



# INTERMEDIATE

# ADVANCED ACCOUNTING

**Volume 2**




- ▶ ICAI Study Material Questions Covered
- ▶ RTP/MTP Questions Covered
- ▶ Past Year Exam Questions Covered

**Book recommended by AIR 1**

**CA Nitin Goel**

# INDEX

Chapter No.	ICAI Study Material	Chapter Name	Assignment		Practice	
			Ques.	Pg. No.	Ques.	Pg. No.
1.	Ch. 11 Unit 1	Financial Statement of Companies	12	1.01 – 1.20	15	1.21 – 1.30
2.	Ch. 11 Unit 2 Ch. 4 Unit 2	Cash Flow Statement	25	2.01 – 2.24	29	2.25 – 2.38
3	Ch. 12	Buy-Back of Securities	11	3.01 – 3.14	18	3.15 – 3.23
4.	Ch. 14	Internal Reconstruction	19	4.01 – 4.20	19	4.21 – 4.37
5.	Ch. 13 Ch. 9 Unit 2	Amalgamation (Including AS 14)	26	5.01 – 5.28	29	5.29 – 5.53
6.	Ch. 15	Branch Accounting	37	6.01 – 6.29	30	6.30 – 6.44
7.	Ch. 5 Unit 3	AS-13 Accounting for Investments				
		Practical Chapter	18	7.01 – 7.14	18	7.15 – 7.20
		Case Study Questions	10	7.21 – 7.26	11	7.27 – 7.32
8.	Ch. 10 Unit 1	AS-21 Consolidated Financial Statements	21	8.01 – 8.16	24	8.17 – 8.29
9.	Ch. 2	Framework for Prep. & Pres. of Financial Statements	5	9.01 – 9.08	10	9.09 – 9.14
10.		<b>Accounting Standards</b>				
A	Ch. 1	Introduction to Accounting Standards				10A.1-10A.5
B	Ch. 3	Applicability of Accounting Standards				10B.1-10B.7
C	Ch. 4 Unit 1	AS-1 Disclosure of Accounting Policies				10C.1-10C.10
D	Ch. 5 Unit 1	AS-2 Valuation of Inventories				10D.1-10D.23
E	Ch. 7 Unit 1	AS-4 Contingencies & Events Occurring After Balance Sheet Date				10E.1-10E.19
F	Ch. 7 Unit 2	AS-5 Net Profit or Loss for the Period, Prior Period Items & Changes in Accounting Policies				10F.1-10F.16
G	Ch. 8 Unit 1	AS-7 Construction Contracts				10G.1-10G.17
H	Ch. 8 Unit 2	AS-9 Revenue Recognition				10H.1-10H.20
I	Ch. 5 Unit 2	AS-10 Property, Plant & Equipment				10I.1-10I.30



J	Ch. 7 Unit 3	AS-11 The Effect of Changes in Foreign Exchange Rates	10J.1-10J.16
K	Ch. 9 Unit 1	AS-12 Accounting for Government Grants	10K.1-10K.17
L	Ch. 6 Unit 1	AS-15 Employee Benefits	10L.1-10L.14
M	Ch. 5 Unit 4	AS-16 Borrowing Costs	10M.1-10M.23
N	Ch. 4 Unit 3	AS-17 Segment Reporting	10N.1-10N.14
O	Ch. 4 Unit 4	AS-18 Related Party Disclosures	10O.1-10O.16
P	Ch. 5 Unit 5	AS-19 Leases	10P.1-10P.17
Q	Ch. 4 Unit 5	AS-20 Earnings Per Share	10Q.1-10Q.19
R	Ch. 7 Unit 4	AS-22 Accounting for Taxes on Income	10R.1-10R.14
S	Ch. 10 Unit 2	AS-23 Accounting for Investment in Associates in Consolidated Financial Statements	10S.1-10S.10
T	Ch. 4 Unit 6	AS-24 Discontinuing Operations	10T.1-10T.7
U	Ch. 4 Unit 7	AS-25 Interim Financial Reporting	10U.1-10U.10
V	Ch. 5 Unit 6	AS-26 Intangible Assets	10V.1-10V.20
W	Ch. 10 Unit 3	AS-27 Financial Reporting of Interest in Joint Ventures	10W.1-10W.11
X	Ch. 5 Unit 7	AS-28 Impairment of Assets	10X.1-10X.15
Y	Ch. 6 Unit 2	AS-29 Provision, Contingent Liabilities & Contingent Assets	10Y.1-10Y.20

