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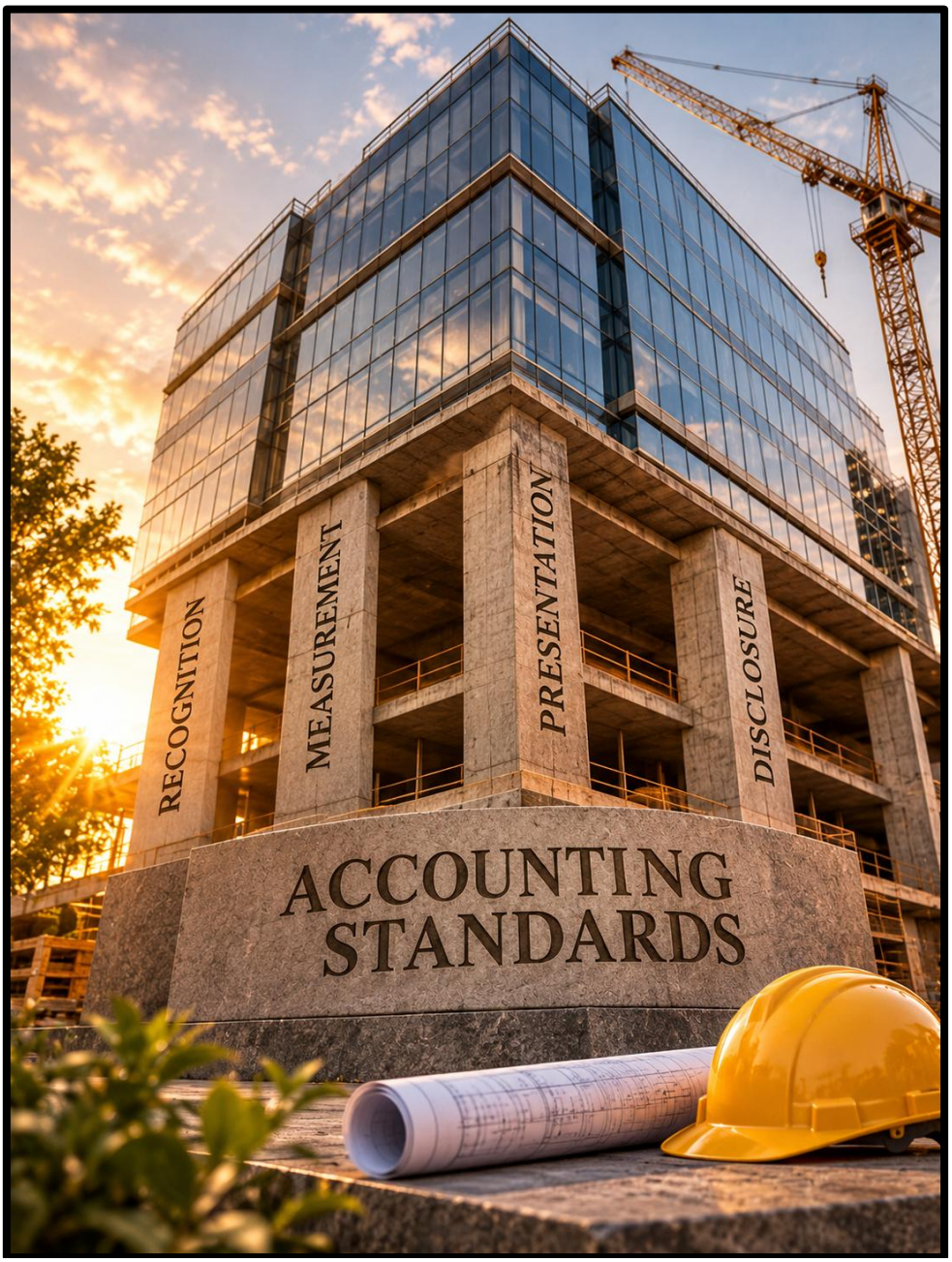
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Accounting Standards: What Every Business Owner Should Know

Knowledge Series

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❖ Introduction

When we think about our business, we think about sales, margins and cash in the bank… but how do those decisions actually appear in the financial statements?

Every sale, purchase, loan, salary and expansion decision eventually becomes a number in the balance sheet or the profit and loss account. Accounting Standards are the common rulebook that decides when those numbers are recorded, how they are measured and what must be disclosed. They make sure that a sale, an asset or a liability means the same thing in every business, so that owners, banks, investors and tax authorities can read the accounts with confidence.

Yet for many business owners, Accounting Standards feel like something only the accountant or auditor needs to worry about. In reality, they shape the profit you report, the loan you can raise and the value your business commands. This edition explains, in plain language, what the standards are, which ones apply to you and how they quietly influence everyday business decisions.

In simple words: *Business decisions create transactions; Accounting Standards decide how those transactions are told to the world.*

❖ Why Should a Business Owner Care About Accounting Standards?

