

ACCOUNTING STANDARDS For MSMEs (Non Company Entities)

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Accounting Standards

What is an Accounting Standard?

 *An Accounting standard is selected set of Accounting Policies or broad Guidelines regarding the Principles and Methods to be chosen out of several alternatives in preparation of “General Purpose Financial Statements”.*

What is an Accounting Standard ?

 *Accounting Standard's are the " Policy Documents" for standardization of Accounting Practices issued by the ICAI relating to various aspects of*

-  *Recognition*
-  *Measurement,*
-  *Presentation and*
-  *Disclosure of Accounting Transactions and Events.*


What is an Accounting Standard?

- ❖ *General purpose financial statements are prepared by applying Accounting Standards with **adopted Accounting Policies** .*
- 📖 *Accounting policies refer to **specific accounting principles and methods adopted** in preparation the financial statements.*
- 📖 *There is **no single set of accounting policies** which are applicable to all the entities in all circumstances.*

Why Accounting Standards?

- 📌 *Enterprises operate in **diverse and complex environment** and so they have to adopt Accounting policies which are most suited to their business activities.*
- 📌 *When enterprises follow different Accounting policies, users of Financial Statements face two problems-*
 - ***Comparability** of Financial Statements.*
 - ***Reliability** of Financial Statements.*

Why Accounting Standards?

-  *In order to standardize the diverse accounting policies and ensure comparability and reliability of financial statements The Institute of Chartered Accountants of India (ICAI) has issued Accounting Standards covering common areas of Accounting.*



Summary of Objectives of Accounting Standards

- 📖 To *standardize* diverse accounting policies.
- 📖 To ensure *reliability* of financial statements
- 📖 To have *comparability* of financial statements of different enterprises.
- 📖 To provide for *Disclosure* norms.
- 📖 To help in *presenting true and fair view* of operations of the enterprise.



Applicability of Accounting Standards

Accounting Standards Board

-  *ICAI recognizing the need to harmonize the diverse accounting policies and practices constituted an Accounting Standard Board (ASB) on 21st April 1977.*
-  *ASB is responsible for formulation of Accounting Standards in India.*

Applicability of Accounting Standards

 While preparing General Purpose Financial Statements, Accounting

Standards are applicable to

- ▶ *Commercial Enterprises*
- ▶ *Industrial Enterprises*
- ▶ *Business Enterprises*

General Purpose Financial Statements



The term includes —

- 1. Balance-sheet*
- 2. Profit and Loss account*
- 3. Cash Flow Statement*
- 4. Explanatory Notes forming part thereof.*

Non Company Entities

Non Company Entities includes-

- ▶ *Sole Proprietary Concerns*
- ▶ *Partnership Firms*
- ▶ *LLPs*
- ▶ *Trusts / Societies registered under Societies Registration Act.*
- ▶ *Hindu Undivided Families*
- ▶ *Co-Operative Societies*
- ▶ *Association of Persons*

Applicability of Ind AS / AS

*For Companies/Banks/Insurance
Companies
(Pvt. Ltd. as well as Public Ltd.)*

For Non Company Entities

Applicability as per
Regulators viz.
MCA/RBI/IRDEA

Applicability as per
ICAI guidelines




Applicability of AS to Companies

- 📖 *The Central Government in exercise of its powers under the Companies Act, MCA has notified the **Companies (Accounting Standards) Rules, 2021 and Companies (Indian Accounting Standards) Rules, 2015 and amendments thereto.***
- 📖 *These Rules contain the Accounting Standards to be complied with by the companies.*
- 📖 *For the purpose of applicability of Companies (Accounting Standards) Rules 2021 and Companies (Indian Accounting Standards) Rules 2015 companies are divided as follows*
 - ▶ *Ind AS Companies- Companies (Indian Accounting Standards) Rules 2015*
 - ▶ *Non Ind AS Companies - Companies (Accounting Standards) Rules 2021*




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Accounting Standards
applicable to
MSMEs
Non Company Entities


Applicability Accounting Standards

-  *Accounting Standards (AS) issued by ICAI are applicable to Non-company entities to whom Ind AS are not applicable.*
-  *The Council, at its 400th meeting, held on March 18-19, 2021 has revised the classification of Micro, Small and Medium Entities (MSMEs) referred as Level V, VI and VII entities. The ASB of ICAI considered the revision of criteria to achieve simplification and ease of doing business by MSME entities.*
-  *The classification of Non-company entities is divided into four Levels Level I, Level II (Medium Size Entities), Level III (Small Size Entities) and Level IV (Micro Size Entities)*

Accounting Standards applicable to MSMEs

-  *MSMEs = Level U, Level UU and Level V Entities*
-  *This announcement is applicable for accounting period commencing on or after 1st April 2020.*
-  *The Announcement includes details of exemptions/relaxations to MSMEs and the guidance on transitioning between levels. The Announcement has included the **Appendix 1**.*

Level 1 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 1 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 Rs. 250 crore in the immediately preceding accounting year. ...

