ACCOUNTING STANDARDS

ACCOUNTING STANDARD 1: **DISCLOSURE OF ACCOUNTING POLICIES**

INTRODUCTION

1. This standard deals with disclosure of **significant accounting policies** followed in preparing financial statements.

2. The accounting policies used can affect the financial statements. But the accounting policies may differ from enterprise to enterprise.

3. Most of the enterprises disclose about the accounting policies in NOTES TO ACCOUNTS rather than presenting in the financial statements.

4. The accounting standard being followed to promote **better understanding** of financial statement. It also facilitates more **meaningful** comparison between **financial statements** of different enterprises.

FUNDMANENTAL ACCOUNTING ASSUMPTIONS

There are certain accounting assumptions that are used in preparation of the financial statement. The following are accounting assumptions:

CODE TO REMEMBER: C.A.G.

A. **C**onsistency:
   - Accounting policies are consistent from one period to another.

B. **A**ccrual:
   - It means financial statements are prepared on mercantile basis only.
   - Here the transactions are recorded as they occur. They are recorded and reported in the financial statements of the period to which it relates.

C. **G**oing Concern

- It means the enterprise has the intention to continue its operation in foreseeable future.
- Foreseeable future = Coming **1 or 2 years.**

An entity doesn't choose any of the accounting policies in a hurry. Therefore there are some **major points** to be considered for the purpose of selection and application of accounting policies. These points are:

CODE TO REMEMBER : S.P.M.

A. **S**ubstance Over Form:

- Transaction to be recorded in accordance with actual happening & economic reality,
- Not as by its **legal form.**
- For Eg: **ABC Co. P Ltd sold an asset on 01-03-2012 and possession was taken over by the buyer, but the property was not transferred in legal way at the end of 31-03-2012.** Applying this even though legal formalities are **not completed but** the possession has been transferred, the company will record the sale of asset in the year 2011-12.

B. **P**rudence:

- Since there is uncertainty attached to future events,
- Profits not to be recorded **unless they are realized in actual. Provision** is made for the all known liabilities and looses even though amount cannot be determined,
- This is called **PRUDENCY.**

C. **M**ateriality:

- Financial statement should disclose all the material facts which are sufficient enough to effect the decision of the users of the financial statements.

DISCLOSURE OF ACCOUNTING POLICIES:

A. For better understanding of financial statement, it is necessary to disclose all accounting policies used in the financial statements.

B. Such disclosure must form part of the **financial statements.**

C. Any change in the accounting policies