

# Practical AS Compliances

## in Assets, Liabilities & Financial Reporting

*For Proprietorships and Partnership Firms*

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**CA. Milind Gramopaddhye**

Chartered Accountant | 6<sup>th</sup> June, 2026 | Based on ICAI AS 1–29

# Agenda — Structure of the Lecture

## Section 1 — Framework

- Who is covered
- MSME vs. Large entity classification
- 27 AS — Complete applicability list

## Section 2 — Assets

- AS 10: PPE & Depreciation
- AS 2: Inventories
- AS 13: Investments
- AS 26: Intangibles
- AS 16: Borrowing Costs

## Section 3 — Liabilities





- AS 29: Provisions & Contingencies
- AS 15: Employee Benefits + 4 Labour Codes
- AS 19: Leases

## Section 4 — Reporting & Wrap-up

- AS 1, 5, 9, 4, 22 — Financial Reporting
- Common Non-Compliances
- New Format (FY 2024-25)
- Source References

# Historical Non-Company Entities — Level I, II, III & IV

Source: ICAI Council Announcement | 400th Council Meeting, March 18–19, 2021 | Effective: w.e.f. April 1, 2020 | Published: ICAI Website, March 31, 2021 & The Chartered Accountant Journal, May 2021

 <b>LEVEL I</b> LARGE ENTITY	 <b>LEVEL II</b> MEDIUM ENTITY	 <b>LEVEL III</b> SMALL ENTITY	 <b>LEVEL IV</b> MICRO ENTITY
<ul style="list-style-type: none"> <li>Equity/debt securities listed or in process of listing (India or abroad)</li> <li>Banks, financial institutions or insurance companies</li> <li>Turnover (excl. other income) &gt; ₹250 Crore in preceding year</li> <li>Borrowings (incl. public deposits) &gt; ₹50 Crore at any time</li> <li>Holding / subsidiary of any of the above</li> </ul>	<ul style="list-style-type: none"> <li>Not Level I entities</li> <li>Turnover &gt; ₹50 Crore but ≤ ₹250 Crore in preceding year</li> <li>Borrowings &gt; ₹10 Crore but ≤ ₹50 Crore at any time</li> <li>Holding / subsidiary of any of the above</li> </ul>	<ul style="list-style-type: none"> <li>Not Level I or Level II entities</li> <li>Turnover &gt; ₹10 Crore but ≤ ₹50 Crore in preceding year</li> <li>Borrowings &gt; ₹2 Crore but ≤ ₹10 Crore at any time</li> <li>Holding / subsidiary of any of the above</li> </ul>	<ul style="list-style-type: none"> <li>Not Level I, II or III entities</li> <li>Turnover (excl. other income) ≤ ₹10 Crore in preceding year</li> <li>Borrowings (incl. public deposits) ≤ ₹2 Crore at any time</li> <li>Holding / subsidiary of NONE of Level I, II or III</li> </ul>
<i>Must comply in full with ALL Accounting</i>	<i>Eligible for exemptions &amp; relaxations</i>	<i>Eligible for exemptions &amp; relaxations</i>	<i>Maximum exemptions &amp; relaxations</i>

# MSME — Official Definition & Source Reference

<b>Approved at:</b>	433rd ICAI Council Meeting	<b>Date of Meeting:</b>	August 13–15, 2024
<b>Published on:</b>	ICAI Website — March 31, 2021 (original)   Revised August 2024	<b>Effective from:</b>	Accounting periods commencing on or after April 1, 2024
<b>Published in:</b>	The Chartered Accountant Journal, May 2021 (original)	<b>Supersedes:</b>	Earlier ICAI Announcement of March 2021 & Harmonisation Announcement of February 2008

## ***A Non-Company Entity qualifies as an MSME only if ALL FIVE conditions are satisfied:***

- (i)** Equity or debt securities are NOT listed and NOT in the process of listing on any stock exchange, whether in India or outside India
- (ii)** It is NOT a bank, financial institution or an insurance company
- (iii)** Turnover (excluding other income) does not exceed ₹250 crore in the immediately preceding accounting year
- (iv)** Borrowings do not exceed ₹50 crore at any time during the immediately preceding accounting year
- (v)** It is NOT a holding company or subsidiary of an entity which is NOT a Micro, Small and Medium Sized Entity

