

## ANNOUNCEMENT

### Revised Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
2. **Micro, Small and Medium Sized Entity (MSME)** means, a non-company entity:
  - (i) 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;
  - (ii) which is not a bank, financial institution or an insurance company;
  - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
  - (iv) which does not have borrowings in excess of fifty crore rupees at any time during the immediately preceding accounting year; and
  - (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

**Explanation.-** For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

**Large entity** is a non-company entity that is not an MSME.

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. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.
4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.
5. This Announcement supersedes the earlier Announcement of the ICAI on '**Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021**'.<sup>1</sup>
6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind AS) or Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.
7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

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<sup>1</sup> The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded 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 prescribed 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.

### **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 and has complied with the Accounting Standards insofar as they are applicable to an MSME.
- (2) Where an MSME 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 an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it 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) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.
- (4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME 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 MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.
- (6) An MSME may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead users of financial statements.

### Applicability of Accounting Standards to Non-company Entities

The Accounting Standards issued by the ICAI, as on April 1, 2024, 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, 2024, 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
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
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
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

**(1) Applicability of the Accounting Standards to Large Non- company entities.**

Large entities are required to comply in full with all the Accounting Standards.

**(2) Applicability of the Accounting Standards and exemptions/relaxations for Micro, Small and Medium sized Non-company entities**

***(A) Accounting Standards not applicable to Micro, Small and Medium sized entity (MSME) in their entirety***

- (i) Accounting Standards not applicable to all MSMEs in their entirety:
- AS 3, *Cash Flow Statements*

- AS 17, *Segment Reporting*
  - AS 20, *Earnings per Share*
  - AS 24, *Discontinuing Operations*
- (ii) AS 18, *Related Party Disclosures* and AS 28, *Impairment of Assets* not applicable in their entirety to MSMEs :
- a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
  - b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and
  - c) which is not a Holding and subsidiary of an MSME not covered above.

**(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)**

- (i) Accounting Standard (AS) 10, *Property, Plant and Equipment*  
MSMEs may not comply with paragraph 87 relating to encouraged disclosures.
- (ii) AS 11, *The Effects of Changes in Foreign Exchange Rates*  
MSMEs may not comply with paragraph 44 relating to encouraged disclosures.
- (iii) AS 15, *Employee Benefits*
- (1) MSMEs may not comply with the following paragraphs:
- (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
  - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
  - (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
  - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
- (iv) AS 19, *Leases*  
MSMEs may not comply with 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.
- (v) AS 22, *Accounting for Taxes on Income*
- (a) MSMEs shall comply with 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 an MSME avails this exemption, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

(vi) AS 26, *Intangible Assets*

MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.

(vii) AS 28, *Impairment of Assets*

(a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] 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 such MSME 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) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.

(viii) AS 29, *Provisions, Contingent Liabilities and Contingent Assets*

MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.

**(C)** In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, *Accounting for Amalgamations*, or jointly controlled operations or jointly controlled assets covered under AS 27, *Financial Reporting of Interests in Joint Ventures*. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

**(D)** 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.