



“Demystification of the Guidance Notes of ICAI, on Financial Statements of, 1) Non-Corporate Entities 2) Non-Company Entities”

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Purpose of this Session

To be well versed with the provisions of “**GN on FSs of NCEs**” such that we are able to apply the same in advising our NCE clients and also in carrying out audit of FSs of such NCEs, from its effective date i.e. 1st April 2024.

Profile of Non-Corporate Entities

- Number of non-corporate entities: Approximately **73.4 million**
- Collectively these NCEs contributes over 57% to India's GDP
- Around 120.6 million people employed in small businesses

Background

- So far the NCE were governed largely by inconsistent legacy practices, following formats prescribed by the tax authorities or other regulators like the charity commissioner.
- Considering the large number of such entities and their contribution to the GDP and the tax base, standardised financial reporting framework are desirable.

What the Accounting Standards are and what purpose do these serve.

- The sound financial reporting emphasises the trust that investors and other stakeholders like lenders, grantors, etc. place in financial reporting information. Thus, it is very essential that financial reporting of an entity should be **comparable, transparent, complete and unbiased**.
- **Accounting Standards contain wholesome principles of accounting** and can be viewed as standardised language of business to communicate high quality information in financial statements based on **principles of transparency, consistency, comparability and reliability**.
- Accounting standards are a set of principles which entities follow while preparing the financial statements providing a **standardised way of describing the entity's financial position and financial performance**.

Applicability of the Guidance Note

- The Guidance Note prescribes formats of financial statements for Non-Corporate entities to enable these entities to communicate their financial performance and financial position in standardised formats thereby enhancing their comparability.
- Since Limited Liability Partnerships (LLPs) incorporated under Limited Liability Partnerships Act, 2008, are corporate form of entity, separate Guidance Note on Financial Statements of Limited Liability Partnerships has been issued and, accordingly, LLPs are out of the scope of this Guidance Note.
- These Accounting Standards apply in respect of any entity engaged in commercial, industrial or business activities. Exclusion of an entity from the applicability of the Accounting Standards is permissible only if no part of the activity of such entity is commercial, industrial or business in nature.

Purpose of the Guidance Note

- **Accounting Standards prescribe recognition and measurement principles as well as presentation and disclosure requirements** for the events, transactions and various elements of the financial statements.
- **General Purpose Financial Statements** prepared in accordance with the Accounting Standards provide relevant and reliable information about the entity to its stakeholders.
- The Guidance Note would **enhance the quality, comparability and comprehensiveness of the financial statements** prepared by the Non-Corporate entities.
- The Accounting Standards Board has now prescribed the formats for the presentation of the financial statements of Non-corporate Entities in the form of Guidance Note, which were earlier issued as a part of Technical Guide.
- The objective is to standardise the formats of financial statements for these entities and to enhance the quality and comprehensiveness of the financial reporting by these entities.

Effective Date

- This Guidance Note is effective for financial statements covering periods beginning on or after April 1, 2024.
- The Technical Guide on Financial Statements of Non-Corporate Entities stands superseded by this Guidance Note.

Four sets of Accounting Standards in India:

1. Indian Accounting Standards (IndAS) for specified class of companies;
2. Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, for companies other than those following Ind AS;
3. Accounting Standards (AS) prescribed by ICAI for the Limited Liability Partnerships (LLPs) i.e. **Guidance Note on Financial Statements** of Limited Liability Partnerships **(August 2023)**.
4. Accounting Standards (AS) prescribed by ICAI for entities other than companies and LLPs i.e. **Guidance Note on Financial Statements of Non-Corporate Entities** **(August 2023)**.

