The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Kumbakonam Branch (SIRC)

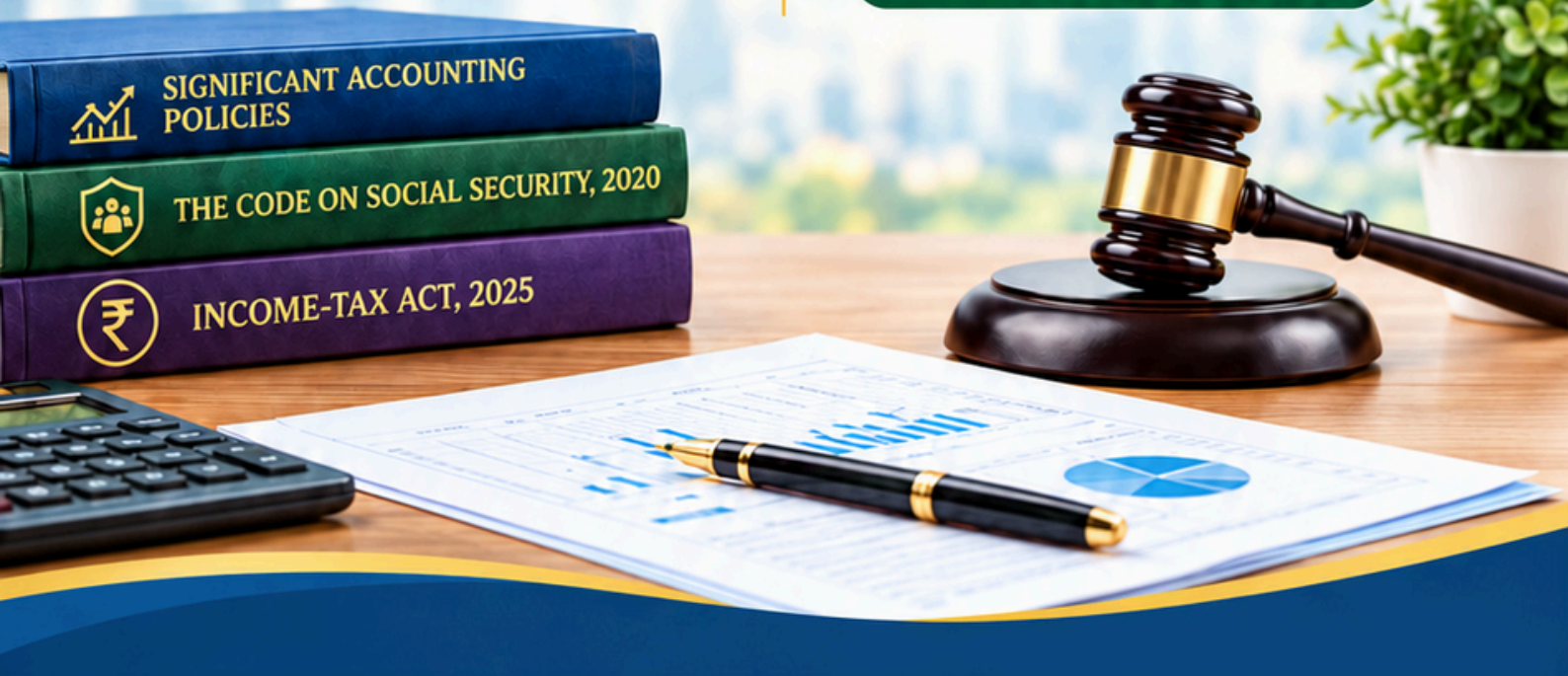
NEWSLETTER

OCTOBER 2026

Keeping You Informed
for a Stronger Professional Journey

Significant Accounting Policies
for Non-Corporate Entities
FY 2025-26

The Code on Social Security, 2020
and
Income-tax Act, 2025



From The Chairman's Desk



Dear Members,

Greetings from the Kumbakonam Branch.

As I write this, most of us are in the middle of the busiest season of our professional year, with tax audits, finalisation of accounts and filing deadlines crowding every working hour. It is in this season that our work is most visible to clients, bankers and the Department, and in this season we are most tempted to take shortcuts.

Branch activities

The Branch had an active month. The Excel Masterclasses on 4th and 5th September were followed by a Seminar on Tax Audit by CA. V. Ramnath on 6th September. The seminar was highly interactive, well attended and well received, and I thank CA. V. Ramnath for sharing his time and insight at such a busy time of the year.

Reaching beyond our profession, the Branch conducted a Financial Literacy Programme at Sandipani Vidhyashram, Kumbakonam. We plan to take more such programmes to schools and the public in the coming months.

For our students, Orientation Classes were conducted after the Intermediate examinations and were well attended. As per the list and certificates sent by the ICAI on account of Teachers Day celebration, the Branch honoured the faculty members associated with our branch who are engaged in student activities. Their commitment is the backbone of our student services, and we are grateful to them.

Branch premises

Following the request we made before the District Collector, the Branch approached the Revenue Divisional Officer, Kumbakonam this month for alienation of land for our branch premises. I will keep members informed as the matter progresses, and I seek your continued support in this long-cherished goal of the Branch.

Further as advised by the Head Office, we are in the process of obtaining the No Objection Certificate from the Fire Department.

In this issue

One shortcut we often take is the note on Significant Accounting Policies. For many non-corporate entities, this note is carried forward from the previous year's file or copied from another client's file, with only the name changed. It is often the first page a banker or an assessing officer reads, and it shows whether the preparer understood the business. A policy that describes the wrong tax, lists a Standard as "not applicable" when it applies, or gives an invalid reason for not providing gratuity reflects on the signing member, not on the client.

This issue also carries a one-page practitioner brief on the revision of the EPFO statutory wage ceiling from ₹15,000 to ₹25,000 per month with effect from 17th September 2026. Since the revision falls mid-month, September 2026 payroll and the ECR due by 15th October 2026 need careful computation for the two periods, and I request members to alert their clients early. We close with a quiz on the Digital Personal Data Protection Act, 2023, which will increasingly shape how we collect, store and share client data. The answers will appear in the November issue.