Your financial statements are read by many people who never see your business from the inside. For them, your accounts are your business, and Accounting Standards are what make those accounts reliable.

- **Banks and lenders:** Loan sanctions, working capital limits, covenants and credit ratings all rely on your financial statements. Accounts that follow the standards are easier to approve and harder to question.
- **Investors and buyers:** Valuation and due diligence start with your numbers. Unrecorded liabilities or aggressive revenue booking lead to price cuts, holdbacks or delayed deals.
- **Tax authorities:** Books follow Accounting Standards, while income tax follows its own rules (ICDS). Clean, standards-based books make reconciliation easier and scrutiny smoother.
- **Auditors and regulators:** Departures from the standards can lead to audit qualifications, adverse remarks, restatements and, for companies, penalties.
- **Your own decisions:** Pricing, expansion, borrowing and profit distribution all depend on knowing your true profit and financial position, not just your bank balance.

In simple words: *Accounting Standards turn your accounts from internal records into a document that outsiders can trust.*

❖ Which Rulebook Applies to You? (Applicability Snapshot)

India follows two sets of Accounting Standards. Which one applies depends mainly on the type and size of your entity:

Entity type	Framework
Listed companies, or companies with net worth ≥ 250 crore (and their holding, subsidiary, joint venture and associate companies)	**Ind AS**
Other companies	**AS**, with relaxations for Small & Medium Companies (SMCs)
Partnership firms, LLPs, proprietorships, trusts and other non-corporate entities	**ICAI AS**, with MSME vs large classification

A few points worth knowing:

- **Small & Medium Companies:** An unlisted company with turnover up to ₹250 crore and borrowings up to ₹50 crore (and which is not a bank, financial institution or insurer, or part of a larger group) is an SMC and gets exemptions from some disclosure-heavy standards.
- **MSME non-corporate entities:** Firms, LLPs and other non-corporate entities with turnover up to ₹250 crore and borrowings up to ₹50 crore are MSMEs. Standards such as AS 3 (Cash Flow Statements), AS 17 (Segment Reporting) and AS 24 (Discontinuing Operations) do not apply to them, and others are relaxed. Entities above these limits must comply fully.

In simple words: *Size and structure decide which rulebook you follow, but no business is outside the rulebook altogether.*

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❖ Accounting Standards That Drive Business Decisions

Area	What it means & Example	Business impact & Owner's checklist
Revenue **AS 9 / Ind AS 115**	**What it means:** A sale counts only when the customer actually obtains the goods or service: 'transfer of control' under Ind AS 115, 'transfer of significant risks and rewards' under AS 9. An invoice or an advance received does not by itself create revenue. **Example:** *Goods worth ₹50 lakh are dispatched on 30 March on 'delivered at customer's site' terms and reach the customer on 4 April. Even though the invoice is dated March, the sale belongs to the next year. Similarly, a machine sold for ₹12 lakh that includes a 2-year AMC worth ₹2 lakh gives ₹10 lakh of revenue today; the ₹2 lakh is spread over 24 months.*	**Business impact:** Year-end push sales, bill-and-hold arrangements, sale-or-return deals and volume rebates can all shift or reduce reported sales. That affects targets, sales commissions, bonuses, bank covenants and valuation. **Owner's checklist:** Link sales incentives to recognised revenue, not invoicing. Review delivery and acceptance terms in key contracts. Estimate discounts and returns upfront.
Inventory **AS 2 / Ind AS 2**	**What it means:** Stock is valued at the lower of cost and net realisable value (NRV, the expected selling price less costs to complete and sell). Cost includes purchase, freight-in and production overheads. Selling, storage and abnormal wastage costs are excluded. LIFO is not permitted. **Example:** *1,000 units were bought at ₹500 each (₹5 lakh). The market price has dropped to ₹420 and selling costs are ₹20 per unit, so NRV is ₹400. Stock must be carried at ₹4 lakh, and the ₹1 lakh write-down reduces this year's profit.*	**Business impact:** Closing stock directly drives profit: every rupee overstated is a rupee of extra profit and tax this year. Banks set working-capital limits on stock statements. **Owner's checklist:** Run monthly stock-ageing reports. Conduct periodic physical verification. Set a written policy for writing down slow-moving and obsolete items. Reconcile bank stock statements with the books.
Fixed assets & depreciation **AS 10 / Ind AS 16**	**What it means:** Spending is capitalised only if it brings benefits beyond one year: purchase price, non-refundable duties, freight, installation, trial runs and interest during construction. Routine repairs are expensed. Significant parts with different useful lives are depreciated separately (component accounting). **Example:** *An ₹8 lakh overhaul that extends a machine's life by 5 years is capitalised, while ₹50,000 of routine servicing is an expense.*	**Business impact:** The capitalise-or-expense decision changes reported profit, EBITDA and asset values. Wrong useful lives distort depreciation for years. Lenders and investors look closely at aggressive capitalisation. **Owner's checklist:** Approve a written capitalisation policy with a threshold amount. Maintain a component-wise fixed asset register. Review useful lives against Schedule II of the Companies Act.
Provisions & contingencies **AS 29 / Ind AS 37**	**What it means:** A provision is charged to profit when there is a present obligation from a past event, an outflow is probable and the amount can be reliably estimated. If the obligation is only possible, it is a contingent liability and is disclosed in the notes, not charged to profit. **Example:** *A GST demand of ₹75 lakh is under appeal. If legal counsel expects the company to lose, it is provided for; if the outcome is only possible, it is disclosed. Similarly, a ₹5 crore guarantee given for a family company's bank loan must be disclosed and could become a real liability if that company defaults.*	**Business impact:** Under-provisioning makes profit look better until a bank appraisal, investor due diligence or sale of the business uncovers it, often reducing deal value. Large guarantees for other entities can restrict future borrowing. **Owner's checklist:** Maintain a litigation tracker with counsel's view on each case. Base warranty provisions on past claim trends. Keep a register of all guarantees and comfort letters given.