Most common structures of Non-Corporate Entities

- (a) Sole proprietorship firms
- (b) Hindu Undivided Family
- (c) Partnership Firms
 - i) Registered Partnership Firms
 - ii) Unregistered Partnership Firms
- (d) Association of Persons
 - i) Partnership firms not covered above
 - ii) Body of Individuals
 - iii) Resident welfare Association
- (e) Society **registered under any law** for the time being in force
- (f) Trust (private or public) registered under any law for the time being in force or unregistered.
- (g) Statutory Corporations, Autonomous bodies and Authorities
- (h) Any form of organisation that is engaged fully or partially in any Business or Professional activities.**

LLPs are Non-Company Entity

Criteria for classification of NCEs for applicability of Accounting Standards

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 IV Entities

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

Summary of applicability of the Standards to different Levels of NCEs

- It is unlikely that any NCE will fall into the Level I entities, as at present.
- IndAS will be applicable to all listed entities.
- ASs / I-GAAP will be applicable to unlisted corporate entities with NW lower than Rs. 250 Cr.
- Same ASs will be applicable to Level II, III and IV NCEs with certain exemptions on certain ASs.
- Level II Level III and level IV NCEs are considered micro, small, and medium sized entities (MSMEs) that have been granted certain exemptions relaxations by the ICAI.

Salient features of the revised format

- Uniform presentation
- Classification of assets and liabilities
- Disclosure oriented approach
- Notes to accounts
- Alignment with AS framework
- Transparency
- Credit worthiness assessment
- Compliance culture

Major changes from current formats and their impact

- Presentation of shareholders / owners / partners funds
- Borrowing and loan disclosures
- Trade payables ageing schedule
- Trade receivable ageing schedule
- Revenue and other income
- Expenses classification
- Related party disclosures
- Disclosure of contingent liabilities

Benefits of new formats

- Enhanced credit excess
- Improved tax compliance
- Professional image
- Better internal control

Challenges resulting from implementation of the new formats?

- System and template overhaul
- Regulatory synchronization
- Chartered accountants newer responsibilities
- Tax authorities
- Banks and other lenders
- For non corporate entities – new tasks
- Transition planning
- Staff training
- Use of technology

What do the NCEs need to do now?

What do we need to do now as the Auditors & Advisors

- A member of the ICAI while discharging his her attest function should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not.
- Further though note expressly mentioned, it is presumed that the formats are applicable to general purpose financial statements for which the audit needs to be conducted and reports to be issued as per the standards of auditing issued by the ICAI.
- **Refresh our understanding of ASs (Indian Gaap)**

What do we need to do now as regards “GN on FSs of NCEs”?

- Review all our NCE clients and classify them into 4 levels as per the GN.
- Advise them of the format of the FSs to be used for presentation as given in the GN.
- Review the ASs and their applicability to different levels of NCE Clients.
- Ensure that the FSs of the client NCEs are as per the GN on FSs of NCEs and then audit them accordingly.

Applicability of ASs to
Level II, III and IV NCEs

Formats for FSs for Non-
Corporate Entities

Formats for FSs for Limited
Liabilities Partnership

Introduction

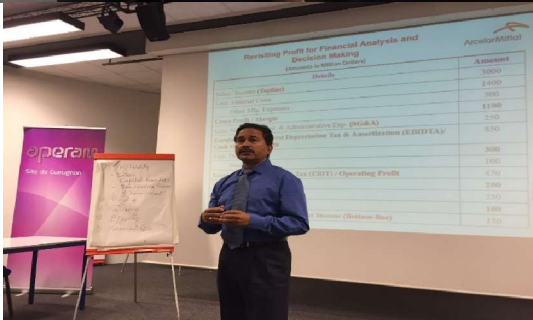
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13. Temirtau in Kazakhstan
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18. Colombo in Sri Lanka
19. KualaLampur in Malaysia
20. San Jose in Costa Rica
21. Panama City in Panama
22. Point Lisas in Trinidad & Tobago
23. Vanderbijlpark and Newcastle in South Africa
24. Luxembourg and Esch in Luxembourg
25. Moscow in Russia
26. Singapore
27. London in United Kingdom
28. Pontedera in Italy
29. Maiduguri and Kano in Nigeria
30. Mumbai, Delhi, Kolkata , Chennai and many other locations in India