*Large Entity = Any Non-Company Entity that does NOT satisfy all five conditions above. | Level I (old) = Large Entity; Levels II, III, IV (old) = MSME*

# Section 1 — Who Is Covered & Governing Framework

## Entities Covered

### Covered under this framework:

- Sole Proprietorship Firms
- Partnership Firms — Registered or Unregistered
- Hindu Undivided Families (HUF)
- Association of Persons (AOP) / Body of Individuals
- Trusts, Societies engaged in business/professional activities

## Entities NOT Covered

### NOT covered:

- Companies under Companies Act 2013 (follow Schedule III / Ind AS)
- LLPs under LLP Act 2008 (separate framework)

### Governing document:

- ICAI Council Announcement — 433rd Meeting (13–15 Aug 2024)
- Effective: Accounting periods commencing on or after 1 April 2024

# MSME — Exemptions & Relaxations: Official Framework

Source: ICAI Council Announcement | 433rd Meeting, August 13–15, 2024 | Annexure 1 — Applicability of AS to Non-Company Entities

## (A)(i) Standards NOT Applicable to ANY MSME in their Entirety

- AS 3 — Cash Flow Statements
- AS 17 — Segment Reporting
- AS 24 — Discontinuing Operations

## (A)(ii) AS 18 & AS 28 — Not Applicable to Smaller MSMEs (Turnover < ₹50 Cr AND Borrowings < ₹10 Cr)

- AS 18 — Related Party Disclosures: Not applicable in entirety to such MSMEs
- AS 28 — Impairment of Assets: Not applicable in entirety to such MSMEs

## (B) Specific Paragraph Relaxations for All MSMEs — Detailed in Next Slides

AS 10 — PPE	Para 87 — not required	AS 11 — Forex	Para 44 — not required
AS 15 — Employee Benefits	Rational method; no actuarial required	AS 19 — Leases	Specific disclosure paras exempt
AS 22 — Deferred Tax	FULLY EXEMPT from DTA/DTL	AS 26 — Intangibles	Paras 90(d)(iii), 90(d)(iv), 98 exempt
AS 29 — Provisions	Paras 66 & 67 exempt		

Note: For relaxations in (B) with full paragraph text see Slides 8, 9 and 10. All recognition and measurement requirements remain mandatory.

# MSME Specific Relaxations — AS 10 (PPE) & AS 11 (Foreign Exchange)

Source: ICAI Council Announcement | 433rd Meeting, August 13–15, 2024 | Annexure 1, Section (B) | <https://www.icaai.org/post/accounting-standards-as-on-april2025>

## AS 10 PPE

### AS 10 — Property, Plant & Equipment: Para 87 (encouraged disclosures) not required

87. An enterprise is encouraged to disclose the following:

- (a) The carrying amount of temporarily idle property, plant and equipment;
- (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;
- (d) The carrying amount of property, plant and equipment retired from active use and not held for disposal.

Provided that a Micro, Small and Medium-sized non-company entity as defined in Appendix I to this Compendium, may not comply with paragraph 87.

## AS 11 Forex

### AS 11 — Foreign Exchange: Para 44 (encouraged disclosures) not required

44. Disclosure is also encouraged of an enterprise's foreign currency risk management policy.

Provided that a Micro, Small and Medium-sized non-company entity as defined in Appendix I to this Compendium, may not comply with paragraph 44.

# MSME Specific Relaxations — AS 15 (Employee Benefits) & AS 19 (Leases)

Source: ICAI Council Announcement | 433rd Meeting, August 13–15, 2024 | Annexure 1, Section (B) | <https://www.icaai.org/post/accounting-standards-as-on-april2025>

## AS 15 Employee Benefits

### AS 15 — Employee Benefits: No actuarial valuation required; rational method acceptable; non-vesting absences & discounting exempt

Short-term Compensated Absences [Paras 11 to 16]:

A Micro, Small and Medium-sized non-company entity may not comply with 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., in respect of which employees are not entitled to a cash payment for unused entitlement on leaving).

Defined Benefit Plans [Paras 50–123]: Actuarial valuation is NOT mandatory. MSMEs may calculate and account for the accrued liability using a rational method — e.g., assuming all benefits are payable to all employees at the end of the accounting year.

Discounting [Paras 46 & 139]: MSMEs are exempt from discounting amounts that fall due more than 12 months after the balance sheet date.

Other Long-term Benefits [Paras 129–131]: May use rational method instead of actuarial valuation.

