

## APPLICABILITY OF AS

### Question 1 (RTP Nov 20) (MTP Mar'24)

NB Pg. No.

What are the issues, with which Accounting Standards deal?

(4 Marks)

#### Solution:

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.

### Question 2 (RTP Sep'25)

NB Pg. No.

Explain the revised classification of Non-company entities for the applicability of Accounting Standards as per ICAI's August 2024 announcement.

#### Solution:

As per the ICAI's revised announcement (August 2024), non-company entities are classified into two categories for the purpose of applicability of Accounting Standards:

1. Micro, Small and Medium Sized Entities (**MSMEs**)
2. **Large Entities**

A non-company entity is classified as an MSME if it satisfies all the following conditions:

- Its equity or debt securities are **not listed, nor in the process of listing**, on any stock exchange (India or abroad).
- It is **not a bank, financial institution, or insurance** company.
- Its **turnover** (excluding other income) **does not exceed ₹250 crore** in the immediately preceding accounting year.
- Its **borrowings do not exceed ₹50 crore** at any time during the immediately preceding accounting year.
- It is **not a holding or subsidiary of** an entity that is **not an MSME**.

A non-company entity that does not satisfy any one or more of the above conditions is classified as a Large Entity.

### Question 3

NB Pg. No.

What are the key disclosure requirements for MSMEs availing exemptions under Accounting Standards.

#### Solution:

As per the revised ICAI announcement, the following key disclosures are required when MSMEs avail exemptions or relaxations under the Accounting Standards:

#### 1. General Disclosure:

An MSME that avails any exemption or relaxation must disclose in its financial statements:

- That it is an MSME as per the ICAI definition.
- That it has complied with Accounting Standards applicable to MSMEs.

#### 2. Partial Exemption Disclosure:

If an MSME opts not to avail exemptions in respect of certain Standards but avails them for others, it must specify:

- The Standards for which it has availed exemption/relaxation.
- The Standards for which full compliance has been made.

### 3. Loss of MSME Status:

If an MSME no longer qualifies in the current accounting period, it must:

- Apply full AS requirements from the current year.
- Disclose that it had availed exemptions in the prior year.
- Clarify that previous year figures are not revised solely due to change in classification.

### 4. Newly Qualifying MSME:

A non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for two consecutive years. Until then, full AS compliance is required.

These disclosures ensure transparency and help financial statement users understand the basis of preparation and compliance with applicable standards.

#### Question 4

**NB Pg. No.**

Ravi Traders, an unlisted partnership firm, had a turnover of ₹230 crore and borrowings of ₹45 crore during the financial year 2023–24. It is not a bank, financial institution, or insurance company, and also not a subsidiary of any other entity. The firm wishes to avail MSME exemptions for FY 2024–25. Is it eligible?

#### Solution:

Yes, Ravi Traders **qualifies as an MSME** since it meets all five criteria: it is unlisted, not a bank/FI/insurance company, turnover < ₹250 crore, borrowings < ₹50 crore, and not a subsidiary/holding. Hence it can avail MSME exemptions in FY 2024–25.

Further, it has been assumed that Ravi Traders is not newly qualifying as an MSME in FY 2024-25 because a non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for two consecutive years. Until then, full AS compliance is required.

#### Question 5

**NB Pg. No.**

Om Finserv LLP had a turnover of ₹180 crore and borrowings of ₹55 crore in FY 2023–24. It is not a listed entity or a financial institution or a subsidiary of any entity. Can it classify as an MSME and avail related exemptions in FY 2024–25?

#### Solution:

No, Om Finserv LLP **cannot be classified as an MSME because its borrowings exceeded ₹ 50 crore**, which violates one of the key conditions for qualifying as an MSME. It will be treated as a Large entity and would have to comply fully with all the applicable Accounting Standards.

#### Question 6 (Past Exam Nov'23)

**NB Pg. No.**

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

#### 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 ₹ 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).

**Question 7**
**NB Pg. No.**

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.

**Solution:**

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.

**Question 8 (RTP May'22)**
**NB Pg. No.**

- 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.
- 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:**

- 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.

- b) 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.