

### The Institute of Chartered Accountants of India (Set up by an Act of Parliament)



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# Financial statements of Non-Corporate Entities

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#### Guidance Note on Financial Statements of Non-Corporate Entities

- ▶ GN issued on 8<sup>th</sup> August, 2023
- Effective for Financial Statements for Financial Statements covering on or after 01.04.2024.
- In case of corporate entities, the users or primary users of financial information are shareholders, regulators, potential investors, lenders, creditors and other stakeholders. These users need financial information of the reporting entities to make various economic decisions. Formats for financial statements of companies are specifically provided under Schedule III of the Companies Act, 2013.
- In case of the Non-Corporate entities, considering the wide spectrum of role and responsibilities performed by them, undoubtedly there are wide users/stakeholders of the financial information of these Non-Corporate entities. The users could be present and potential investors, employees, lenders, suppliers, other trade creditors, customers.

#### Guidance Note on Financial Statements of Non-Corporate Entities

- Further, in case of some Non-Corporate entities the users of financial information are similar to the corporate sector, e.g., many statutory corporations or authorities raise substantial financial resources from capital and financial markets. Therefore, the investors or lenders of such Non-Corporate entities have similar financial information needs as that of corporate investors.
- Financial Statements form the backbone for financial planning, analysis, benchmarking and decision making. If Non-Corporate entities follow high quality reporting framework, its financial statements faithfully represent its transactions and are more reliable, complete and comparable.

#### Applicability of Accounting Standards:

#### At present, there are three sets of Accounting Standards:

Indian Accounting Standards (Ind AS) for specified class of companies

Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021 for Companis other than those following Ind AS

Accounting Standards (AS) prescribed by ICAI for entities other than companies

# Indian Accounting Standards (Ind AS) for Companies

In view of global developments and importance of integrating local Accounting Standards with global financial reporting standards, keeping in view the Indian legal and economic scenario, IFRS converged Ind AS have been notified and are applicable to:

all listed companies and Non-Banking Financial Companies (NBFCs) and to unlisted companies and unlisted NBFCs with networth of INR 250 crores or more.

Ind AS are also applicable to holding/subsidiaries/joint ventures/associates companies of such companies.

# Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021 for companies other than those following Ind AS

- Companies that are not covered under Ind AS, as given in paragraph above, are required to apply Accounting Standards (AS) notified under the Companies Act as Companies (Accounting Standards) Rules, 2021.
- ▶ As on date, Accounting Standards (AS) 1 to 5, 7 and 9 to 29 are effective.
- As per the Companies (Accounting Standards) Rules, 2021, Small and Medium Companies (SMCs) are given certain exemptions/relaxations.

### Accounting Standards (AS) prescribed by ICAI for entities other than companies.

- ► ICAI, keeping in view the fact that the Accounting Standards (AS) notified under Companies Act will only be applicable to the companies, announced the scheme for applicability of Accounting Standards (AS) issued by ICAI to non-company entities. In this regard, the criteria for classification of non-company entities as decided by ICAI is given in **Appendix A**.
- It may be noted that for the purpose of applicability of Accounting Standards (AS), entities are classified into four categories viz., Level I, Level II, Level III and Level IV noncompany entities.
- Level I non-company entities are required to comply fully with all the AS.
- Level IV, Level III and Level II non-company entities are considered as Micro, Small and Medium Sized Entity (MSMEs) that have been granted certain exemptions/relaxations by the ICAI. The applicability of AS and exemptions/ relaxations thereof for MSMEs are given in **Appendix A**.

#### Classification of Non-company Entities

- All Business or Professional Entities, other than Companies incorporated under Companies Act and Limited Liability Partnerships incorporated under Limited Liability Partnership Act are considered to be Non-Corporate entities.
- Entities for business, commercial or other economic and social activities can be established under variety of structures and the most common structures are as follows:
- (a) Sole proprietorship firms
- (b) Hindu Undivided Family
- (c) Partnership Firms
  - i) Registered Partnership Firms
  - ii) Unregistered Partnership Firms

# Classification of Non-company Entities (Ctd..)

- (d) Association of Persons
  - i) Partnership firms not covered above ii) Body of Individuals iii) Resident welfare Association
- (e) Society registered under any law for the time being in force
- (f) Trust (private or public) registered under any law for the time being in force or unregistered.
- (g) Statutory Corporations, Autonomous bodies and Authorities
- (h) Any form of organisation that is engaged fully or partially in any Business or Professional activities.

### Classification of Non-company Entities (Appendix A, Annexure 1)

#### Levell

- Large size entities
- Are or to be listed
- Banks, Fis, Insurance
- •TO> 250 Crs
- Borrowings> 50 Crs
- Holding and subsidiary of any of above

#### Level

- Medium size entities
- TO > 50 Crs
- Borrowings > 10 Crs
- Holding and subsidiary of any of above

#### Level III

- Small size entities
- •TO > 10 Crs
- Borrowings > 2 Crs
- Holding and subsidiary of any of above

#### LevelIV

- Micro size entities
- Entities other than Level I, II and III.

