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- Strictly as per Latest Syllabus of ICAI
- Coverage of Past Exam Questions including Nov. 2023 Exam (Solved)
- Chapter-wise Marks Distribution & Trend Analysis of Past Exams
- Coverage of Selected Questions from RTPs and MTPs of ICAI
- Questions in each chapter arranged sub-topic wise based on Para No. of each Ind AS

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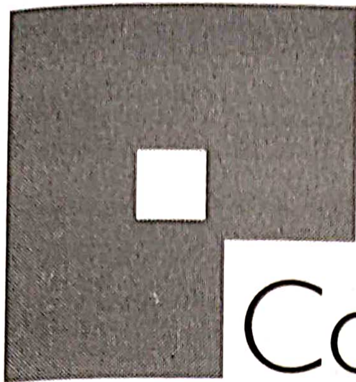
AS PER NEW SCHEME OF ICAI
APPLICABLE FOR MAY 2024 ONWARD EXAMS
Group-I Paper-1

8th Edition



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CHAPTER 1

INTRODUCTION TO ACCOUNTING STANDARDS

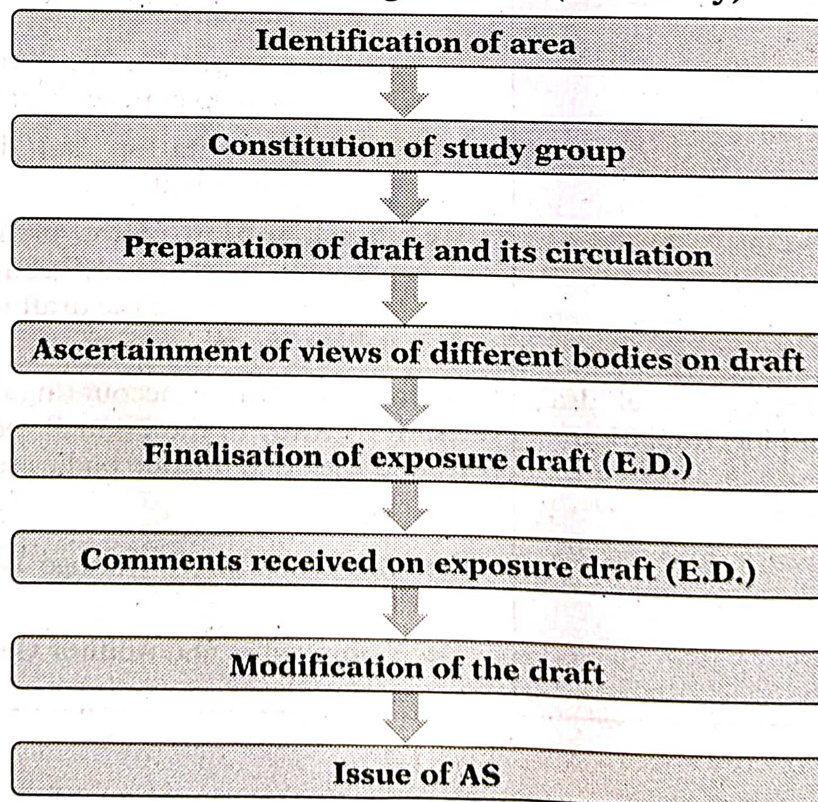
Q.1 Briefly explain the process of issuance of Indian Accounting Standards.

Ans. The standard-setting procedure of ASB can be briefly outlined as follows:

Steps	Particulars	Remarks
Step I	Identification of area	Identification of broad areas by ASB for formulation of AS.
Step II	Constitution of study groups	◆ Constitution of study groups by ASB to consider specific projects and to prepare **preliminary drafts** of the proposed accounting standards. ◆ The draft normally **includes:** (*a*) objective and scope of the standard; (*b*) definitions of the terms used in the standard; (*c*) recognition and measurement principles wherever applicable; and (*d*) presentation and disclosure requirements. ◆ **Consideration** of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.
Step III	Preparation of draft and its circulation	**Circulation of draft** of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as: ◆ MCA; ◆ Securities and Exchange Board of India (SEBI); ◆ Comptroller and Auditor General of India (C&AG);

Steps	Particulars	Remarks
		◆ Central Board of Direct Taxes (CBDT); ◆ Standing Conference of Public Enterprises (SCOPE), etc. for comments.
Step IV	Ascertainment of views of different bodies on draft	**Meeting with the representatives** of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard.
Step V	Finalization of exposure draft (E.D.)	**Finalization of the exposure draft** of the proposed accounting standard and its issuance inviting public comments.
Step VI	Comments received on exposure draft (E.D.)	**Consideration of comments** received on the exposure draft and finalization of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
Step VII	Modification of the draft	**Consideration of the final draft** of the proposed standard by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.
Step VIII	Issue of AS	The accounting standard on the relevant subject (for non-corporate entities) is then issued by the ICAI. For corporate entities the accounting standards are issued by the **Ministry of Corporate Affairs in consultation with the NFRA.**

Standard – Setting Process (Summary)



Q. 2 Explain the significance of emergence of IFRS as Global Standards.

Ans. Few key aspects which required the need for convergence are as under:

1. **Raising funds from international markets:**

   Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin.