## AS 19 Leases

### AS 19 — Leases: Specific disclosure paragraphs not required for MSMEs

A Micro, Small and Medium Sized non-company entity may not comply with the following disclosure sub-paragraphs:

Para 22: sub-paragraphs (c), (e) and (f) | Para 25: sub-paragraphs (a), (b) and (e) | Para 37: sub-paragraphs (a), (f) and (g) | Para 38 | Para 46: sub-paragraphs (b), (d) and (e).

All recognition and measurement provisions (finance lease classification, lessee accounting, operating lease treatment) continue to apply in full.

# MSME Specific Relaxations — AS 22 (Deferred Tax) · AS 26 (Intangibles) · AS 29 (Provisions)

Source: ICAI Council Announcement | 433rd Meeting, August 13–15, 2024 | Annexure 1, Section (B) | <https://www.icaai.org/post/accounting-standards-as-on-april2025>

## AS 22 Deferred Tax

### AS 22 — Deferred Tax: FULLY EXEMPT — only Current Tax required

MSMEs are fully exempt from recognising Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL).

Only Current Tax (income tax payable for the year per Para 9, measured per Para 20, disclosed per Paras 27–28) is required to be accounted.

Transitional provision: On the first occasion when an MSME avails this exemption, the accumulated DTA/DTL appearing in the financial statements of the immediately preceding accounting period shall be adjusted against the opening revenue reserves / owner's funds.

## AS 26 Intangibles

### AS 26 — Intangible Assets: Certain disclosure paragraphs not required

MSMEs may not comply with the following disclosure paragraphs:

Para 90(d)(iii) — Carrying amount of intangibles with indefinite useful life by class | Para 90(d)(iv) — Reasons supporting indefinite useful life assessment | Para 98 — Additional encouraged disclosures.

All recognition, measurement, amortisation, and impairment requirements continue to apply in full.

## AS 29 Provisions

### AS 29 — Provisions, Contingent Liabilities & Contingent Assets: Paras 66 & 67 not required

Para 66 — MSMEs need NOT disclose: (a) Carrying amount at beginning & end of period; (b) Additional provisions made; (c) Amounts used during the period; (d) Unused amounts reversed during the period.

Para 67 — MSMEs need NOT disclose: (a) Nature of obligation & expected timing of outflows; (b) Indication of uncertainties about outflows; (c) Amount of any expected reimbursement.

**📄** For complete text of all Accounting Standards visit: <https://www.icaai.org/post/accounting-standards-as-on-april2025>

# Additional Requirements for MSMEs — Official ICAI Framework

1

## Mandatory Disclosure

An MSME availing exemptions must disclose by way of a note to its financial statements that it is an MSME and has complied with AS insofar as they are applicable to an MSME.

2

## Ceasing to Qualify as MSME

Standards become applicable from the current period itself. Previous period figures need not be revised. Both facts — that it was MSME previously and that prior figures are not revised — must be disclosed in notes.

3

## Previously Large, Now MSME

An entity that was NOT an MSME and subsequently becomes one shall NOT avail MSME exemptions until it remains an MSME for TWO CONSECUTIVE YEARS.

4

## Partial Exemption

If an MSME opts not to avail exemptions in respect of any but not all Standards, it shall disclose the specific Standard(s) in respect of which it has availed the exemption or relaxation.

5

## Anti-Misleading Safeguard

Any partial exemption or relaxation and the related disclosure shall NOT be permitted to mislead users of financial statements.

Source: ICAI Council Announcement — 123rd Meeting, August 13-15, 2024 / Effective: April 1, 2024

# Complete List of Applicable AS — Part 1 (AS 1 to AS 15)

AS No.	Title	MSME Status
AS 1	Disclosure of Accounting Policies	✓ Full
AS 2	Valuation of Inventories	✓ Full
AS 3	Cash Flow Statements	X Exempt
AS 4	Contingencies & Events After Balance Sheet Date	✓ Full
AS 5	Net Profit/Loss, Prior Period Items & Changes in Estimates	✓ Full
AS 7	Construction Contracts	✓ If applicable
AS 9	Revenue Recognition	✓ Full
AS 10	Property, Plant and Equipment	✓ Para 87 relaxed
AS 11	Effects of Changes in Foreign Exchange Rates	✓ Para 44 relaxed
AS 12	Accounting for Government Grants	✓ Full
AS 13	Accounting for Investments	✓ Full

