

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

LEGAL PROVISION: COMPANIES ACT 2013

- Section 129 (1) of the Companies Act, 2013 requires companies to present their financial statements in accordance with the accounting standards notified under Section 133 of the Companies Act, 2013.
- Also, the auditor is required by Section 143(3)(e) to report whether, in his opinion, the financial statements of the company audited, comply with the accounting standards referred to in Section 133 of the Companies Act, 2013.
- As per Section 133 of the Companies Act, 2013, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA)

Criteria for classification of Non-company entities by ICAI

For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.

Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs).

Level	Criterion
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, are classified as Level I entities: (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 ₹ 250 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 ₹ 50 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 are classified as Level II entities: (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds ₹ 50 crore but does not exceed ₹ 250 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 ₹ 10 crore but not in excess of ₹ 50 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 Level I and Level II entities 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 ₹ 10 crore but does not exceed ₹ 50 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 ₹ 2 crore but not in excess of ₹ 10 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

Additional Requirements:

- (1) MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.
- (2) Where an entity, being 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 merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.
- (3) Where an entity has been covered in Level I & subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level I for 2 consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.
- (4) If an entity covered in Level II or Level III or Level IV 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.

- (5) If an entity covered in Level II or Level III or Level IV 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.
- (6) An entity covered in Level II or Level III or Level IV may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.
- (7) In respect of Accounting Standard (AS) 15, Employee Benefits, exemptions/ relaxations are available to Level II and Level III entities, under two subclassifications, 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. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these subclassifications.

EXEMPTIONS or RELAXATIONS FOR NON-COMPANY ENTITIES FALLING IN LEVEL II / LEVEL III AND LEVEL IV

	Level II	Level III	Level IV
AS not Applicable	AS 3, AS 17, AS 20, AS 21, AS 23, AS 25, AS 27	AS 3, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27	AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27, AS 28
AS applicable with Disclosure Exemptions	AS 19, AS 28, AS 29	AS 10, AS 11, AS 19, AS 28, AS 29	AS 10, AS 11, AS 13, AS 19, AS 26, AS 29
Applicable with Exemptions	AS 15	AS 15	AS 15, AS 22

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.

LIST OF ACCOUNTING STANDARDS (AS) IN INDIA

AS	AS TITLE	AS	AS TITLE
1	Disclosure of Accounting Policies	16	Borrowing Costs
2	Valuation of Inventories	17	Segment Reporting
3	Cash Flow Statements	18	Related Party Disclosures
4	Events Occurring after Bal. Sheet Date	19	Leases
5	Net P/L for the period, Prior Period Items & Changes in A/cing Policies	20	Earnings Per Share
6	Depreciation Accounting -Withdrawn-	21	Consolidated Financial Statements
7	Construction Contracts	22	Accounting for Taxes on Income
8	-Withdrawn-	23	Accounting for Investment in Associates in CFS
9	Revenue Recognition	24	Discontinuing Operations
10	Property, Plant & Equipment	25	Interims Financial Reporting
11	Effects of changes in Foreign Exchange Rates	26	Intangible assets

12	Accounting for Government Grants	27	Financial Reporting of Interest in Joint Ventures
13	Accounting for Investments	28	Impairment of assets
14	Accounting for Amalgamation	29	Provisions, Contingent Liabilities and Contingent Assets
15	Employee Benefits		

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

Company	Criterion
SMC (Inter Nov 2023) (5 Marks)	Small and Medium-Sized Company (SMC) as defined in Clause 2(e) of the Companies (Accounting Standards) Rules, 2021: "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. Explanation: For the purposes of clause 2(e), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period
Non-SMCs	Companies not falling within the definition of SMC are considered as Non-SMCs.

Same Additional requirements for Companies as was for non Companies

AS not applicable to SMC's in their entirety
AS 17 Segment Reporting AS 21* Consolidated Financial Statements AS 23* Accounting for Investments in Associates in Consolidated Financial Statements AS 25* Interim Financial Reporting AS 27* Financial Reporting of Interests in Joint Ventures *Applicable to only certain Non SMC's
AS in respect of which relaxations from certain requirements given to SMCs
AS 15 Employee Benefits AS 19 Leases AS 20 Earnings Per Share AS 28 Impairment of Assets AS 29 Provisions, Contingent Liabilities and Contingent Assets

Question 1

M/s Omega & Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2021. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

Solution

The question deals with the issue of Applicability of Accounting Standards to a noncorporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

Non-corporate entities which meet following criteria are classified as Level IV entities:

- (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees 10 crores in the immediately preceding accounting year.
- (ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed ₹ 2 crores at any time during immediately preceding accounting year
- (iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s Omega & Co. is less than ₹ 10 crores and borrowings less than ₹ 2 crores, it falls under Level IV non-corporate entities.

In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.

Question 2

Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards), Rules, 2021:

- a) A Pvt. Ltd., a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of ₹ 12 crores and borrowings of ₹ 5 crores.
- b) B Pvt. Ltd., has a turnover of ₹ 45 crores, other income of ₹ 7 crores & bank borrowings of ₹ 9 crores.

Solution

- a) As per the definition of SMC, a company will be a SMC, if it is not holding or subsidiary company of another company which is not a SMC. Since A Pvt. Ltd., is a subsidiary of another Company which is listed, on London Stock Exchange (and is therefore not a SMC), A Pvt. Ltd., cannot be a SMC. The turnover and borrowings are not relevant in this case.
- b) As per the definition of SMC, a company will be a SMC if its turnover does not exceed ₹ 250 crores or borrowings do not exceed ₹ 50 crore. For calculating this turnover, other income is not to be included. Since B Pvt. Ltd., has a turnover of ₹ 45 crores and borrowing of ₹ 9 crores, it will satisfy the definition and can be classified as SMC.

Question 3 *(ICAI Study Material)*

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 accounting standards 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 *(ICAI Study Material)*

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 question deals with the issue of Applicability of Accounting Standards for corporate & non-corporate.

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 3, AS 17, AS 21, AS 23, AS 27 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.

Question 5 *(RTP May 2022)*

A company with a turnover of ₹ 225 crores and borrowings of ₹ 51 crore during the year ended 31st March, 2021, 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 (Accounting Standards) Rules, 2021.

Solution:

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 ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

Question 6 (RTP May 2022)

An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

Solution:

Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards 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 Accounting Standards 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 the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.