   Therefore, translation and reinstatements are of utmost importance in a world that is rapidly globalizing in all ways.

2. **Comparability of Financial Statements:**

   International analysts and investors would like to compare financial statements based on similar ASs, and this has led to the growing need for an internationally accepted set of ASs for cross-border filings. The harmonization of financial reporting around the world will help to raise confidence of investors, generally, in the information they are using to make their decisions and assess their risks.

3. **Uniformity, Comparability Transparency etc.:**

   A strong need was felt by legislation to bring about uniformity, rationalization, comparability, transparency and adaptability in financial statements. Having a multiplicity of types of ASs around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and may facilitate fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public. Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.

4. **Global Investment:**

   The convergence of financial reporting and ASs is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment.

Q.3 What do you mean by Carve outs/ins in Ind AS? Explain.

Ans. The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather

than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating Ind AS, efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

These changes have been made considering various factors, such as:

S. No.	Particulars	Remarks
1.	Carve outs	**Difference in economic environment:** Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as **'Carve-outs'.**
2.	Carve Ins	**Additional guidance** given in Ind AS over and above what is given in IFRS, is termed as **'Carve in'.**
3.	Not resulting in carve outs	**Removal of options in accounting principles and practices:** Removal of options in accounting principles and practices in Ind AS *vis-a-vis* IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will **not result into carve outs.**

CHAPTER 2

FRAMEWORK FOR PREPARATION & PRESENTATION OF FS

THEORY QUESTIONS

Q.1 With regard to financial statements name any four:

(1) Users

(2) Qualitative characteristics

(3) Elements.

(RTP Nov. 2015, RTP Nov. 2017, RTP May. 2019, RTP Nov. 2020)

Ans.

(1) Users of financial statements:

a. Investors

b. Employees

c. Lenders, Supplies/Creditors

d. Customers

e. Government & Public

(2) Qualitative Characteristics of Financial Statements:

a. Understandability

b. Relevance

c. Comparability

d. Reliability

e. Faithful Representation

(3) Elements of Financial Statements:

a. Asset

b. Liability

c. Equity

d. Income/Gain

e. Expense/Loss

Q.2 Write short note on main elements of Financial Statements.
(May. 2017, 4 Marks, May. 2018, 4 Marks RTP May 2018)

Ans. The framework classifies items of financial statements can be classified in five broad groups depending on their economic characteristics:

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Q.3 Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.
(Nov. 2016, 4 Marks, MTP April 2018, MTP March 2019, MTP March 2021, RTP Nov. 2018)

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain the brief.
(Dec. 2021, 4 Marks, RTP Nov. 2021)

Ans. The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

These bases are:

1. **Historical Cost:**

   Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.

2. Current Cost:

Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. Realizable (Settlement) Value:

As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; *i.e.* the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. Present Value:

Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Q.4 What are the qualitative characteristics that improve the usefulness of information provided in the financial statements?
(Nov. 2011, 4 Marks, May 2013, 4 Marks, Nov. 2020, 4 Marks)

Ans. The following qualitative characteristics will help in improving the usefulness of the information provided in the financial statements:

1. Understandability:

Information in financial statements should be presented in a manner that the users with reasonable knowledge of business and economic activities and accounting, may readily understand it. All relevant information should be given therein.

2. Relevance:

The relevance of a piece of information should be judged by its materiality *i.e.* whether its omission or misstatement can influence economic decisions of users or not. No relevant information should be withheld on the grounds of complexity.

3. Reliability:

The information is said to be reliable when transactions and events reported are represented faithfully and also when they are reported in terms of their substance and economic reality. Prudence concept is also used whenever required.

4. Comparability:

The financial statements should permit both inter-firm and intra firm comparison. One essential feature or requirement of comparability is disclosure of financial effect of change in accounting policies.

Q.5 "One of the characteristics of the financial statement is neutrality." Do you agree with this statement? Explain in brief.

(Nov. 2018, 5 Marks MTP Aug. 2018)

Ans. Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, *i.e.* they must be neutral.

SECTION II PRACTICAL PROBLEMS

Q.6 ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.

(May 2017, 4 Marks, MTP Aug. 2018, MTP Oct. 2018, MTP March 2022)

Ans. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured.

In the above case, ABC Ltd. should recognize a liability of ₹ 4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset.