## Complete List of Applicable AS — Part 2 (AS 16 to AS 29)

AS No.	Title	MSME Status
AS 16	Borrowing Costs	✓ Full
AS 17	Segment Reporting	✗ Exempt
AS 18	Related Party Disclosures	✗ Exempt if TO < ₹50 Cr & Borrowings < ₹10 Cr
AS 19	Leases	✓ Disclosure relaxations
AS 20	Earnings Per Share	✓ Full (rarely relevant)
AS 21	Consolidated Financial Statements	✓ Only if elected
AS 22	Accounting for Taxes on Income	✓ Current Tax only — DTA/DTL exempt
AS 23	Investments in Associates in CFS	✓ Only if CFS prepared
AS 24	Discontinuing Operations	✗ Exempt
AS 25	Interim Financial Reporting	✓ Only if elected
AS 26	Intangible Assets	✓ Disclosure relaxations

# A

# ASSETS

*AS 10 | AS 2 | AS 13 | AS 26 | AS 16*

# AS 10 — Property, Plant & Equipment: Recognition & Cost

## What to Capitalise

### Recognition — Two Conditions:

- Future economic benefits are probable
- Cost can be measured reliably

### Cost Includes:

- Purchase price (net of trade discounts)
- Import duties & non-refundable taxes
- Freight, site prep, installation, professional fees
- Testing costs (net of proceeds from test output)
- Estimated decommissioning cost (provision under AS 29)

## What NOT to Capitalise

### Cost EXCLUDES:

- Cost of relocating or reorganising existing assets
- Abnormal waste during construction
- Administration & general overheads
- Initial operating losses

### Practical Trap:

- Proprietors often capitalise personal vehicles, mobile phones — permissible ONLY if exclusively used for business


# AS 10 — Depreciation, Component Accounting & Revaluation

## Component Accounting

- Parts with DIFFERENT useful lives → depreciate SEPARATELY
- **Example — Commercial Shop:**
  - Civil / Structure: 40 years
  - Electrical fittings: 10 years
  - Plumbing: 15 years
  - Interior / furniture: 5 years

## Depreciation Rules

- Depreciable amount = Cost – Residual Value
- Methods: SLM | DBM | Units of Production
- **Schedule II does NOT apply to NCEs — entity-specific useful life assessment required**
- Change in useful life / residual value = change in estimate → PROSPECTIVE only
- Partnership: Revaluation surplus → Revaluation Reserve (NOT distributable as profit)

 Most firms apply Schedule II rates by habit. This is non-compliant for NCEs. Firms must independently assess useful life under AS 10.

# AS 2 — Valuation of Inventories

## Cost Includes

- Purchase price + freight + duties – trade discounts
- Direct labour + production overheads allocated on NORMAL CAPACITY
- Other costs to bring inventory to present location/condition

## Excluded from Cost

- Abnormal wastage; selling costs; admin overheads
- Storage costs (unless production-necessary)

## Cost Formula & NRV

- **FIFO or Weighted Average ONLY — LIFO NOT permitted**
- $NRV = \text{Selling price} - \text{costs of completion} - \text{selling costs}$
- Write-down to NRV: item-by-item — NOT by category
- Year-end review of slow-moving/obsolete stock is mandatory

## Firm-Specific Issues

- Goods taken by partner/proprietor → remove at COST; treat as drawings
- Goods sent on approval → keep in inventory until approval received

 Year-end NRV review is mandatory. Write-down cannot be skipped. LIFO method is not permitted under ICAI AS 2.

## AS 13 — Investments

### AS 13 — Accounting for Investments

- Classification based on INTENT at date of acquisition:
- Current ( $\leq 1$  year): Lower of Cost or Fair Value (individual basis)
- Long-term (others): Cost less provision for other-than-temporary diminution
- On reclassification — transfer at lower of cost or fair value; loss  $\rightarrow$  P&L
- Investment property (not used in business)  $\rightarrow$  treat as long-term investment
- **Common gap: Long-term investments not reviewed for diminution annually**

