by an employer for Rs. 10 lakh cover for each employee
 - Personal accident insurance policy of Rs. 5 lakh
 - Leave encashment up to 30 days

Requirement – Assess applicable Accounting Standards implications

IFRS for SMEs

Applicability of IFRS

Can be applied by entities that do not have public accountability

Provides simplified financial reporting framework for SMEs

The Institute of Chartered Accountants of India (ICAI) aligns Ind AS with IFRS

SMEs in India may voluntarily adopt Ind AS

Development of the standard

Approval by the Board of the IFRS for SMEs issued in July 2009

Approval by the Board of 2015 Amendments to the IFRS for SMEs issued in May 2015

Approval by the IASB of International Tax Reform—Pillar Two Model Rules—Amendments to the IFRS for SMEs Standard issued in September 2023

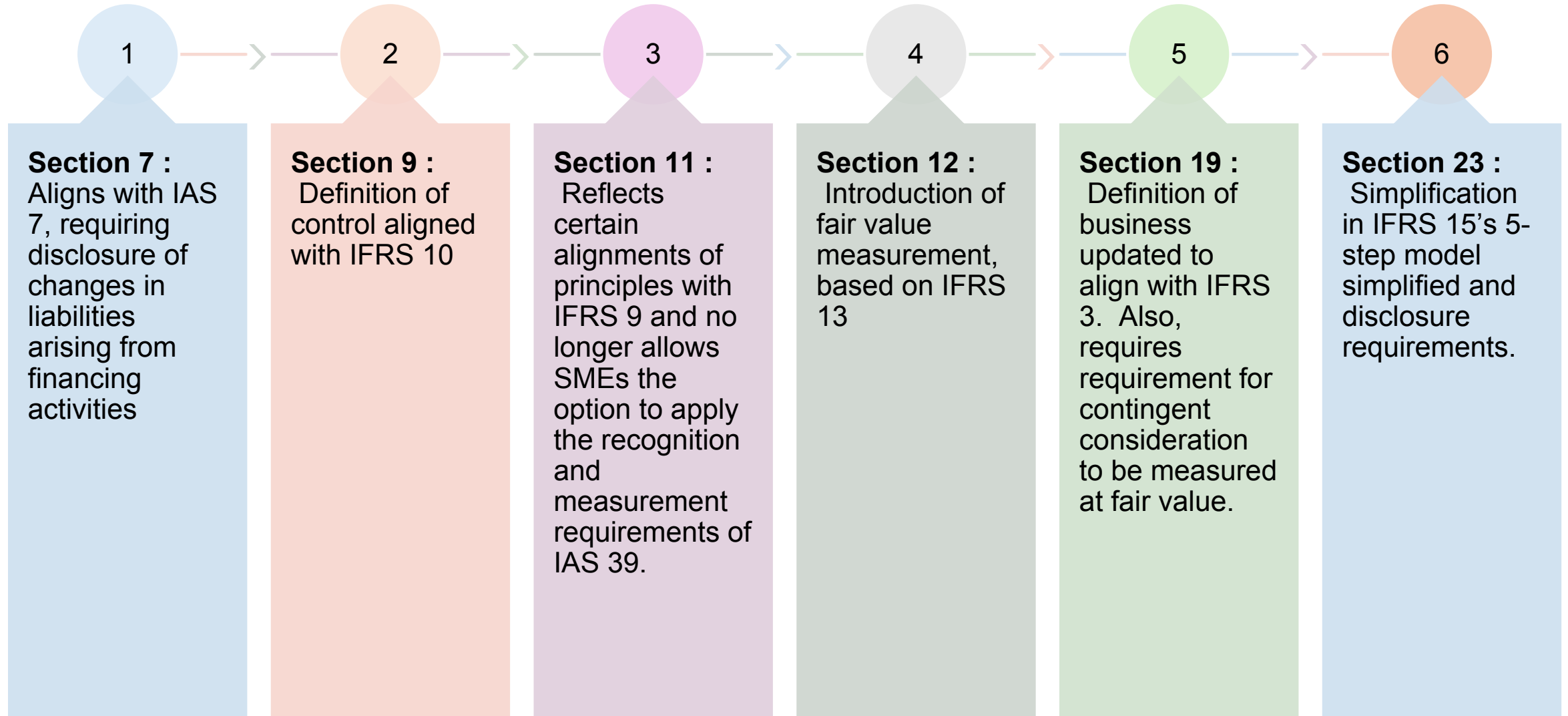
Approval by the IASB of the IFRS for SMEs Accounting Standard issued in February 2025

