ICAI

Frequently Asked Questions on Guidance Note on Financial Statements of Non-Corporate Entities

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The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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Foreword

The Institute of Chartered Accountants of India (ICAI), through its Accounting Standards Board (ASB), has consistently strived to promote high-quality financial reporting practices across all categories of entities. As the economy grows increasingly diverse and inclusive, the need for tailored guidance for various types of reporting entities becomes ever more crucial. Recognising the significant contribution of non-corporate entities in India's economy, ICAI has issued the ***"Guidance Note on Financial Statements of Non-Corporate Entities",*** applicable for accounting periods commencing on or after April 1, 2024. The Guidance Note aims to enhance the quality, comparability, and transparency of financial statements prepared by such entities.

To facilitate smooth implementation and address practical concerns, the *"Frequently Asked Questions (FAQs) on the Guidance Note on Financial Statements of Non-Corporate Entities"* have been issued jointly by the Accounting Standards Board (ASB) and the Auditing and Assurance Standards Board (AASB) of ICAI. These FAQs are intended to provide clarity on the application of the said Guidance Note to common questions raised by stakeholders to promote consistent and effective application of the same.

I express my sincere appreciation for CA. (Dr) Sanjeev Kumar Singhal, Chairman, ASB, CA. Vishal Doshi, Vice-Chairman, ASB,

CA. Sripriya Kumar, Chairperson, AASB and CA. Ravi Kumar Patwa, Vice-Chairman, AASB for developing these FAQs. I would also like to place on record my deep appreciation to all the members of the ASB & AASB, for their valuable contribution.

I am sure that this publication would prove to be of immense value to the members in carrying out their professional assignments with more clarity and consistency.

New Delhi
August 22, 2025

CA. Charanjot Singh Nanda
President, ICAI

Preface

The Institute of Chartered Accountants of India (ICAI) has been at the forefront of initiatives aimed at enhancing the quality and consistency of financial reporting in the country. In view of the increasing significance of non-corporate entities in the Indian economic landscape and the need for uniform and transparent financial reporting practices, the Accounting Standards Board (ASB) of ICAI issued the *Guidance Note on Financial Statements of Non-Corporate Entities*, which came into effect for accounting periods commencing on or after April 1, 2024.

The objective of the Guidance Note is to ensure greater consistency, transparency, and comparability in the financial statements of non-corporate entities by outlining uniform formats and essential guidance. In order to aid seamless implementation and resolve practical issues faced by stakeholders, the Accounting Standards Board (ASB), jointly with the Auditing and Assurance Standards Board (AASB), has released *"Frequently Asked Questions (FAQs) on the Guidance Note on Financial Statements of Non-Corporate Entities*." For ease of reference, a publication of the said FAQs has been formulated. These FAQs will be updated as and when relevant issues are received from the stakeholders. This initiative is aimed at assisting members in resolving practical challenges to commonly raised queries. The publication is intended to serve as a practical tool to ensure consistent and appropriate application of the Guidance Note.

We take this opportunity to express our gratitude to CA. Charanjot Singh Nanda, President, ICAI, and CA. Prasanna Kumar D, Vice-President, ICAI, for their continued guidance and encouragement in the activities of the Boards. We express our sincere thanks to all members of the Accounting Standards Board and Auditing and Assurance Standards Board for their valuable contributions and dedicated efforts in developing the FAQs.

We also wish to acknowledge the contributions and the support extended by the Accounting Standards Board secretariat and Auditing and Assurance Standards Board secretariat, including CA. Parminder Kaur, Secretary, ASB, CA. Megha Saxena Secretary, AASB, CA. Prachi Jain, Assistant Secretary, ASB and CA. Chirag Sharma, Project Associate, ASB, in developing the FAQs and bringing out this publication.

We trust that this publication will serve as a valuable guide and will further promote the quality and reliability of financial statements prepared in accordance with the Guidance Note.

