

Guidance Note on Financial Statements of Non-Corporate Entities

Introduction and Overview

The **Guidance Note on Financial Statements of Non-Corporate Entities** is a comprehensive publication issued by the Institute of Chartered Accountants of India (ICAI) in August 2023. This document represents a significant evolution from the earlier Technical Guide issued in June 2022, establishing standardized financial reporting formats for non-corporate entities in India and upgrading the guidance to provide **authoritative instructions** for ICAI members regarding the effective implementation of Accounting Standards.

The document emerges from a critical need to enhance **quality, comparability, and comprehensiveness** of financial reporting by non-corporate entities. Given the substantial growth in size and economic activities of these entities, particularly with increased government infrastructure initiatives and Public-Private-Partnership models, standardized financial reporting has become essential for stakeholder decision-making.

Chapter I: Foundation and Applicability

Background and Significance

The guidance establishes that a **sound financial reporting system supported by strong governance, high quality standards, and firm regulatory framework** is fundamental to economic development. Accounting Standards function as a "standardized language of business" to communicate high-quality information based on principles of **transparency, consistency, comparability, and reliability**.

Entity Classifications and Scope

The document comprehensively defines non-corporate entities as all business or professional entities excluding:

- Companies incorporated under the Companies Act
- Limited Liability Partnerships incorporated under the Limited Liability Partnership Act

Covered entity types include:

- Sole proprietorship firms
- Hindu Undivided Family
- Partnership Firms (registered and unregistered)
- Association of Persons
- Body of Individuals

- Resident welfare associations
- Societies registered under applicable laws
- Trusts (private/public, registered/unregistered)
- Statutory corporations, autonomous bodies, and authorities
- Any organization engaged in business or professional activities

Three-Tier Accounting Standards Framework

The guidance establishes three distinct sets of Accounting Standards:

Indian Accounting Standards (Ind AS): For specified classes of companies including listed companies, NBFCs, and entities with networth exceeding INR 250 crores

Company Accounting Standards (AS): For companies not covered under Ind AS, notified under Companies (Accounting Standards) Rules, 2021

ICAI Accounting Standards: For non-company entities, with classification into Large entities and Micro, Small and Medium Sized Entities (MSMEs)

Chapter II: Financial Statements Framework

Essential Components

A complete set of financial statements comprises:

- Balance sheet
- Statement of profit and loss
- Cash flow statement (where applicable)
- Notes and explanatory material (integral part)
- Significant accounting policies

Core Principles for Financial Position, Performance and Cash Flows

The guidance emphasizes that financial statements must provide information enabling users to evaluate an entity's **ability to generate cash and cash equivalents** and the timing and certainty of their generation. This capability ultimately determines an entity's capacity to pay employees and suppliers, meet interest payments, repay loans, and make distributions to owners.

Chapter III: Balance Sheet Structure

Fundamental Elements

The balance sheet measures financial position through three key elements:

- **Assets:** Resources controlled by the enterprise from past events, expected to provide future economic benefits
- **Liabilities:** Present obligations arising from past events requiring resource outflows
- **Equity:** Residual interest in assets after deducting liabilities

The formats use "**owners' funds**" terminology instead of "equity" to accommodate items that may not strictly meet equity definition.

Chapter IV: Statement of Profit and Loss

Performance Measurement Focus

The Statement of Profit and Loss (also known as Income Statement or Profit & Loss Account) reports an entity's **financial performance over a specific accounting period**. The statement focuses on income and expenses, with profit frequently used as a **performance measure** or basis for other measures like return on investment.

Key definitional elements:

- **Income:** Increases in economic benefits during the accounting period through asset inflows/enhancements or liability decreases (excluding equity participant contributions)
- **Expenses:** Decreases in economic benefits through asset outflows/depletions or liability incurrences (excluding distributions to equity participants)

Chapter V: Cash Flow Statements

Optional for MSMEs

Under Accounting Standard (AS) 3, **Micro, Small and Medium Sized Enterprises may not include cash flow statements**, making preparation non-mandatory. However, such entities are encouraged to comply with this standard.

