

# Balance Sheet — Line Items, Classification & Disclosures

*As per Guidance Note on Financial Statements of  
Non-Corporate Entities (August 2023)*

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# Overview — ICAI Guidance Note on Financial Statements of NCEs

## About the Guidance Note:


- Issued by the Accounting Standards Board (ASB) of ICAI in August 2023; supersedes the Technical Guide of June 2022
- Applies to: Sole proprietorships, partnership firms, HUF, AOP, BOI, trusts, societies engaged in commercial activities
- Does NOT apply to: Companies (Schedule III), LLPs (corporate form), entities with specific formats prescribed by law
- **Non-compliance must be disclosed by the auditor — may result in a modified audit opinion**

## Complete Set of Financial Statements includes:

- Balance Sheet (Statement of Financial Position)
- Statement of Profit and Loss
- Cash Flow Statement — Mandatory for Level I / Large NCEs; encouraged but NOT mandatory for MSMEs
- Notes to Accounts — including significant accounting policies and explanatory information
- Comparative figures for the immediately preceding period — mandatory for ALL items

# General Principles for Balance Sheet Presentation

- **Balance Sheet must present a TRUE AND FAIR VIEW of the financial position as at the end of the reporting period**
- Assets and Liabilities **MUST** be classified as Current and Non-Current — mandatory under the Guidance Note
- Operating Cycle: If not clearly identifiable, assumed to be 12 months
- 'Owners' Funds' used instead of 'Equity' — since some items may not strictly meet the definition of equity
- Nil items: If a line item has zero balance in both the current AND preceding period and omission does not affect true and fair view — it may be omitted
- Items shall cross-reference related information disclosed in the notes to accounts
- Measurement unit (₹, ₹ in thousands, ₹ in lakhs, ₹ in crores) — once selected, used uniformly throughout all financial statements
- Additional line items may be added on the face of the Balance Sheet when relevant to understanding the entity's financial position, for industry-specific requirements, or AS compliance

 *Presentation in the prescribed format is NOT optional. If not adopted, the auditor MUST disclose this in the audit report.*

# Balance Sheet Structure — Vertical Format

## EQUITY AND LIABILITIES

### A. OWNERS' FUNDS

Capital Account (each partner/proprietor separately)

Reserves & Surplus (if any)

Partners' Current Accounts (if maintained separately)

### B. NON-CURRENT LIABILITIES

Long-term Borrowings

Deferred Tax Liabilities (Level I NCEs only)

Other Non-Current Liabilities

Long-term Provisions

### C. CURRENT LIABILITIES

Short-term Borrowings

Trade Payables

## ASSETS

### A. NON-CURRENT ASSETS

Property, Plant & Equipment (Net Block)

Capital Work-in-Progress

Intangible Assets

Non-Current Investments

Long-term Loans & Advances

Other Non-Current Assets

### B. CURRENT ASSETS

Current Investments

Inventories

Trade Receivables

Cash & Cash Equivalents

# A

## EQUITY & LIABILITIES

*Owners' Funds | Non-Current Liabilities | Current Liabilities*

# (A) Owners' Funds — Capital Account

*Owners' Funds = Residual interest of proprietor/partners after deducting all liabilities. 'Owners' Funds' is used instead of 'Equity' as certain items may not meet the strict definition of equity.*

## (i) Capital Account — Movement

ADD	Opening balance of capital
ADD	Capital introduced / additional contributions
ADD	Share of profit for the year
ADD	Interest on capital (per deed)
ADD	Partner's salary / remuneration (per deed)
LESS	Drawings — cash, goods, assets
LESS	Share of loss for the year
=	Closing balance of capital

## (ii) Reserves & Surplus | (iii) Partners' Current A/c

General Reserve — accumulated undistributed profits

Revaluation Reserve — cannot be distributed as profit (AS 10)

Capital Reserve — capital-nature profit, not distributable

Any other specific reserves maintained by the entity

Deficit (accumulated loss) — deducted from Reserves & Surplus

### Partners' Current Account

Partners' Current Accounts — if maintained separately from Capital Account

Reflects fluctuating entries: drawings, salary, interest, profit share

Capital Account then reflects only permanent capital contributions

Whether to combine or separate depends on the partnership deed

*Capital Account movement must show opening to closing reconciliation for EACH partner separately. A bare closing figure is NOT adequate.*

## (B) Non-Current Liabilities — Obligations NOT due within 12 months

### (i) Long-term Borrowings

Term loans from banks (outstanding principal net of current maturities)