Following slides show a collage of some of the Sessions delivered globally

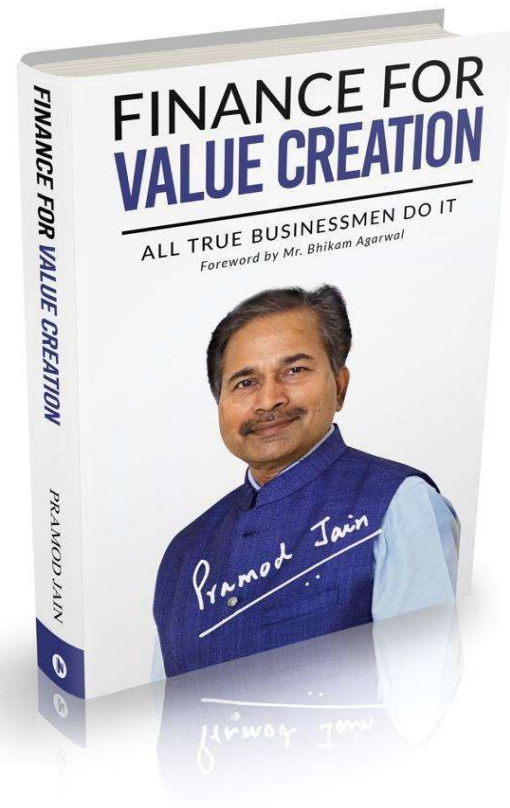
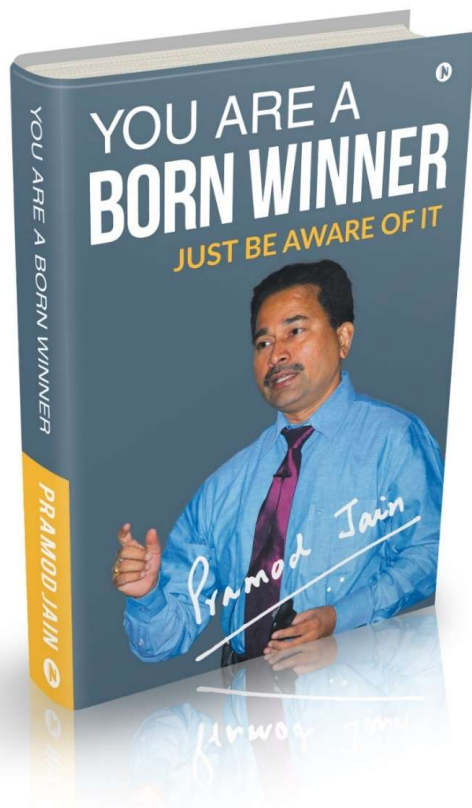
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Promotion of “Work Life Balance thru Yoga sessions” globally



Have authored two books,
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4. Valuation Approaches and Methods thereunder
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6. Valuation Appplication - Fixed Income Securities
7. Valuation Application – Intangible Assets
8. Valuation Application – Situation Specific Valuation
9. Valuation Application - Equity Research & Business Valuations
10. Valuation Application - Corporate Restructuring and Business Valuations

11. Introduction to the following IndAS from valuation perspective
12. Valuation of other financial assets and liabilities:
13. Valuation of other instruments like financial guarantees and warranties
14. Derivatives and Option Valuations
15. Macro Economics and Business Valuations
16. Professional/Business Ethics and Standards for Valuation Professionals
17. Valuations provisions under Income Tax Act, 1961
18. Valuations provisions under SEBI Regulations
19. Valuations provisions under RBI and FEMA, 1999
20. Valuation of ESOPs under 1) SEBI Regulations, 2) IndASs, 3) Income Tax Act, 4) FEMA and Companies Act.

