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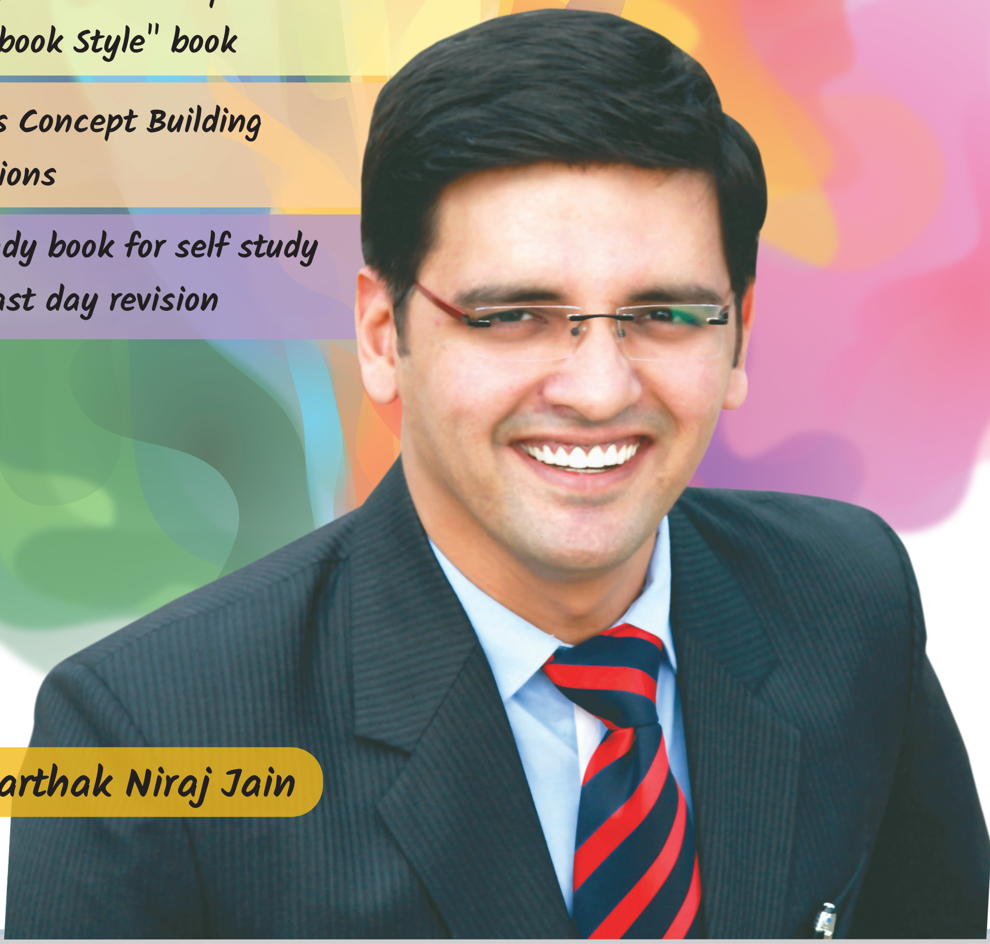

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Ind AS OVERVIEW OF ACCOUNTING STANDARDS

1 STATUS OF ACCOUNTING STANDARDS

In assessing whether an accounting standard is applicable, one must find correct answer to the following three questions.

(a) Does it apply to the enterprise concerned? If yes, the next question is:

(b) Does it apply to the financial statement concerned? If yes, the next question is:

(c) Does it apply to the financial item concerned?

The preface to the statements of accounting standards answers the above questions.

A. Enterprises to which the accounting standards apply?

1. Accounting Standards apply in respect of any enterprise (whether organised 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
2. 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).
3. 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.
4. 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.

B. Implication of mandatory status

1. Where the statute governing the enterprise does not require compliance with the accounting standards, e.g. a partnership firm, the mandatory status of an accounting standard implies that, in discharging their attest functions, the members of the Institute are required to examine whether the financial statements are

prepared in compliance with the applicable accounting standards.

2. In the event of any deviation from the accounting standards, they have the duty to make adequate disclosures in their reports so that the users of financial statements may be aware of such deviations.

3. It should nevertheless be noted that responsibility for the preparation of financial statements and for making adequate disclosure is that of the management of the enterprise.

4. The auditor's responsibility is to form his opinion and report on such financial statements.

5. 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

6. 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.

7. Where the financial statements of a company do not comply with the accounting standards, the company should disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviations as per Section 129(5) of the Companies Act, 2013.

C. Financial items to which the accounting standards apply

The Accounting Standards are intended to apply only to items, which are material. An item is considered material, if its omission or misstatement is likely to affect economic decision of the user.

D. Income Computation and Disclosure Standards

Section 145(2) of the Income Tax Act, 1961, empowers the Central Government to notify in the Official Gazette from time to time, Income Computation and Disclosure Standards to be followed by any class of assesses or in respect of any class of income.

