

TOPIC – 1

INTRODUCTION TO ACCOUNTING STANDARDS

TOTAL NO. OF QUESTIONS - 4

Question 1 (SM)

What are the issues, with which Accounting Standards deal?

Question 2 (RTP May'24)

Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II and Level III Level IV entities for the purpose of compliance of Accounting Standards in India.

- a) Rama Textiles whose turnover (excluding other income) exceeds ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- b) Star Industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- c) Newman Industries is having borrowings (including public deposits) less than rupees fifty lakh at any time during the immediately preceding accounting year.
- d) SS Finance is a financial institution carrying its business in India since last 10 years.
- e) DD Finance, holding company of SS Finance. (Entity mentioned at Point (v) above)
- f) Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.

Question 3 (SM):

XYZ Ltd., with a turnover of ₹ 50 crores during 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 31.3.20X1. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Question 4 (SM):

A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment.

SOLUTIONS OF ABOVE QUESTIONS**SOLUTION OF Q1**

Accounting Standards deal with the issues of

- (i) Recognition of events and transactions in the financial statements,
- (ii) Measurement of these transactions and events,
- (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and
- (iv) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

SOLUTION OF Q2

- a) Level III Entity – Rama textiles, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- b) Level III Entity – Star industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- c) Level IV Entity – Newman Industries is having borrowings (including public deposits) less than rupees fifty lakhs at any time during the immediately preceding accounting year.
- d) Level I Entity – SS is a financial institutions carrying its business in India since last 10 years.
- e) Level I Entity – DD finance, Holding company of SS finance (Entity mentioned in point (d) above).
- f) Level I Entity – Reliable co-operative banks carrying on banking business since last 15 years.

SOLUTION OF Q3

The question deals with the issue of Applicability of Accounting Standards for corporate entities.

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

As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are: “Small and Medium Sized Company” (SMC) means, a company-

- 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;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).

SOLUTION OF Q4

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3



Student Notes:-