Two other changes affect our work this year. The Code on Social Security, 2020 came into force on 21st November 2025, replacing the Payment of Gratuity Act, the EPF Act and the ESI Act. From FY 2026-27, the Income-tax Act, 2025 will govern our computations and references. Both call for a fresh look at our templates, and there is no better time than now.

I welcome your suggestions on topics you would like the Branch to cover, and contributions from members willing to share their experience.

Wishing you a smooth and successful audit season.

Jai ICAI, Jai Hind.

With warm professional regards,



CA. H. Vijay Sarathi

Chairman, ICAI Kumbakonam Branch (SIRC)

SNIPPETS FROM SEPTEMBER 2026 PROGRAMMES

Excel Masterclasses on 4th & 5th Sep 2026



Session by **CA Rathinagiri**



Members Engaged in the Learning Session

Teachers' Day 2026 on 5th Sep 2026



Teachers' Day Address by **President and Vice-President** of ICAI



Welcome Address by **CA H Vijay Sarathi**, Chairman, Kumbakonam Branch.



Honouring the Faculty **CA Rathinagiri**



Honouring **CA V Mahadevan**



Honouring **CA Ganesh Radhakrishnan**



Honouring **CA Ganesh R**



Honouring **CA Venkatesh R**



Honouring **CA Mithra Vijayarama**



Honouring **Mr. RAMAN VENGATESAN**

Seminar on Tax Audit 2026 - Practical Insights on 6th Sep 2026



During the Inaugural session : **CA H Vijay Sarathi**, Chairman, Kumbakonam Branch, **CA Ramnath**, Speaker, **CA V A Sitharasan**, Secretary, Kumbakonam Branch



Welcome Address by Branch Chairman **CA H Vijay Sarathi**



Faculty introduction by **CA MSK Prasanna Kumar**, Vice-Chairman, Kumbakonam Branch



Session By **CA Ramnath**

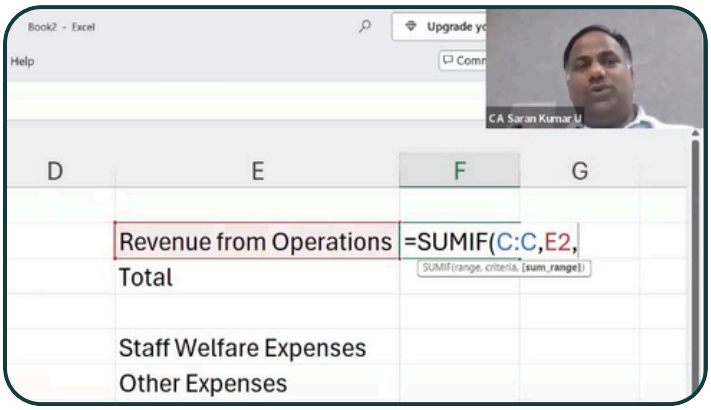


While eagerly attending the session by Branch Members



Vote of Thanks by **CA V A Sitharasan**

Online Seminar on Tax Audit using Technology by CA. Uppalapati Saran Kumar on 10th Sep 2026



Financial and Tax Literacy Programme @ Sandipani Vidyashram on 11th Sep 2026



During Inaugural session : from the left **CA R Venkatesh**, Treasurer, Kumbakonam Branch, **CA K Hariharan**, Faculty on the dais with the school principal



Welcome Address by School Management



Faculty Introduction by **CA R Venkatesh**, Treasurer, Kumbakonam Branch



Students were educated on financial matters by **CA K Hariharan**



Students eagerly attended the programme



Students eagerly attended the programme

Kumbakonam Branch (SIRC)

FORTHCOMING PROGRAMMES – October 2026

Date	Day	Timing	Place	Mode	Topic	Resource Person	Fee (incl. GST)	CPE
1st Oct 2026	Thu	10:00 am to 12:00 pm	Arignar Anna Auditorium, Government Arts College (Autonomous)	Physical	Mega Career Counselling Programme	CA Ganesh Radhakrishnan	-	NA
03rd Oct 2026	Sat	10:00 am to 01:00 pm	ICAI Bhawan, Kumbakonam	Physical	CPE Seminar on Peer Review & Engagement Standards	CA Nisha Deepak & CA J Satheesh Kumar	₹500	3 Hrs
8th Oct 2026	Thu	10:00am to 01:00 pm	SASTRA University, Kumbakonam	Physical	Investor Awareness Programme	Eminent Speaker	-	-

ARTICLE 1

SIGNIFICANT ACCOUNTING POLICIES FOR NON-CORPORATE ENTITIES

MSME or Large Entity, which Accounting Standards apply, and model wording you can use for FY 2025-26



Contributed by: CA. SATHISH KUMAR, ERODE

Every set of financial statements of a partnership firm or a proprietary concern must carry a note on Significant Accounting Policies (AS 1). This article is meant to be used, not just read. It explains (1) how to decide whether the entity is an MSME or a Large Entity, (2) which Accounting Standards apply to each, and (3) gives model wording for each policy, with variants for different fact situations. Pick the variant that matches your client's facts, fill in the blanks, and delete what does not apply.

All wording is for the year ended 31st March 2026 (FY 2025-26). Words in [square brackets] are choices; _____ are blanks to be filled. "Firm" may be replaced with "Concern", "Trust", "Society" etc., and "Partners" with "Proprietor" as the case may be.

Part I – Is the entity an MSME or a Large Entity?

The ICAI, by its Announcement on "Revised Criteria for classification of Non-company entities for applicability of Accounting Standards" (issued in August 2024), replaced the earlier four levels (Level I to IV) with only two categories. The revised criteria apply for accounting periods commencing on or after 1st April 2024, so FY 2025-26 is the second year under the new framework.

What is an MSME?

A non-company entity is a Micro, Small and Medium Sized Entity (MSME) only if it satisfies ALL the five conditions below:

S.No.	Condition	Test period
1	Its equity or debt securities are not listed and are not in the process of listing on any stock exchange (in India or outside India)	As at the reporting date
2	It is not a bank, financial institution or insurance company	As at the reporting date
3	Its turnover (excluding other income) does not exceed Rs. 250 crore	Immediately preceding accounting year
4	Its borrowings do not exceed Rs. 50 crore at any time	During the immediately preceding accounting year
5	It is not a holding or subsidiary of an entity which is not an MSME	As at the reporting date

What is a Large Entity?

