

FINANCIAL STATEMENTS REPORTING OF NON-CORPORATE ENTITIES



CA Ronak Gada
Email : caronakgada@gmail.com

Financial reporting by an entity about its activities, financial position and financial performance play a very important role not only in the context a particular entity but also for the economic development of the country regardless of the objective or purpose of formation of the entity and its legal structure. Financial statements of an entity provide useful information to wide range of users like Investors, lenders, grantors etc. and help them in making decisions about an entity. Thus, it is very essential that financial reporting of an entity should be comparable, transparent, complete and unbiased.

Over the period of time, extent or size of economic and financial activities of the Non-Corporate entities have grown. Also, in the recent times Indian government has initiated many steps to create or upgrade infrastructure for public services such as roads, bridges, tunnels, airports, hospitals, water distribution facilities, energy supply, telecommunication networks and educational institutions through higher private participation through 'Public- Private-Partnership' model which has also led to substantial increase in the number of Non-Corporate entities in private sector as well as in government sector and increase in size of financial activities of these Non-Corporate entities.

Considering the above, recently the Accounting Standard Board (ASB) of The Institute of Chartered Accountants of India (ICAI) has taken a significant step by formulating a Technical Guide recommending the formats of financial statements for non-corporate entities. This would enable these entities to communicate their financial performance and financial position in standardised formats thereby enhancing their comparability.

➤ **Brief about Financial Statements:-**

Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes:-

1. Balance sheet:- It is a statement which provides information about financial position. The elements i.e. Assets, Liabilities and Equity are directly related to the measurement of financial position.
2. Statement of Profit and Loss:- It primarily focuses on an entity's income and expenses during a particular period.
3. Cash flow statement:- It reconciles the income statement with the balance sheet in three major business activities.
4. Notes and Other Statements and Explanatory Material:- It forms an integral part of the financial statements. It also include significant accounting policies as required by applicable Accounting Standards.

Further, in financial statements there may be also some supplementary schedules and information based on or derived from and expected to be read with such statements

Ultimately in the simple terms, the objective of financial statements is to provide information about the financial position, performance and cash flows of an entity.

➤ **Brief about Non-Corporate Entities**

All Business or Professional Entities, other than Companies incorporated under Companies Act and Limited Liability Partnerships (LLP) incorporated under Limited Liability Partnership Act are considered to be Non-Corporate entities. Some of the common structures which falls under the non-corporate entities are as follows:-

1. Sole Proprietorship Firms
2. HUF
3. Partnership Firms, Registered as well as Unregistered
4. AOP, BOI & Resident Welfare Association
5. Society registered under any law for the time being in force
6. Trust (private or public) registered or unregistered under any law for the time being in force
7. Any form of organization that is engaged fully or partially in any Business or Professional activities unless their activities are fully charitable in nature.

Please note that, the technical guide is relevant for the purpose of preparation of the financial statements of the above mentioned non-corporate entities unless any formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority, e.g., formats have been prescribed for Trusts under relevant State Trusts Act or Educational Institutions, Political Parties for which guidance has been specifically given by ICAI

➤ **Applicability of Accounting Standard**

In view of the above, Accounting Standards apply in respect of any entity engaged in commercial, industrial or business activities. Exclusion of an entity from the applicability of the Accounting Standards is permissible only if no part of the activity of such entity is commercial, industrial or business in nature. Even if where a very small proportion of the activities of an entity were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

At present, there are three sets of Accounting Standards:

1. Indian Accounting Standards (Ind AS) for specified class of companies
2. Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, for companies other than those following Ind AS
3. Accounting Standards (AS) prescribed by ICAI for entities other than companies.

➤ **Applicability of Accounting Standards on Non-Corporate Entities:**

For the purpose of the applicability of the Accounting Standards on the Non-Corporate Entities, ICAI has classified such entities into 4 different levels i.e. Level I, Level II, Level III and Level IV.

The details of the criteria of 4 different levels of entities as prescribed by ICAI are as follows:-

1. Level I : Large Size Entities :

- a. Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- b. Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
- c. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds Rs. 250 Crores in the immediately preceding accounting year.
- d. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 50 Crores at any time during the immediately preceding accounting year.
- e. Holding and subsidiary entities of any one of the above.

2. Level II : Medium Size Entities :

- a. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds Rs. 50 Crores but does not exceed Rs. 250 Crores in the immediately preceding accounting year.
- b. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 10 Crores but not in excess of Rs. 50 Crores at any time during the immediately preceding accounting year.
- c. Holding and subsidiary entities of any one of the above.

