NFRS, NAS & NPSAS in Nepal: A Practical Guide for Every Entity

A quick guide to which entities must follow which standard, and when

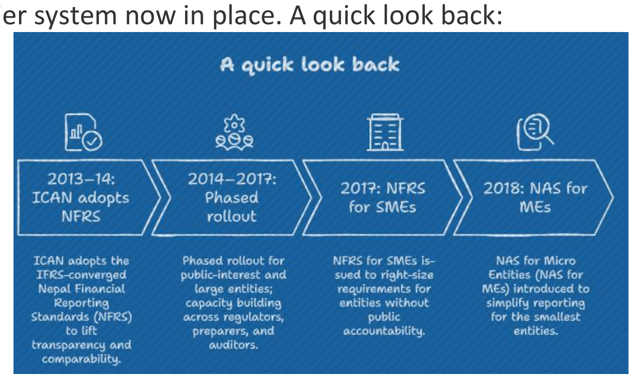
So, does NFRS apply to your business?

This is probably the most common question we get from students and working accountants: "Do we actually need to follow NFRS, or can we stick to the old way of doing things?" The honest answer is: it depends on the size and nature of your entity, and ICAN has laid out fairly clear rules for figuring this out.

NFRS in Nepal isn't one single rulebook that everyone follows the same way. There are actually three different "levels" of reporting, and which one you fall into depends on how big your business is and whether it's publicly accountable. This matters because the depth of work involved is very different at each level: full NFRS can mean months of transition work, while the micro-entity framework is something a small business owner can realistically keep up with.

A quick look back

NFRS didn't arrive overnight, and neither did the three-tier system now in place. A quick look back:



The three levels, explained simply

Think of it like a pyramid. At the top, you have a small number of large, publicly accountable entities that must follow the full, detailed version of NFRS. In the middle, you have small and medium businesses that follow a lighter version called NFRS for SMEs. And at the bottom, where most Nepali businesses actually sit, you have micro entities that follow the simplest framework, NAS for MEs.

Two things decide where a business lands on this pyramid: first, whether it's "publicly accountable" (meaning outsiders, depositors, policyholders, shareholders on an exchange, have money riding on it), and second, its size, measured by turnover, borrowings, and headcount. Public accountability always wins: even a relatively small bank branch is still a bank, so it reports at the top of the pyramid regardless of its balance sheet size.

1. Full NFRS

You're in this bracket if any one of these is true for your business:

- You're listed (or about to be listed) on NEPSE
- You're a bank, insurance company, or financial institution holding public money
- Your turnover or balance sheet total crosses NPR 100 crore
- Your borrowings cross NPR 50 crore
- You employ more than 300 people

This is the full, IFRS-aligned version: fair value accounting, deferred tax, consolidation, the works. It's designed for entities where outside stakeholders (investors, depositors, regulators) genuinely need detailed, comparable financial information to make decisions, so the extra effort is justified. According to ASB Nepal, fewer than 1,000 entities in the entire country actually fall here, so if you're advising a typical private company, chances are this isn't the tier you need.

2. NFRS for SMEs

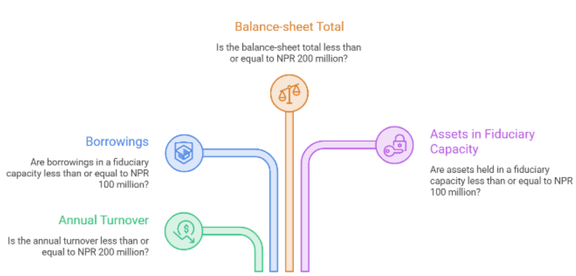
If you don't have public accountability but your numbers are too big to call "micro," you're likely an SME: roughly turnover between NPR 20 crore and NPR 100 crore, borrowings between NPR 10 crore and NPR 50 crore, balance sheet total between NPR 20 crore and NPR 100 crore, or fiduciary assets held above NPR 10 crore. Picture a mid-sized trading house, a manufacturing unit, or a private hospital with a few hundred million rupees in annual revenue; this is the bracket they'd typically sit in.

This became compulsory from FY 2080-81 (17 July 2023 onward), after ICAN pushed the original 2019 deadline back to give businesses more time to prepare. It keeps things IFRS-based but drops a lot of the complexity: lighter disclosures, simpler treatment of financial instruments, and no separate other comprehensive income statement to worry about. In effect, it gives you most of the credibility of full NFRS without the compliance load of tracking every fair-value movement.

3. NAS for Micro Entities

This is where the vast majority of Nepali businesses actually belong: over 98% of all entities filing tax returns, according to ASB Nepal's own data. If your turnover and borrowings are below the SME thresholds and you're not publicly accountable, this is your framework. Think small retail shops, local service providers, and family-run businesses, the kind of entity where the owner is often also the accountant.