Any non-company entity that fails even one of the above five conditions is a Large Entity. A Large Entity must comply in full with all the Accounting Standards. No exemption or relaxation is available to it.

Two layers within MSMEs

For practical purposes, MSMEs fall into two layers because two Standards (AS 18 and AS 28) are exempted only for the smaller ones. In this article:

•**Small MSME** = an MSME whose turnover does not exceed Rs. 50 crore AND whose borrowings do not exceed Rs. 10 crore.

•**Other MSME** = an MSME which crosses either of these limits, but is still within Rs. 250 crore / Rs. 50 crore.

Most partnership firms, proprietary concerns and trusts that we audit in our region will be Small MSMEs.

Worked example

Classification for FY 2025-26	Manufacturer (Firm)	Trader (Firm)	Petrol bunk (Proprietorship)
Listed / bank / insurer?	No	No	No
Turnover FY 2024-25	Rs. 42 crore	Rs. 8 crore	Rs. 18 crore
Highest borrowings in FY 2024-25	Rs. 12 crore	Rs. 1.5 crore	Nil
Holding/subsidiary of a Large Entity?	No	No	No
Result for FY 2025-26	Other MSME (borrowings exceed Rs. 10 crore)	Small MSME	Small MSME

(Figures are illustrative.) Note that the manufacturer, although its turnover is below Rs. 50 crore, is not a Small MSME because its borrowings crossed Rs. 10 crore. It must therefore comply with AS 18 and AS 28.

Change in status – the two-year rule

• MSME becomes a Large Entity: all Standards apply from the current year. Previous-year comparative figures need not be revised merely because of the change. Disclose that the entity was an MSME in the previous year.

• Large Entity becomes an MSME: the exemptions and relaxations can be availed only after the entity has remained an MSME for two consecutive years. Until then, it must continue to comply in full.

Mandatory disclosure

An MSME that avails any exemption or relaxation must state, by way of a note, that it is an MSME and has complied with the Accounting Standards insofar as they are applicable to an MSME. Where it avails only some of the exemptions, it should disclose the Standards whose exemptions have been availed. This is why Note 2.1 below is the first policy in every set.

Part II – Which Accounting Standards apply?

The table below shows the position under the Announcement. Green = applicable in full, Yellow = applicable with relaxation, Red = not applicable.

AS	Title	Large Entity	Other MSME	Small MSME
AS 1	Disclosure of Accounting Policies	Applicable	Applicable	Applicable
AS 2	Valuation of Inventories	Applicable	Applicable	Applicable
AS 3	Cash Flow Statements	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 relaxation – encouraged disclosures (para 87) not required	Applicable with relaxation – encouraged disclosures (para 87) not required
AS 11	The Effects of Changes in Foreign Exchange Rates	Applicable	Applicable with relaxation – encouraged disclosures (para 44) not required	Applicable with relaxation – encouraged disclosures (para 44) not required
AS 12	Accounting for Government Grants	Applicable	Applicable	Applicable
AS 13	Accounting for Investments	Applicable	Applicable	Applicable
AS 14	Accounting for Amalgamations	Applicable	Applicable	Applicable
AS 15	Employee Benefits	Applicable	Applicable with relaxation – see note (a)	Applicable with relaxation – see note (a)
AS 16	Borrowing Costs	Applicable	Applicable	Applicable
AS 17	Segment Reporting	Applicable	Not applicable	Not applicable
AS 18	Related Party Disclosures	Applicable	Applicable	Not applicable
AS 19	Leases	Applicable	Applicable with relaxation – certain disclosures not required	Applicable with relaxation – certain disclosures not required
AS 20	Earnings Per Share	Applicable – see note (b)	Applicable – see note (b)	Applicable – see note (b)
AS 21	Consolidated Financial Statements	Applicable – only if CFS are prepared	Applicable – only if CFS are prepared	Applicable – only if CFS are prepared
AS 22	Accounting for Taxes on Income	Applicable	Applicable with relaxation – current tax only; see note (c)	Applicable with relaxation – current tax only; see note (c)
AS 23	Accounting for Investments in Associates in CFS	Applicable – only if CFS are prepared	Applicable – only if CFS are prepared	Applicable – only if CFS are prepared
AS 24	Discontinuing Operations	Applicable	Not applicable	Not applicable
AS 25	Interim Financial Reporting	Applicable – only if interim FS are prepared	Applicable – only if interim FS are prepared	Applicable – only if interim FS are prepared
AS 26	Intangible Assets	Applicable	Applicable with relaxation – certain disclosures not required	Applicable with relaxation – certain disclosures not required
AS 27	Financial Reporting of Interests in Joint Ventures	Applicable	Applicable	Applicable
AS 28	Impairment of Assets	Applicable	Applicable with relaxation – see note (d)	Not applicable
AS 29	Provisions, Contingent Liabilities and Contingent Assets	Applicable	Applicable with relaxation – disclosures in paras 66 and 67 not required	Applicable with relaxation – disclosures in paras 66 and 67 not required

AS 6 and AS 8 stand withdrawn (now covered by AS 10 and AS 26).

Notes to the table – the relaxations in plain words

(a) AS 15 – Employee Benefits: An MSME need not (i) recognise non-vesting short-term compensated absences (leave that lapses if not availed); (ii) discount amounts payable beyond 12 months; (iii) obtain an actuarial valuation for defined benefit plans such as gratuity, and may instead use any other rational method, e.g. computing the liability as if all employees retired on the Balance Sheet date; and (iv) use actuarial methods for other long-term benefits. The relaxation is only in how the liability is measured. It does not permit the entity to skip the provision.

(b) AS 20 – EPS: AS 20 is mandatory only for enterprises whose equity shares or potential equity shares are listed (or in the process of listing), or which choose to disclose EPS. A partnership firm, proprietary concern or trust has no equity shares, so in practice AS 20 does not arise.

(c) AS 22 – Taxes on Income: An MSME recognises only current tax. Deferred tax is not recognised. When the relaxation is adopted for the first time, the deferred tax asset/liability of the earlier year is adjusted against opening capital/reserves.

(d) AS 28 – Impairment: For an Other MSME, "value in use" may be estimated using a reasonable estimate instead of a present value technique, and certain disclosures are not required. A Small MSME is fully exempt.