The ten notified ICDSs are:

ICDS I	:	Accounting Policies
ICDS II	:	Valuation of Inventories
ICDS III	:	Construction Contracts
ICDS IV	:	Revenue Recognition

ICDS V	:	Tangible Fixed Assets
ICDS VI	:	The Effects of Changes in Foreign Exchange Rates
ICDS VII	:	Government Grants
ICDS VIII	:	Securities
ICDS IX	:	Borrowing Costs
ICDS X	:	Provisions, Contingent Liabilities and Contingent Assets

2 APPLICABILITY OF ACCOUNTING STANDARDS

For the purpose of compliance of the accounting Standards, the ICAI has issued an announcement on 'Criteria for Classification of Entities and Applicability of Accounting Standards'. As per the announcement, entities are classified into four levels. Level IV, Level III and Level II entities as per the said Announcement were referred to as Micro, Small and Medium Entities (MSMEs).

However, when the accounting standards were notified by the Central Government in consultation with the National Advisory Committee on Accounting Standards, the Central Government also issued the 'Criteria for Classification of Entities and Applicability of Accounting Standards' for the companies.

According to the 'Criteria for Classification of Entities and Applicability of Accounting Standards' as issued by the Government, there are two levels, namely, Small and Medium-sized Companies (SMCs) as defined in the Companies (Accounting Standards) Rules, 2021 and companies other than SMCs (Non-SMCs). Non-SMCs are required to comply with all the Accounting Standards in their entirety, while certain exemptions/ relaxations have been given to SMCs.

Criteria for classification of Non-company entities for applicability of AS

The Council of the ICAI, at its 400th meeting, held on March 18-19, 2021, considered the matter relating to applicability of Accounting Standards issued by the ICAI, to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after 1 April 2020.

1. 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). The criteria for classification of Non-company entities into different levels are given in Annexure 1.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively.

2. Level I entities are required to comply in full with all the Accounting Standards.

3. Certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities. Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 2.

4. This Announcement supersedes the earlier Announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribes the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non corporate entities' issued in January 2013.

5. This Announcement is not relevant for Non-company entities who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.

3 Annexure I

Criteria for classification of Non-company Entities as decided by the Institute of Chartered Accountants of India

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 rupees two-fifty 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 rupees fifty crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities 2

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 rupees fifty crore but does not exceed rupees two-fifty 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 rupees ten crore but not in excess of rupees fifty crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities 3

Non-company entities which are not covered under Level I and Level II 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 rupees ten crore but does not exceed rupees fifty 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 rupees two crore but does not exceed rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level IV Entities 4

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

Additional requirements

(1) An 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 and 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 two 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 AS:
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 sub-classifications, 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 sub-classifications.

Example 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 31.3.20X1. 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.

AS 1 DISCLOSURE OF ACCOUNTING POLICIES

1 PURPOSE

To promote better understanding of financial statements by requiring disclosure of significant accounting policies in orderly manner. The standard also requires disclosure of changes in accounting policies.

2 FUNDAMENTAL ACCOUNTING ASSUMPTIONS

A. Going Concern

The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

Financial statements prepared on going concern basis recognise among other things the need for sufficient retention of profit to replace assets consumed in operation and for making adequate provision for settlement of its liabilities.

B. Consistency

The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods. The consistency improves comparability of financial statements through time. An accounting policy can be changed if the change is required

(i) by a statute

(ii) by an accounting standard

(iii) for more appropriate presentation of financial statements.

C. Accrual basis of accounting

Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid. Accrual basis ensures better matching between revenue and cost and profit/loss obtained on this basis reflects activities of the enterprise during an accounting period, rather than

AS-29 : Provisions, Contigent Liabilities & Contigent Assets

4. Measurement

(Determination amount of Provision to be made or CL to be disclosed)

- **A** Resonable estimate
- **B** Pre-tax
- **C** No Ad-hoc provision
- **D** Provision not to be recognised in present value except DSR cost as per AS 10
- **E** Provision to be used for purpose it is made. If not more required to be reversed i.e. Cr. to P/L
- **F** Provisions in excess of requirements are to shown as reserves ← Schedule III
- **G** Provision made should be used for their intended purpose
- **H** If multiple outcomes are possible then probability based or weighted average estimate be made.

Eg. Company has a pending litigation where probability of win is 40%; loose medium damages of 100,000 is 50% and loose high damages of 300,000 is 10%
How to account?

Ans. Pending litigation → Obligation exist present obligation with a total of 60% chance to loose, means more likely (probable) that entity will loose. Hence Prov. made for reliable estimate

Amount using	Amount of loss	%	Wt. amount
Probability weights	NIL	40%	NIL
	100,000	50%	50,000
	300,000	10%	30,000
"Prov. to be made of" ₹.			80,000

4 A. Schdule III Provision Vs Reserves

	Provision	Reserves
1	Made against P/L i.e. charge against profit	Made out of P/L i.e. appropriation of profit
2	Decrease Profit	Fall in distributable profit
3	For known existing liability	For future contigencies

1. Provision in excess of requirement is secret reserves
2. Reserve or provision is named fund if amount is set aside and invested for the funding the future cash outflow

5. Contigent Asset

Definition

Is a possible asset that arises out of past events the existence of which will be confirmed only by occurrence/non-occurrence of uncertain future event not wholly in control of enterprise

Contingent Asset
- Possible / Probable → Do not recognise in FS Do not even disclose in FS However, entity may disclose in BoD's Report
- Virtually Certain → Realisation Certainity
  - Doubtful → Do not recognise in FS Do not even disclose in FS However, entity may disclose in BoD's Report
  - Yes → Recognise as an asset

Recognition

AS-29 states that cont. asset should not be recognised as such assets may lead to recognisition income which entity may never earn.