## WEIGHTAGE IN PAST YEAR EXAMS (From May 18 to Nov 23)

	MAY 18	NOV 18	MAY 19	NOV 19	NOV 20	JAN 21	JULY 21	DEC 21	MAY 22	NOV 22	MAY 23	NOV 23
Financial Statement of Companies	-	-	-	10	-	-	20	-	-	20	10	20
Cash Flow Statement (AS 3)	5	-	10	5	10	12	5	5	5	5	10	-
Buy Back of Securities	10	-	10	15	-	5	15	10	10	5	10+5	5
Internal Reconstruction	-	10	-	15	-	-	5	-	-	20	5	20
Amalgamation (Incl. AS 14)	20	5	10+5	-	15	20+5	10	15+5	20	5	20	5
Branch Accounting	10	-	8	-	10	5	10	10	10	10	5	10
AS 13: A/cing for Investments	10	10	5+1	10	10+5	10+5	20	10+5	5	10+5	10	10
AS 21: Consolidation	20	10	10	10+5	15	20	15+5	15	15	15	15+15	15
Framework	5	5	5	-	5+5	5	5	5+5	-	5	5	-
Basics	-	5	-	-	-	5	-	-	-	5	-	5
AS-1	-	5	-	-	-	-	-	5	5	-	5	5
AS-2	-	-	5+1	5	-	5	5	-	5	5	-	5
AS-4	-	5	5+1	-	-	-	5	5	-	5	-	-
AS-5	5	-	1	-	-	5	-	-	5	5	-	5
AS-7	5	-	5	-	5	-	5	-	5	-	5	-
AS-9	-	-	5	5	-	-	-	5	-	5	5	-
AS-10	-	5	-	-	5	-	5	-	5	-	5	-
AS-11	5	5+5	-	5	-	5	-	5	-	5	5	5
AS-12	5	-	1	-	5	5	5	-	5	-	5	5
AS-16	-	-	5	-	5	-	-	-	5	-	5	5
AS-17	5	-	-	5	5	5	-	-	5	-	5	5
AS-18	-	5	5	-	-	-	5	-	-	-	5	-
AS-19	5	-	5	5	-	5	-	5	5	-	-	-
AS-20	5	5	-	5	-	-	-	5	5	5	-	5
AS-22	5	-	5	5	5	5	5	-	-	5	-	5
AS-24	-	5	-	-	-	-	5	-	-	-	-	5
AS-26	5	-	-	5	5+5	5	-	5	-	-	-	5
AS-29	-	-	-	5	5	-	5	-	5	5	-	-