Level 1 Entities

- ▶ *All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 50 Crore at any time during the immediately preceding accounting year.*
- ▶ *Holding and subsidiary entities of any one of the above.*
- ▶ *Level 1 entities are required to comply in full with all the Accounting Standards.*

Level Q Entities (Medium Size Entities)

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

- ▶ *All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds Rs. 50 Crore but does not exceed Rs. 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 Rs. 10 Crore but does not exceed Rs. 50 Crore at any time during the immediately preceding accounting year.*
- ▶ *Holding and subsidiary entities of any one of the above.*

Level III Entities (Small Size 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 Rs. 10 Crore but does not exceed Rs. 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 Rs. 2 Crore but does not exceed Rs. 10 Crore at any time during the immediately preceding accounting year.
- ▶ Holding and subsidiary entities of any one of the above.

Level IV Entities (Micro Size Entities)

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

Additional requirements to comply

- ▶ *Disclosure by way of a note that it is a MSME and Level --- of MSME and compliance with ASs of that level.*
- ▶ *MSME 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 and the fact that previous period figures have not been revised shall also be disclosed in the notes .*

...

...

Additional requirements to comply

- ▶ *MSME covered in Level Q and subsequently, ceases to be so covered and gets covered in Level R or Level RR or Level V, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level Q for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level R or Level RR and subsequently, gets covered under Level RR or Level V.*
- ▶ *If an entity covered in Level R or Level RR or Level V opts not to avail of the exemptions or relaxations available to that Level of entities 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.*

...

Additional requirements to comply

- ▶ *If an entity covered in Level U or Level UU or Level V opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.*
- ▶ *Partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.*
- ▶ *AS 15, Employee Benefits, exemptions/ relaxations are available to Level U and Level UU entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50.*

Compliances and Relaxations for Level II, III and IV Entities

*Exemptions / Relaxations for
UQ and VV Entities*

Level UQ

Refer Summary for Exemptions / relaxations.

AS 10 – Property, Plant and Equipment

Para 87:

An enterprise is encouraged to disclose the following:

- a) the carrying amount of temporarily idle PPE;*
- b) the gross carrying amount of any fully depreciated PPE that is still in use;*
- c) for each revalued class of PPE, the carrying amount that would have been recognised had the assets been carried under the cost model;*
- d) the carrying amount of PPE retired from active use and not held for disposal.*

Exemption to Level AA and AV Entities

AS 11 - The Effect of Changes in Exchange Rates

Foreign

Para 44:

Disclosure is also encouraged of an entity's Foreign Currency Risk Management Policy.

Exemption to Level III and IV Entities

AS 13 - Investments

Para 35(f):

The following information should be disclosed in the financial statements-

- *Other disclosures as specifically required by the relevant statute governing the enterprise.*

Exemption to Level IV Entities

AS 15 – Employee Benefits

- *Micro Non-company entities may not discount contributions that fall due more than 12 months after the balance sheet date.*
- *In case of micro non-company entities, recognition and measurement principles in respect of accounting for defined benefit plans and other long-term employee benefits are not mandatory and any other rational method may be used for calculation and accounting of the accrued liability.*

Exemption to Level I, II and III Entities

AS 19 – Leases

- *Micro Non-company entities are exempted from certain disclosures as regards to Minimum Lease Payments, Lease arrangement details etc.*

Exemption to Level II, III and IV Entities in different paras

AS 22 – Accounting for Taxes on Income

- *Entities shall apply the requirements of AS 22, Accounting for Taxes on Income, for Current tax.*
- *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.*

Applicable to Level IV Entities

AS 26 – Intangible Assets

90 d(iii) and 9(iv) and 98:

- A reconciliation of the carrying amount at the beginning and end of the period showing
 - Impairment losses recognised in the statement of profit and loss during the period (if any);
 - impairment losses reversed in the statement of profit and loss during the period (if any);
- An enterprise is encouraged, but not required, to give a description of any fully amortised intangible asset that is still in use.