Master class on IndASs/IFRSs

1. Presentation & Disclosures

1. IndAS 1 – Presentation of Financial Statements
2. IndAS 101 – First Time Adoption of IndASs
3. IndAS 7 - Statement of Cash flow
4. IndAS 24 - Related Party disclosures
5. IndAS 33 – Earning Per Share
6. IndAS 34 – Interim Financial Reporting
7. IndAS 103 – Business Combinations
8. IndAS 108 - Operating Segment

2. SFSs & CFSs related

1. IndAS 27 – Separate Financial Statements
2. IndAS 28 – Investments in Associates & Joint Ventures
3. IndAS 110 – Consolidated Financial Statements
4. IndAS 111 – Joint Arrangements
5. IndAS 112 – Disclosure of interests in other Entities

3. Financial Instruments

1. IndAS 109 – Financial Instruments
2. IndAS 32 – Financial Instruments : Presentation
3. IndAS 107 – Financial Instruments : Disclosures

4. Accounting Treatment

1. IndAS 8 - Accounting policies, Changes in Accounting Estimates & Errors
2. IndAS 10 - Events after the reporting period
3. IndAS 20 – Accounting for Govt. Grants and disclosure of Govt. Asst.
4. IndAS 102 – Share Based Payments
5. IndAS 113 – Fair Value Measurement

5 Profit & Loss Statement

1. IndAS 12 – Income Taxes
2. IndAS 19 – Employee Benefits
3. IndAS 21 – The effects of changes in Foreign Exchange Rates
4. IndAS 23 – Borrowing Costs
5. IndAS 115 – Revenue from Contract with customers
6. IndAS 116- Leases

6. Balance Sheet

1. IndAS 2 – Inventories
2. IndAS 16 – Property Plant & Equipment
3. IndAS 36 - Impairment
4. IndAS 37 - Provisions & Contingencies
5. IndAS 38 – Intangible Assets
6. IndAS 40 – Investment Property
7. IndAS 41 – Agriculture

7. Special situations

1. IndAS 29 – Financial Reporting in Hyperinflationary Economies
2. IndAS 117 – Insurance Contracts
3. IndAS 105 – Non Current Assets Held for Sale & Discontinued Operations
4. IndAS 106 – Exploration for and Evaluation of Mineral Resources
5. IndAS 114 – Regulatory Deferral Payments

MasterClass on ESOPs and Valuations

1. Introduction to ESOPs
2. Introduction to Derivatives / Options to get good command over ESOPs
3. Approaches & Methods for Valuation as per Internationally accepted standards
4. Provisions under the Companies Act 2013 for issuance and valuation of ESOPs
5. Provisions as per SEBI (Share Based Employee Benefits And Sweat Equity) Regulations, 2021 for issuance and valuation of ESOPs
6. Provisions as per FEMA for issuance and valuation of ESOPs
7. Taxation & Valuation of ESOPs under the Income Tax Act / Rules
8. IndAS 102 / IFRS 2 on - Share-based Payments (SBPs)
9. Accounting of ESOPs as per IndASs and I-GAAP
10. Drafting and Implementation of ESOP Schemes

Master Class on Related Party Transactions & Audit Committee

1. What is Corporate Governance?
2. What is purpose of a Business?
3. What is a Related Party Transaction (RPT)?
4. Why there is a need to regulate RPTs?
5. Is there anything wrong with the RPTs?
6. Is there any ban on any types of RPTs?
7. What is the universe for regulation of RPTs in India?
8. What is, “In ordinary course of business” and “At arm’s length”?
9. When can an Audit Committee approve the RPTs?
10. When approval of the Board of Directors required for an RPT?
11. When approval of the Shareholders required to an RPT?
12. What is an Omnibus Approval?
13. Who can grant Omnibus Approval and when?
14. Audit Committee’s obligations before granting Omnibus Approval?
15. Acid Test for regulation of an RPT?
16. How is a Related Party defined / determined as per Companies Act and Reg 23 of SEBI LODR 2015?
17. What are provision relating RPTs to as per Companies Act and SEBI LODR 2015?

Current focus areas

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