**INTRODUCTION TO ACCOUNTING STANDARDS**CH  
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<b><i>Generally Accepted Accounting Principles (GAAP)</i></b>	<ul style="list-style-type: none"> <li>GAAP refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements.</li> <li>It's a combination of authoritative standards (set by policy boards) &amp; the commonly accepted ways of recording &amp; reporting accounting information</li> <li>At international level such authoritative standards are known as <b>International Financial Reporting Standards (IFRS)</b> and in India we have authoritative standards named as <b>AS and IND-AS</b></li> </ul>
<b><i>Meaning of AS</i></b>	Accounting standards are <u>written policy documents</u> issued <u>by expert accounting body</u> or <u>by government</u> with the support of other regulatory bodies [e.g. <i>MCA issuing AS for companies in consultation with NFRA (National Financial Reporting Authority)</i> ] covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.
<b><i>Issues dealt by AS</i></b>	<ul style="list-style-type: none"> <li>➤ <b>Recognition</b> of events and transactions in the financial statements.</li> <li>➤ <b>Measurement</b> of these transactions and events.</li> <li>➤ <b>Presentation</b> of these transactions &amp; events in financial statements in a manner that is meaningful and understandable to the reader.</li> <li>➤ The <b>disclosure</b> requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.</li> </ul>
<b><i>Objectives</i></b>	<ul style="list-style-type: none"> <li>➤ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles.</li> <li>➤ To provide standard for the diverse accounting policies and principles.</li> <li>➤ To eliminate the non-comparability of financial statements.</li> <li>➤ To increase/improve the reliability of the financial statements.</li> <li>➤ To provide standards which are transparent for users.</li> </ul>
<b><i>Benefits</i></b>	<ul style="list-style-type: none"> <li>➤ <b>Standardization of alternative accounting treatment</b> (Reduce/ eliminate confusing variations in the accounting treatments used to prepare the financial statements)</li> <li>➤ <b>Requirement for additional disclosures.</b> (disclosures which are not statutorily required)</li> <li>➤ <b>Comparability</b> of financial statements.</li> </ul>
<b><i>Limitations</i></b>	<ul style="list-style-type: none"> <li>➤ Difficulties in making choice between different treatments.</li> <li>➤ Lack of flexibilities</li> <li>➤ Restricted scope (accounting standards cannot override the statute)</li> </ul>

<b><i>Standards setting process</i></b>	ICAI has constituted the <b>Accounting Standard Board</b> (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of accounting standards and council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.
<b><i>Process</i></b>	<ul style="list-style-type: none"> <li>➤ Identification of area (where standardization is required)</li> <li>➤ Constitution of study groups (for research)</li> <li>➤ Preparation of draft and its circulation</li> <li>➤ Ascertainment of views of different bodies on draft (like SEBI, CBDT, C&amp;AG)</li> <li>➤ Finalization of exposure draft</li> <li>➤ Comments reviewed on exposure draft (public comments)</li> <li>➤ Modification of the draft</li> <li>➤ Issue of AS <ul style="list-style-type: none"> <li>• For Non Corporate Entities by ICAI</li> <li>• For Corporate Entities by Ministry of Corporate Affairs in consultation with NFRA</li> </ul> </li> </ul>

## NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

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.

International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings.

Few aspects which required the need for convergence are : Raising funds from international markets, Comparability of financial statements, Uniformity, Comparability, Transparency etc. and Global Investment.

### **SIGNIFICANCE:**

- Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.
- The convergence of financial reporting and Accounting Standards 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.
- It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS AS GLOBAL STANDARDS

The term **International Financial Reporting Standards (IFRS)** comprises IFRS issued by IASB; IAS issued by International Accounting Standards Committee (IASC); Interpretations issued by the Standard Interpretations Committee (SIC) and Interpretations issued by the IFRS Interpretations Committee of the IASB.

International Financial Reporting Standards (IFRSs) are considered a "principles based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

**BECOMING IFRS COMPLIANT**

Any country can become IFRS compliant *either* by adoption process or by convergence process.

**Adoption** would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.

**Convergence** means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

**Convergence with IFRS will result in following benefits:**

- Improves investor confidence across the world with transparency and comparability
- Improves inter-unit/ inter-firm/inter-industry comparison
- Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
- Acceptability of financial statements by stock exchanges across the globe, which will facilitate listing of Indian companies to international stock exchanges.

## ISSUE OF IND AS

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 IFRS converged Indian Accounting Standards (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.

**Indian Accounting Standards (Ind AS)** are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA. NFRA recommends these standards to the MCA and MCA has to spell out the AS applicable for companies in India.

Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

In **July 2014**, the Finance Minister of India at that time, Shri Arun Jaitley ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies



The Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS).

As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Separate roadmaps have been prescribed for implementation of Ind AS to Banking, Insurance companies and NBFCs respectively.

### **CARVE OUTS/INS IN IND AS (RTP May 2024)**

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
- 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.
- 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**'.
- Additional guidance given in Ind AS over and above what is given in IFRS, is termed as '**Carve in**'

### **ROADMAP FOR IMPLEMENTATION OF INDAS:**

#### **For Companies other than Banks, NBFCs and Insurance Companies**

**Phase I:** 1st April 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

#### **1st April 2016: Mandatory Basis**

- (a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;
- (b) Unlisted Companies having net worth of INR 500 crore or more;
- (c) Parent, Subsidiary, Associate and JV of above.

#### **Phase II: 1st April 2017: Mandatory Basis**

- (a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);
- (b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore;
- (c) Parent, Subsidiary, Associate and JV of above.

#### **Special Points to Consider:-**

- Companies listed on SME exchange are not required to apply Ind AS. Such companies shall continue to apply existing ASs unless they choose otherwise.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements i.e. there is no looking back once the Ind AS are adopted by companies.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2021.



## For Non-Banking Financial Companies (NBFCs), Scheduled Commercial Banks (Excluding RRBs) and Insurers/Insurance Companies

Non-Banking Financial Companies (NBFCs)	
<b>Phase I:</b>	<b>From 1st April, 2018 (with comparatives)</b>
	NBFCs (whether listed or unlisted) having net worth INR 500 crores or more
	Holding, Subsidiary, JV & Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date
<b>Phase II:</b>	<b>From 1st April, 2019 (with comparatives)</b>
	NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than INR 500 crores
	NBFCs that are unlisted having net worth INR 250 crores or more but less than INR 500 crores
	Holding, Subsidiary, JV and Associate companies of above companies other than those already covered under corporate roadmap shall also apply Ind AS from the said date.
<ul style="list-style-type: none"> <li>• Applicable to both Consolidated and Individual Financial Statements</li> <li>• NBFC having net worth below INR 250 crores and not covered under the above provisions shall continue to apply ASs specified in Annexure to Companies (Accounting Standards) Rules, 2006.</li> <li>• Adoption of Ind AS is allowed only when required as per the roadmap</li> <li>• Voluntary adoption of Ind AS is not allowed.</li> </ul>	
Scheduled Commercial banks (excluding RRBs)	
<ul style="list-style-type: none"> <li>➤ Scheduled Commercial Banks (SCBs) excluding Regional Rural Banks (RRBs) were initially required to implement Ind AS from 1 April 2018. However, RBI (Reserve Bank of India) vide a press release dated 5 April 2018, deferred the implementation of Ind AS by one year i.e. to be effective from 1 April 2019 instead of 1 April 2018.</li> <li>➤ Further, the RBI through a notification dated 22 March 2019, deferred the Ind AS implementation till further notice. Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.</li> </ul>	
Insurers/Insurance companies	
<ul style="list-style-type: none"> <li>➤ MCA had outlined the road map for implementation of Ind AS by insurers/insurance companies from 1 April 2018.</li> <li>➤ IRDAI (Insurance Regulatory and Development Authority of India) deferred the implementation of Ind AS in the insurance sector in India for a period of two years whereby the effective date was deferred to 1st April 2020.</li> </ul> <p>IRDAI, vide circular dated 21 January 2020, has deferred implementation of Ind AS in the insurance sector till further notice.</p>	

# APPLICABILITY OF ACCOUNTING STANDARDS

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## Enterprises to which Accounting Standards apply

Accounting Standards apply in respect of any enterprise (whether organized in corporate, cooperative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes.

AS however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the AS would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature.

