

AUDIT UPDATE

**Applicability of Accounting
Standards for Different classes
of Entities**



Applicability of Accounting Standards for Different Classes of Entities

- **Overview**

In order to make Financial Reporting of an entity comparable, transparent, complete and unbiased, different standards are issued from time to time. At present, there are three sets of Accounting Standards: -

- I. Indian Accounting Standards (Ind AS) notified under Companies (Indian Accounting Standards) Rules, 2015 for specified class of companies.
- II. Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, for companies other than those following Ind AS.
- III. Accounting Standards (AS) prescribed by ICAI for entities other than companies.
- IV. (*Refer link for further details on Applicability of AS on entities other than Companies:- <https://www.dpncindia.com/blog/revision-on-accounting-standards-applicability-criteria-for-classification-of-non-company-entities-applicable-w-e-f-01-04-2020/>)

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

In order to integrate local Accounting Standards with global financial reporting standards, IFRS converged Ind AS have been notified and are applicable to:

- All companies and NBFCs which are listed/or in process of listing inside or outside India on Stock Exchanges (other than companies listed on SME Exchanges)

- Unlisted companies and unlisted NBFCs having net worth of INR 250 crore or more
- Parent, Subsidiary, Associate and JV of above
- Implementation of Ind AS in the Insurance Sector and Schedule commercial Banks has been deferred till further notice.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.
- Applicable for both Consolidated and individual Financial Statements
- ❖ On 19 Feb 2015, MCA has issued first set of The Companies (Indian Accounting Standards) Rules, 2015. Thereafter MCA has amended/issued/Withdrawn time to time, Following are list of IND AS effective on as on date of this note:-
 - Ind AS 101: First-time Adoption of Indian Accounting Standards
 - Ind AS 102: Share-based Payment
 - Ind AS 103: Business Combinations
 - Ind AS 104: Insurance Contracts
 - Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations
 - Ind AS 106: Exploration for and Evaluation of Mineral Resources
 - Ind AS 107: Financial Instruments: Disclosures
 - Ind AS 108: Operating Segments
 - Ind AS 109: Financial Instruments
 - Ind AS 110: Consolidated Financial Statements
 - Ind AS 111: Joint Arrangements
 - Ind AS 112: Disclosure of Interests in Other Entities

- Ind AS 113: Fair Value Measurement
- Ind AS 114: Regulatory Deferral Accounts
- Ind AS 115: Revenue from Contracts with Customers
- Ind AS 116: Leases
- Ind AS 1: Presentation of Financial Statements
- Ind AS 2: Inventories
- Ind AS 7: Statement of Cash Flows
- Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Ind AS 10: Events after the Reporting Period
- Ind AS 12: Income Taxes
- Ind AS 16: Property, Plant and Equipment
- Ind AS 19: Employee Benefits
- Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance
- Ind AS 21: The Effects of Changes in Foreign Exchange Rates
- Ind AS 23: Borrowing Costs
- Ind AS 24: Related Party Disclosures
- Ind AS 27: Separate Financial Statements
- Ind AS 28: Investments in Associates and Joint Ventures
- Ind AS 29: Financial Reporting in Hyperinflationary Economies
- Ind AS 32: Financial Instruments: Presentation
- Ind AS 33: Earnings per Share
- Ind AS 34: Interim Financial Reporting
- Ind AS 36: Impairment of Assets
- Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets
- Ind AS 38: Intangible Assets
- Ind AS 40: Investment Property
- Ind AS 41: Agriculture

For detailed information on Ind AS in force refer below mentioned links:
https://www.icaai.org/post.html?post_id=12125

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

(I) Accounting Standards applicable to all companies other than those following Indian Accounting Standards (Ind AS) in their entirety but certain exemptions or Relaxations are given based status of companies whether Small and Medium Sized Companies (SMCs) and Non-Small and Medium Sized Companies (Non-SMCs). Companies Act,2013 does not define Non-SMCs, all Companies other than SMCs are Non-SMCs.

Here, Small and Medium-Sized Company (SMC) as defined in Clause 2(e) of the Companies (Accounting Standards) Rules, 2021:

- 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 two hundred and fifty crore rupees in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of fifty crore rupees 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.

