

APPLICABILITY OF ACCOUNTING STANDARDS FOR NON-CORPORATE ASSESSEES

Issue is being raised whether the Institute of Chartered Accountants of India (ICAI) should develop separate accounting standards for small enterprises/non corporate assessee. There may be three alternative view point: -

- (a) The Institute of Chartered Accountants of India (ICAI) should not develop special accounting standards for small enterprises/non corporate assessee. All the accounting standards presently issued should be regarded as suitable for all entities including small enterprises/non corporate assessee.
- (b) The Institute of Chartered Accountants of India (ICAI) should develop special accounting standards for small enterprises/non corporate assessee because of the following –
 - Who are the users of the financial statements?
 - How the financial statements are used?
 - The depth and breadth of accounting expertise available to the small enterprises/non corporate assessee; and
 - Their ability to bear the costs of following the same standards as the larger, publicly accountable entities
- (c) The Institute of Chartered Accountants of India (ICAI) should modify/relax the requirement of the existing accounting standard for Small and medium enterprises (SMEs) /non-corporate assessee keeping in view their requirement. Here question may arise what types of modifications/relaxations should be done in existing accounting standard to make them suitable for Small and medium enterprises/non corporate assessee (SMEs). Whether modification/relaxations should be made to ***the recognition and measurement principles*** in accounting standards or modifications/relaxations should be done only for disclosure requirements as prescribed in existing accounting standards. As per the notification issued by the ICAI in Oct. 2003 there is no relaxation to Small and medium enterprises (SMEs) /non corporate assessee as regards to the ***recognition and measurement principles*** however notification makes relaxations in disclosure requirements for Small and medium enterprises (SMEs) /non corporate assessee in some cases.

Applicability of Accounting Standards effective 01.04.2004

The Institute of Chartered Accountants of India (ICAI) have notified in October 2003 certain relaxation in applicability of accounting standards after due consideration of the representations from industry and profession. The relaxations have been guided by the Small and Medium sized Enterprises (SMEs)/ non-corporate assessee's level of preparedness and cost benefit analysis of Accounting Standards compliance in case of reporting and disclosure standards. The accounting standards applicability has been revised as under in respect of accounting periods commencing on or after 01.04.2004. For the purpose of applicability of accounting standards, enterprises are classified into three categories-

- Level -I enterprise
- Level-II enterprise
- Level-III enterprise

Level –I enterprise- Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level-I enterprises:

- Enterprise whose equity or debt securities are listed whether in India or outside India.
- Enterprises, which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
- Banks including co-operative banks.
- Financial institutions.
- Enterprises carrying on insurance business
- All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crores. Turnover does not include 'other income'.
- All commercial, industrial and business reporting enterprise having borrowings, including public deposits, in excess of Rs. 10 crores at any time during the accounting period.
- Holding and subsidiary enterprise of any one of the above at any time during the accounting period.

Level-II Enterprise- Enterprises, which are not Level-I enterprises but fall in any one or more of the following categories, are classified as Level-II enterprises:

- All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crores. Turnover does not include 'other income'.
- All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crores at any time during the accounting period.

Level-III enterprise- Enterprises, which are not covered under Level-I and Level- II, are considered as Level-III enterprises.

Applicability of Accounting Standard to Level I- All the 29 Accounting standards are fully applicable to Level-I enterprises.

Applicability of Accounting Standard to Level II and III enterprises (SMEs) - For the purpose of applicability of accounting standard to Level-II enterprises, the case can be divided into three categories:

- Accounting standards fully applicable
- Accounting standards applicable but relaxation from certain disclosure requirements.
- Accounting standards not applicable

Accounting Standards fully applicable

AS-1, AS-2, AS-4, AS-5, AS-6, AS-7, AS-8, AS-9, AS-10, AS-11, AS-12, AS-13, AS-14, AS-15, AS-16, AS-22, AS-26 and AS-28.

AS-28, "Impairment of Assets" is applicable

- For Level-I enterprises w.e.f. 1.4.2004
- For Level-II enterprises w.e.f. 1.4.2006 and,
- For Level-III enterprises w.e.f. 1.4.2008.

Accounting Standards applicable but relaxation from certain disclosure requirements

As prescribed in AS-19, AS-20, and AS-29.

Accounting Standards not applicable

AS-3, AS-17, AS-18, AS-24, AS-21, AS-23, AS-25 and AS-27 are not applicable because of existing regulation in India.

**TABLE SHOWING APPLICABILITY/NON APPLICABILITY OF ALL THE
TWENTY-NINE ACCOUNTING STANDARDS**

Number of the Accounting Standard (AS)	Title of the Accounting Standard	Whether applicable to Small enterprises/non corporate assesses
AS1	Disclosure of Accounting Policies	Applicable
AS 2 (Revised)	Valuation of Inventories	Applicable
AS 3 (Revised)	Cash Flow Statement	<i>Not Applicable</i>
AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date	Applicable
AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Applicable
AS 6 (Revised)	Depreciation Accounting	Applicable
AS 7 (Revised)	Accounting for Construction Contracts	Applicable
AS 8	Withdrawn and included in AS-26	-
AS 9	Revenue Recognition	Applicable
AS 10	Accounting for Fixed Assets	Applicable
AS11 (Revised)	The Effects of Changes in Foreign Exchange Rates (Revised 2003)	<i>Applicable but maximum portion of AS not relevant to the non corporate assesses</i>
AS 12	Accounting for Government Grants	<i>Applicable but not relevant as most of the non corporate assesses do not get Govt. grants</i>
AS 13	Accounting for Investments	Applicable
AS 14	Accounting for Amalgamations	<i>Not Applicable</i>
AS 15	Accounting for Retirement Benefits in the Financial Statements of Employers	Applicable
AS 16	Borrowing Costs	Applicable
AS 17	Segment Reporting	<i>Not Applicable</i>
AS 18	Related Party Disclosures	<i>Not Applicable</i>
AS 19	Accounting for Leases	<i>Applicable but relaxation in disclosure requirements</i>
AS 20	Earning Per Share	<i>Not Applicable</i>
AS 21	Consolidated Financial Statements	<i>Not Applicable</i>
AS 22	Accounting for Taxes on Income	<i>Applicability postponed for sole proprietor and partnership firm till 01.04.2006</i>
AS 23	Accounting for Investment in Associates in Consolidated Financial Statements	<i>Not Applicable</i>
AS 24	Discontinuing Operations	<i>Not much relevant</i>
AS 25	Interim Financial Reporting	<i>Not relevant</i>
AS 26	Intangible Assets	<i>Applicable but maximum portion of the AS not relevant</i>
AS 27	Financial Reporting of Interests in Joint Venture	<i>Applicable but not relevant</i>
AS 28	Impairment of Assets	<i>Applicable but not relevant</i>
AS-29	Provisions, Contingent liabilities and Contingent Assets.	Applicable

Accounting Standards issued under section 145(2) of the Income-tax Act, 1961

In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies the following accounting standards to be followed by all the assessee following mercantile system of accounting namely: –

- (a) Accounting Standard I relating to disclosure of accounting policies;
- (b) Accounting Standard II relating to disclosure of prior period and extra ordinary items and changes in accounting policies

The above two accounting standards issued under section 145(2) are similar in all respects to corresponding accounting standards, AS-1 and AS-5 issued by the Institute of Chartered Accountants of India (ICAI)

Compliance of Accounting Standards and the requirements of Form No.3CD

The compliance of Accounting Standards should be ensured while filling Form No.3CD. If the accounting standards are not complied with the financial statements will not give a true and fair view.