## AS 26 — Intangibles

### AS 26 — Intangible Assets

- Internally generated goodwill  $\rightarrow$  NEVER recognised
- **Goodwill raised by journal entry on reconstitution WITHOUT payment  $\rightarrow$  NOT permissible**
- Purchased goodwill: Recognise at cost; amortise (max 10 years)
- Trademark, franchise, non-compete (acquired): Capitalise; amortise
- Standalone software: Intangible (AS 26); integral to hardware: PPE (AS 10)
- Internally developed brands / mastheads / customer lists  $\rightarrow$  NEVER capitalise

## AS 16 — Borrowing Costs

- **Core Rule: Borrowing costs DIRECTLY attributable to acquisition/construction of a qualifying asset → must be CAPITALISED**
- Qualifying asset = asset that takes substantial time to get ready (generally > 12 months) — factory, hotel, self-constructed machinery
- Capitalise: From the date expenditure is incurred AND borrowing costs are being incurred AND active development is in progress
- Suspend: During extended periods of suspended development
- Cease: When asset is substantially ready for its intended use — expense interest thereafter
- Partners' loan to firm used for qualifying asset construction: Interest payable to partners = borrowing cost → capitalise
- **Common non-compliance: Entire year's interest charged to P&L even when factory construction is in progress**
- AS 16 does NOT apply to inventory produced in large quantities (routine production) or qualifying assets measured at fair value

# B

# LIABILITIES

*AS 29 | AS 15 + 4 Labour Codes | AS 19*

# AS 29 — Provisions, Contingent Liabilities & Contingent Assets

## PROVIDE (Provision)

- Present obligation (legal/constructive)
- Probable outflow (> 50% likely)
- Reliable estimate possible
- All THREE must be met simultaneously

## DISCLOSE ONLY (Contingent Liability)

- Possible obligation (uncertain future event)
- Present obligation but outflow not probable
- Present obligation but cannot estimate reliably
- Reassess at every reporting date

## NO ACTION (Remote)

- Remote possibility of outflow
- No provision; no disclosure required

## Partnership / Proprietorship Specific Issues:

- Retiring partner's unpaid dues: Legal obligation → Provision (NOT contingency); add interest at deed rate
- Guarantee given by firm: Probable → Provision; Possible → Disclose; Remote → No action
- Disputed tax/GST demands: Disclose in notes as contingent liability — do NOT provide unless payment is probable

## AS 15 — Employee Benefits: Categories & MSME Position

Category	Examples	Treatment	MSME Relaxation
Short-term benefits	Wages, salary, bonus, PL within 12 months	Expense in period; accrue unpaid at year-end	None
Defined Contribution	EPF (12%), ESIC (3.25%)	Expense when due; unpaid = current liability	None
Defined Benefit — Gratuity	Gratuity — 15 days per year of service	Annual provision mandatory	Rational estimate method (no actuarial required)
Other long-term	Accumulated leave encashment	Provide annually	Rational estimate acceptable
Termination benefits	Retrenchment, VRS	Recognise when commitment cannot be withdrawn	None

# AS 15 — Gratuity & Partners' Remuneration

## Gratuity — The Biggest Compliance Gap

- **Gratuity is a DEFINED BENEFIT — must be provided EVERY YEAR, not when paid**
- Large NCEs: Mandatory actuarial valuation using Projected Unit Credit (PUC) method
- MSMEs: Rational estimate method acceptable (e.g., assume all employees leave at year-end; compute at current salaries)
- Formula: 15 days' wages × completed years of service (or part > 6 months)

 *Recognising gratuity only when paid (cash basis) is non-compliant even for MSMEs. Annual provision is mandatory under AS 15.*

## Partners' Remuneration — NOT an Employee Benefit

- Partners' salary, interest on capital, commission per partnership deed = APPROPRIATION of profit
- **These are NOT employee benefits under AS 15 — do not route through P&L as expense**
- Show clearly in Profit & Loss Appropriation Account — below the net profit line

# 4 Labour Codes — Effective 21 November 2025

*Consolidated 29 central labour laws into 4 Codes. Direct impact on AS 15 compliance for proprietorships and partnerships.*

## Code 1: Code on Wages, 2019

- Replaces: Payment of Wages Act, Minimum Wages Act, Payment of Bonus Act, Equal Remuneration Act
- Applies to ALL establishments — no minimum headcount
- 50% Rule: Basic pay + DA  $\geq$  50% of total remuneration
- Minimum wages, overtime (2 $\times$ ), bonus (min 8.33%–max 20%)
- Monthly wages by 7th of following month