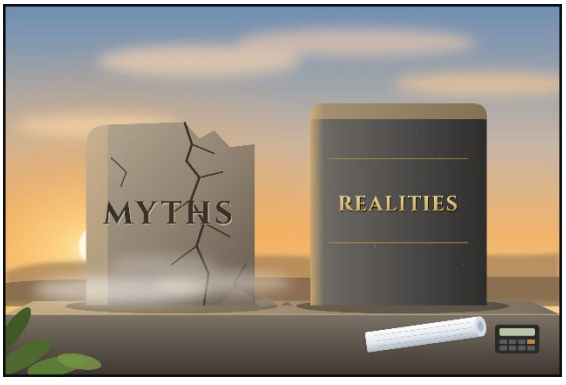
Area	What it means & Example	Business impact & Owner's checklist
Employee benefits **AS 15 / Ind AS 19**	**What it means:** Gratuity and leave encashment are earned by employees every year of service, even though they are paid only on exit. The cost must be provided each year on an actuarial basis (Projected Unit Credit method), not when it is paid. **Example:** *A business with 60 employees, average service of 8 years and average monthly wages of ₹30,000 has accrued gratuity of about ₹83 lakh (₹30,000 × 15/26 × 8 years × 60, before actuarial discounting). If it is booked only on payment, this liability does not appear in the books at all.*	**Business impact:** This is one of the most common hidden liabilities in MSMEs and family businesses. It surfaces at valuation, sale of business, IPO or a large staff exit. The Labour Codes' wider definition of 'wages' and gratuity for fixed-term employees may increase it further. **Owner's checklist:** Obtain an annual actuarial valuation. Consider funding through an approved group gratuity scheme with an insurer. Re-assess the liability under the Labour Code wage definition.
Leases **AS 19 / Ind AS 116**	**What it means:** Under AS 19, operating lease rent is simply an expense, and the asset and obligation stay off the balance sheet. Under Ind AS 116, the lessee records a Right-of-Use (ROU) asset and a lease liability for almost every lease (except short-term and low-value), and rent is replaced by depreciation plus interest. **Example:** *A showroom on a 10-year lease at ₹10 lakh a year (discount rate 9%) gives a lease liability and ROU asset of about ₹64 lakh. In year 1 the P&L shows about ₹6.4 lakh of depreciation and ₹5.8 lakh of interest (₹12.2 lakh in total) instead of ₹10 lakh of rent, and EBITDA rises by ₹10 lakh.*	**Business impact:** EBITDA improves, but reported debt and total assets increase, changing debt-equity, interest-cover and return ratios. Expense is front-loaded in the early years. This matters for retail chains, warehouses, offices and leased vehicles or equipment. **Owner's checklist:** Maintain a lease register with key terms. Factor the accounting impact into lease-vs-buy and renewal decisions. Agree with lenders how covenants will treat lease liabilities.
Impairment **AS 28 / Ind AS 36**	**What it means:** An asset cannot be carried above its recoverable amount: the higher of its net selling price and its value in use (the present value of the future cash flows it will generate). Goodwill under Ind AS is tested every year, and a goodwill impairment is never reversed. **Example:** *A plant carried at ₹10 crore faces falling demand. It could be sold for ₹6 crore, and its future cash flows are worth ₹7 crore. Recoverable amount is ₹7 crore, so a ₹3 crore impairment loss is charged to profit immediately.*	**Business impact:** Inflated asset values mislead lenders and investors, and a sudden write-off can reduce net worth and breach covenants. **Owner's checklist:** Review impairment triggers each year: idle capacity, continuing losses, obsolescence, adverse regulation. Use the results to decide whether to continue, restructure, sell or shut a unit.
Foreign exchange **AS 11 / Ind AS 21**	**What it means:** Foreign-currency transactions are recorded at the rate on the transaction date. At each balance sheet date, outstanding receivables, payables and foreign-currency loans are restated at the closing rate, and the difference goes to profit even though no cash has moved. **Example:** *An export receivable of USD 1,00,000 is booked at ₹85 (₹85 lakh). At year end the rate is ₹88, so the company records a ₹3 lakh gain. An importer with a similar payable would record a ₹3 lakh loss. (Rates are illustrative.)*	**Business impact:** Currency swings can wipe out thin operating margins or create large unrealised gains and losses that distort reported profit. Banks assess unhedged foreign currency exposure and may price loans higher for unhedged borrowers. **Owner's checklist:** Adopt a board-approved hedging policy. Track natural hedges (export inflows against import outflows). Build currency risk into pricing and contract terms.