Part III – "Not applicable" means three different things

This is where most policy notes go wrong. Many firms write "AS 11 – not applicable" in the note of a trading firm. A reader then assumes AS 11 does not apply to trading concerns at all, which is wrong. AS 11 applies to every entity, MSME or Large; it simply has nothing to act upon when there is no foreign currency transaction. Keep the three situations apart:

Situation	Example	How to write it
1. Exempted by ICAI for MSMEs	AS 3, AS 17, AS 24 for all MSMEs; AS 18, AS 28 for Small MSMEs	"... being an MSME, AS 3, AS 17 and AS 24 are not applicable to the Firm."
2. Applicable with relaxation	AS 15, AS 22, AS 29 disclosures, etc.	"... the Firm has availed the relaxation available to MSMEs under AS 15 and computed gratuity liability on the basis of ..."
3. Applicable, but no such transaction during the year	AS 11 where there are no imports/exports; AS 12 where there is no grant; AS 13 where there are no investments	Do NOT write "not applicable". Either omit the policy, or write: "The Firm had no foreign currency transactions during the year and no foreign currency balances as at 31st March 2026."

The model wording in Part IV follows this discipline.

Part IV – Model wording

The notes are numbered as Note 1 (entity background) and Note 2 (significant accounting policies). Use only the clauses relevant to the entity. Clause numbers can be renumbered after selection.

Note 1 – Background of the entity

Variant A – Partnership firm

M/s _____ (hereinafter referred to as "the Firm") is a partnership firm constituted under the Indian Partnership Act, 1932, vide Deed of Partnership dated _____ [and registered with the Registrar of Firms, _____ under No. _____]. The principal place of business of the Firm is at _____. The Firm is engaged in the business of _____ [e.g. manufacture of corrugated boxes / trading in paper and paper boards].

Variant B – Proprietary concern

M/s _____ (hereinafter referred to as "the Concern") is a sole proprietary concern of Shri/Smt. _____ (hereinafter referred to as "the Proprietor"), with its principal place of business at _____. The Concern is engaged in the business of _____ [e.g. retail sale of Motor Spirit (Petrol) and High Speed Diesel and trading in lubricants, as a dealer of _____ (name of Oil Marketing Company)].

Note 2.1 – Status of the entity and applicability of Accounting Standards

When to use: Always. This is the disclosure the Announcement makes mandatory. Choose the variant that matches Part I.

Variant A – Small MSME

The Firm is a Micro, Small and Medium Sized Entity (MSME) in terms of the Announcement of the Institute of Chartered Accountants of India (ICAI) on "Revised Criteria for classification of Non-company entities for applicability of Accounting Standards", applicable for accounting periods commencing on or after 1st April 2024. Its turnover (excluding other income) for the immediately preceding accounting year did not exceed Rs. 50 crore and its borrowings did not exceed Rs. 10 crore at any time during that year. Accordingly, the Firm has complied with the Accounting Standards insofar as they are applicable to an MSME, and has availed the following exemptions/relaxations:

(i) AS 3 – Cash Flow Statements, AS 17 – Segment Reporting, AS 18 – Related Party Disclosures, AS 24 – Discontinuing Operations and AS 28 – Impairment of Assets have not been applied, being not applicable to the Firm;

(ii) AS 15 – Employee Benefits: the relaxations available to MSMEs have been availed, as stated in Note 2.12;

(iii) AS 22 – Accounting for Taxes on Income: only current tax has been recognised, as stated in Note 2.16; and

(iv) the disclosure relaxations available to MSMEs under AS 10, AS 11, AS 19, AS 26 and AS 29 have been availed.

All other Accounting Standards are applicable to the Firm and have been complied with, to the extent the Firm had transactions or events covered by them during the year.

Variant B – Other MSME

The Firm is a Micro, Small and Medium Sized Entity (MSME) in terms of the Announcement of the ICAI on "Revised Criteria for classification of Non-company entities for applicability of Accounting Standards", applicable for accounting periods commencing on or after 1st April 2024. Accordingly, the Firm has complied with the Accounting Standards insofar as they are applicable to an MSME, and has availed the following exemptions/relaxations:

(i) AS 3 – Cash Flow Statements, AS 17 – Segment Reporting and AS 24 – Discontinuing Operations have not been applied, being not applicable to the Firm;

(ii) AS 15 – Employee Benefits: the relaxations available to MSMEs have been availed, as stated in Note 2.12;

(iii) AS 22 – Accounting for Taxes on Income: only current tax has been recognised, as stated in Note 2.16;

(iv) AS 28 – Impairment of Assets: value in use, where required, is estimated using a reasonable estimate without applying the present value technique; and

(v) the disclosure relaxations available to MSMEs under AS 10, AS 11, AS 19, AS 26, AS 28 and AS 29 have been availed.

Related party disclosures as required by AS 18 are given in Note ____. All other Accounting Standards are applicable to the Firm and have been complied with, to the extent the Firm had transactions or events covered by them during the year.

Variant C – Large Entity

The Firm is a Large Entity in terms of the Announcement of the ICAI on "Revised Criteria for classification of Non-company entities for applicability of Accounting Standards", as its [turnover (excluding other income) exceeded Rs. 250 crore / borrowings exceeded Rs. 50 crore] during the immediately preceding accounting year. Accordingly, the Firm has complied in full with all the Accounting Standards issued by the ICAI, to the extent applicable. [The Firm was an MSME in the previous year; the previous year's figures have not been revised on account of the change in its status.]

Additional line – entity newly qualifying as MSME (two-year rule)

Although the Firm qualifies as an MSME for the current year, it was a Large Entity in the previous year. As the Firm has not remained an MSME for two consecutive years, it has not availed the exemptions/relaxations available to MSMEs and has complied in full with all the Accounting Standards.

Note 2.2 – Basis of preparation

Common wording

The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting and in accordance with the generally accepted accounting principles in India, including the Accounting Standards issued by the ICAI to the extent applicable to the Firm (refer Note 2.1). The accounting policies have been applied consistently and are consistent with those used in the previous year, except where otherwise stated. Previous year's figures have been regrouped/reclassified wherever necessary to conform to the current year's presentation. Amounts are stated in Indian Rupees [rounded off to the nearest rupee].