IFRS for SMEs is set out in Sections 1-35 and Appendices A-B as below

- 1 Small And Medium-Sized Entities
- 2 Concepts And Pervasive Principles
- 3 Financial Statement Presentation
- 4 Statement Of Financial Position
- 5 Statement Of Comprehensive Income And Income Statement
- 6 Statement Of Changes In Equity And Statement Of Income And Retained Earnings
- 7 Statement Of Cash Flows
- 8 Notes To The Financial Statements
- 9 Consolidated And Separate Financial Statements
- 10 Accounting Policies, Estimates And Errors
- 11 Financial Instruments
- 12 Fair Value Measurement
- 13 Inventories
- 14 Investments In Associates
- 15 Joint Arrangements
- 16 Investment Property
- 17 Property, Plant And Equipment
- 18 Intangible Assets Other Than Goodwill

- 19 Business Combinations And Goodwill
 - 20 Leases
 - 21 Provisions And Contingencies
 - 22 Liabilities And Equity
 - 23 Revenue From Contracts With Customers
 - 24 Government Grants
 - 25 Borrowing Costs
 - 26 Share-Based Payment
 - 27 Impairment Of Assets
 - 28 Employee Benefits
 - 29 Income Tax
 - 30 Foreign Currency Translation
 - 31 Hyperinflation
 - 32 Events After The End Of The Reporting Period
 - 33 Related Party Disclosures
 - 34 Specialized Activities
 - 35 Transition To The IFRS For SMEs Accounting Standard
- Appendix A and Appendix B

Key amendments to the standard:



Importance of standard and the amendments

1. Consistency and comparability

- Establishes uniform accounting framework for SMEs
- Enhances comparability
- Ensures consistency in reporting, reducing discrepancies between local GAAPs

2. Revenue recognition : A more structured approach

Investors and lenders getting a clearer picture of how business earns money over time

3. Financial Instruments: A Forward-Looking Approach to Credit Losses

Prepares business for potential bad debts

4. Lease accounting : Greater Transparency in Reporting

Businesses will need to review their lease contracts and update their accounting records accordingly.

5. Simplified and Streamlined Disclosure Requirements

SMEs will spend less time on compliance while still meeting financial reporting standards

Role of CAs



Educating and explaining benefits to client



Compliance benefits – Explaining how credibility of investors and regulators is enhanced.



Client awareness – Informing clients about new IFRS and how it affects them



Financial planning – Impact of new standard on financial statements, tax reporting and business decisions



Simplification of accounting – Explaining alignment of new amendments with IFRS, tailored for SMEs with fewer complexities

Implementation challenges –

- Transition planning – Assisting clients for transition before deadline/ earlier if opted for early adoption
- System updation – Ensuring software alignment with new requirements.
- Financial statement adjustments – Identifying areas requiring significant change such as : Revenue recognition, fair value measurement, etc.

Transition and Implementation

1. Effective from 1 January 2027, with early adoption allowed
2. Retrospective application required, with some relief measures
3. Key exemptions include – Fair value measurement, business combinations and revenue contracts in progress

Linking to Conceptual framework

Qualitative Characteristics-

IFRS for SMEs align with the qualitative characteristics by simplifying accounting treatments while ensuring faithful representation

Fundamental qualitative characteristics

Relevance

Affecting users' decisions by having predictive value, confirmatory value or both

Materiality

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users

Faithful representation

Based on three characteristics : completeness, neutrality and freedom from error.

Enhancing qualitative characteristics

Comparability

Enables users to identify and understand similarities in, and differences between, items

Verifiability

Knowledgeable and independent observers could reach consensus that a particular depiction is faithful.

Timeliness

Availability to decision-makers in time for it to be able to influence their decisions.

Understandability

- Classifying, characterizing and presenting information clearly and concisely

Science

WHY?

- Independent Assurance to the stakeholders

Syllabus

WHAT?

- Accounting Standards
- Checklists

Technique

HOW?

- Tools
- Techniques

Art

SKILL

Application in each context

Thank you

Q & A