## Classification of Non Corporate entities and applicability of accounting standards (prescribed by ICAI)

| Category | Criteria |
|---|---|
| **MSME (Micro, Small & Medium-sized Enterprise)** | An entity which fulfills **all** the following:<br>1. Not listed or in the process of listing (in India or abroad)<br>2. Not a bank, financial institution, or insurance company<br>3. Turnover ≤ ₹250 crores (excluding other income) in preceding year<br>4. Borrowings ≤ ₹50 crores at any time in preceding year<br>5. Not a holding/subsidiary of a non-MSME |
| **Large Entity (Non-MSME)** | Any entity that **does not qualify** as an MSME.<br>All accounting standards are applicable without any exemptions/relaxations |

Conditions must be satisfied at the end of accounting period. The references to Level I,II & III enterprises should be considered as reference to MSME.

**Additional requirements**

- An MSME which avails the **exemptions or relaxations** given to it shall **disclose (by way of a note to its financial statements)**
- Where MSME **previously had qualified** for exemption / relaxation but **not eligible anymore** in current accounting, **need not revise previous year figures**. It should only **disclose that such relaxation is not more applicable** and **previous year figures have not been changed as per AS.**
- Where an entity has been covered Non-MSME and **subsequently gets covered in MSME**, the entity will qualify for **exemption/relaxation available only after two consecutive years** of MSME status.
- If an entity covered in MSME **opts not to avail few of the exemptions or relaxations**, it shall **disclose the Standard(s)** in respect of which it has availed the exemption or relaxation.
- An MSME may opt to avail **only some exemptions/relaxations of a particular standard**. Such **partial exemptions/relaxations should not mislead users**.

**A.Standards Not Applicable in Full to All MSMEs**

| Standard | Title | Description |
|---|---|---|
| **AS 3** | Cash Flow Statements | Preparation of cash flow statements |
| **AS 17** | Segment Reporting | Disclosure of segment-wise financial data |
| **AS 20** | Earnings Per Share | Computation & disclosure of EPS |
| **AS 24** | Discontinuing Operations | Reporting of operations planned to be discontinued |

**B. Standards Not Applicable in Full to Certain MSMEs (Turnover ≤ ₹50 Cr & Borrowings ≤ ₹10 Cr)**

<table>
<tr><th>Criteria</th><th>Standards Not Applicable</th></tr>
<tr><td>An entity which fulfills all the following:<br><br>1. Turnover ≤ ₹50 crores (excluding other income) in preceding year<br><br>2. Borrowings ≤ ₹10 crores at any time in preceding year<br><br>3. Not a holding/subsidiary of a MSME not covered above</td><td>
<table>
<tr><th>Standard</th><th>Title</th></tr>
<tr><td>AS 18</td><td>Related Party Disclosures</td></tr>
<tr><td>AS 28</td><td>Impairment of Assets</td></tr>
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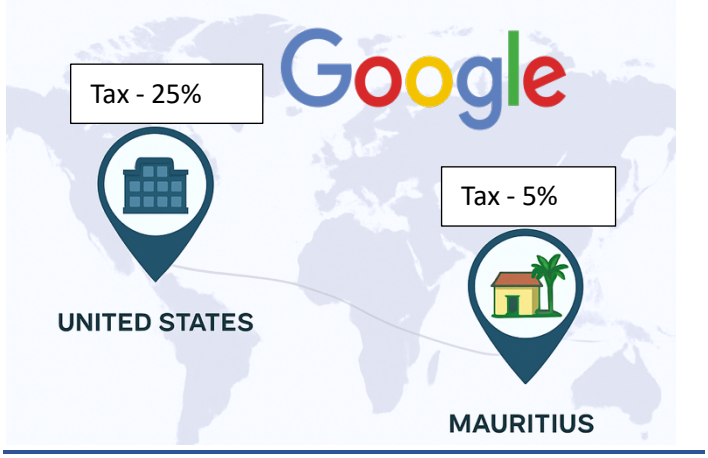
**C. Standards Partially Exempted – Only Specific Paragraphs Not Applicable**

| Standard | Para(s) Not Applicable to MSMEs | Summary of Content |
|---|---|---|
| **AS 10** Property, Plant and Equipment | Para 87 | Encouraged disclosures (e.g., historical cost reconciliation) |
| **AS 11** Foreign Exchange Rates | Para 44 | Encouraged disclosures (e.g., foreign currency risks) |
| **AS 15** Employee Benefits | Paras: 11–16, 46, 50–123, 129–131, 139 | Recognition & measurement of non-vesting leaves, defined benefit plans, discounting of liabilities, long-term benefits – MSMEs can use simplified methods |
| **AS 19** Leases | Paras: 22(c)(e)(f), 25(a)(b)(e), 37(a)(f)(g), 38, 46(b)(d)(e) | Detailed disclosures on lease terms, MLPs, contingent rents, etc. |
| **AS 22** Taxes on Income | Paras other than 4.4, 9, 20, 27–28 | MSMEs need to account only for current tax. Deferred tax optional. Prior balances adjusted through reserves. |
| **AS 26** Intangible Assets | Paras 90(d)(iii)-(iv), 98 | Disclosures regarding useful life, amortisation method, etc. |
| **AS 28** Impairment of Assets | Paras 121(g), 121(c)(ii), 121(d)(i)-(ii), 123 | Can use simple estimation of "value in use" instead of present value technique. Disclosure relaxations. |
| **AS 29** Provisions & Contingencies | Paras 66, 67 | Encouraged disclosures like reconciliations of provisions |

**D. Special Notes**

| Case | Applicability |
|---|---|
| **AS 14** (Amalgamations) and **AS 27** (Joint Ventures) | Generally not applicable to MSMEs<br>✓ But **if** such transactions exist, apply the relevant standard |
| **AS 21**, **AS 23**, **AS 27**, **AS 25** | MSMEs **need not** prepare Consolidated Financials or Interim Reports unless required or opted voluntarily |

## 5.2 Pillar 2 Taxes




Background

- The world's biggest companies (like Google, Apple, Amazon) earn profits in many countries.
- Some of these companies **pay very little tax** by shifting profits to **low-tax countries**.
- To stop this, over **135 countries**, including India, are working with the **OECD (Organisation for Economic Co-operation and Development)** on **"Global Minimum Tax Rules."**

**What Is Pillar Two?**

- **Pillar Two** is one part of this global initiative.
- It introduces a **Global Minimum Tax** of **15%** for **large multinational companies** with revenue over €750 million.
- If a company pays less than 15% in one country, the group will have to **"top up"** the tax to reach 15%.

**How Pillar Two Works – A Simple Example**

Let's say:

- A global company operates in Country X.
- Country X has a corporate tax rate of **5%**.
- According to Pillar Two, if the **effective tax rate** in Country X is below 15%, then the **parent company** must **pay additional tax (top-up tax)** so that the overall tax becomes 15%

Even though no DTA/DTL is created, companies must still **disclose** the following:

| Para | What to Disclose |
|---|---|
| **32A** | State that the entity has applied the **exception** (i.e., no DTA/DTL for Pillar Two taxes) |
| **32B** | Disclose the **current tax expense/income** related to Pillar Two taxes **separately** |
| **32C** | If Pillar Two laws are **enacted but not yet effective**, disclose **estimated impact and exposure** |
| **32D** | Disclose both **qualitative and quantitative** information like:<br>- Countries likely affected<br>- Proportion of profits that may be impacted<br>- Effective tax rate comparisons |

**MSMEs (non-company entities)** are **exempt** from disclosures under **paras 32C and 32D**