

Is Cash Flow Statement Mandatory for Non-Corporate Entities?



? Is Cash Flow Statement Mandatory for Non-Corporate Entities?

Description

ICAI Clarifies via AS-3 Guidance Note

With the **ICAI's introduction of a new Financial Statement format** for non-corporate entities, many professionals are asking:

“Is preparation of Cash Flow Statement now mandatory for all non-company entities?”

Let's break it down using **Accounting Standard (AS) 3** and ICAI's official **Guidance Note**.

? Applicability of Cash Flow Statement under AS-3

According to the **ICAI Guidance Note** on AS-3:

- ? **Mandatory:** For **Level I** Non-Company Entities
 - ? **Not Mandatory:** For **Level II, III, and IV** entities (typically MSMEs)
 - ? **Encouraged:** All non-mandated entities are still encouraged to prepare the Cash Flow Statement for better transparency.
-

?? ICAI's Classification of Non-Company Entities

ICAI classifies **Non-Company Entities** into **four levels** based on **turnover and borrowings** during the **preceding accounting year**.

? Level I Entities – *Large Entities*

? Cash Flow Statement: Mandatory

Includes entities meeting **any** of the following criteria:

- ? Listed or in process of listing (India or abroad)
 - ? Engaged in banking, insurance, or financial services
 - ? Turnover > ?250 Cr (excluding other income)
 - ? Borrowings > ?50 Cr during the previous year
 - ? Holding/Subsidiary of any of the above
-

? Level II Entities – *Medium Entities*

? Cash Flow Statement: Not Mandatory

Applicable if **not Level I**, but:

- ? Turnover > ?50 Cr and ? ?250 Cr
 - ? Borrowings > ?10 Cr and ? ?50 Cr
 - ? Holding/Subsidiary of such entities
-

? Level III Entities – *Small Entities*

? Cash Flow Statement: Not Mandatory

Applicable if **not Level I or II**, but:

- ? Turnover > ?10 Cr and ? ?50 Cr
 - ? Borrowings > ?2 Cr and ? ?10 Cr
 - ? Holding/Subsidiary of such entities
-

? Level IV Entities – *Micro Entities*

? Cash Flow Statement: Not Mandatory

Entities **not covered** in Levels I to III. Typically:

- Micro-sized businesses
 - Minimal turnover and borrowings
-

? Summary: What You Need to Know

Entity Level	Turnover / Borrowing Criteria	Cash Flow Mandatory?
Level I	Turnover > ?250 Cr or Borrowings > ?50 Cr or listed/financial institution	? Yes
Level II	Turnover ?50–250 Cr or Borrowings ?10–50 Cr	? No
Level III	Turnover ?10–50 Cr or Borrowings ?2–10 Cr	? No
Level IV	Below Level III threshold	? No

Relevant Screenshots are attached here for ready reference

Chapter Cash Flow Statement

As per Accounting Standard (AS) 3, Cash Flow Statements, a cash flow statement, when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises. It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

For non-company entities, AS 3 provides that financial statements of Micro, Small and Medium Sized Enterprises (Level IV, Level III and Level II non-company entities), may include cash flow statements, i.e., preparation of cash flow statement is not mandatory. Such entities are, however, encouraged to comply with this standard.

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

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

(2) Applicability of the Accounting Standards exemptions/relaxations for Level II, Level III and Level IV Non-company entities

(A) Accounting Standards applicable to Non-company entities

AS	Level II Entities	Level III Entities	Level IV Entities
AS 1	Applicable	Applicable	Applicable
AS 2	Applicable	Applicable	Applicable
AS 3	Not Applicable	Not Applicable	Not Applicable
AS 4	Applicable	Applicable	Applicable
AS 5	Applicable	Applicable	Applicable
AS 7	Applicable	Applicable	Applicable
AS 9	Applicable	Applicable	Applicable
AS 10	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 11	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 12	Applicable	Applicable	Applicable
AS 13	Applicable	Applicable	Applicable
AS 14	Applicable	Applicable	Not Applicable (Refer note 2(C))
AS 15	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions
AS 16	Applicable	Applicable	Applicable
AS 17	Not Applicable	Not Applicable	Not Applicable
AS 18	Applicable	Not Applicable	Not Applicable
AS 19	Applicable with disclosures	Applicable with disclosures exemption	Applicable with disclosures exemption

Criteria for classification of Non-company Entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-company entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

- (i) Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
- (iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees two-fifty crore in the immediately preceding accounting year.
- (iv) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees fifty crore at any time during the immediately preceding accounting year.
- (v) Holding and subsidiary entities of any one of the above.

Level II Entities

Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

- (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees fifty crore but does not exceed rupees two-fifty crore in the immediately preceding accounting year.
- (ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees ten crore but not in excess of rupees fifty crore at any time during the immediately preceding accounting year.
- (iii) Holding and subsidiary entities of any one of the above.

Level III Entities

Non-company entities which are not covered under Level I and Level II but fall in any one or more of the following categories are classified as Level III entities:

- (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crore but does not exceed rupees ten crore at any time during the immediately preceding accounting year.
- (iii) Holding and subsidiary entities of any one of the above.

Level IV Entities

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

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

The **Cash Flow Statement is not mandatory for all non-corporate entities**, only for **Level I**. However, ICAI encourages voluntary compliance for **MSMEs (Level II, III & IV)** to enhance financial transparency.

? **Know your classification.**

? **Plan your compliance accordingly.**

Category

1. Uncategorized

Date Created

02/05/2025

Author

cahiren