Area	What it means & Example	Business impact & Owner's checklist
Govt grants **AS 12 / Ind AS 20**	**What it means:** A grant is recognised only when there is reasonable assurance that the conditions will be met and the money will be received. Announcing a scheme or filing a claim is not enough. Revenue grants are matched with the related costs. Capital grants are either deducted from the asset cost or spread over the asset's life. **Example:** *A ₹1 crore capital subsidy on a ₹5 crore plant with a 10-year life is recognised at about ₹10 lakh a year, or reduces annual depreciation by the same amount. A ₹40 lakh PLI claim is booked only once the incremental-sales and investment thresholds for that year are met.*	**Business impact:** Booking incentives early overstates profit. Missing scheme targets can mean income cannot be recognised, or amounts already received must be refunded. Grants usually also have income-tax implications. **Owner's checklist:** Maintain a scheme-wise tracker of conditions and deadlines. Keep documents that prove compliance. Do not build incentive income into budgets until it is reasonably certain.
Related parties **AS 18 / Ind AS 24**	**What it means:** Related parties include directors, key managerial personnel, their relatives, and entities they control or significantly influence (family firms, HUFs, trusts, group companies). The relationship, the nature and value of transactions, and outstanding balances must be disclosed. **Example:** *The factory building is owned by a promoter's spouse and rented to the company at ₹3 lakh a month, while market rent is ₹2 lakh. The transaction must be disclosed, may need approval under Section 188 of the Companies Act, and the excess ₹12 lakh a year risks disallowance under the income-tax law.*	**Business impact:** Related-party dealings are normal in family businesses. Undisclosed or non-arm's-length transactions, however, raise concerns about fund diversion with banks, investors, acquirers and tax authorities. **Owner's checklist:** Maintain a related party register that is updated every year. Document arm's-length pricing. Obtain board and shareholder approvals before the transaction, not after.

❖ Business Myths vs Accounting Realities

Businesses make decisions based on commercial understanding, but how do those decisions translate into financial statements? Many everyday practices that feel completely normal do not match what Accounting Standards actually require.

Each myth is explained through a simple accounting reality, along with a separate note wherever the treatment under Ind AS differs from AS. The relevant AS and Ind AS references are also mentioned for each point.



SALES & REVENUE

Myth 1: *"Revenue is earned as soon as the invoice is raised."*

Reality: Raising an invoice does not, by itself, determine when revenue is recognised. For goods, recognition depends on when the applicable recognition criteria are met - generally the transfer of significant risks and rewards under AS 9, or transfer of control under Ind AS 115. For services, revenue is recognised as the service is performed, subject to the applicable standard. Therefore, goods invoiced on 31 March but dispatched in April may belong to April if the relevant transfer occurs then, although contractual terms or a qualifying bill-and-hold arrangement could lead to a different conclusion.

Under Ind AS: *Ind AS 115 applies a five-step model. Distinct promised goods or services, such as a machine and annual maintenance, are treated as separate performance obligations. The transaction price is allocated between them, generally according to relative stand-alone selling prices, and revenue is recognised when or as each obligation is satisfied.*

Standard: AS 9 | Ind AS 115

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ASSETS & DEPRECIATION

Myth 2: ***"Everything we buy is an expense." or "Everything we spend on assets can be capitalised."***

Reality: An expenditure is capitalised only when it is expected to provide future economic benefits, and its cost can be measured reliably. Routine repairs and maintenance are treated as expenses because they merely restore the expected future economic benefits of an existing asset. Stand-by and servicing equipment are recognised as property, plant and equipment; major spare parts that meet the recognition criteria may also be capitalised.

Standard: AS 10 | Ind AS 16

Myth 3: ***"Interest on a factory construction loan must always be charged to the Statement of P&L as a finance cost."***

Reality: Borrowing costs directly attributable to the construction of a qualifying asset, which takes a substantial period to become ready for its intended use, must be capitalised as part of the asset's cost until it is substantially ready for use.

Standard: AS 16 | Ind AS 23

Myth 4: ***"Money spent on a new product, brand or preliminary set-up is an asset."***

Reality: Research, advertising, training and start-up expenses are generally charged to the Profit & Loss Account. Development costs can be capitalised only when specific conditions, such as technical feasibility and the ability to generate future economic benefits, are met. Internally generated brands cannot be recognised as assets.