A Company shall qualify as a Small and Medium Sized Company, if the conditions mentioned above are satisfied as at the end of the relevant accounting period.

Table Showing Applicability Different AS on SMCs and Non-SMCs

Accounting Standards (AS)	Non-SMCs	SMCs
AS 1 Disclosures of Accounting Policies	Applicable	Applicable
AS 2 Valuation of Inventories	Applicable	Applicable
AS 3 Cash Flow Statements	Applicable	Applicable
AS 4 Contingencies and Events Occurring After the Balance Sheet Date	Applicable	Applicable
AS 5 Net P/L for the Period, Prior Period Items and Changes in Accounting Policies	Applicable	Applicable
AS 7 Construction Contracts	Applicable	Applicable
AS 9 Revenue Recognition	Applicable	Applicable
AS 10 Property, Plant and Equipment	Applicable	Applicable
AS 11 The Effects of Changes in Foreign Exchange Rates	Applicable	Applicable
AS 12 Accounting for Government Grants	Applicable	Applicable
AS 13 Accounting for Investments	Applicable	Applicable
AS 14 Accounting for Amalgamations	Applicable	Applicable
AS 15 Employee Benefits	Applicable	Applicable with Certain Exemptions [#]
AS 16 Borrowing Costs	Applicable	Applicable
AS 17 Segment Reporting	Applicable	Not Applicable [#]

Accounting Standards (AS)	Non-SMCs	SMCs
AS 18 Related Party Disclosures	Applicable	Applicable
AS 19 Leases	Applicable	Applicable with Certain exemption [#]
AS 20 Earning Per Share	Applicable	Applicable with Certain exemption [#]
AS 21 Consolidated Financial Statements	Applicable	Applicable
AS 22 Accounting for Taxes on Income	Applicable	Applicable
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	Applicable	Applicable
AS 24 Discontinuing Operations	Applicable	Applicable
AS 25 Interim Financial Reporting ^{##}	Applicable	Applicable
AS 26 Intangible Assets	Applicable	Applicable
AS 27 Financial Reporting of Interest in Joint Ventures	Applicable	Applicable
AS 28 Impairment of Assets	Applicable	Applicable with Certain exemption [#]
AS 29 Provisions, Contingent Liabilities and Contingent Assets	Applicable	Applicable with Certain exemption [#]

#Exemptions or Relaxations for Small and Medium Sized Companies (SMCs) as defined in the Notification dated June 23, 2021, issued by the Ministry of Corporate Affairs, Government of India

1. Accounting Standards not applicable to SMCs in their entirety – **AS 17, Segment Reporting.**

2. Accounting Standards in respect of which relaxations from certain requirements have been given to SMCs:

a. **AS 15, Employees Benefit** – (Para 11 to 16 – related to short-term accumulating compensated absences which are non-vesting, Para 46 to 139 - which deal with discounting of amounts that fall due more than 12 months

Para 50 to 116 and para 117 to 123 of the Standard in respect of accounting for defined benefit plans

Para 129 to 131 of the Standard in respect of accounting for other long-term employee benefits)

b. **AS 19, Leases** – (Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures)

c. **AS 20, Earning Per Share** – (Disclosure of diluted earnings per share)

d. **AS 28, Impairment of Assets** – (SMCs are allowed to measure the 'value in use' on the basis of reasonable estimate or apply AS 28)

e. **AS 29, Provisions, Contingent Liabilities and Contingent Assets** – (Paragraphs 66 and 67 relating to disclosures)

##AS 25, Interim Financial Reporting, does not require a company to present interim financial report. It is applicable only if a company is required or elects to prepare and present an interim financial report.

From detailed information on AS in force refer below mentioned links:

<https://egazette.nic.in/WriteReadData/2021/227890.pdf>

Disclaimer

The information contained herein is in summary form based on Companies Act, 2013 read with Companies (Accounting Standards) Rules, 2021 & Companies (Indian Accounting Standards) Rules, 2015 as updated from time to time and Compendium of Accounting Standards Issued by ICAI. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Recipients should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.