

Virtual CPE Meeting on Accounting  
Standards for Non- Corporate Entities  
April 24, 2021.

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Organised by

Accounting, Ind AS and IFRS Committee of WIRC branch of  
ICAI

Presented by CA Yagnesh Mohanlal Desai.

## **ACKNOWLEDGEMENT**

This presentation is based on the :-

- 1. Announcement Criteria for classification of Non-company entities for applicability of Accounting Standards.**
- 2. Compendium on Accounting Standards July 2019.**
- 3. Guidance Note on Tax Audit U/s 44AB of Income-Tax Act 1961.**

Exemptions applicable to Level II, II and IV NCEs (referred to as the SMES) only and should **NOT** be applied to entities **other than NCEs**.

## Classification of Non-company entities for applicability of Accounting Standards

The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020., this applicable for financial year ending on 31<sup>st</sup> March,2021.

Level I entities are large size entities

Level II entities are medium size entities

Level III entities are small size entities

Level IV entities are micro entities.

Level II, III and IV are referred to as the Micro, Small and Medium size Entities.

# New Criteria is not applicable to

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- This Announcement is not relevant for Non-company entities who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.

## Criteria for classification of non-corporate/company entities

Level I	Level I Revised in March 2020
<p><b>Non-corporate entities</b> which fall in <b>any one or more</b> of the following categories, at the end of the relevant accounting period, are classified as Level I entities</p>	<p><b>Non-company entities</b> which fall in <b>any one or more</b> of the following categories, at the end of the relevant accounting period, are classified as Level I entities</p>
<p>(i) Entities whose <b>equity or debt securities</b> are listed or are in the process of listing on any stock exchange, whether in India or outside India</p>	<p>(i) Entities whose <b>securities</b> are listed or are in the process of listing on any stock exchange, whether in India or outside India - SME – Social Stock Exchange</p>
<p>(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business</p>	<p>(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business</p>
<p>(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds <b>rupees fifty crore</b> in the immediately preceding accounting year.</p>	<p>(iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds <b>rupees two-fifty crore</b> in the immediately preceding accounting year</p>

### Level I Entities

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

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

### Level I Entities revised in March 2021

(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.

### SECURITIES CONTRACTS (REGULATION) ACT, 1956

*S 2 (h) “securities”— include*

*(i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company [or a pooled investment vehicle or other body corporate]*

## Level II Enterprises SMEs

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

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees forty lakh but does not exceed rupees fifty crore in the immediately preceding accounting year.

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

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

## Level II Entities – revised in 2021

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:

(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 (SMEs)

Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities

### Level III Entities revised in 2021

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

(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	Level IV Entities revised in 2021
Non existence	Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.
	(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crore in the immediately preceding accounting year and
	(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) less than rupees two crore rupees ten crore at any time during the immediately preceding accounting year.

[Applicability Table.xlsx](#)

Summary of applicability and exemptions.  
All AS are applicable to Level I NCEs

	Level > II	III	IV
Fully Applicable	16	12	8
Not Applicable	7	9	11
*Applicable with disclosures exemption	3	5	6
Applicable with exemptions AS 15	1	1	1
Applicable Partially AS 22	0	0	1
<b>Total</b>	<b>27</b>	<b>27</b>	<b>27</b>

*\* Except AS 22 (only for level IV NCEs) and AS 28 mainly the exemptions are related to disclosures.*

## Following Standards are applicable to all 4 categories

	Description of the 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

## Following standards are NOT all applicable to Level II,III and IV NCE

	Description of the 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

➔ *Rest 12 AS are applicable with some exemptions to Level II , III and IV NCEs*

➔ *IAS 28 is not applicable to Level IV only, but applicable with some exemption to Level II and III NCEs.*

*Accounting Standards in respect of  
which relaxations/exemptions from  
~~certain requirements have been given~~  
to Level II, Level III and Level IV  
Non-company entities*

Accounting Standard (AS) 10, Property, Plant and Equipment

Paragraph 87 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities – **Exemption is concerning disclosure.**

*87. An enterprise is encouraged to disclose the following:*

*(a) the carrying amount of temporarily idle property, plant and equipment;*

*(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;*

*(c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;*

*(d) the carrying amount of property, plant and equipment retired from active use and not held for disposal.*

AS 11, The Effects of Changes in Foreign Exchange Rates (revised 2018) **Exemption is concerning disclosure.**

Paragraph 44 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.

*44. Disclosure is also encouraged of an enterprise's foreign currency risk management policy.*



AS 13, Accounting for Investments – **Exemption is concerning disclosure.**

Paragraph 35(f) relating to disclosures is not applicable to Level IV Non-company entities.

***35. The following information should be disclosed in the financial statements:***

***(a).....(d)***

***(f) (f) other disclosures as specifically required by the relevant statute governing the enterprise***

## Accounting Standard (AS) 15, Employee Benefits (revised 2005)

Level II AND III average no of employees more than 50	Level II , III average no of employees less then 50 and Level IV irrespective of no of employees
Paragraphs 11 to 16 – to the extend dealing with recognition and measurement of non-vesting short-term accumulating compensated absences	Paragraphs 11 to 16 – to the extend dealing with recognition and measurement of non-vesting short-term accumulating compensated absences
Paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;	Paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
*Recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans	Recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans
* Recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits.	Recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits.
* Need to comply with para 78 and 120(i) of the Standards	

This exemption is concerning disclosure.

