

## B.Com. Hons. Semester-IV

### CC-8 Accounting Standard [BCOMHACCC401]

#### Unit-2 Applicability of Accounting Standards

Compiled By  
Sukumar Paitandi  
Dept. of Commerce  
Raniganj Girls' College

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#### Applicability of Accounting Standards to Non-Corporate Entities:

Non-corporate entities are entities other than companies (as defined in the Companies Act, 2013). It includes

1. Cooperative society and charitable entity if they carry on any commercial, industrial or business activities (even if a very small portion), in such cases AS will apply to its entire activity (whether charitable or otherwise)
2. Partnership firms and sole proprietary concerns
3. Societies registered under Societies registration Act, Hindu Undivided Family (HUF) and Association of Person (AOP).

Non-corporate entities are not under any obligatory requirement to follow accounting standards, but if such entities are required to get its financial statements attested, it will be duty of member of institute (CA in practice) to examine whether AS have been complied with. So indirectly, non-corporate entities are also required to follow accounting standards on the basis of level in which it falls.

Levels of non-corporate entities are discussed below:

<i>Level</i>	<i>Conditions</i>	<i>Accounting Standards applicable</i>
<i>Level I</i>	<ul style="list-style-type: none"> <li>• Entities whose equity or debt instruments are listed or are in process of listing on any stock exchange (in or outside India)</li> <li>• Banks (including co-operative banks), financial institutions or entities carrying on Insurance business</li> <li>• All commercial, industrial or business reporting entities having:               <ul style="list-style-type: none"> <li>• Borrowings &gt; 10 crores (at any time during immediately preceding accounting year)</li> <li>• Turnover &gt; 50 crores (during preceding accounting year)</li> </ul> </li> <li>• Holding or subsidiary entities of any of the above.</li> </ul>	All the accounting standards are applicable to Level I entities. However AS 21, 23 and 27 will apply based on regulatory requirement.
<i>Level II</i>	<ul style="list-style-type: none"> <li>• Other than Level I entities if they fall under the following limit.</li> <li>• All commercial, industrial or business reporting entities having:               <ul style="list-style-type: none"> <li>• Borrowings &gt; 1 crores (at any time during</li> </ul> </li> </ul>	<i>Fully applicable AS</i> All accounting standards are applicable to Level II entities except AS 21, 23, 25, 27 and those discussed below.

	immediately preceding accounting year) • Turnover > 10 crores (during preceding accounting year) • Holding or subsidiary entities of any of the above.	<i>AS applicable but certain relaxations regarding disclosure requirement</i> <u>AS 19</u> - Leases <u>AS 20</u> - Earning Per Share <u>AS 29</u> – Provisions, contingent liabilities and contingent assets.
		<i>Accounting standards not applicable</i> <u>AS 3</u> - Cash Flow Statement <u>AS 17</u> – Segment Reporting
<i>Level III</i>	• All non-corporate entities other than Level I and Level II.	In addition to partial and full exemption as given in Level II, full exemption with respect to these two are also available: <u>AS 18</u> – Related Party Disclosures <u>AS 24</u> – Discontinuing Operations

### **Applicability of Accounting Standards to Co-operative Societies:**

- Accounting Standards are applicable to the Co-operative Societies.
- Their recognition, measurement and disclosure criteria will depend on, the level to which the society belongs.
- Following are some of the accounting standards along with some of the essential points that must be considered while conducting audit of a co-operative society.