Current and non-current classification: Assets and liabilities are classified as current where they are expected to be realised or settled within twelve months after the reporting date or within the normal operating cycle of the Firm, and as non-current otherwise. The operating cycle of the Firm has been determined as twelve months.

Add for a proprietary concern

These financial statements relate only to the business of the Concern and do not include the personal assets, liabilities, income and expenditure of the Proprietor, other than those introduced into or withdrawn from the business, which are reflected in the Proprietor's Capital Account.

Note 2.3 – Use of estimates

Common wording

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities as at the date of the financial statements. Estimates are based on the management's best knowledge of current events and actions. Actual results may differ from these estimates. Differences between actual results and estimates are recognised in the period in which the results are known or materialise.

Note 2.4 – Inventories (AS 2)

When to use: Choose one variant according to the nature of the business.

Variant A – Manufacturer

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials, packing materials, stores and spares is determined on weighted average basis and comprises the purchase price (net of GST input tax credit availed), freight inward and other costs incurred in bringing them to their present location and condition. Cost of work-in-progress and finished goods comprises cost of materials, direct labour and a systematic allocation of fixed and variable production overheads based on the normal capacity of the production facilities. Scrap is valued at net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Variant B – Trader

Stock-in-trade is valued at the lower of cost and net realisable value. Cost is determined on [weighted average / first-in-first-out] basis and comprises the purchase price (net of GST input tax credit availed), freight inward and other costs incurred in bringing the goods to their present location and condition. Obsolete, slow-moving and damaged stock is valued at its estimated realisable value.

Variant C – Petrol bunk

Inventories of Motor Spirit (Petrol), High Speed Diesel and lubricants are valued at the lower of cost and net realisable value, cost being determined on weighted average basis. Cost comprises the purchase price, including taxes and duties which are not recoverable, and freight. The year-end stock of petrol and diesel is determined on the basis of physical dip measurement. Evaporation and handling losses within the normal limits are absorbed in the cost of inventory; abnormal losses are charged to the Statement of Profit and Loss.

Variant D – No stock held (direct delivery by supplier)

Goods purchased by the Firm are delivered by the suppliers directly to the customers. Accordingly, the Firm did not hold any inventory as at 31st March 2026 (Previous Year: Nil).

Note 2.5 – Events after the Balance Sheet date (AS 4)

Common wording

Events occurring after the Balance Sheet date and up to the date on which the financial statements are approved by the [Partners / Proprietor] are considered. Adjustments are made to assets and liabilities where such events provide additional evidence of conditions existing at the Balance Sheet date. Material events which do not relate to conditions existing at the Balance Sheet date are disclosed. [No such events requiring adjustment or disclosure have occurred.]

Note 2.6 – Prior period items and exceptional items (AS 5)

Common wording

Items of income and expense within profit or loss from ordinary activities which are of such size, nature or incidence that their disclosure is relevant to explain the performance of the Firm for the year are disclosed separately. Prior period items, being income or expenses which arise in the current year as a result of errors or omissions in the preparation of the financial statements of one or more prior periods, are disclosed separately. [There are no prior period items and no changes in accounting policies during the year.]

Add where liabilities have been written back

Liabilities no longer payable amounting to Rs. _____ (Previous Year: Rs. _____) have been written back during the year and, considering their nature and amount, are shown separately under "Other Income".

Note 2.7 – Revenue recognition (AS 9)

When to use: Use the general paragraph plus only the streams of income the entity actually has.

General paragraph

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Firm and the revenue can be reliably measured, and there is no significant uncertainty as to its ultimate collection.

Sale of goods – GST-registered entity (manufacturer / trader)

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer, which generally coincides with dispatch/delivery of goods. Sales are stated net of trade discounts, returns and Goods and Services Tax (GST). GST collected is not an economic benefit flowing to the Firm and is therefore excluded from revenue.

Sale of goods – Petrol bunk

Revenue from sale of Motor Spirit (Petrol) and High Speed Diesel is recognised at the point of sale, when the product is dispensed to the customer. These products are outside the scope of GST and are subject to sales tax under the applicable State law (in Tamil Nadu, the TNGST Act, 1959). [Where the Concern collects VAT on its sales: Sales are stated net of VAT collected.] [Where VAT is levied at the first point of sale by the Oil Marketing Company: VAT is included in the purchase price, and sales are stated at the amount realised from customers.]

Revenue from sale of lubricants is recognised when the goods are delivered to the customer and is stated net of GST.

Tip: Choose the VAT line after checking how the State VAT law levies tax on petrol and diesel. Do not say "net of VAT" if the dealer does not collect VAT.

Other streams – include only what applies

Export sales: Export sales are recognised on the date of the bill of lading / shipping bill, when the significant risks and rewards of ownership are transferred to the buyer.

Export incentives: Export incentives such as duty drawback and RoDTEP are recognised in the year in which the right to receive them is established and there is no significant uncertainty regarding their realisation.

Services / job work: Revenue from services is recognised as and when the services are rendered, and is stated net of GST.

Rent: Rental income from machinery/premises let out is recognised on a time-proportion basis over the period of the arrangement.

Interest: Interest income is recognised on a time-proportion basis, taking into account the amount outstanding and the applicable rate of interest.

Commission: Commission income is recognised when the right to receive it is established.

Insurance claims: Insurance claims are recognised when there is reasonable certainty of their realisation.

Note 2.8 – Property, Plant and Equipment and depreciation (AS 10)

Recognition and measurement

Property, Plant and Equipment (PPE) are stated at cost of acquisition or construction, less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price (net of GST input tax credit availed), freight, installation and other directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent expenditure is capitalised only if it increases the future economic benefits from the existing asset beyond its previously assessed standard of performance. Assets under construction are shown as Capital Work-in-Progress. Gains or losses on disposal of PPE are recognised in the Statement of Profit and Loss.

Depreciation – Variant A (Income-tax rates adopted)

Depreciation is provided on the Written Down Value method at the rates specified in Appendix I to the Income-tax Rules, 1962. The management has reviewed these rates and considers that they reasonably reflect the estimated useful lives of the assets and the pattern in which their future economic benefits are expected to be consumed. Depreciation on additions is provided [at full rate where the asset is put to use for 180 days or more during the year and at half the rate otherwise / on a pro-rata basis from the date on which the asset is put to use]. No depreciation is provided on freehold land.