Note: AS 28 is not applicable to Level IV entities

Exemption to Level IV Entities

AS 28 – Impairment of Assets


- 📖 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.
- 📖 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.
- 📖 Disclosures relating to Reportable Segment, Cash Generating Unit etc are not applicable to Level III entities.

Exemption to Level II and III Entities

Note: AS 28 is not applicable to Level IV Entities

AS 29 – Provisions, Contingent Liabilities and Contingent Assets

Para 66:

- 
- For each class of provision, an enterprise should disclose:*
- ▶ the carrying amount at the beginning and end of the period;*
 - ▶ additional provisions made in the period, including increases to existing provisions;*
 - ▶ amounts used (i.e. incurred and charged against the provision) during the period; and*
 - ▶ unused amounts reversed during the period.*

Exemption to Level II, III and IV Entities

AS 29 – Provisions, Contingent Liabilities and Contingent Assets

 **Para 67:** An enterprise should disclose the following for each class of provision;




- ▶ a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- ▶ an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and
- ▶ the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Exemption to Level II, III and IV Entities



 

Conclusion

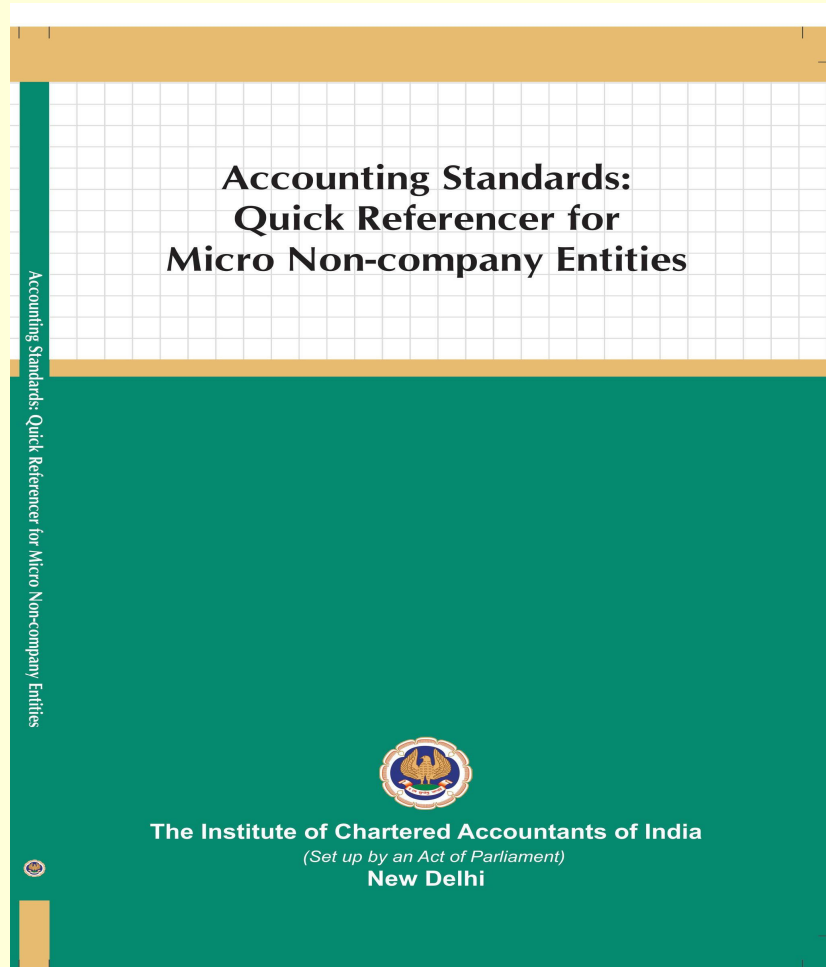
Conclusion

-  It is responsibility of Management to prepare General Purpose Financial Statements.
-  Auditor has to express an opinion whether these financial statements are true and fair.
-  There are very few regulators (Other than RBI, IRD&A, SEBI) where-by non-company entities have been mandated to follow Accounting Standards issued by ICAI.

Conclusion

-  *ICAI has cast a responsibility on its Members holding C&P that if mandatory AS are not followed by entities, auditor has to qualify the Audit Report.*
-  *The members of ICAI, while carrying on attest function has therefore to ensure that there is full compliance of applicable AS by non-company entities.*

Follow ICAI Publication



PERFECT – The Mantra of Success

A satisfying Professional Career



- P** Professionalism
- E** Effectiveness
- R** Regularity
- F** Firmness
- E** Evaluation (Self)
- C** Conduct
- T** Time consciousness



THANKS



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