## Code 2: Code on Social Security, 2020

- Replaces: EPF Act, ESI Act, Payment of Gratuity Act, Maternity Benefit Act and 4 others
- EPF:  $\geq$  20 employees; ESIC:  $\geq$  10 employees
- Gratuity:  $\geq$  10 employees; Fixed-term employees: after 1 year
- Revised wage definition (50% rule) increases PF, ESIC, gratuity base

## Code 3: OSHWC Code, 2020

- Replaces: Factories Act, Contract Labour Act and 11 others
- Factory:  $\geq$  10 workers (with power);  $\geq$  20 without power
- Annual leave: 1 day per 20 days worked
- Commuting accidents now deemed employment-related
- AS 15: Leave encashment = defined benefit; provide annually
- OSHWC = Occupational, Safety, Health and Working Conditions

## Code 4: Industrial Relations Code, 2020

- Replaces: Trade Unions Act, Standing Orders Act, Industrial Disputes Act
- GRC:  $\geq$  20 workers; Standing Orders:  $\geq$  300 workers (Grievance Redressal Committee) Standing Orders regulating service conditions (e.g., shift rules, discipline, misconduct, termination)
- Retrenchment compensation: 15 days per completed year
- Fixed-term employees get same benefits as permanent including gratuity after 1 year

## 4 Labour Codes — AS 15 Compliance Summary

Benefit	Governing Code	Threshold	AS 15 Treatment	MSME Relaxation
Wages/Salary	Code on Wages	All establishments	Accrue unpaid at year-end	None
Bonus	Code on Wages	All establishments	Provide min. 8.33% when due	None
EPF (12%)	SS Code — EPF	≥ 20 employees	Defined Contribution; expense when due	None
ESIC (3.25%)	SS Code — ESIC	≥ 10 employees	Accrue unpaid at year-end	None
Gratuity	SS Code — Ch. V	≥ 10 employees	Defined Benefit; annual provision mandatory	Rational estimate method
Leave encashment	OSHWC Code	Covered establishments	Defined Benefit (accumulated); provide annually	Rational estimate
Maternity benefit	SS Code — Ch. VI	≥ 10 employees	Accrue when entitlement arises	None
Retrenchment	IR Code	Industrial establishments	AS 29 Provision when probable	None

# 4 Labour Codes — Maharashtra State Rules Update

Source: Government of Maharashtra, Labour Department | Maharashtra Government Gazette dated 28 April 2026 | Central Draft Rules notified: 30 December 2025

## Central Government — Launch of 4 Labour Codes

**Effective from:** 21 November 2025 | **Central Draft Rules notified:** 30 December 2025

## Direction to State Governments

All State Governments directed to frame, publish, and notify their respective State Rules for effective implementation of the Labour Codes.

## Maharashtra — Current Status of State Rules

### ✓ Rules Framed & PUBLISHED

- Maharashtra Code on Wages Rules
- Maharashtra Industrial Relations Code Rules

### ⌚ Rules Under Framing (Pending)

- Maharashtra Code on Social Security Rules
- Maharashtra OSHWC Rules

📄 **Published in Maharashtra Government Gazette: 28 April 2026 Invited feedback before 12<sup>th</sup> June, 2026**

# AS 19 — Leases: Operating vs. Finance Lease

## Finance Lease

### Finance Lease Indicators:

- Ownership transfers at end of lease term
- Bargain purchase option exists
- Lease term = major part of asset's economic life
- PV of MLPs ≈ substantially all of fair value of asset
- Asset is of specialised nature — only lessee can use it

### Finance Lease — Lessee Accounting:

- Recognise BOTH asset AND liability at commencement = lower of Fair Value or PV of MLPs
- Each instalment: Finance charge (EIR → P&L) + Principal (reduces liability)

## Operating Lease

### Operating Lease (Most Common for Small Firms):

- Shop/godown taken on monthly rent → operating lease
- Lease payments → P&L on STRAIGHT-LINE basis over lease term
- **Rent escalation clause: Straight-line average rent mandatory — even if actual payments vary**
- Security deposit paid: Financial asset — carry as asset; do NOT write off as expense
- Leasehold improvements: Capitalise under AS 10; amortise over shorter of lease term or useful life

### Common non-compliance:

- Hire purchase machinery treated entirely as rent — non-compliant. Asset and liability must be recognised.