In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of ₹ 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

Q.7 A Ltd. entered into a binding contract with C Ltd. to buy a machine for ₹ 1,00,000. The machine is to be delivered on 15th February, 2009. On 1st January, 2009, A Ltd. changed its process of production. The new process will not require the machine ordered and it shall have to be scrapped after delivery. The expected scrap value of the machine is nil.

Explain how A Ltd. should recognize the entire transaction in the books of account for the year ended 31st March, 2009.

(Nov 2009, 2 Marks, RTP May 2020, MTP Oct. 2020 (Figures X 4 Times))

Ans. A Ltd. entered into a binding contract with C Ltd. and therefore, it should recognize a liability of ₹ 1,00,000. The entire amount of purchase price of the machine should be recognized in the year ended 31st March, 2009 as loss because future economic benefit from the machine to the enterprise is improbable.

The accounting entry should be as follows:

Particulars	₹	₹
Profit and Loss A/c Dr.	1,00,000	
To C Ltd. (Being value of machinery fully depreciated because of change in the process of production *i.e.* obsolescence)		1,00,000

Q.8 Shankar started a business on 1st April, 2017 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shankar in the year 2017-18 if Financial Capital is maintained at Historical cost.

(May 2018, 4 Marks, RTP Nov. 2013, RTP May 2015, RTP Nov, 2018)

Ans.

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 × 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units × ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 - 12,00,000)

Therefore, ₹ 6,00,000 is the maximum amount which can be withdrawn by Shankar in the year 2017-18 if the Financial Capital Maintenance is maintained at Historical Cost.

Q.9 Explain how financial capital is maintained at historical cost?

Kishore started a business on 1st April, 2019 with ₹ 15,00,000 represented by 75,000 units of ₹ 20 each. During the financial year ending on 31st March, 2020, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost. ***(Jan. 2021, 5 Marks, RTP May 2021 (Similar))***

Ans. Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.

Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 × 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units × ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus ₹ 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

Q.10 A trader commenced business on April 1, 2020 with ₹ 120,000, represented by 6000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit.

Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount. ***(July 2021, 4 Marks)***

Ans.

Physical Capital Maintenance at Current Cost:

Particulars	Amount
Specific price index applicable to the product is	125 (25/20 × 100)
Current cost of opening stock = (₹ 1, 20,000/100) × 125 or 6,000 units × ₹ 25 =	₹ 1, 50,000

Particulars	Amount
Current cost of closing cash = (₹ 1, 80,000 – ₹ 60,000)	₹ 1,20,000
Opening equity at closing current costs	₹ 1,50,000
Closing equity at closing current costs	₹ 1,20,000
Retained Profit = ₹ 1,20,000 – ₹ 1,50,000	(-) ₹ 30,000

Interpretation:

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1,20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:

Particulars	Amount
Current cost of opening stock	₹ 1,80,000
Opening equity at closing current costs	₹ 1,50,000
Retained Profit = ₹ 1,80,000 – ₹ 1,50,000 =	₹ 30,000

Thus, if the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

Q.11 Mille started a business on 1-4-2022 with a capital of ₹ 15,00,000. She purchased 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 unit till 31-3-2023.

You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at :

(*i*) Historical Cost

(*ii*) Current Purchasing Power

(Opening index at 100 closing index at 125)

(*iii*) Physical Capital Maintenance

(Price per unit at the end of year is ₹ 1,350) ***(May 2023, 5 Marks)***

Ans.

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 1,500 × 1,500 units)	22,50,000 represented by cash
Opening equity	1,500 units × ₹ 1,000 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 - 15,00,000)

Therefore, ₹ 7,50,000 is the maximum amount which can be withdrawn by Mille in the year if the Financial Capital Maintenance is maintained at Historical Cost.

Q.12 Mrs. A is showing the consolidated aggregate opening balance of equity, liabilities and assets of ₹ 6 lakh, 4 lakh and 10 lakh respectively. During the current year Mrs. A has the following transactions:

1. **Received 20% dividend on 10,000 equity shares of ₹ 10 each held as investment.**
2. **The amount of ₹ 70,000 is paid to creditors for settlement of ₹ 90,000.**
3. **Salary is pending by ₹ 20,000.**
4. **Mrs. A's drawing ₹ 20,000 for her personal use.**

You are required to prepare the statement of the effect of aforesaid each transaction on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction. ***(Dec. 2021, 4 Marks)***

Ans.

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	Assets ₹ lakh	–	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	10.00	–	4.00	=	6.00
(1) Dividend earned	10.20 [10.00+0.20]	–	4.00	=	6.20 [6.00+0.20]
(2) Settlement of Creditors	9.50 [10.20-0.70]	-	3.10 [4.00-0.90]	=	6.40 [6.20+0.20]
(3) Salary Outstanding	9.50	–	3.30 [3.10+0.20]	=	6.20 [6.40-0.20]
(4) Drawings	9.30 [9.50-0.20]	–	3.30	=	6.00 [6.20-0.20]

Q. 13 As on 1st April, 2021 opening Balance Sheet of Mr. Mohanty is showing the aggregate value of Assets, Liabilities and Equity at ₹ 12 Lakhs, 3 Lakhs and 9 lakhs respectively.