Under Ind AS: *The treatment is broadly similar under both standards. Development expenditure must meet all six recognition criteria before it can be capitalised.*

Standard: AS 26 | Ind AS 38

INVENTORY, RECEIVABLES & INVESTMENTS

Myth 5: ***"Stock is always shown at purchase or production cost."***

Reality: Inventory is valued at the lower of cost and net realisable value. Slow-moving and obsolete stock must be written down. FIFO or weighted average may be used; LIFO is not permitted. **Standard:** AS 2 | Ind AS 2

Myth 6: ***"Our mutual fund and share investments stay at purchase cost."***

Reality: Under AS 13, current investments are at lower of cost and fair value; long-term investments are normally at cost, with a write-down for a decline that is other than temporary.

Under Ind AS: *Investments are classified based on how the business manages them and the nature of their cash flows. Some debt investments are shown at cost less amortisation, while others are shown at fair value. Equity shares are generally shown at fair value, with changes going to profit or loss; for certain long-term non-trading equity investments, a company may choose to show fair-value changes in other comprehensive income.*

Standard: AS 13 | Ind AS 109

LIABILITIES, PROVISIONS & EMPLOYEE COSTS

Myth 7: ***"We can create a provision for any expense we expect in future."***

Reality: A provision can be made only when there is a present obligation because of something that has already happened, payment is likely, and the amount can be estimated reliably. A general reserve for future problems or expected operating losses cannot be created as a provision.

Under Ind AS: *If a provision will be paid far in the future and the time value of money is important, it is discounted to today's value. Under AS 29, discounting is generally not allowed, except for decommissioning, restoration and similar costs included in the cost of property, plant and equipment.*

Standard: AS 29 | Ind AS 37

Myth 8: ***"A pending court case is recorded only when we lose it."***

Reality: If a loss is likely and can be estimated, a provision must be created. If a loss is possible but not likely, it is disclosed as a contingent liability. If the chance is remote, no provision or disclosure is normally required.

Standard: AS 29 | Ind AS 37

Myth 9: ***"Gratuity is an expense only when it is paid."***

Reality: Gratuity and leave encashment build up as employees work each year. A company must provide for these amounts as they accrue, usually based on an actuarial valuation.

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Under Ind AS: *Changes arising from actuarial calculations are shown in other comprehensive income, not profit or loss. Under AS 15, they are shown in profit or loss.*
Standard: AS 15 | Ind AS 19

Myth 10: *"Lease rent is simply rent expense."*

Reality: Under AS 19, operating lease payments are generally charged as rent evenly over the lease period, even if the rent increases later. Finance leases, recognise an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments.

Under Ind AS: *For most leases, the company records a right to use the asset and a liability to pay future lease rentals. Instead of rent, it records depreciation on the asset and interest on the lease liability. This usually increases EBITDA and reported lease liabilities. Short-term leases and low-value asset leases may be exempt.*
Standard: AS 19 | Ind AS 116

GRANTS, FOREIGN CURRENCY & TAXES

Myth 11: *"A government subsidy is income when we receive it."*

Reality: A subsidy can be recorded only when the company is reasonably sure that it will meet the conditions and receive the benefit. Under AS 12, revenue-related grants are matched with the related costs or held as deferred income; asset-related grants may reduce the asset's value or be held as deferred income. Grants that are effectively promoters' contribution go to capital reserve.

Under Ind AS: *Grants are recorded in profit over the period in which the related costs are incurred. They cannot be credited directly to capital reserve.*
Standard: AS 12 | Ind AS 20

Myth 12: *"Forex gain or loss arises only when the payment is made."*

Reality: Foreign-currency receivables, payables and loans must be converted at the year-end exchange rate. Any gain or loss arising from the change in exchange rate is recorded in profit or loss, even if payment has not yet been made.
Standard: AS 11 | Ind AS 21

Myth 13: *"Tax expense is simply the tax we pay."*

Reality: Tax expense includes both the tax payable now and deferred tax. Deferred tax arises because some income or expenses are treated differently in the books and for tax purposes, such as different depreciation rates.

Under Ind AS: *Deferred tax is calculated based on temporary differences between the book value and tax value of assets and liabilities. AS 22 uses the concept of timing differences in profit.*
Standard: AS 22 | Ind AS 12

YEAR-END & REPORTING

Myth 14: *"Anything that happens after 31 March is next year's matter."*

Reality: If an event after year-end gives more information about a condition that already existed on 31 March—such as a major customer becoming insolvent in May—it must be adjusted in the year-end accounts. Other important events that happened after year-end are disclosed.
Standard: AS 4 | Ind AS 10

Myth 15: *"Accounting Standards are only for big or listed companies."*

Reality: Accounting Standards apply to all companies, and ICAI's standards also apply to partnership firms, LLPs, proprietorships and other non-corporate entities. Smaller entities get specific exemptions and relaxations, not a full exemption.