# C

# FINANCIAL REPORTING

*AS 1 | AS 5 | AS 9 | AS 4 | AS 22*

# Financial Reporting Standards — AS 1, 5, 9, 4, 22

AS 1

Disclose all significant accounting policies. Going concern, Consistency, Accrual — disclose ONLY if NOT followed. Change in policy → retrospective.

AS 5

Prior period items (errors): Recognise in current year P&L with SEPARATE DISCLOSURE — not restatement. Change in estimate → PROSPECTIVE only.

AS 9

Revenue: Recognise when risks & rewards transfer. Advances from customers = LIABILITY (not revenue). Interest income = time proportion basis.

AS 4

Adjusting events (conditions at year-end) → Adjust financial statements. Non-adjusting events (post year-end) → Disclose only. Proposed profit distribution → Disclose; do NOT accrue.

AS 22

MSMEs: FULLY EXEMPT from Deferred Tax — only Current Tax required. Large NCEs (TO > ₹250 Cr): Full DTA/DTL computation required.

# Common Non-Compliances in Practice — Part 1

#	AS	Area	Common Error	Correct Treatment
2 8	AS 10	Capitalisation	Personal assets (car, phone) of proprietor/partner capitalised	Capitalise only if exclusively used for business
2	AS 10	Depreciation	Schedule II rates applied to firm's assets	Schedule II does NOT apply to NCEs — assess entity-specific life
3	AS 10	Components	Entire building depreciated as single unit	Identify parts with different lives; depreciate separately
4	AS 10	Revaluation	Revaluation surplus credited to partners as profit	Revaluation surplus → Revaluation Reserve — not distributable
5	AS 26	Goodwill	Goodwill raised by journal entry on reconstitution without payment	Only recognise goodwill arising from actual payment
6	AS 2	Cost formula	LIFO method used for inventory valuation	FIFO or Weighted Average ONLY — LIFO not permitted
7	AS 2	NRV	No write-down of obsolete / slow-moving stock at year-end	Year-end review mandatory; write-down to NRV item-by-item
8	AS 2	Drawings	Goods taken by partner not removed from inventory	Remove at cost; treat as drawings in capital account
9	AS 16	Borrowing costs	Full year's interest charged to P&L during construction	Interest during construction must be capitalised

## Common Non-Compliances in Practice — Part 2

#	AS	Area	Common Error	Correct Treatment
29	AS 15	Gratuity	Recognised only when paid (cash basis)	Annual provision mandatory — rational estimate for MSMEs
11	AS 15	Partners	Partners' remuneration shown as salary expense in P&L	It is an appropriation of profit — NOT an employee benefit
12	AS 15	Leave	Leave encashment not provided at year-end	Accumulated leave = defined benefit; provide annually
13	AS 19	Hire purchase	Hire purchase treated entirely as operating lease / rent	Finance lease — recognise asset and liability; split instalment
14	AS 19	Operating lease	Rent not straight-lined despite escalation clause	Straight-line over lease term is mandatory
15	AS 29	Contingencies	Disputed tax/GST demands not disclosed in notes	Disclose as contingent liability in notes to accounts
16	AS 29	Provisions	Provisions created for possible/remote liabilities	All three criteria must be simultaneously met before providing
17	AS 9	Revenue	Revenue recognised on cash receipt basis	Accrual basis mandatory; recognise on transfer of risks/rewards
18	AS 1	Policies	No accounting policy note in financial statements	Mandatory for all entities; all significant policies must be disclosed

# New Financial Statement Format — Mandatory from FY 2024-25 (ICAI Guidance Note Aug 2023)

- **Effective: Accounting periods beginning on or after 1 April 2024 (FY 2024-25 onwards)**
- Balance Sheet structure: Non-current assets | Current assets on one side; Capital + Non-current liabilities + Current liabilities on the other
- Capital Account: Shown separately per partner — opening balance, profit share, interest on capital, drawings, closing balance
- Partners' loans: Shown as Borrowings (financial liability) — NOT part of capital
- Inventories classified: Raw materials | WIP | Finished goods | Stock-in-trade | Stores & spares
- Trade receivables: Bifurcate into  $\leq 6$  months and  $> 6$  months from due date
- Notes to accounts mandatory: Accounting policies | PPE movement schedule | Contingent liabilities | Related party transactions (if applicable)
- Comparative previous year figures mandatory in all financial statements
- **Non-compliance: Auditor must disclose in audit report; may issue modified opinion**