Term loans from financial institutions

Debentures / bonds issued by the entity


Loans from partners — when repayable beyond 12 months

Loans from family members / relatives of proprietor

Inter-firm loans from related concerns payable beyond 12 months

Mortgage loans, vehicle loans — non-current portion only

 **Disclosure: Rate of interest | Security offered | Repayment terms | Nature of each loan**

 *Current maturities of long-term borrowings (EMIs due within 12 months) MUST be reclassified to Current Liabilities — they CANNOT remain under Long-term Borrowings.*

### (ii) Deferred Tax Liabilities (Net)

Only for Level I / Large NCEs | MSMEs FULLY EXEMPT under AS 22 | Only where Turnover > ₹250 Crore

### (iii) Other Non-Current Liabilities

Security deposits received (refundable > 12 months) | Advance against long-term contracts | Retention money payable > 12 months

### (iv) Long-term Provisions

Provision for gratuity (AS 15 defined benefit — annual provision mandatory) | Provision for leave encashment | Provision for warranty (> 12 months) | Decommissioning / site restoration cost provision (AS 29)

## (C) Current Liabilities — Obligations due within 12 months

- **(i) Short-term Borrowings**
  - Cash credit / overdraft facilities from banks
  - Working capital demand loans from banks
  - Short-term loans from partners (repayable within 12 months)
  - Short-term loans from relatives / friends (unsecured)
  - Bills discounted / bills payable (short-term)
- **Current maturities of LT borrowings — RECLASSIFIED from Non-Current**
  - Interest accrued but not due on borrowings
  - Interest accrued and due (overdue interest)
- **(ii) Trade Payables**
  - Creditors for raw materials, consumables, packing materials
  - Creditors for services — advertising, transport, utilities
  - Bills of exchange accepted and payable
- **(iii) Other Current Liabilities**
  - Advances received from customers (for future goods/services)
  - Unearned revenue — income received in advance not yet earned
  - Statutory liabilities — GST, TDS, TCS, PF, ESIC, PT payable
  - Salary and wages payable — accrued but not yet paid
  - Bonus payable — minimum 8.33% accrued
  - Rent / electricity / telephone payable — accrued expenses
  - Outstanding liabilities — expense incurred, bill not received/paid
  - Deferred revenue — grant/subsidy received, conditions not met
  - Interest payable to partners on their loan accounts
- **(iv) Short-term Provisions**
  - Provision for income tax (current year)

# B

# ASSETS

*Non-Current Assets | Current Assets*

## (A)(i) Non-Current Assets — Property, Plant & Equipment (Fixed Assets)

Presented as: **Gross Block (Original Cost) LESS Accumulated Depreciation = Net Block (Carrying Amount)**

Land	Freehold (no depreciation); Leasehold (amortised over lease term)
Buildings	Factory, commercial premises, godown, office building
Plant & Machinery	Manufacturing equipment, processing machinery, generators
Furniture & Fixtures	Office furniture, shop fittings, shelving
Office Equipment	Computers, printers, servers, air-conditioners
Vehicles	Commercial vehicles, cars — ONLY if exclusively used for business
Electrical Installations	Wiring, sub-station, DG set, lighting
Tools & Equipment	Heavy tools, jigs, dies, moulds
CWIP — Capital Work-in-Progress	Cost of assets under construction not yet commissioned — shown SEPARATELY

*PPE movement schedule (Gross Block, Additions, Disposals, Depreciation, Net Block) is MANDATORY in Notes for all NCEs including MSMEs — it cannot be*

# (A) Non-Current Assets — Intangible Assets & Non-Current Investments

## Intangible Assets

- **(ii) Intangible Assets**
- Purchased Goodwill — paid for on acquisition of a business
- Trademarks and Brand Names — acquired from outside
- Franchise Rights and Licences
- Computer Software — standalone (not integral to hardware)
- Non-Compete Agreements paid for
- Patents and Copyrights
- All shown at Cost less Accumulated Amortisation
- Intangible Assets under Development — development phase costs (AS 26)
- **⚠ Internally generated goodwill, brands, mastheads, customer lists — NEVER recognised**

## Non-Current Investments

- **(iii) Non-Current Investments**
- Investments in shares of companies — held > 12 months
- Government securities / bonds — held to maturity
- Mutual funds — intended to be held > 12 months
- Investment in partnership firms (by a proprietary concern)
- Investment property — land/building held for capital appreciation
- Fixed Deposits maturing after 12 months
- Valued at Cost less provision for other-than-temporary diminution (AS 13)
- **Annual review for diminution is mandatory — provision for permanent diminution → P&L**