Under Ind AS: *Ind AS applies to listed companies, specified unlisted companies meeting the net-worth threshold, and their group companies. Other entities generally follow AS.*
Standard: All AS | All Ind AS

In simple words: *Business practice is about getting the deal done. Accounting Standards are about showing what that deal really means. The closer your everyday practices are to the standards, the fewer surprises you will face from auditors, lenders, investors and tax authorities.*

Note: Smaller companies and MSMEs get certain relaxations under AS; confirm the applicable framework for each entity.

❖ Practical Case Studies

Case 1: The March Rush

Ind AS 115 – Revenue from Contracts with Customers

Situation: Apex Machines Ltd, a listed machine maker, reported revenue of ₹50 crore and PBT of ₹12 crore. Sales in the last 10 days of March were almost double the normal level, and the sales team earned commission on invoicing.

What went wrong:

- ₹6 crore of machines still in transit (FOR destination) were booked as sales.
- ₹3 crore of 'bill-and-hold' sales was booked, with the machines still in the company's own factory.
- The free 2-year AMC was not separated from the machine price (₹1.5 crore unearned), and expected sales returns (₹0.8 crore) were ignored.

Correct treatment: Revenue is recognised only when the customer obtains control. Goods in transit and bill-and-hold units that don't meet the conditions are next year's revenue. The AMC is a separate performance obligation and is recognised over its 2 years. Expected returns are booked as a refund liability.

Impact: The auditor flagged it as a Key Audit Matter, and 3.5 lakh of commission had to be recovered.

Lesson: *Sales count when the customer gets control, not when the invoice is raised. Link sales incentives to delivered revenue.*

Case 2: The Promoter's Family Godown

AS 18 / Ind AS 24 – Related Party Disclosures | Companies Act, 2013: Sections 185 & 188

Situation: Shree Polymers Pvt Ltd paid 4 lakh a month rent to the MD's wife for its godown, while market rent was 2.5 lakh. It also gave a ₹1 crore interest-free loan to a firm in which the MD's son is a partner. An investor later began due diligence.

What went wrong:

- Neither transaction was disclosed as a related party transaction; both were treated as 'family arrangements'.
- There was no board approval and no arm's-length pricing.

Correct treatment: The MD's wife and son are relatives of key management personnel, so both transactions, and the 1 crore balance outstanding, must be disclosed under AS 18. The lease needs approval under Section 188, and the loan falls under Section 185 unless an exemption applies. The excess rent can be disallowed for income tax as an excessive payment to a relative.

Impact: The investor cut the price by ₹1.6 crore and asked for the loan to be repaid before closing.

Lesson: *Related party transactions are fine; hidden ones are not. Disclose them, price them at market and take approvals in advance.*

Case 3: The Repair That Became an Asset

AS 10 / Ind AS 16 – Property, Plant and Equipment

Situation: Rotomax Auto Components Pvt Ltd, an auto-component maker, wanted to show better profit ahead of its loan renewal. It moved 90 lakhs of annual maintenance, repainting and routine spares into 'plant upgradation' and capitalised it.

What went wrong:

- Routine upkeep that only maintains the plant's existing condition was treated as an asset.
- There was no written capitalisation policy or technical evaluation to support the entry.

Correct treatment: Spending is capitalised only if it brings future economic benefits beyond the existing condition, such as a longer life, more capacity or better quality. Only 25 lakhs, spent on a new CNC spindle that extended a machine's life by four years, met this test. The other ₹65 lakh of day-to-day servicing is a revenue expense charged to the P&L.

Impact in ₹: The bank's stock auditor flagged the entry. That delayed the loan renewal and raised questions about the reliability of the accounts.

Lesson: *A written capitalisation policy protects credibility. One aggressive entry can cast doubt on the whole balance sheet.*

Case 4: The EBITDA That Jumped

Ind AS 116 – Leases | Ind AS 1 – Classification of Liabilities

Situation: Urban Mart Pvt Ltd, a 12-store retail chain, moved to Ind AS. It paid 6 crores of rent a year with about 8 years of lease terms left. Its 20-crore loan had a covenant: Debt / EBITDA ≤ 2.5×.

What went wrong:

- Management celebrated the rise in EBITDA but never checked the effect on the loan covenant.

- No waiver was obtained from the bank before the year end.

Correct treatment: Under Ind AS 116, the company records a lease liability and a right-of-use asset of about 33.2 crore (rent discounted at 9%). Rent is replaced by depreciation (4.15 crore) and interest (2.99 crore). Under Ind AS 1, a covenant breach at the year end makes the loan current unless a waiver was obtained before the year end.

Impact: Penal interest of ₹20 lakh a year was charged, the loan was classified as current, and the current ratio fell below 1.

Lesson: *An accounting change can cause a real loan default. Model the effect on covenants before transition and agree the treatment with lenders in advance.*

❖ Is Your Accounting Standards-Ready? A Self-Check for Business Owners

Most accounting gaps in a business do not come from fraud or complex deals. They come from small, routine items that are missed year after year because "that is how we have always done it". Together, they can change your profit and surprise you during a bank review, a tax scrutiny or an investor's due diligence. Tick every question you can confidently answer "Yes". For every "No", The solution shows what to do next.