New Delhi
August 06, 2025

CA. (Dr.) Sanjeev Kumar Singhal
Chairman,
Accounting Standards Board

CA. Sripriya Kumar
Chairperson,
Auditing and Assurance
Standards Board

Frequently Asked Questions on Guidance Note on Financial Statements of Non-Corporate Entities

(Issued jointly by the Accounting Standards Board and Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India)

Question 1: What is the purpose of the Guidance Note on Financial Statements of Non-Corporate Entities issued by ICAI ("Guidance Note")?

Response: The Guidance Note issued by ICAI aims to provide standardised formats for financial statements of non-corporate entities to enhance the quality, understandability, relevance, reliability, comparability, consistency and comprehensiveness of financial statements prepared by entities to which the Guidance Note applies. This Guidance Note is applicable for accounting periods beginning on or after April 1, 2024.

Question 2: To whom is the Guidance Note applicable?

Response: All Business or Professional Entities, other than Companies incorporated under Companies Act and Limited Liability Partnerships incorporated under Limited Liability Partnership Act are considered to be Non-Corporate entities. The most common structures of Non-Corporate entities are as follows:

(a) Sole proprietorship firms

(b) Hindu Undivided Family

(c) Partnership Firms

i) Registered Partnership Firms
ii) Unregistered Partnership Firms

(d) Association of Persons
i) Partnership firms not covered above
ii) Body of Individuals
iii) Resident welfare Associations

(e) Society registered under any law for the time being in force

(f) Trusts (private or public) registered under any law for the time being in force or unregistered

(g) Statutory Corporations, Autonomous bodies and Authorities

(h) Any form of organisation that is engaged fully or partially in any Business or Professional activities.

Exceptions

It may be pertinent to note that this Guidance Note is applicable for the purpose of preparation of the financial statements of Non-Corporate Entities **except** where:

a. Formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority;

b. Autonomous Bodies under Government of India are required to compile their accounts in a uniform format of accounts as prescribed by Government of India, Ministry of Finance; or

c. Guidance has been specifically given by ICAI (e.g., Educational Institutions, Political Parties, Not-for Profit Entities, etc.).

Question 3: What is the applicability of the Technical Guide on Financial Statements of Non-corporate entities which was issued earlier in the year 2022 in the specific context of introduction of this Guidance Note on same subject?

Response: The Technical Guide on Financial Statements of Non-corporate entities was issued in the year 2022. This Guide recommended the formats for preparation of financial statements of non-corporate entities so as to standardise the information to be presented in the financial statements of non-corporate entities.

In order to prescribe more authoritative guidance for the members of ICAI, this Technical Guide was upgraded into a Guidance Note on Financial Statements of Non-Corporate Entities.

In view of the above, the Technical Guide on Financial Statements of Non-Corporate Entities stands superseded by the Guidance Note with effect from April 1, 2024.

Therefore, for accounting periods beginning on or after April 1, 2024, the Guidance Note on Financial Statements of Non-corporate entities is applicable.

Question 4: Does this Guidance Note intend to prescribe the formats for financial statements as the presentation formats for the categories of entities to which it applies

Response: Yes, the Guidance Note intends to specifically prescribe the formats for financial statements as the presentation format for the categories of entities to which it applies.

Question 5: What is the responsibility of the Auditor when a non-corporate entity (client) fails to comply with the presentation formats as specified in the Guidance Note?

Response: ICAI has, from time to time, issued 'Guidance Notes' on a number of matters. The authority of this Guidance Note is the same as that of any other Guidance Note issued by the ICAI.

In this regard, it is pertinent to note that a clarification issued by the ICAI regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof *inter alia* provides as under:

"Guidance Notes, though recommendatory in nature, are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued under the authority of the Council. Guidance Notes are also issued to provide guidance on other generic or industry specific audit issues, not necessarily arising out of a Standard. Professional accountants should be aware of and consider Guidance Notes applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should take reasonable and adequate care in performing the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note. In such situations, a professional accountant should also document the rationale in performing the alternate procedures. Similarly, while discharging his attest function, a member should examine whether the recommendations in a Guidance Note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary in accordance with Engagement Standards."