1. AS 1 Disclosure of Accounting policies
2. AS 2 Valuation of Inventories
3. AS 3 Cash Flow Statement
4. AS 4 Contingent Events & Event after Balance Sheet Date
5. AS 5 Prior Period Items & Change in Estimates
6. AS 6 Depreciation Accounting
7. AS 9 Revenue Recognition
8. AS 10 Accounting for Fixed Assets
9. AS 14 Accounting for Amalgamation
10. AS 15 Employee Benefits
11. AS 16 Borrowing Costs
12. AS 17 Segment Reporting
13. AS 18 Related Party Transactions
14. AS 20 Earning Per Share
15. AS 22 Accounting for Taxes on Incomes
16. AS 26 Intangible Assets
17. AS 28 Impairment of Assets
18. AS 29 Provision for Contingencies

### **Applicability Of Accounting Standards To Charitable Entities**

Accounting Standard Board (ASB) has given an opinion in September 1995. The relevant text of the opinion is reproduced below: “The Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members”

The reference to commercial, industrial or business enterprises in the aforesaid paragraph is in the context of the nature of activities carried on by an enterprise rather than with reference to its objects. It is quite possible that an

enterprise has charitable objects but it carries on, either wholly or in part, activities of a commercial industrial or business nature in furtherance of its objects. The Board believes that Accounting Standards apply in respect of commercial, industrial or business activities of any enterprise, irrespective of whether it is profit oriented or is established for charitable or religious purpose. As, will not, however, apply to those activities, which are not of a commercial, industrial or business nature. (E.g. an activity of collecting donations and giving them to flood affected people).

It is clear from the above that the Accounting Standards are applicable to Charitable Entities whose some, or more, of the activities are commercial or business in nature. However, it is very difficult to determine what the exact meaning of commercial is or business activities with reference to Charitable Entities. Charitable Entities are not meant for earning profit out of their activities. Even if profit is derived from some of the activities the profit is ploughed back or returned to the beneficiaries.

### **Applicability Of Accounting Standards To Companies:**

IND AS shall be adopted by specific classes of companies based on their Net worth and listing status. Let's see the each of the phases in detail below:

#### **Phase I**

Mandatory applicability of IND AS to all companies from 1st April 2016, provided:

- It is a listed or unlisted company
- Its Net worth is greater than or equal to Rs. 500 crore\*

\*Net worth shall be checked for the previous three Financial Years (2013-14, 2014-15, and 2015-16).

#### **Phase II**

Mandatory applicability of IND AS to all companies from 1st April 2017, provided:

- It is a listed company or is in the process of being listed (as on 31.03.2016)
- Its Net worth is greater than or equal to Rs. 250 crore but less than Rs. 500 crore (for any of the below mentioned periods).

Net worth shall be checked for the previous four Financial Years (2014-14, 2014-15, 2015-16, and 2016-17)

#### **Phase III**

Mandatory applicability of IND AS to all Banks, NBFCs, and Insurance companies from 1st April 2018, whose:

- Net worth is more than or equal to INR 500 crore with effect from 1st April 2018.

IRDA (Insurance Regulatory and Development Authority) of India shall notify the separate set of IND AS for Banks & Insurance Companies with effect from 1st April 2018. NBFCs include core investment companies, stock brokers, venture capitalists, etc. Net Worth shall be checked for the past 3 financial years (2015-16, 2016-17, and 2017-18)

#### **Phase IV**

All NBFCs whose Net worth is more than or equal to INR 250 crore but less than INR 500 crore shall have IND AS mandatorily applicable to them with effect from 1st April 2019.

If IND AS become applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.

In case of foreign operations of an Indian Company, the preparation of stand-alone financial statements may continue with its jurisdictional requirements and need not be prepared as per the IND AS.

However, these entities will still have to report their IND AS adjusted numbers for their Indian parent company to prepare consolidated IND AS accounts.

The major standards are listed here below:

Ind AS 101	First-time adoption of Ind AS
Ind AS 102	Share Based payments

Ind AS 103	Business Combination
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 1	Presentation of Financial Statements
Ind AS 2	Inventories Accounting
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after Reporting Period
Ind AS 11	Construction Contracts
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant and Equipment
Ind AS 17	Leases
Ind AS 18	Revenue
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

### Weblogography:

<http://www.accountingnotes.net/accounting-standards/>  
<https://www.toppr.com/guides/principles-and-practice-of-accounting/accounting-standards/>  
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