#### Annexure 2

- ► The Accounting Standards issued by the ICAI, as on April 1, 2020, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2020, are:
- ► AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 3 Cash Flow Statements
- ▶ AS 4 Contingencies and Events Occurring After the Balance Sheet Date
- ▶ AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

#### Annexure 2 (ctd..)

- AS 7 Construction Contracts
- ► AS 9 Revenue Recognition
- ► AS 10 Property, Plant and Equipment
- ▶ AS 11 The Effects of Changes in Foreign Exchange Rates
- ► AS 12 Accounting for Government Grants
- ► AS 13 Accounting for Investments
- ► AS 14 Accounting for Amalgamations
- ► AS 15 Employee Benefits

#### Annexure 2 (ctd..)

- AS 16 Borrowing Costs
- ► AS 17 Segment Reporting
- ► AS 18 Related Party Disclosures
- ► AS 19 Leases
- ► AS 20 Earnings Per Share
- AS 21 Consolidated Financial Statements
- ▶ AS 22 Accounting for Taxes on Income
- ▶ AS 23 Accounting for Investments in Associates in Consolidated Financial Statements

#### Annexure 2 (ctd..)

- ► AS 24 Discontinuing Operations
- AS 25 Interim Financial Reporting
- ► AS 26 Intangible Assets
- ► AS 27 Financial Reporting of Interests in Joint Ventures
- ► AS 28 Impairment of Assets
- ► AS 29 Provisions, Contingent Liabilities and Contingent Assets

### Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities

- Level I entities are required to comply in full with all the Accounting Standards.
- Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities

#### (A) Accounting Standards applicable to Non-company entities

AS	Level II Entities	Level III Entities	Level IV Entities
AS 1	Applicable	Applicable	Applicable
AS 2	Applicable	Applicable	Applicable
AS 3	Not Applicable	Not Applicable	Not Applicable
AS 4	Applicable	Applicable	Applicable
AS 5	Applicable	Applicable	Applicable
AS 7	Applicable	Applicable	Applicable
AS 9	Applicable	Applicable	Applicable
AS 10	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 11	Applicable	Applicable with	Applicable with

Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities (ctd..)

		disclosures exemption	disclosures exemption
AS 12	Applicable	Applicable	Applicable
AS 13	Applicable	Applicable	Applicable with disclosures exemption
AS 14	Applicable	Applicable	Not Applicable (Refer note 2(C))
AS 15	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions
AS 16	Applicable	Applicable	Applicable
AS 17	Not Applicable	Not Applicable	Not Applicable
AS 18	Applicable	Not Applicable	Not Applicable
AS 19	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	Not Applicable	Not Applicable	Not Applicable
AS 21	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))

Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities (ctd..)

AS 22	Applicable	Applicable	Applicable only for current tax related provisions (Refer note 2(B)(vi))
AS 23	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))
AS 24	Applicable	Not Applicable	Not Applicable
AS 25	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))
AS 26	Applicable	Applicable	Applicable with disclosures exemption
AS 27	Not Applicable (Refer notes 2(C) and 2(D))	Not Applicable (Refer notes 2(C) and 2(D))	Not Applicable (Refer notes 2(C) and 2(D))
AS 28	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

- (i) 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.
- (ii) AS 11, The Effects of Changes in Foreign Exchange Rates (revised 2018) Paragraph 44 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.
- (iii) AS 13, Accounting for Investments
  Paragraph 35(f) relating to disclosures is not applicable to Level IV Non-company entities

- (iv) Accounting Standard (AS) 15, Employee Benefits (revised 2005)
  - (1) Level II and Level III Non-company entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the many paragraphs as per Guidance Note.
- (v) AS 19, Leases
  - (a) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to Level II Non-company entities.
  - (b) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III Noncompany entities.
  - (c) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures are not applicable to Level IV Non-company entities.

- (vi) AS 22, Accounting for Taxes on Income
  - (a) 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 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.
  - (b) 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.
- (vii) AS 26, Intangible Assets

Paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures are not applicable to Level IV Non-company entities.

- (viii) AS 28, Impairment of Assets
  - (a) 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. 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.
  - (b) Also, paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures are not applicable to Level III Non-company entities
- (ix) AS 29, Provisions, Contingent Liabilities and Contingent Assets (revised 2016)
  - Paragraphs 66 and 67 relating to disclosures are not applicable to Level II, Level III and Level IV Non-company entities.

- 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. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

#### What Are Financial Statements?

- Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes:
  - a balance sheet,
  - a statement of profit and loss,
  - a cash flow statement (where applicable) and
  - those notes and other statements and explanatory material that are an integral part of the financial statements.

The notes also include significant accounting policies as required by applicable Accounting Standards. They may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity.

### Formats of Financial Statements for Non-corporate Entities

- THERE ARE CERTAIN GENERAL INSTRUCTIONS GIVEN FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A NON-CORPORATE ENTITY, PRIMARILY BEING:
  - Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required
  - (a) narrative descriptions or disaggregations of items recognised in those statements; and
  - (b) information about items that do not qualify for recognition in those statements.
- ▶ Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be crossreferenced to any related information in the notes to accounts.

# Formats of Financial Statements for Non-corporate Entities (ctd..)

(i) Depending upon the Total Income of the Non-Corporate entity, the figures appearing in the Financial Statements may be rounded off as given below:—

Total Income	Rounding off	
(a) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.	
(b) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.	

(ii) Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

# Formats of Financial Statements for Non-corporate Entities (ctd..)

Except in the case of the first Financial Statements prepared by the Non-Corporate entity (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

### THANK YOU!

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