'Clarification Regarding Authority Attached to Documents Issued by the Institute' can be accessed at the following link: https://www.icai.org/post/aasb-announ-19082023

In the above context, where the client does not furnish the financial statements in the presentation format or does not comply with the

requirements prescribed in the Guidance Note, the auditor is required to disclose the same in his / her report. The auditor shall exercise his / her professional judgment in determining whether such non-adherence will result in a modified opinion as per the Standards on Auditing.

Question 6: XYZ Foundation is a not-for profit organisation working to uphold the rights of children in India. It prepares financial statements that are subject to audit. Whether the Guidance Note on Financial Statements of Non-corporate Entities is required to be applied while preparing financial statements of XYZ foundation?

Response: This Guidance Note is relevant for the purpose of preparation of the financial statements of Non-Corporate Entities as per Question 2 of these FAQs.

As regards Not for Profit Organisations, ICAI has issued a '*Technical Guide on Accounting for Not-for-profit organisations*' (https://resource.cdn.icai.org/74188asb60123.pdf) to recommend uniform accounting principles in accordance with the Accounting Standards and other generally accepted accounting principles in India for the preparation and presentation of financial statements of NPOs to meet the common information needs of the various stakeholders.

Formats for NPOs have been specifically recommended in the Technical Guide on NPOs and the same are relevant for the purpose of preparation of financial statements of NPOs.

Hence, in the given case, for preparation of financial statements of XYZ foundation, the Technical Guide on Accounting for NPOs is relevant.

Question 7: Can additional line items be added in the Balance Sheet, or is it mandatory to strictly follow the line items prescribed in the Guidance Note?

Response: The 'General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a Non-corporate entity' as contained in the Guidance Note *inter-alia* provide as follows:

'*This part set-outs the minimum requirements for disclosure on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as "Financial Statements" for the purpose of the Format) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the Non-Corporate entity's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the relevant statutes or under the Accounting Standards*.'

In accordance with the above, a line item can be substituted or additional line items, sub-line items and sub-totals can be presented on the face of the Financial Statements.

Question 8: The Guidance Note set out minimum line items that are required to be presented on the face of the financial statements in terms of current and previous period figures. However, if the figures in respect of a particular line item are 'Nil' in the current year as well as immediately preceding period, then whether that item can be omitted from being presented?

Response: The Guidance Note sets out the minimum requirements for disclosure on the face of the Balance Sheet and the Statement of Profit and Loss. It allows flexibility to add or substitute line items when such presentation is relevant to an understanding of the company's financial position or performance. However, it is also pertinent to note that the requirement to present line items is in respect of those that carry values.

Accordingly, in case there is 'Nil' balance in respect of a line item in the current year as well as in previous year, and its omission does not affect the true and fair view of the financial statements, it can be omitted from the financial statements. Presenting a line item and zero values in both current and previous periods may not serve any use.

Question 9: Whether comparative year figures of immediately preceding reporting period are also required to be given in the same format as prescribed by the Guidance Note?

Response: As per the **'**Framework for the Preparation and Presentation of Financial Statements', one of the qualitative characteristics of Financial Statements is 'Comparability'. Paragraphs 39-42 of the said framework elaborate on the same and *inter alia* state in paragraph 42 "*Users wish to compare the financial position, performance and cash flows of an enterprise over time. Hence, it is important that the financial statements show corresponding information for the preceding period(s)."*

Moreover, paragraph 5 of the *'General Instruction for preparation of Balance and Statement of profit and loss of a non-corporate entity'* may be noted which state as under:

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.

Accordingly, with effect from April 1, 2024, the formats prescribed in the Guidance Note is to be applied in preparation and presentation of financial statements of non-corporate entities including comparative year figures, with

the exception for entities which are preparing their first financial statements after incorporation.

Question 10: What is the applicability of Accounting Standards to Non-company entities from April 1, 2024?