Eg. Legal claims on 3rd parties, contract incentives, etc. However, if it is VIRTUALLY CERTAIN that such assets would be realised then it should be recognised as it is no more regarded as contingent

Eg. Contract had incentive payable on early completion (within 5 years) Company has completed 99% of work in 3rd year and it is virtually certain to complete 100% in next year & Company also estimates that incentive will be paid → Recognise incentive in 3rd year itself

6. Reimbursements

When under a contract entity stands to recover its loss/expense payable to another person from 3rd partly, then it is termed as reimbursements

AS-29 states REIMBURSEMENTS can be recognised in the FS if it is certain to be recovered when the liability is settled. However reimbursements can be recognised max. to extent of liability/loss.

Eg. Insurance claims, Cross guarantee, Indemnity clause, etc

How to Present Reimbursements

- **Situation 1** → Entity liable to customer, and entitled to recover from supplier
  - BS
    - Provision for est. amount of liability and → Do Not Net-off
    - Separate reimbursements assets recognised if certain to realise when liab. Is paid (max. to extent of provision) → Do Not Net-off
  - PL → Net expense to be shown
- **Situation 2** → Entity is not liable to pay to customer, unless supplier pays. → No provision or reimb. asset is recognised as entity has no liability

AS-29 : Provisions, Contigent Liabilities & Contigent Assets

7. Restructuring/ Discontinuing of Operations

Definition

It is a programme that is planned and controlled by management and materially changes either;

- (a) The scope of business undertaken by the enterprise;

or

- (b) Manner in which it is conducted

Accounting Impact

Obligating Event Rule applies

- If entity has made a detailed formal plan of restructuring and
- Is committed to it
  - By either entering into agreement; or
  - Making public announcement to those affected by it

Both before BS date, than obligating event of C.Y and then this accounting done (Else no accounting or disclosure)

Then there exists an obligation to provide for:	Examples
Restructuring costs, but not	**Provision to be made:** Settlement with labour union, out of court settlement, Bonus committment etc.
(a) Future operating costs or	Marketing, New employees , New technology, Training, etc. (No provision created now, as no obligating event)
(b) Impairment losses on assets or	AS-28 (not AS-29) however may apply
(c) Future expansion cost	Future operating costs (no obligation)

* Provision for Restructuring Cost only made when the obligating event happens before BS date and not after BS date (even if it is before approval of FS)

8. Onerous Contracts

- Loss making contracts
- Expense to execute the contract is more than income from contracts
- 100% of estimated loss to be provided for immediately.

Eg. Non-cancellable operating lease of asset with no FEB.

- Loss is lower of: Excess costs or Penalty for cancellation

9. Disclosure

Contigent liability

Level I/II/III
1. Description of contigent liability, Chances of liability arising, Amount (if not practicable, state so)
2. Contigent Asset usually disclosed in directors report unless certain + reimbursement of loss/ liability

- AS 29 requires estimates of provision to be reviewed every year end
- If disclosure of any contigent liability prejudice the interest of company any legally or otherwise, entity may disclose without details & descriptions
- Propose dividend w.e.f 01/04/2016 only disclosed in FS & not short term provision

Provision

Excempted for SMC

Level I/II
1. Description of each class of provision
2. Chances of liability arising
3. Amount
4. Contigent Asset recognized as reimbursement of such provision.

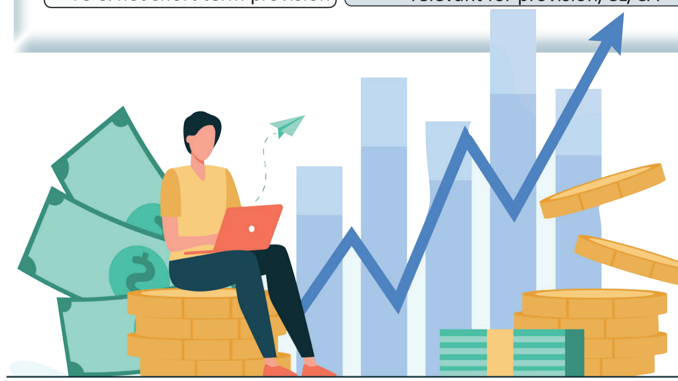
Level I
For each class of provision
1. Opening
2. Addition for year
3. Used/ reversed
4. Closing

Schdule III requires disclosure of:

a) Contigent Liability
- Claim not acknowledged as debt
- Guarantee, acceptance endorsement
- Others

b) Capital Commitment
- Commitment for capex
- Partly paid investment
- Other

Additionally event occuring after BS date relevant for provision/CL/CA



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