



CA INTERMEDIATE

MARATHON

Advanced Accounting

**Introduction &
Applicability of AS**

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ACCOUNTING STANDARDS

INDIA

Accounting Standard Board
(Established in 1977)

Accounting Standards (AS)

INDAS (IFRS Converged Standards)

INTERNATIONAL

International Accounting Standard
Committee (Board)
Established: IASC in 1973 IASB in 2001

International Accounting Standards (IAS)

International Financial Reporting Standard (IFRS)

Accounting Standards

AS

No. 1 to 29 (-6, -8)

Non corporate Entities: ICAI

Corporate Entities: MCA with NFRA
(Rules 2015)

Ind AS

Corporate Entities: MCA with NFRA
(Rules 2015)

Companies (Indian Accounting Standard) Rules, 2015

(Notification issued by MCA dated 16/2/15)

Voluntary Basis
(From 1/4/2015)

Mandatory Basis
(From 1/4/2016)

Phasewise Roadmap for Applicability of Ind AS for companies other than Banking, Insurance & NBFC's.

Phase 1 (1/4/2016)

Phase 2 (1/4/2017)

- ★ Listed Co's : Net worth \geq 500 Crores
- ★ Unlisted Co's : Net worth \geq 500 Crores
- ★ Holding, subsidiary, Associate & Joint venture of above
- ★ Listed Co's : Net worth $<$ 500 Crores
- ★ Unlisted Co's : Net worth \geq 250 Crores $<$ 500 Crores
- ★ Holding, subsidiary, Associate & Joint venture of above

Net worth : Shareholder funds : Paid up capital + Reserves & surplus

NOTE: Companies not required to follow Ind AS shall comply with AS as specified to companies (Accounting Standard) Rules, 2011.

Applicability of Accounting Standards

Companies

Ind AS Applicable

- * Companies listed / process of listing in India / outside India
(Other than listed on SME Exchanges)

OR

- * Companies whose Net worth \geq 250 crores at end of Previous year.

Includes Holding, subsidiary, Associate & Joint venture of above

(Ind AS once applicable cannot be withdrawn)

⇒ Ind AS not applicable to Banks & Insurance Companies

AS Applicable

Non SMC

(No Exemption or Relaxations)

- * Banks, Financial Institutions & Insurance Companies

- * Turnover (including other Income) $>$ 250 crore in immediately previous year

- * Borrowings (including public deposits) $>$ 50 crore at any time in previous year

- * Holding, subsidiary of Above

SMC

(Small & Medium Size of company)

Other than Non SMC

Full Exemption: AS 17

Partial Disclosure

Exemption: AS 15, AS 19, AS 20, AS 28, AS 29

Event Based: AS 21, AS 23,

AS 25, AS 27

Non Company Entities

(Applicable for Accounting Periods commencing from 1/4/24)

Sole Proprietorship, Partnership, LLP, Society, Trust, etc.

Engaged in Commercial, Industrial or Business Activities

Micro, Small & Medium sized Entities
(MSME)

Other than Large Entities

Large Entities

- * Entities listed or in process of listing
- * Banks, Financial Institution or insurance entity
- * Turnover (excluding other income) > 250 crore in immediately previous year
- * Borrowings > 50 crore at any time in previous year
- * Holding, subsidiary of above

Exemption & Relaxation

Full / Entirety: AS 3, AS 17, AS 20, AS 24

AS 18 & AS 28

(T/O ≤ 50 crore, Borrowings ≤ 10 crore)