AS 19 Leases Para 25 Related Operating Lease - By Lessee	II	III	IV
<p><i>“(c) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods</i></p> <ul style="list-style-type: none"> <li><i>(i) not later than one year;</i></li> <li><i>(ii) later than one year and not later than five years;</i></li> <li><i>(iii) later than five years</i></li> </ul>	NA	NA	NA
<p><i>(e) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and</i></p>	NA	NA	NA
<p><i>(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;</i></p> <ul style="list-style-type: none"> <li><i>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</i></li> <li><i>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further Leasing</i></li> </ul>	NA	NA	Na

This exemption is concerning disclosure

AS 19 Leases Para 22 Related Finance Lease by Lessee	II	III	IV
<p><i>“(c) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should <b>disclose</b> the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods</i></p> <p><i>(i) not later than one year;</i></p> <p><i>(ii) later than one year and not later than five years;</i></p> <p><i>(iii) later than five years</i></p>	NA	NA	NA
<p><i>(e) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and</i></p>	NA	NA	NA
<p><i>(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;</i></p> <p><i>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</i></p> <p><i>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further Leasing</i></p>	NA	NA	Na

This exemption is concerning disclosure

AS 19 Leases Para 37 Related Finance Lease by Lessor	II	III	IV
“(a) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should <b>disclose</b> the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years	NA	NA	NA
(f) a general description of the significant leasing arrangements of the lessor; and	NA	NA	NA
(g) accounting policy adopted in respect of initial direct costs.	Applicable	NA	NA
Para 38. As an indicator of growth it is often useful to also disclose the gross investment less unearned income in new business added during the accounting period, after deducting the relevant amounts for cancelled leases.	Applicable	Applicable	NA

This exemption is concerning disclosure

AS 19 Leases Para 46 Related Finance Lease by Lessee	II	III	IV
<p><i>46. The lessor should, in addition to the requirements of AS 6, Depreciation Accounting<sup>8</sup> and AS 10, Accounting for Fixed Assets<sup>9</sup>, and the governing statute, make the following <b>disclosures</b> for operating leases:</i></p> <p><i>(b) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:</i></p> <p><i>(i) not later than one year;</i></p> <p><i>(ii) later than one year and not later than five years;</i></p> <p><i>(iii) later than five years;</i></p>	NA	NA	NA
<p><i>(d) a general description of the lessor's significant leasing arrangements; and</i></p>	NA	NA	NA
<p><i>(e) accounting policy adopted in respect of initial direct costs.</i></p>	Applicable	NA	NA

This exemption is concerning Measurement

## AS 22, Accounting for Taxes on Income – Limited Application

*Level IV Non-company entities shall apply the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph*

*And presentation as per Para 27-28 of AS 22. **To put differently, level IV entity need no recognise deferred tax assets or liabilities.***

### ***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.*

This exemption is concerning disclosure.

## AS 26, Intangible Assets – exemption is applicable to Level II and III \*\*.

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

- (d) (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);

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

**\*\* AS 28 is not at all applicable to Level IV entities.**



## AS 28, Impairment of Assets – This exemption is concerning Measurement \*\*

*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.*

***Just the reasonable estimate and not the detailed projected cash flow for 5 years, terminal value , which are reduced to present value using appropriate discount rate.***

*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*

**\*\* AS 28 is not at all applicable to Level IV entities.**

## AS 28, Impairment of Assets - Exemption to Level II and

### III \*\* **This exemption is concerning disclosure**

*121. 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**:*

*“a....b...*

*c for an individual asset:*

*(i) the reportable segment to which the asset belongs, based on the enterprise’s primary format (as defined in AS 17, Segment Reporting);*

*d for a cash-generating unit:*

*(i) 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);”*

*“123. An enterprise is encouraged to disclose key assumptions used to determine the recoverable amount of assets (cash-generating units) during the period”*

## AS 29, Provisions, Contingent Liabilities and Contingent Assets (revised 2016) Exemptions to Level II,III and IV-

### **This exemption is concerning disclosure**

66. *For each class of provision, an enterprise **should disclose**:*

- (a) the carrying amount at the beginning and end of the period;*
- (b) additional provisions made in the period, including increases to existing provisions;*
- (c) amounts used (i.e. incurred and charged against the provision) during the period; and*
- (d) unused amounts reversed during the period*

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

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits*
- (b) 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*
- (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement*

## AS 14 Accounting for Amalgamation and AS Financial Reporting of Interests in Joint Ventures.

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*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.*

# Exemption to Level II,III and IV

*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.*

***Unless if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.***

***For example, if a partnership firm enters into a JV , then it has to apply AS 27.***

In Audit U/s 44AB – tax Audit are the Auditors supposed to follow the AS?

Yes, as it considered as an attest function hence the Auditor should follow the accounting standards in such attest functions.

**Attestation Services** - Means services involving the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements as defined under Section 2(2)(ii) of the Chartered Accountants Act, 1949 but does not include :

i. Management Consulting Engagements;

ii. Representing a client before the Authorities;

iii. Engagements to prepare tax returns or advising clients in taxation matters;

iv. Engagements for the compilation of financial statements;

v. Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;

vi. Testifying as expert witness; and

vii. Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client.

The 'Preface to the Statements of Accounting Standards'<sup>23</sup> issued by the Institute in 1979 states (paragraphs 6.1 and 6.2):

*“6.1 While discharging their attest function, it will be the duty of the members of the Institute to ensure that the Accounting Standards are implemented in the presentation of financial statements covered by their audit reports. In the event of any deviation from the Standards, it will be also their duty to make adequate disclosures in their reports so that the users of such statements may be aware of such deviations”*



## **Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961**

*“10.9 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.*

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LLP Which AS to follow ?

LLP should follow AS announced – notified by ASB of ICAI

AS notified by MCA U/s 133 of the Companies Act,2013  
Are applicable to Companies.



Tax Review Board established  
on the lines of Financial Reports  
Review Board

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