Depreciation – Variant B (useful life basis)

Depreciation is provided on the [Straight Line / Written Down Value] method over the useful lives of the assets as estimated by the management, as under: Buildings – ____ years; Plant and Machinery – ____ years; Furniture and Fixtures – ____ years; Vehicles – ____ years; Computers – ____ years. The useful lives and residual values are reviewed at each year-end. No depreciation is provided on freehold land.

Caution: Use Variant A only where the management is actually satisfied that the Income-tax rates approximate useful lives. Do not add sentences like "this method may not comply with AS 10". Such a sentence is a statement of non-compliance by the management, and the auditor must then consider modifying the audit report.

Note 2.9 – Foreign currency transactions (AS 11)

Variant A – Entity has imports/exports or foreign currency balances

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Monetary items (receivables, payables, bank balances) denominated in foreign currency and outstanding at the year-end are restated at the closing exchange rate. Non-monetary items are carried at the exchange rate on the date of the transaction. Exchange differences arising on settlement or restatement are recognised as income or expense in the year in which they arise. During the year, the Firm has recognised a net exchange [gain / loss] of Rs. _____ (Previous Year: Rs. _____).

Variant B – No foreign currency transaction during the year

The Firm did not enter into any transaction in foreign currency during the year and has no monetary items denominated in foreign currency as at 31st March 2026.

Variant B may also be omitted altogether. Never write "AS 11 is not applicable".

Note 2.10 – Government grants (AS 12)

When to use: Only if the entity has received a grant or subsidy. Otherwise omit.

Model wording

Government grants and subsidies are recognised when there is reasonable assurance that the Firm will comply with the conditions attached to them and the grant will be received. Capital subsidy in the nature of promoter's contribution is credited to Capital Reserve. Grants related to specific fixed assets are deducted from the cost of the related assets. Grants related to revenue are recognised in the Statement of Profit and Loss over the periods necessary to match them with the related costs.

Note 2.11 – Investments (AS 13)

When to use: Only if the entity holds investments (other than bank deposits). Otherwise omit.

Model wording

Investments intended to be held for not more than one year are classified as current investments and are carried at the lower of cost and fair value, determined individually for each investment. All other investments are classified as long-term investments and are carried at cost, less provision for diminution, other than temporary, in their value.

Note 2.12 – Employee benefits (AS 15)

From 21st November 2025, the Code on Social Security, 2020 has come into force and replaced, among others, the Payment of Gratuity Act, 1972, the EPF Act and the ESI Act. Policies for FY 2025-26 should refer to the Code. Two points to note: the Code introduces a wider definition of "wages" (allowances exceeding 50% of total remuneration are added back), which can increase the gratuity liability; and fixed-term employees become eligible for gratuity on a pro-rata basis without completing five years.

(a) Short-term benefits – common wording

Short-term employee benefits such as salaries, wages, bonus and incentives, which fall due wholly within twelve months after the end of the period in which the employees render the related service, are recognised as an expense in the period in which the service is rendered. [As permitted for MSMEs, non-vesting short-term compensated absences are not recognised.]

(b) Provident Fund and ESI – Variant A (covered)

Contributions to the Employees' Provident Fund and Employees' State Insurance, which are defined contribution plans, are charged to the Statement of Profit and Loss in the year in which the related service is rendered. The Firm has no further obligation beyond its contributions.

(b) Provident Fund and ESI – Variant B (not covered)

The provisions relating to Employees' Provident Fund and Employees' State Insurance under the Code on Social Security, 2020 are not applicable to the Firm, as the number of persons employed is below the threshold prescribed therein.

(c) Gratuity – Variant A (liability exists; MSME relaxation used)

The liability for gratuity payable to employees under the Code on Social Security, 2020 (earlier, the Payment of Gratuity Act, 1972) is a defined benefit obligation. As permitted for MSMEs under AS 15, the liability is determined, in place of an actuarial valuation, on the assumption that gratuity is payable to all eligible employees as at the Balance Sheet date, and the same is fully provided for in the accounts. The increase in liability for the year is charged to the Statement of Profit and Loss.

(c) Gratuity – Variant B (funded through an insurer)

The Firm has taken a Group Gratuity Policy with _____ (e.g. Life Insurance Corporation of India). Contributions payable under the policy, as determined by the insurer, are charged to the Statement of Profit and Loss. The shortfall, if any, between the liability computed as at the Balance Sheet date and the fund value is provided for.

(c) Gratuity – Variant C (not applicable to the establishment)

The provisions relating to gratuity under the Code on Social Security, 2020 are not applicable to the Firm, as the number of employees employed has not been ten or more on any day during the preceding twelve months. Accordingly, no provision for gratuity is required. Gratuity, if any, paid voluntarily is charged to the Statement of Profit and Loss in the year of payment.

Caution: Do not write "no provision is made, applying the MSME relaxation under AS 15" or "no provision, as this is the first year". Neither is a valid reason. Also remember that once the gratuity provisions apply to an establishment, they continue to apply even if the number of employees later falls below ten.

Note 2.13 – Borrowing costs (AS 16)

Variant A – No qualifying asset

Borrowing costs include interest and ancillary costs incurred in connection with the arrangement of borrowings. As there were no borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset during the year, all borrowing costs have been charged to the Statement of Profit and Loss.

Variant B – Qualifying asset under construction

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use) are capitalised as part of the cost of that asset until it is ready for its intended use. During the year, borrowing costs of Rs. _____ have been capitalised. Other borrowing costs are charged to the Statement of Profit and Loss.

Note 2.14 – Related party disclosures (AS 18)

When to use: Mandatory for Other MSMEs and Large Entities. A Small MSME is exempt, but may give the disclosure voluntarily (bankers often ask for it).

Model wording

Disclosures in respect of related parties and transactions with them, as identified by the management, are given in Note ____.

Note 2.15 – Leases (AS 19)

Variant A – Operating lease (premises taken on rent)

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Lease rentals under operating leases are recognised as an expense in the Statement of Profit and Loss on a straight-line basis over the lease term. The Firm has taken premises on operating lease, renewable by mutual consent and cancellable in nature. Lease rent of Rs. _____ (Previous Year: Rs. _____) has been recognised as an expense during the year.