To qualify as a Micro Entity, all four of the following must hold — not turnover alone: annual turnover of NPR 20 crore or less; borrowings from banks, financial institutions, public funds, or fiduciary sources of NPR 10 crore or less; balance sheet (Statement of Financial Position) total of NPR 20 crore or less, without offsetting current liabilities against current assets; and assets held in a fiduciary capacity of NPR 10 crore or less — this last test also catches security brokers handling demat accounts, microfinance institutions, and cooperatives, regardless of their turnover.



NPR 200 million = NPR 20 crore; NPR 100 million = NPR 10 crore.

It's written in plain language on purpose, because it's meant to be usable without a large finance team. No deferred tax to compute, no annual PPE life reviews, minimal disclosures: just clean, accrual-based reporting that's realistic for a small business to maintain on its own. That said, nothing stops a micro entity from voluntarily stepping up to NFRS for SMEs or even full NFRS; some do this specifically because a bank or investor wants to see a stronger set of financials before extending credit.

Tier	Rough size band
Full NFRS	Listed / public accountability, or turnover > NPR 100 cr
NFRS for SMEs	Turnover roughly NPR 20 cr -100 cr
NAS for MEs	Turnover below NPR 20 cr

Why this update matters

ICAN's alignment of the NAS for MEs, 2018 Introduction (Item C) with Section 1.11 of NFRS for SMEs, 2017 is more than a compliance tweak: it's a structural improvement to how Nepal's financial reporting ladder works, from micro to listed entities. Without it, the ecosystem runs into the same four problems:

What finance leaders should do next

If this affects your business or your clients, four steps are worth taking now:

A quick note on sector rules

A few sectors don't follow the general size-based logic above, because their regulators have added their own layer of rules on top of ICAN's framework:

- Banks and financial institutions regulated by Nepal Rastra Bank (Class A, B, C) always fall into full NFRS, regardless of their individual size; this comes from their public accountability, not their turnover.
- Insurance companies follow the same logic, and must also apply NFRS 4 / NFRS 17 for insurance contracts specifically.
- Cooperatives follow the same size-based tiers as other businesses, but on their own timeline, applicable from FY 2081-82 onward.

What about NGOs, government bodies, and schools?

These entities sit completely outside the NFRS classification above; they're not businesses trying to report profit, so a different set of standards applies to each of them.

NGOs and INGOs follow NAS for NPOs (Nepal Accounting Standards for Not-for-Profit Organizations), issued by ASB Nepal in 2018. It moves NPOs away from the old cash-based, donor-format reporting into proper accrual accounting: recognizing income and expenses when they occur, not just when cash moves, and separating restricted funds (tied to a specific project) from unrestricted ones. The rollout was staggered: INGOs had to comply from 16 July 2023 (FY 2080-81), and it became mandatory for all other NGOs and NPOs a year later, from 16 July 2024 (FY 2081-82).

Government entities (federal, provincial, and local) follow NPSAS (Nepal Public Sector Accounting Standards), which is built on a cash basis rather than accrual, in line with the international Cash Basis IPSAS. It was first piloted in a handful of ministries back in FY 2014-15 and has been rolled out gradually across government offices since, including local governments, as capacity has allowed.

Here's the part that surprises most people: community schools that receive government grants also report on the NPSAS-based format, not NFRS or NAS for MEs. ICAN has even published a dedicated NPSAS-based financial statement and audit training manual specifically for community schools, since these institutions are treated as extensions of public-sector reporting rather than as private micro entities.

Why this matters for you as an accountant

Getting this classification right isn't just a technical detail: it decides how much work you're signing up for, what your auditor will expect, and whether your financial statements will hold up with a bank, an investor, or a regulator. Before you assume a client "doesn't need NFRS," walk through the checklist: is there public accountability? What's the turnover? What are the borrowings? How many people are on payroll, and is it even a business, or does it belong on the NPO/government track instead?

It's also worth checking this periodically, not just once. A business that starts as a micro entity can grow past the SME threshold within a few years, and when that happens, the transition isn't automatic; the accountant needs to plan, ideally well before the mandatory effective date, rather than scrambling at year-end.

Once you know the right tier, everything else (recognition, measurement, disclosure) follows naturally. That's really the whole point of the classification system: matching the depth of reporting to the size and risk profile of the entity, instead of forcing everyone in Nepal through the same complex framework.

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Roshan Kumar & Associates
Chartered Accountants
Biratnagar, Nepal
+977-9860675996
info@rkaca.com.np
www.rkaca.com.np