Response: The applicability of Accounting Standards to non-company entities is prescribed by the ICAI. At the time of issuance of the Guidance Note, the Announcement regarding criteria for classification of Non-company entities for applicability of Accounting Standards that came into effect in respect of accounting periods commencing on or after April 1, 2020 was applicable. However, subsequently, ICAI issued a '*Revised Criteria for classification of Non-company entities for applicability of Accounting Standards'*, wherein the Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities. Further, certain exemptions/relaxations have been provided to MSMEs.

The revised scheme for applicability of Accounting Standards to Non-company entities has come into effect in respect of accounting periods commencing on or after April 1, 2024, and the same is reproduced below:

"Revised Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.

2. **Micro, Small and Medium Sized Entity (MSME)** means, a non-company entity:

(i) *whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;*

(ii) *which is not a bank, financial institution or an insurance company;*

(iii) *whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;*

(iv) *which does not have borrowings in excess of fifty crore rupees at any time during the immediately preceding accounting year; and*

(v) *which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.*

Explanation.- *For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.*

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.

4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.

5. This Announcement supersedes the earlier Announcement of the ICAI on **'Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021'.**[1]

6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind AS) or

[1] The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribed the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.

Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.

7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Additional requirements

(1) An 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 and has complied with the Accounting Standards insofar as they are applicable to an MSME.

(2) Where an MSME 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 an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it 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) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.

(4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME 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 MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.

(6) An MSME 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 users of financial statements.

Annexure 1

Applicability of Accounting Standards to Non-company Entities

The Accounting Standards issued by the ICAI, as on April 1, 2024, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2024, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets

AS 29	Provisions, Contingent Liabilities and Contingent Assets

(1) Applicability of the Accounting Standards to Large Non-company entities.

Large entities are required to comply in full with all the Accounting Standards.

(2) Applicability of the Accounting Standards and exemptions/relaxations for Micro, Small and Medium sized Non-company entities

(A) Accounting Standards not applicable to Micro, Small and Medium sized* entity (MSME) *in their entirety

(i) Accounting Standards not applicable to all MSMEs in their entirety:

- AS 3, *Cash Flow Statements*
- AS 17, *Segment Reporting*
- AS 20, *Earnings per Share*
- AS 24, *Discontinuing Operations*

(ii) AS 18, *Related Party Disclosures* and AS 28, *Impairment of Assets* not applicable in their entirety to MSMEs :

a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and

c) which is not a Holding and subsidiary of an MSME not covered above.

(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)

(i) Accounting Standard (AS) 10, *Property, Plant and Equipment*

MSMEs may not comply with paragraph 87 relating to encouraged disclosures.

(ii) AS 11, *The Effects of Changes in Foreign Exchange Rates*

MSMEs may not comply with paragraph 44 relating to encouraged disclosures.

(iii) AS 15, *Employee Benefits*

(1) MSMEs may not comply with the following paragraphs:

(a) 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., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(iv) AS 19, *Leases*

MSMEs may not comply with paragraphs 22 (c), (e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.

(v) AS 22, *Accounting for Taxes on Income*

(a) MSMEs shall comply with the requirements of AS 22, *Accounting for Taxes on Income*, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

(b) Transitional requirements

On the first occasion when an MSME avails this exemption, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

(vi) AS 26, *Intangible Assets*

MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.

(vii) AS 28, *Impairment of Assets*

(a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.

(viii) AS 29, *Provisions, Contingent Liabilities and Contingent Assets*

MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.

(C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, *Accounting for Amalgamations*, or jointly controlled operations or jointly controlled assets covered under AS 27, *Financial Reporting of Interests in Joint Ventures*. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

(D) AS 21, *Consolidated Financial Statements,* AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements*, AS 27, *Financial Reporting of Interests in Joint Ventures* (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, *Interim Financial Reporting*, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report."

The revised scheme can also be accessed at the following link https://resource.cdn.icai.org/82761asb66837.pdf

Accordingly, the revised criteria for applicability of Accounting Standards is applicable from April 1, 2024 onwards.

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