Variant B – Finance lease (asset taken on finance lease)

Assets acquired under finance leases, which transfer substantially all the risks and rewards of ownership to the Firm, are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments at the inception of the lease, with a corresponding liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The asset is depreciated as per the policy in Note 2.8. [During the year, the lease term expired and the ownership of the asset has been transferred to the Firm.]

Note 2.16 – Taxes on income (AS 22)

Variant A – Firm / trust / AOP (MSME)

Tax expense comprises current tax, being the amount of income-tax determined to be payable in respect of the taxable income for the year in accordance with the Income-tax Act, 1961. As permitted for MSMEs, deferred tax arising on timing differences between accounting income and taxable income is not recognised.

Variant B – Firm / trust / AOP (Large Entity)

Tax expense comprises current tax and deferred tax. Current tax is the amount of income-tax determined to be payable in respect of the taxable income for the year in accordance with the Income-tax Act, 1961. Deferred tax is recognised on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods, using the tax rates enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty of their realisation.

Variant C – Proprietary concern

Income-tax on the income of the business is the personal liability of the Proprietor and not of the Concern. Accordingly, no provision for income-tax is made in the books of the Concern. Taxes paid, if any, from the funds of the business are debited to the Proprietor's Capital Account as drawings.

FY 2025-26 is governed by the Income-tax Act, 1961. From FY 2026-27, policy notes should refer to the Income-tax Act, 2025 and the rules framed under it.

Note 2.17 – Intangible assets (AS 26)

When to use: Only if the entity has capitalised software, licences, trademarks etc.

Model wording

Intangible assets such as computer software are recognised at cost of acquisition, less accumulated amortisation and impairment losses, if any. They are amortised on a straight-line basis over their estimated useful life of ____ years.

Note 2.18 – Impairment of assets (AS 28)

When to use: Other MSMEs and Large Entities only. Omit for Small MSMEs (the exemption is already disclosed in Note 2.1).

Model wording

At each Balance Sheet date, the carrying amounts of assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated, and an impairment loss is recognised where the carrying amount exceeds the recoverable amount. [As permitted for MSMEs, value in use is estimated using a reasonable estimate without applying the present value technique.] [No impairment loss has been identified during the year.]

Note 2.19 – Provisions, contingent liabilities and contingent assets (AS 29)

Common wording

A provision is recognised when the Firm has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. Contingent liabilities are disclosed by way of a note unless the possibility of an outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

Note 2.20 – GST input tax credit

When to use: All GST-registered entities. Not needed for a petrol bunk selling only petrol and diesel.

Model wording

Input tax credit of GST on purchases of goods, services and capital goods is accounted for in the period in which the underlying goods or services are received and the conditions for availing the credit are satisfied. Credit that is not available or is blocked is included in the cost of the related goods, services or assets. Unutilised credit is shown under "Other Current Assets".

Part V – Putting it together: clause selection for three entities

Note	Corrugated box manufacturer (Firm, Other MSME)	Paper trader – direct delivery (Firm, Small MSME)	Petrol bunk (Proprietorship, Small MSME)
1 Background	Variant A	Variant A	Variant B
2.1 Status and AS	Variant B	Variant A	Variant A
2.2 Basis	Common	Common	Common + proprietor line
2.4 Inventories	Variant A	Variant D	Variant C
2.6 AS 5	Common + write-back line	Common + write-back line	Common
2.7 Revenue	General + GST sale + export + incentives + rent + interest	General + GST sale + interest	General + petrol bunk
2.8 PPE	Recognition + Variant A or B	Recognition + Variant A or B	Recognition + Variant A or B
2.9 Forex	Variant A	Variant B or omit	Variant B or omit
2.12 Employees	(a) + (b) Variant A + (c) Variant A or B	(a) + (b) Variant B + (c) Variant C	(a) + (b) Variant B + (c) as per facts
2.13 Borrowing costs	Variant A	Variant A	Variant A
2.14 Related parties	Required	Optional	Optional
2.15 Leases	Variants A and B	Variant A	Variant A, if site/premises are leased
2.16 Taxes	Variant A	Variant A	Variant C
2.18 Impairment	Required	Omit	Omit
2.19 Provisions	Common	Common	Common
2.20 GST ITC	Required	Required	Only for lubricants

Part VI – Before you sign

- Classification tested on FY 2024-25 turnover and the highest borrowings during FY 2024-25; correct variant of Note 2.1 used.
- No Standard described as "not applicable" merely because there was no transaction.
- Gratuity: provided, funded, or shown as not applicable, with the correct reason. The Code on Social Security, 2020 referred to.
- Revenue policy states the correct indirect tax treatment (GST / VAT).
- No sentence admitting non-compliance with any Accounting Standard.
- Policies agree with the figures (e.g. "first year of operations" is consistent with the fixed asset schedule).
- All brackets, blanks and drafting notes removed.

Model wording is illustrative and must be adapted to the facts of each entity. Readers should refer to the ICAI Announcement on Revised Criteria for classification of Non-company entities for applicability of Accounting Standards and the relevant Accounting Standards. Views expressed are personal.

ARTICLE 2

EPFO STATUTORY WAGE CEILING: ₹15,000 → ₹25,000

EFFECTIVE 17 SEPTEMBER 2026 | ONE-PAGE PRACTITIONER BRIEF FOR CA MEMBERS

Contributed by: CA. G Ganesh, Thiruvarur



EARLIER CEILING	REVISED CEILING	EFFECTIVE FROM
₹15,000 / month	₹25,000 / month EPF + EPS + EDLI	17 Sep 2026

WHAT CHANGES?

The statutory wage ceiling for mandatory EPFO coverage has been increased from ₹15,000 to ₹25,000 per month. The FAQ states that the change applies to EPF, EPS and EDLI, subject to the applicable scheme provisions.

- Employees with relevant PF wages above ₹15,000 and up to ₹25,000 may newly enter mandatory coverage.
- Existing members whose contribution was restricted to ₹15,000 may see contribution on a higher applicable wage base.
- The FAQ estimates more than 51 lakh additional employees may come under mandatory EPFO coverage.