PEOPLE COSTS

☐ **Do you account for gratuity and leave encashment as employees earn these benefits?**
Common practice: These costs are recorded only when paid, rather than as employees render service. This can leave a significant employee-benefit liability unrecorded.

The solution: Accrue employee benefits as employees render service. Maintain employee-wise service, salary and eligible-leave records. Obtain an actuarial valuation for gratuity and other long-term employee-benefit obligations where required; assess available exemptions under the applicable accounting framework.

☐ **Are salaries, bonuses and incentives recorded in the correct financial year?**
Common practice: March salaries paid in April, or bonuses paid later, are recorded in the year of payment even when they relate to an obligation of the previous year.

The solution: Maintain a year-end schedule of outstanding employee-related expenses. Recognize salaries, wages, bonuses, incentives, leave encashment and other employee benefits in the financial year to which they relate.

☐ **Are employees' PF and ESI contributions deposited within the applicable due dates?**
Common practice: Delays are treated only as an interest or penalty issue, overlooking their potential income-tax consequences.

The solution: Maintain a statutory payment calendar, assign responsibility and track deposits against the applicable due dates. Review delayed employees' contributions separately when preparing the tax computation.

SALES & RECEIVABLES

☐ **Is revenue recognized when the applicable recognition conditions are met?**
Common practice: Sales are recorded based only on invoice dates or customer receipts, without checking whether the goods or services qualify for revenue recognition.

The solution: Review transactions around year-end against contract terms, delivery records and evidence of service performance. Recognize revenue under the applicable standard—not merely when invoiced or collected—and separately identify customer advances, returns and rebates.

☐ **Are outstanding receivables reviewed regularly for recoverability?**
Common practice: Long-outstanding customer balances remain in the books at full value without a documented assessment of whether they will be collected.

The solution: Review receivables ageing every quarter, follow up overdue balances and assess the need for a provision or impairment allowance. Obtain balance confirmations from major customers and investigate differences.

INVENTORY

☐ **Is inventory reviewed for damage, obsolescence and reduced selling value?**
Common practice: Slow-moving or outdated stock remains at cost even when the amount expected to be recovered is lower.

The solution: Review inventory ageing, movement and physical condition. Compare cost with net realisable value (NRV) and record necessary write-downs, irrespective of stock age. Do not limit the review to stock older than 12 months.

☐ **Does inventory cost include only the appropriate expenses?**
Common practice: Freight inward is omitted, recoverable GST is included, or selling expenses and abnormal wastage are added to inventory cost.

The solution: Include purchase costs, applicable conversion costs and other costs necessary to bring inventory to its present location and condition. Exclude recoverable taxes, selling expenses and abnormal wastage.

FIXED ASSETS

☐ **Is there a consistent policy for capitalizing or expensing expenditure?**
Common practice: Routine repairs are capitalised, while expenditure that qualifies as an asset is charged directly to expenses.

The solution: Adopt a written capitalisation policy consistent with the applicable accounting standard. Assess the nature of each expenditure and whether it meets asset-recognition criteria, rather than relying only on its value or tax treatment.

☐ **Are income-tax depreciation rates used in the financial statements without assessing the assets' useful lives?**
Common practice: Income-tax depreciation rates are used in the financial statements without assessing the assets' useful lives.

The solution: Calculate book and tax depreciation separately. For companies, consider Schedule II; departures from its useful lives or residual-value limits require appropriate justification, technical support and disclosure. Assess the related deferred-tax impact where applicable.

LIABILITIES, PROVISIONS & LITIGATION

☐ **Are legal disputes, tax matters and guarantees assessed at year-end?**
Common practice: These matters are considered only when a payment demand arises, without assessing whether a provision or disclosure is already required.

The solution: Maintain a register of disputes and guarantees, supported by legal advice where appropriate. Recognise a provision where there is a present obligation, a probable outflow and a reliable estimate. Assess other exposures for disclosure under the applicable standard; guarantees may require separate accounting treatment.

☐ **Are payments to eligible micro and small suppliers tracked against statutory deadlines?**
Common practice: All suppliers are treated alike, and the interest, disclosure and tax consequences of delayed payments to eligible micro and small enterprises are overlooked.

The solution: Obtain supplier registration details and confirm their applicable classification. Track payments against the statutory period—generally 15 days without a written agreement, or the agreed period up to 45 days with a written agreement. Review overdue balances for interest, disclosure and income-tax implications.

LEASES, FOREIGN CURRENCY & GRANTS

☐ **Are foreign-currency monetary balances restated at year-end?**
Common practice: Foreign-currency receivables, payables and loans remain recorded at their original exchange rates.

The solution: Identify foreign-currency monetary balances, translate them at the closing exchange rate and account for exchange differences under the applicable standard. Review advances, hedges and other items separately, as their treatment may differ.