Disclosure / Partial: AS 10, AS 11, AS 15, AS 19, AS 22,
AS 26, AS 28, AS 29

Event Based: AS 14, AS 21, AS 23, AS 25, AS 27

INTRODUCTION TO ACCOUNTING STANDARDS

<p>Generally Accepted Accounting Principles (GAAP)</p>	<ul style="list-style-type: none"> GAAP refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements. It's a combination of authoritative standards (set by policy boards) & the commonly accepted ways of recording & reporting accounting information At international level such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India we have authoritative standards named as AS and IND-AS
<p>Meaning of AS</p>	<p>Accounting standards are written policy documents issued by expert accounting body or by government with the support of other regulatory bodies [e.g. <i>MCA issuing AS for companies in consultation with NFRA (National Financial Reporting Authority)</i>] covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.</p>
<p>Issues dealt by AS</p>	<ul style="list-style-type: none"> ➤ Recognition of events and transactions in the financial statements. ➤ Measurement of these transactions and events. ➤ Presentation of these transactions & events in financial statements in a manner that is meaningful and understandable to the reader. ➤ The disclosure requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.
<p>Objectives</p>	<ul style="list-style-type: none"> ➤ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. ➤ To provide standard for the diverse accounting policies and principles. ➤ To eliminate the non-comparability of financial statements. ➤ To increase/improve the reliability of the financial statements. ➤ To provide standards which are transparent for users.
<p>Benefits</p>	<ul style="list-style-type: none"> ➤ Standardization of alternative accounting treatment (Reduce/ eliminate confusing variations in the accounting treatments used to prepare the financial statements) ➤ Requirement for additional disclosures. (disclosures which are not statutorily required) ➤ Comparability of financial statements.
<p>Limitations</p>	<ul style="list-style-type: none"> ➤ Difficulties in making choice between different treatments. ➤ Lack of flexibilities ➤ Restricted scope (accounting standards cannot override the statute)

<p><u>Standards setting process</u></p>	<p>ICAI has constituted the Accounting Standard Board (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of accounting standards and council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.</p>
<p><u>Process</u></p>	<ul style="list-style-type: none"> ➤ Identification of area (where standardization is required) ➤ Constitution of study groups (for research) ➤ Preparation of draft and its circulation ➤ Ascertainment of views of different bodies on draft (like SEBI, CBDT, C&AG) ➤ Finalization of exposure draft ➤ Comments reviewed on exposure draft (public comments) ➤ Modification of the draft ➤ Issue of AS <ul style="list-style-type: none"> • For Non Corporate Entities by ICAI • For Corporate Entities by Ministry of Corporate Affairs in consultation with NFRA

NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

SIGNIFICANCE:

- Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.
- It contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders.
- It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment.
- It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS GLOBAL STANDARDS

BECOMING IFRS COMPLIANT

Any country can become IFRS compliant *either* by adoption process or by convergence process.

Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.

Convergence means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially.

Convergence with IFRS will result in following benefits:

- Improves investor confidence across the world with transparency and comparability
- Improves inter-unit/ inter-firm/inter-industry comparison
- Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
- Acceptability of financial statements by stock exchanges across the globe, which will facilitate listing of Indian companies to international stock exchanges

ISSUE OF IND AS

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating IFRS converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

Indian Accounting Standards (Ind AS) are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA.

CARVE OUTS/INS IN IND AS (RTP May 2024)

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
- Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will not result into carve outs.
- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'.
- Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'

ROADMAP FOR IMPLEMENTATION OF INDAS:

For Companies other than Banks, NBFCs and Insurance Companies

Phase I: 1st April 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

1st April 2016: Mandatory Basis

- (a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;
- (b) Unlisted Companies having net worth of INR 500 crore or more;
- (c) Parent, Subsidiary, Associate and JV of above.

Phase II: 1st April 2017: Mandatory Basis

- (a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);
- (b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore;
- (c) Parent, Subsidiary, Associate and JV of above.

Special Points to Consider:-

- Companies listed on SME exchange are not required to apply Ind AS. Such companies shall continue to apply existing ASs unless they choose otherwise.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2021.

APPLICABILITY OF ACCOUNTING STANDARDS

Enterprises to which Accounting Standards apply

Accounting Standards apply in respect of any enterprise (whether organized in corporate, cooperative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes.

AS however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the AS would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature.

Even if a very small proportion of activities of an enterprise were considered to be commercial, industrial or business in nature, the AS would apply to all its activities including those, which are not commercial, industrial or business in nature

Criteria for Classification of Non-Company Entities by ICAI

(Applicable for Accounting periods commencing from 01.04.2024)

For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small & Medium Sized Entities (MSMEs) and Large Entities.

Category	Criterion
SMC ← MSME	<p>MSME means, a non-company entity-</p> <ul style="list-style-type: none"> (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; (ii) which is not a bank, financial institution or an insurance company; (iii) whose turnover (excluding other income) does not exceed ₹ 250 crore in the immediately preceding accounting year; (iv) which does not have borrowings in excess of ₹ 50 crore at any time during immediately preceding accounting year; and (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity. <p>Explanation: For the purposes of this clause, a non company entity shall qualify as a MSME, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.</p>
NON SMC Large Entity	Non-company entities that is not an MSME

Additional Requirements (Key Disclosures when MSME's avail exemptions or relaxations):

1. General Disclosure:

An MSME that avails any exemption or relaxation must disclose in its financial statements:

- That it is an MSME as per the ICAI definition.
- That it has complied with Accounting Standards applicable to MSMEs.