SEPTEMBER 2026: TRANSITION MONTH

- Use a SINGLE ECR for September 2026.
- Compute the two periods separately: 1-16 Sep under the ₹15,000 ceiling; 17-30 Sep under the ₹25,000 ceiling.
- For an existing EPF member who was outside EPS and has wages in the ₹15,000-₹25,000 band, EPS membership/contribution starts from 17 Sep 2026.
- If employee-share recovery could not be made in September for newly eligible employees, the FAQ permits payroll recovery in the next cycle; however, the September ECR and full statutory remittance must still be completed on time.

September 2026 ECR: ordinarily due by 15 October 2026, as stated in the FAQ.

ILLUSTRATION: PF WAGES ₹20,000 (FROM OCTOBER 2026)

Contribution	Rate	Amount
Employee EPF	12%	₹2,400
Employer EPS	8.33%	₹1,666
Employer EPF	3.67%	₹734
Employer EDLI	0.50%	₹100
EPF admin charges	0.50%	₹100

CA PRACTITIONER CHECKLIST

- Identify employees in the ₹15,000-₹25,000 PF-wage band.
- Identify existing members capped at ₹15,000.
- Review EPS eligibility/status from 17 Sep 2026.
- Rework September payroll/ECR for the two periods.
- Update payroll systems, employee communication and audit trail.
- Review contractor compliance where contract labour is engaged.
- Monitor EPFO portal instructions and operational clarifications.

IMPORTANT CLARIFICATIONS

- The ₹25,000 ceiling is not the same as gross salary; contribution depends on relevant PF wages.
- Employees already contributing on wages above ₹25,000 need not automatically reduce contribution merely because of the revised ceiling.
- Government EPS support remains limited to 1.16% of wages up to ₹15,000 (₹174 per month), as per the FAQ.
- Maximum EDLI assurance benefit remains ₹7 lakh under the FAQ, despite the higher wage ceiling.

EDITOR'S TAKEAWAY

For practitioners, the immediate risk is not the rate - it is transition execution.

Focus on employee mapping, EPS status, split-period September computation, ECR accuracy, payroll communication and reconciliation.

PROFESSIONAL QUIZ: TEST YOUR KNOWLEDGE: DPDP ACT, 2023 FOR CHARTERED ACCOUNTANTS

1. A CA firm obtains KYC documents from a client entirely in physical form and subsequently scans and stores them electronically. Once the relevant substantive provisions become operative, which statement is correct?

A. The DPDP Act does not apply because the information was initially collected physically
B. The DPDP Act applies because personal data collected in non digital form and subsequently digitised falls within its scope
C. The Act applies only if the documents are stored on a foreign server
D. The Act applies only where the client gives consent electronically

2. A CA firm engages a cloud service provider to process payroll information of its clients. Which statement most accurately reflects the responsibility of the CA firm as Data Fiduciary?

A. Responsibility is completely transferred to the cloud provider
B. The cloud provider automatically becomes the sole Data Fiduciary
C. The CA firm continues to be responsible for compliance and should engage the Data Processor under a valid contract
D. No contract is necessary where the processor possesses an information security certification

3. A client withdraws consent previously given to a CA firm for a particular processing activity. What is the general consequence where consent constituted the basis of processing?

A. All earlier processing retrospectively becomes unlawful
B. The firm should cease, and cause its Data Processors to cease, such processing within a reasonable time unless continuation is required or authorised by law
C. Withdrawal becomes operative only after approval by the Data Protection Board
D. The firm may prescribe a substantially more difficult procedure for withdrawal than for giving consent

4. A client voluntarily emails her PAN, salary particulars and bank information to a CA with a specific request to prepare her income tax return. She has not indicated that she objects to using the information for that purpose. Which provision is most relevant as a possible lawful basis once section 7 becomes operative?

A. Separate notarised consent is mandatory
B. It may constitute a certain legitimate use because the personal data was voluntarily provided for the specified purpose
C. Chartered Accountants enjoy a blanket exemption from the Act
D. Once received, the information can be used for any unrelated purpose

5. After completion of an assignment, the client seeks erasure of personal data. Certain records, however, are required to be retained under another applicable law. What should the CA firm ordinarily do?

A. Delete all records notwithstanding the statutory retention requirement
B. Retain every document permanently
C. Erase information no longer required but retain information to the extent necessary for compliance with applicable law
D. Refuse every erasure request made by a client

6. What is the maximum monetary penalty specified in the Schedule to the DPDP Act for breach of the obligation under section 8(5) to take reasonable security safeguards to prevent personal data breach?

A. Rs.50 crore
B. Rs.100 crore
C. Rs.200 crore
D. Rs.250 crore

7. Which of the following is NOT expressly provided as a right of a Data Principal under Chapter III of the DPDP Act?

A. Right to access information about personal data
B. Right to correction and erasure
C. Right to nominate another individual in the event of death or incapacity
D. General right to data portability

8. If an entity is notified as a Significant Data Fiduciary , which of the following correctly represents the additional compliance architecture contemplated by the Act?

A. Appointment of an India based Data Protection Officer, appointment of an independent data auditor and periodic Data Protection Impact Assessments and audits
B. Appointment of only the statutory auditor
C. Compulsory storage of every item of personal data exclusively within India
D. Prior approval of the Data Protection Board before every processing transaction

9. A CA firm is engaged for tax compliance relating to a child having taxable investment income. Subject to statutory and prescribed exceptions, what is the general requirement before processing the child's personal data?

A. No additional requirement applies to professional firms
B. Verifiable consent of the parent or lawful guardian should be obtained
C. Consent of the child alone is necessarily sufficient
D. Prior case specific approval of the Data Protection Board is mandatory

10. A CA firm processes personal data because such processing is necessary for enforcing a client's legal right or claim in tax litigation. Under the exemption contained in section 17(1), which obligations are specifically preserved?

A. Only a right to data portability
B. Responsibility of the Data Fiduciary under section 8(1) and reasonable security safeguards under section 8(5)
C. Every provision of Chapters II and III without exception
D. No obligation whatsoever survives once litigation commences

Answers will be published in the November 2026 issue.

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

KUMBAKONAM BRANCH (SIRC)