☐ **Are government grants recognised according to their conditions and purpose?**
Common practice: Grants are recognised entirely on receipt, or recognition is delayed until cash arrives without assessing whether the recognition conditions have been met.

The solution: Review sanction letters, eligibility requirements and compliance conditions. Assess when recognition is appropriate and account for each grant according to its nature and the applicable standard.

TAXES

☐ **Is deferred tax assessed wherever applicable?**
Common practice: Deferred tax is overlooked because it does not involve an immediate cash payment.

The solution: Identify relevant differences between accounting and tax figures, including depreciation and provisions. Recognise deferred-tax liabilities and eligible deferred-tax assets under the applicable framework, after checking whether an exemption is available.

RELATED PARTIES & DISCLOSURES

☐ **Are significant events after year-end reviewed before the financial statements are approved?**
Common practice: Important developments after year-end are overlooked, even when they provide evidence about conditions existing at the reporting date.

The solution: Review significant collections, customer failures, legal developments and other relevant events up to the applicable approval date. Determine whether the financial statements require adjustment or disclosure.

BOOKS, RECORDS & YEAR-END CLOSE

☐ **Where required, does your accounting software maintain an audit trail throughout the year?**
Common practice: Businesses assume their software is compliant without checking whether transaction changes are logged or whether the audit-trail feature remains active.

The solution: For companies using accounting software, confirm compliance with the audit-trail requirements applicable from 1 April 2023. Ensure changes are logged, the feature operates throughout the year and records are retained as required.

☐ **Are year-end adjustments supported, reviewed and approved?**
Common practice: Last-minute entries are posted without adequate documentation, and errors from earlier years are included in current-year figures without assessing the correct treatment.

The solution: Use a formal closing checklist and retain calculations, explanations and approvals for each adjustment. Assess earlier-year errors under the applicable accounting framework, including whether separate disclosure or restatement is required.

HOW DID YOU SCORE?

All or almost all "Yes": Your accounts are in good shape. Keep the routine going.
A few "No" answers: Fix them before the next year-end, starting with items that affect profit.
Many "No" answers: It is time for a detailed accounting health check with your advisor.

In simple words: *Most accounting gaps are not complicated. They are routine items that were simply never looked at. A short year-end checklist, followed every year, is one of the easiest ways to protect your numbers and your credibility.*

❖ Conclusion

Accounting Standards are often seen as a subject for accountants and auditors, something that matters only when the books are being finalised. This edition has shown the opposite: the standards quietly decide the profit a business reports, the liabilities it carries, the loan it can raise and the value it commands when an investor or buyer comes knocking.

Most of the gaps we see in practice are not complex. A sale booked on invoice instead of delivery, a gratuity liability that was never provided, slow-moving stock still at cost, a lease or related-party arrangement that was never looked at closely. Individually they look small; together they can change the story your accounts tell, often at the worst possible moment.

The good news is that the fixes are equally simple: clear policies, a year-end checklist and a habit of asking "what does the standard say?" before the transaction, not after. For business owners, that habit protects credibility with banks, investors and tax authorities. For finance teams and students, it turns rules into sound business judgement.

In simple words: *Good accounting does not change your business; it shows your business as it truly is.*

❖ RRCO Corner

Our firm celebrated the festival of Diwali with great enthusiasm and festive spirit. The celebration brought together our team members to share moments of joy, togetherness and happiness, making the occasion memorable.





❖ Compliance Calendar – December 2026

Sr. No	Due Dates	Compliance
1	**07-Dec**	TDS/TCS Deposit (Nov 26)
2	**10-Dec**	GSTR-7 (GST TDS) & GSTR-8 (GST TCS) (for Nov 26)
3	**11-Dec**	GSTR-1 (for Nov 26)
4	**13-Dec**	QRMP (IFF) (for Nov 26)
5	**13-Dec**	GSTR-6 (ISD) (for Nov 26)
6	**15-Dec**	Advance Tax Q3 (75% of estimated tax)
7	**15-Dec**	PF & ESI Contribution (for Nov 26)
8	**20-Dec**	GSTR-3B (for Nov 26)
9	**25-Dec**	PMT-06 (for Nov 26)
10	**31-Dec**	GSTR-9 & GSTR-9C – Annual Return and Reconciliation Statement (FY 2025-26)
11	**31-Dec**	Belated ITR (AY 2026-27); last date to file a revised ITR without fee
12	**31-Dec**	AOC-4 – Financial Statements (FY 2025-26) without additional fees (MCA General Circular 05/2026)

Note: Due dates are as notified at the time of publication and are subject to any further extension by the authorities.

❖ Thank you, **Pranav Irale, Saurav Jaju** and **Aishwarya Lahoti** for the compilation of this series.

❖ RRCO Advisors LLP

Management Consultants
Pune | Mumbai | Thane | Hyderabad | Bangalore
501-504, Akshay Landmark,
Opp Pu La Deshpande Garden,
Sinhagad Road, Pune-411030
Phone: +91-20-24254388
Email: info@rrco.co.in