During the accounting period 1-4-2021 to 31-3-2022, Mr. Mohanty has the following transactions :

(1) A liability of ₹ 50,000 was finally settled at a discount of 2%.

(2) Dividend earned @ 15% on 1000 (F.V. ₹ 100 each) Equity shares held @ ₹ 12,000.

(3) Rent of the premises paid ₹ 20,000.

(4) Mr. Mohanty withdrew ₹ 10,000 for personal purposes and also withdrew Goods worth ₹ 5,000 for personal purposes.

(5) ₹ 15,000 were received against Bill Receivables.

You are required to show the effect of the above transactions on Balance Sheet in the form of Assets - Liabilities = Equity equation after each transaction. ***(May 2023, 5 Marks)***

Ans. Effect of each transaction on Balance sheet of Mr. Mohanty is shown below:

Transactions	Assets ₹ lakh	–	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	12.00		3.00	=	9.00
(1) Settlement of Liability	[0.49]	–	[0.50]		0.01
	11.51		2.50		9.01
(2) Dividend earned	0.15	–		=	0.15
	11.66		2.50		9.16
(3) Rent paid	[0.20]	–		=	[0.20]
	11.46		2.50		8.96
(4) Drawings	[0.15]	–		=	[0.15]
	11.31		2.50		8.81
(5) B/R received	0.15 – 0.15	–		=	
	11.31		2.50		8.81

3

CHAPTER

APPLICABILITY OF ACCOUNTING STANDARDS

WHAT ARE ACCOUNTING STANDARDS (AS)? : WHAT ARE THE ADVANTAGES/BENEFITS OF AS?

Q.1 What are Accounting Standards?
Explain the issues, with which they deal.
(RTP Nov. 2018, RTP May 2013, RTP Nov. 2020, Nov. 2017, 5 Marks)

Ans.

What are Accounting Standards: Accounting Standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.

Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

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** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Q.2 "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements."

Discuss and explain the benefits of Accounting Standards.
(Nov. 2018, 4 Marks, MTP Nov. 2021, Nov. 2022, 4 Marks)

Ans.

What are Accounting Standards: Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements.

Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(*i*) **Standardization of alternative accounting treatments:**

Accounting Standards reduce to a reasonable extent, confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(*ii*) **Requirements for additional disclosures:**

There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(*iii*) **Comparability of financial statements:**

The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

CLASSIFICATION OF ENTERPRISES – BY ICAI : (LEVEL I, II AND III ENTITIES)

Q.3 List the criteria to be applied for rating a non-corporate entity as Level-II entity for the purpose of compliance of Accounting Standards in India. ***(RTP May 2018)***

Ans. Non-corporate 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 commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(*ii*) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in

excess of rupees ten crore at any time during the immediately preceding accounting year.

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

EXEMPTIONS FROM AS : (BASED ON ICAI DIRECTIVE)

Q.4 List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India. (*Jan. 2021, 5 Marks*)

Ans. Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:

Non-corporate 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 equity or debt 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 commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(*iv*) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

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

EXEMPTIONS FROM AS : [BASED ON COMPANIES (ACCOUNTING STANDARDS) RULES, 2006]

Q.5 XYZ Ltd., (a corporate entity) with a turnover of ₹ 35 lakhs and borrowings of ₹ 10 lakhs 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 31.3.2017.

Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2006.

If XYZ is a partnership firm is there any other exemptions additionally available. (*RTP, May 2019*)

Ans. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (AS) Rules, 2006.

As per the Companies (AS) Rules, 2006, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

(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 rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) 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 of ₹ 35 lakhs does not exceed ₹ 50 crores & borrowings of ₹ 10 lakhs is less than ₹ 10 crores, it is a small and medium sized company

The following relaxations and exemptions are available to XYZ Ltd.:

1. AS 3 ("Cash Flow Statements") is not mandatory.
2. AS 17 ("Segment Reporting") is not mandatory.
3. SMEs are exempt from some paragraphs of AS 19 ("Leases").
4. SMEs are exempt from disclosures of diluted EPS (both including and excluding extraordinary items).
5. SMEs 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 under AS 28 ("Impairment of Assets").
6. SMEs are exempt from certain disclosure requirements of AS 29 ("Provisions, Contingent Liabilities and Contingent Assets").
7. SMEs are exempt from certain requirements of AS 15 ("Employee Benefits").
8. Accounting Standards 21, 23, 27 are not applicable to SMEs.

Q.6 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. ***(RTP, May 2022)***

Ans. 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.