Even if a very small proportion of activities of an enterprise were considered to be commercial, industrial or business in nature, the AS would apply to all its activities including those, which are not commercial, industrial or business in nature

## LEGAL PROVISION: COMPANIES ACT 2013

- Section 129 (1) of the Companies Act, 2013 requires companies to present their financial statements in accordance with the accounting standards notified under Section 133 of the Companies Act, 2013.
- Also, the auditor is required by Section 143(3)(e) to report whether, in his opinion, the financial statements of the company audited, comply with the accounting standards referred to in Section 133 of the Companies Act, 2013.
- As per Section 133 of the Companies Act, 2013, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA)

## Criteria for classification of Non-company entities by ICAI

For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.

Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs).

Level	Criterion
<b>Level I Entities</b>	<p>Non-company 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:</p> <ul style="list-style-type: none"> <li>(i) Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.</li> <li>(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.</li> <li>(iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) <b>exceeds ₹ 250 crore</b> in the immediately preceding accounting year.</li> <li>(iv) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in <b>excess of ₹ 50 crore</b> at <b>any time</b> during the immediately preceding accounting year.</li> <li>(v) Holding and subsidiary entities of any one of the above.</li> </ul>

<b>Level II Entities</b>	<p>Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:</p> <ul style="list-style-type: none"> <li>(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) <b>exceeds ₹ 50 crore but does not exceed ₹ 250 crore</b> in the immediately preceding accounting year.</li> <li>(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in <b>excess of ₹ 10 crore but not in excess of ₹ 50 crore</b> at any time during the immediately preceding accounting year.</li> <li>(iii) Holding and subsidiary entities of any one of the above.</li> </ul>
<b>Level III Entities</b>	<p>Non-company entities which are not Level I and Level II entities but fall in any one or more of the following categories are classified as Level III entities:</p> <ul style="list-style-type: none"> <li>(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) <b>exceeds ₹ 10 crore but does not exceed ₹ 50 crore</b> in the immediately preceding accounting year.</li> <li>(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in <b>excess of ₹ 2 crore but not in excess of ₹ 10 crore</b> at any time during the immediately preceding accounting year.</li> <li>(iii) Holding and subsidiary entities of any one of the above.</li> </ul>
<b>Level IV Entities</b>	<p>Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities</p>

**Additional Requirements:**

- (1) MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.
- (2) Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.
- (3) Where an entity has been covered in Level I & subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level I for 2 consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.
- (4) If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

- (5) If an entity covered in Level II or Level III or Level IV opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.
- (6) An entity covered in Level II or Level III or Level IV may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.
- (7) In respect of Accounting Standard (AS) 15, Employee Benefits, exemptions/ relaxations are available to Level II and Level III entities, under two subclassifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these subclassifications.

### EXEMPTIONS or RELAXATIONS FOR NON-COMPANY ENTITIES FALLING IN LEVEL II / LEVEL III AND LEVEL IV

	Level II	Level III	Level IV
<b>AS not Applicable</b>	AS 3, AS 17, AS 20	AS 3, AS 17, AS 18, AS 20, AS 24	AS 3, AS 14, AS 17, AS 18, AS 20, AS 24, AS 28
<b>AS applicable with Disclosure Exemptions</b>	AS 19, AS 28, AS 29	AS 10, AS 11, AS 19, AS 28, AS 29	AS 10, AS 11, AS 13, AS 19, AS 26, AS 29
<b>Applicable with Exemptions</b>	AS 15	AS 15	AS 15, AS 22