## (A) Non-Current Assets — Long-term Loans & Advances | Other Non-Current Assets

- **(iv) Long-term Loans & Advances**
- Security deposits paid — landlords, electricity boards, telephone departments (receivable after 12 months)
- Loans given to employees — long-term portion (repayable beyond 12 months)
- Capital advances — advance paid for purchase of fixed assets (will become PPE)
- Advance income tax paid (net of provision) — if settlement expected beyond 12 months
- MAT credit entitlement (for applicable entities)
- Loans to related parties — long-term portion
- Prepaid expenses — portion accruing after 12 months
- **(v) Other Non-Current Assets**
- Deferred Tax Assets — ONLY for Level I (Large) NCEs under AS 22; MSMEs are fully exempt
- Long-term bank deposits — FDs pledged as security or maturing beyond 12 months
- Miscellaneous expenditure to the extent not written off (preliminary expenses, deferred revenue expenditure if any)

## (B) Current Assets — Inventories & Current Investments

### Inventories

- **(ii) Inventories (AS 2)**
- Raw Materials — purchased and held for production
- Work-in-Progress (WIP) — goods at intermediate production stage
- Finished Goods — goods ready for sale
- Stock-in-Trade — goods purchased for resale (trading stock)
- Stores and Spares — consumables, packing materials, maintenance spares
- Loose Tools
- Goods-in-Transit — if risks & rewards have passed to entity
- Valuation: Lower of Cost or NRV (item-by-item); FIFO or Weighted Average only — LIFO NOT permitted

### Current Investments

- **(i) Current Investments (AS 13)**
- Mutual fund units — intended to be redeemed within 12 months
- Fixed Deposits maturing within 12 months (not pledged)
- Short-term government securities
- Listed shares / debentures held for short-term trading
- Valued at Lower of Cost or Fair Value (individual basis)
- Current Investments CANNOT be clubbed with Non-Current Investments — must be shown separately
- **(iii) Trade Receivables (partial — continued next slide)**
- Amounts due from customers for goods sold / services rendered
- Bills of exchange receivable / bills discounted with recourse

## (B) Current Assets — Trade Receivables & Cash and Cash Equivalents

### Trade Receivables

- (iii) Trade Receivables
- Amounts due from customers in the normal course of business
- Bills of exchange receivable
- Debtors for export sales
- Retention money receivable from contractors
- **MANDATORY BIFURCATION — Outstanding for > 6 months from DUE DATE | Outstanding for ≤ 6 months**
- Further split: Secured vs. Unsecured | Good vs. Doubtful
- Less: Provision for doubtful debts — deducted from gross Trade Receivables
- Note: 6-month period is from DATE OF DUE, not invoice date

### Cash & Cash Equivalents

- (iv) Cash and Cash Equivalents
- Cash on Hand — petty cash, cash at all branches
- Balances with Banks — in current accounts
- Balances with Banks — in savings accounts
- Fixed Deposits maturing within 3 months (cash equivalents)
- Cheques / DDs in hand not yet deposited
- Remittances in transit / outstanding remittances
- **FDs maturing in 3–12 months = 'Other Bank Balances' (current asset, not cash equivalent)**
- **FDs maturing after 12 months = Non-Current Investment — NOT cash and cash equivalents**

## (B) Current Assets — Short-term Loans & Advances | Other Current Assets

### Short-term Loans & Advances

- **(v) Short-term Loans & Advances**
- Advances to suppliers / vendors for goods or services to be received
- Advances to employees — salary advances, travel advances
- Prepaid expenses — insurance, rent, subscription (within 12 months)
- GST Input Tax Credit (ITC) recoverable / balance with GST authorities
- TDS receivable / advance tax paid (short-term settlement expected)
- Security deposits — expected to be received back within 12 months
- Receivable from government — subsidy, duty drawback, MEIS / RoDTEP

### Other Current Assets

- **(vi) Other Current Assets**
- Interest accrued on investments / bank deposits / loans given
- Dividend receivable — declared but not yet received
- Insurance claims receivable — estimated amount due from insurer
- Export incentives receivable — duty drawback, RoDTEP credits
- Unbilled revenue — services rendered but not yet invoiced (% completion)
- Other receivables not covered under Trade Receivables



# NOTES TO ACCOUNTS

*Mandatory Disclosures under the Guidance Note*

# Notes — (1) Significant Accounting Policies | (2) PPE Schedule

## Significant Accounting Policies

- **(1) Significant Accounting Policies — Note 1 (Mandatory)**
- Basis of preparation and presentation (historical cost, accrual basis)
- Method of depreciation and useful life for each class of PPE
- Method of valuation of inventories (FIFO / Weighted Average)
- Revenue recognition policy for each revenue stream
- Policy for provisions, contingent liabilities, contingent assets
- Policy for foreign exchange transactions (AS 11)
- Employee benefits — gratuity, leave encashment method
- Borrowing costs — capitalisation policy (AS 16)
- Investments — current vs. long-term; valuation basis