Three-Component Structure

Operating Activities: Principal revenue-producing activities including cash from business operations, selling products/services, and changes in working capital components

Investing Activities: Acquisition and disposal of long-term assets, cash advances/loans to third parties, and related receipts

Financing Activities: Changes in owners' capital and borrowings, including cash from investors/banks and payments to shareholders

Chapter VI: Detailed Financial Statement Formats

Comprehensive Formatting Guidelines

The guidance provides **extensive general instructions** covering:

- Format modifications for statutory compliance
- Disclosure requirements supplementing Accounting Standards
- Cross-referencing between financial statements and notes
- Rounding-off conventions based on entity income levels
- Comparative figure requirements
- Terminology consistency with applicable Accounting Standards

Balance Sheet Format Structure

Part I - Balance Sheet includes detailed categorization:

- **Owners' Funds and Liabilities:** Owner capital accounts, reserves and surplus, non-current and current liabilities
- **Assets:** Non-current assets (property, plant, equipment, intangibles, investments) and current assets (inventories, receivables, cash, short-term investments)

Statement of Profit and Loss Format

Part II - Statement of Profit and Loss encompasses:

- Revenue from operations and other income
- Comprehensive expense categorization
- Progressive profit calculations including exceptional and extraordinary items
- Partners' remuneration provisions
- Tax expense breakdowns
- Continuing and discontinuing operations segregation

Appendices: Critical Supporting Information

Appendix A: Entity Classification Criteria

Revised classification effective April 1, 2024 establishes two categories:

Micro, Small and Medium Sized Entities (MSMEs) meeting specific criteria:

- Securities not listed or in listing process
- Not a bank, financial institution, or insurance company
- Turnover not exceeding Rs. 250 crores in preceding year
- Borrowings not exceeding Rs. 50 crores during preceding year
- Not a holding/subsidiary of non-MSME entity

Large entities: All non-company entities not qualifying as MSMEs

Accounting Standards Applicability Matrix

Large entities: Must comply fully with all Accounting Standards

MSMEs: Benefit from specific exemptions/relaxations including:

- Complete exemption from AS 3 (Cash Flow Statements), AS 17 (Segment Reporting), AS 20 (Earnings per Share), AS 24 (Discontinuing Operations)
- Partial exemptions for various standards with simplified compliance requirements

Appendix B: Illustrative Formats

Provides **detailed practical examples** of Balance Sheet and Statement of Profit and Loss formats with comprehensive note structures, enabling practical implementation by preparers and ensuring consistency across non-corporate entities.

Key Professional Implications

Enhanced Standardization

This guidance significantly **standardizes financial reporting** across diverse non-corporate entities, improving comparability and reliability for stakeholders including lenders, investors, suppliers, and regulatory authorities.

Compliance and Audit Considerations

The guidance emphasizes that **auditors must examine compliance** with Accounting Standards during their attest function. For tax audits under section 44AB of the Income-tax Act, 1961, auditors must issue reports considering ICAI's specific guidance while ensuring true and fair view presentation.

Effective Implementation

The Guidance Note on Financial Statements of Non-Corporate Entities, issued by the Institute of Chartered Accountants of India (ICAI) in August 2023, is effective for financial statements covering periods beginning on or after April 1, 2024. However, for the annual reporting period 2024–25, compliance with the Guidance Note is voluntary. Mandatory compliance is expected to begin from FY 2025–26 onwards.

Effective Date Details

- The Guidance Note applies to financial statements for periods starting April 1, 2024.
- For FY 2024–25, adoption is voluntary to facilitate a smoother transition for non-corporate entities.
- Full mandatory implementation is anticipated for periods beginning on or after April 1, 2025 (FY 2025–26).

ICAI's Rationale

- The transition year (FY 2024–25) allows entities and professionals time to update their systems and practices.
- The objective is enhanced standardization and comparability of non-corporate entity financials under the new framework.

In summary, the Guidance Note becomes voluntarily applicable from April 1, 2024, and is expected to be mandatorily effective from April 1, 2025 (FY 2025–26).

1. <https://www.icaai.org/post/asb-announ-190925>
2. <https://www.icaai.org/post/guidance-notes>

Thank You...

CA. Peeyush Sharma is a **Fellow Chartered Accountant (FCA)** with over **20 years** of professional experience since 2005. He possesses extensive experience across auditing (statutory and internal), Investigations, policy and procedure development, Process reviews, Internal Control, and Financial Reporting. His expertise spans auditing companies in diverse sectors, including manufacturing, infrastructure, the education sector, service sectors, and the IT sector.