3. Level III : Small Size Entities :

- a. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees Rs. 10 Crores but does not exceed Rs. 50 Crores in the immediately preceding accounting year.
- b. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 2 Crores but does not exceed rupees Rs. 10 Crores at any time during the immediately preceding accounting year.
- c. Holding and subsidiary entities of any one of the above.

4. Level IV : Micro Entities :

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities

Applicability of the Accounting Standards (AS) on the basis of the level of entities as prescribed by the ICAI are as follows :-

Level I entities are required to comply in full with all the Accounting Standards

➤ **Applicability of the Accounting Standards (AS) on the basis of the level of entities as prescribed by the ICAI are as follows :-**

AS	Name	Level II Entities	Level III Entities	Level IV Entities
AS 1	Disclosure of Accounting Policies	Applicable	Applicable	Applicable
AS 2	Valuation of Inventories	Applicable	Applicable	Applicable
AS 3	Cash Flow Statements	Not Applicable	Not Applicable	Not Applicable
AS 4	Contingencies and Events Occurring After the Balance Sheet Date	Applicable	Applicable	Applicable
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Applicable	Applicable	Applicable
AS 7	Construction Contracts	Applicable	Applicable	Applicable
AS 9	Revenue Recognition	Applicable	Applicable	Applicable
AS 10	Property, Plant and Equipment	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 11	The Effects of Changes in Foreign Exchange Rates	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 12	Accounting for Government Grants	Applicable	Applicable	Applicable
AS 13	Accounting for Investments	Applicable	Applicable	Applicable with disclosures exemption
AS 14	Accounting for Amalgamations	Applicable	Applicable	Not Applicable
AS 15	Employee Benefits	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions

AS	Name	Level II Entities	Level III Entities	Level IV Entities
AS 16	Borrowing Costs	Applicable	Applicable	Applicable
AS 17	Segment Reporting	Not Applicable	Not Applicable	Not Applicable
AS 18	Related Party Disclosures	Applicable	Not Applicable	Not Applicable
AS 19	Leases	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	Earnings Per Share	Not Applicable	Not Applicable	Not Applicable
AS 21	Consolidated Financial Statements	Not Applicable	Not Applicable	Not Applicable
AS 22	Accounting for Taxes on Income	Applicable	Applicable	Applicable only for current tax related provisions
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	Not Applicable	Not Applicable	Not Applicable
AS 24	Discontinuing Operations	Applicable	Not Applicable	Not Applicable
AS 25	Interim Financial Reporting	Not Applicable	Not Applicable	Not Applicable
AS 26	Intangible Assets	Applicable	Applicable	Applicable with disclosures exemption
AS 27	Financial Reporting of Interests in Joint Ventures	Not Applicable	Not Applicable	Not Applicable
AS 28	Impairment of Assets	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	Provisions, Contingent Liabilities and Contingent Assets	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

- **Prescribed format of Balance Sheet and Profit and Loss Account as prescribed by the ICAI in the guidance note.**

Link for Guidance note have been attached:

- **General Instructions for Preparation of Balance Sheet and Statement of Profit And Loss of a Non-Corporate Entity**
- These formats are recommended for preparation of Balance Sheet and Statement of Profit and Loss of a non-corporate entity.
 - Disclosure requirements recommended in the formats are in addition to and not in substitution of the disclosure requirements specified in the AS issued by the ICAI. Additional disclosures specified in the AS shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements.
 - Further, all other disclosures as required by the relevant statute shall be made in the notes to accounts in addition to the requirements set out in these formats.
 - Except in the case of the first Financial Statements prepared by the Non-Corporate entity (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.
 - Notes to accounts may contain information in addition to that presented in the Financial Statements and may provide where required narrative descriptions or disaggregation of items recognized in those statements and information about items that do not qualify for recognition in those statements.
 - Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
 - Depending upon the Total Income of the Non-Corporate entity, the figures appearing in the Financial Statements may be rounded off as given below: –

Total Income	Rounding Off
less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
More than one hundred crore rupees	To the nearest lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

- **Conclusion:**

This is the significant step taken by the ASB by standardizing the format of the financial statements to be prepared by the non-corporate entities. The Guidance note released for the Non Corporate Entities would enable non- corporate entities to communicate their financial performance and financial position in standardized formats. This shall enhance their comparability. Further, it would be immensely useful for the professionals working on the preparation of the financial statements for the non-corporate entities.