## PPE Movement Schedule

- **(2) PPE Movement Schedule — Mandatory for ALL NCEs**
- Gross Block at beginning of year
- Additions during the year (capital expenditure)
- Disposals / write-offs during the year
- Gross Block at end of year
- Accumulated Depreciation at beginning of year
- Depreciation charged during the year
- Depreciation on disposals / write-offs
- Accumulated Depreciation at end of year
- Net Block = Gross Block minus Accumulated Depreciation
- Capital Work-in-Progress — shown separately
- **⚠ This schedule is MANDATORY for ALL NCEs including MSMEs. It cannot be omitted.**

## Notes — (3) Borrowings | (4) Trade Payables — MSMED | (5) Trade Receivables

- **(3) Borrowings Disclosure**
- For each borrowing: Nature | Rate of interest | Terms of repayment | Security offered | Secured vs. Unsecured
- For partner's loans: Rate of interest, whether at arm's length, outstanding balance
- Current maturities separately identified and shown under Current Liabilities
- **(4) Trade Payables — MSMED Act, 2006 Disclosure**
- Amount due to Micro, Small and Medium Enterprises
- Principal outstanding for > 45 days — separately disclosed
- Interest due and payable (if payment delayed beyond 45 days)
- Interest paid on delayed payments | Interest accrued but not due
- Amount of further interest remaining due in succeeding year
- **(5) Trade Receivables Disclosure**
- Outstanding > 6 months from due date — separately stated
- Outstanding  $\leq$  6 months from due date — separately stated
- Secured vs. Unsecured | Good vs. Doubtful bifurcation for each ageing bucket
- Provision for doubtful debts — opening, additions, write-offs, closing

# Notes — (6) Contingent Liabilities | (7) Related Parties | (8) Capital Account

- **(6) Contingent Liabilities & Commitments (AS 29)**
- Claims against the entity not acknowledged as debts
- Guarantees given on behalf of others | Letters of Credit opened
- Income tax / GST / sales tax demands under dispute or appeal
- Capital commitments — contracts for capital expenditure not yet executed
- **⚠ Most small firms do NOT disclose contingent liabilities. This is a significant non-compliance.**
- **(7) Related Party Transactions — AS 18 (Level I & Larger MSMEs)**
- Names and relationships | Nature and amount of transactions
- Outstanding balances at year-end | Terms — whether at arm's length
- Guarantees involving related parties | Rent to partners / spouses
- MSMEs with TO < ₹50 Cr AND Borrowings < ₹10 Cr: Exempt from AS 18
- **(8) Partners' Capital Account Movement — Mandatory**
- Opening balance | Capital introduced | Profit share | Interest on capital
- Salary / remuneration credited | Commission credited | Drawings
- **Capital movement for EACH partner must be shown separately — combined figure not adequate**

## Current vs. Non-Current Classification — Quick Reference

Item	Classification	Key Rule / Basis
Fixed Deposits — maturing within 3 months	Current Asset (Cash Equivalent)	Matures within 3 months from Balance Sheet date
Fixed Deposits — maturing 3 to 12 months	Current Asset (Other Bank Balances)	Matures within 12 months — not a cash equivalent
Fixed Deposits — maturing after 12 months	Non-Current Asset (Investment)	Matures beyond 12 months
Term Loan — EMIs due in next 12 months	CURRENT Liability	Current maturities reclassified mandatorily
Term Loan — Balance beyond 12 months	Non-Current Liability	Payable beyond 12 months
Prepaid Insurance — within 12 months	Current Asset	Expense benefit within 12 months
Prepaid Insurance — beyond 12 months	Non-Current Asset	Benefit accrues after 12 months
Trade Receivable — credit period 15 months	Non-Current Asset	Not realised within 12 months from B/S date
Staff Loan — EMIs due within 12 months	Current Asset	Recoverable within 12 months
GST ITC Receivable	Current Asset	Set-off against GST liability within 12 months
Capital advance — for machinery purchase	Non-Current Asset	Converted to PPE — not operating cycle item

# Key Takeaway

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The ICAI Guidance Note (August 2023) transforms Balance Sheet preparation for proprietorships and partnerships from an informal practice into a disciplined, comparable, and transparent framework.

Adoption of the prescribed format — with proper current/non-current classification, Capital Account movement disclosures, MSMED bifurcation, and Notes to Accounts — is the standard expected of all Non-Corporate Entities from FY 2024-25 onwards. It was deferred for one year, now mandatory from FY 2025-26.

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