AS 21, 23, 25 & 27 is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

### LIST OF ACCOUNTING STANDARDS (AS) IN INDIA

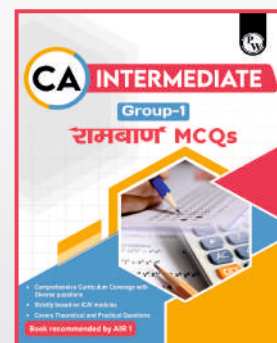
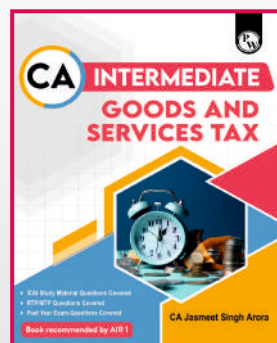
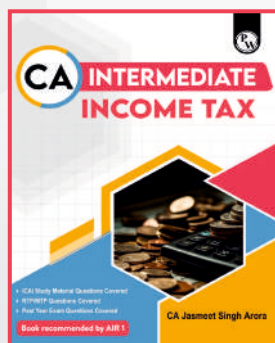
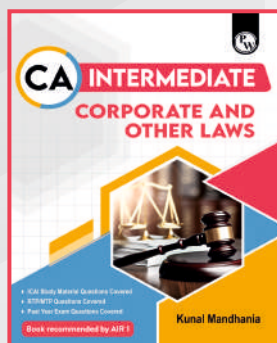
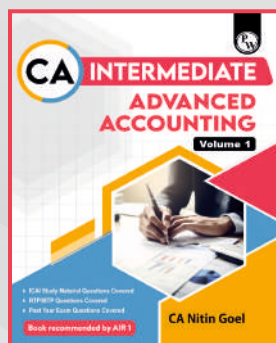
AS	AS TITLE	AS	AS TITLE
1	Disclosure of Accounting Policies	16	Borrowing Costs
2	Valuation of Inventories	17	Segment Reporting
3	Cash Flow Statements	18	Related Party Disclosures
4	Events Occurring after Bal. Sheet Date	19	Leases
5	Net P/L for the period, Prior Period Items & Changes in A/cing Policies	20	Earnings Per Share
6	<del>Depreciation Accounting</del> -Withdrawn-	21	Consolidated Financial Statements
7	Construction Contracts	22	Accounting for Taxes on Income
8	-Withdrawn-	23	Accounting for Investment in Associates in CFS
9	Revenue Recognition	24	Discontinuing Operations
10	Property, Plant & Equipment	25	Interims Financial Reporting
11	Effects of changes in Foreign Exchange Rates	26	Intangible assets

## About The Author

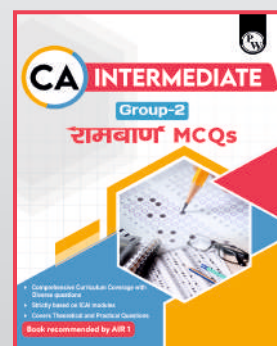
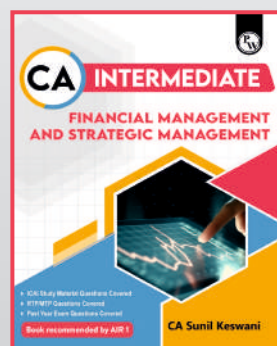
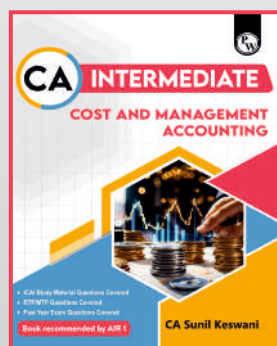
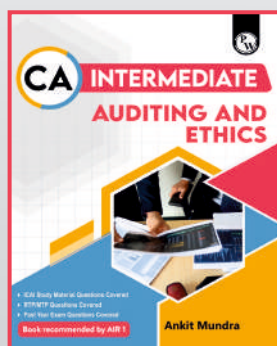
**CA Nitin Goel** is an All India Rank holder at all CA levels (AIR 9 in CPT, AIR 7 in Intermediate, AIR 9 in Final) and a Gold Medalist in B.Com. With 10+ years of teaching experience, he is a renowned Accounts, Advanced Accounts, and Financial Reporting faculty at PW. A former ITC professional, he blends industry insights with teaching. His students consistently score 90+ marks and have secured All India Ranks, including AIR 1, making him a trusted name in CA education. *ye jayega*

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