2. Partial Exemption Disclosure:

If an MSME opts not to avail exemptions in respect of certain Standards but avails them for others, it must specify:

- The Standards for which it has availed exemption/relaxation.
- The Standards for which full compliance has been made.

3. Loss of MSME Status:

If an MSME no longer qualifies in the current accounting period, it must:

- Apply full AS requirements from the current year.
- Disclose that it had availed exemptions in the prior year.
- Clarify that previous year figures are not revised solely due to change in classification.

4. Newly Qualifying MSME:

A non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for 2 consecutive years. Until then, full AS compliance is required.

AS not applicable to MSME's in their entirety

AS 3, AS 17, AS 20 & AS 24

AS 18 Related Party Disclosures & AS 28 Impairment of Assets not applicable in entirety.

- whose Turnover (excluding other income) does not exceed ₹ 50 crore in the immediately preceding accounting year;
- which does not have borrowings in excess of ₹ 10 crore at any time during the immediately preceding accounting year; and
- which is not a Holding and subsidiary of an MSME not covered above.

Relaxations/exemptions from certain requirements of AS to MSMEs

AS 10, AS 11, AS 15, AS 19, AS 22, AS 26, AS 28, AS 29

AS 21, 23, 25 & 27 is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

CRITERIA FOR CLASSIFICATION OF COMPANIES AS PER COMPANIES (ACCOUNTING STANDARDS) RULES, 2021

Company	Criterion
SMC <i>(Inter Nov 2023)</i> <i>(5 Marks)</i>	"Small and Medium Sized Company" (SMC) means, a company- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; (ii) which is not a bank, financial institution or an insurance company; (iii) whose turnover (excluding other income) does not exceed ₹ 250 crore in the immediately preceding accounting year; (iv) which does not have borrowings (including public deposits) in excess of ₹ 50 crore at any time during immediately preceding accounting year; and (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.
Non-SMCs	Companies not falling within the definition of SMC are considered as Non-SMCs.

Note: An existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of AS available to an SMC until the company remains an SMC for 2 consecutive accounting periods.

AS not applicable to SMC's in their entirety

AS 17 Segment Reporting

AS in respect of which relaxations from certain requirements given to SMCs

AS 15, AS 19, AS 20, AS 28 & AS 29

AS 21, 23, 25 & 27 is applicable only if Company is required or elects to prepare and present consolidated financial statements or interim financial report.

Question 1: ICAI Study Material

Ravi Traders, an unlisted partnership firm, had a turnover of ₹230 crore and borrowings of ₹45 crore during the financial year 2023-24. It is not a bank, financial institution, or insurance company, and also not a subsidiary of any other entity. The firm wishes to avail MSME exemptions for FY 2024-25. Is it eligible?

Solution

Yes, Ravi Traders qualifies as an **MSME** since it meets all five criteria: it is unlisted, not a bank/FI/insurance company, turnover < ₹250 crore, borrowings < ₹50 crore, and not a subsidiary/holding. Hence it can avail MSME exemptions in FY 2024-25.

Question 2: ICAI Study Material

Om Finserv LLP had a turnover of ₹180 crore and borrowings of ₹55 crore in FY 2023-24. It is not a listed entity or a financial institution or a subsidiary of any entity. Can it classify as an MSME and avail related exemptions in FY 2024-25?

Solution

No, Om Finserv LLP cannot be classified as an MSME because its borrowings exceeded ₹ 50 crore, which violates one of the key conditions for qualifying as an MSME. It will be treated as a Large entity and would have to comply fully with all the applicable Accounting Standards.

Question 3:

A company was classified as Non-SMC in 2021-22. In 2022-23 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2022-23. However, the accountant of the company does not agree with the same. Comment.

Solution

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of AS available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the FY 2022-23.

Question 4:

XYZ Ltd., with a turnover of ₹ 50 crores during the previous year and borrowings of ₹ 1 crore during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2021.

Solution

The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (AS) Rules, 2021.

Since, XYZ Ltd.'s turnover of ₹ 50 crores does not exceed ₹ 250 crores & borrowings of ₹ 1 crore is less than ₹ 50 crores, it is a small and medium sized company (SMC). In this case, AS 17 will not be applicable to XYZ Ltd.

Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 28 and AS 29 are also available to XYZ Ltd.

AS 21, 23, 25 & 27 is applicable only if Company is required or elects to prepare and present consolidated financial statements or interim financial report.