ACCOUNTING STANDARD – 1

DISCLOSURE OF ACCOUNTING POLICIES

Purpose:

- To facilitate better understanding of financial statements.
- To facilitate meaningful comparison between financial statements of different enterprises.

Accounting Policies	Specific Accounting Principles. Methods of applying those principles adopted by the enterprise. In preparation & presentation of Financial Statements.
Areas Covered (Examples)	Valuation of Inventories. Valuation of Investments. Valuation of Fixed Assets. Methods of Depreciation etc. Treatment of Goodwill. Treatment of retirement benefits. Treatment of Contingent Liabilities
Consideration in Selection of Accounting Policies	**Primary Consideration** The financial statements prepared & presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise. **Secondary Consideration** **PRUDENCE**, - Profits are not anticipated but recognied only when realized though not necessarily in cash. **SUBSTANCE OVER FORM**, - The accounting treatment should be governed by their substance and not merely by the legal form. **MATERIALITY**, - Financial statements should disclose all "material items"
Fundamental Accounting Assumptions (FAA)-GSA	**GOING CONCERN** - It is assumed that the enterprise has neither the intention nor the necessary of liquidation or of curtailing materially the scale of the operations. **CONSISTENCY** - It is assumed that accounting policies are consistent from one period to another. and **ACCRUAL** - Revenues and costs are accrued, that is, recognized and they are earned or incurred and recorded in the financial statements of the periods to which they relate.

CA PRAVEEN TAWANIA CLASSES

	These are not specifically stated in the financial statements. Their acceptance and usage is assumed.
Disclosure	⌗ **All significant accounting policies** adopted in the preparation and presentation of financial statements should be **disclosed**. ⌗ The disclosure should **form part of the financial statements** and **usually at "one place"**. ⌗ Any change in the accounting policies which has a **material effect in the current period** should be disclosed along with amount of effect. ⌗ If **the fundamental accounting assumptions are not followed**, the fact should be disclosed.
Changes in Accounting Policies	⌗ Any change in the accounting policies which has a **material effect in the current period** should be disclosed along with amount of effect. ⌗ If the **amount is not ascertainable** (whether wholly or in part), the fact should be disclosed. ⌗ If there is any **material effect in later period**, the fact should be disclosed.
Notes	Disclosure of Accounting Policies or of its Changes therein **cannot be a remedy of a wrong or in appropriate treatment of the item** in the accounts.

P.1: One Accounting Policy for all – Is it possible?

Ans: It is not possible to have a single list of accounting policies for all.
The management should choose accounting policy in such a manner, financial statements shall present a "True and Fair View" picture.

P.2: When is the Change in Accounting Policy recommended?

Ans: A Change in the Accounting Policy should be made only if adoption of different Accounting Policy is required

- By ***Statute***, or
- For ***Compliance with an AS***, or
- If it is considered that the ***change would result in more appropriate presentation of financial statements***.

P.3: What are the disclosure requirements as to Changes in Accounting Policies?

Ans:

Case	**What is to be disclosed?**
When the change has material effect in current period	1. The **nature** of change. 2. **Financial effect** of change on items to the period extent ascertainable. 3. Where the **amount is not ascertainable** in wholly or part, **then indicate this fact**.
When the change has material effect in later period(s).	1. The **nature** of change. 2. The **fact that changes** in accounting policies has an effect in later period.

CA. PRAVEEN TAWANIA CLASSES

P.4: What are the disclosure requirements as to Fundamental Accounting Assumptions (FAA)?

Ans:

Case	What is to be disclosed?
If All FAA **are** followed.	**No specific disclosure** is required.
If any of FAA is not followed	The **fact** that accounting assumption is not followed **must be disclosed.**

P.5: Zen Ltd. has sold its building for Rs. 10 crores to KRN Ltd. Zen handed over the possession of building to KRN Ltd. The book value of the building is Rs. 5 crores. However, till the end of the financial year, the legal and registration formalities have not been completed. For this reason the company doesn't want to recognize the sale and want to show the amount received as an advance. As an auditor of the company, comment upon the company's intention.

Ans: As per AS-1, Transaction and other events should be measured and presented in accordance with their substance and economic reality and not merely by its form.

Advice – Hence, the company's intention is not correct. Zen Ltd. should recognize the sale and should not treat the amount received as an advance.

P.6: A Ltd has sold its building for Rs. 50 lakhs to B Ltd and has also given the possession to B Ltd. The book value of the building is RS 30 Lakhs. As on 31st March 2006, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advanced. Do you agree with this treatment?

Ans: The economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. A Ltd. should record the sale and recognize the profit of Rs. 20 lakhs in its profit and loss account. The building should be eliminated from the balance sheet.

Thanks for YOUR SUPPORT!!

FOR FULL BOOK OF CA-IPCC GROUP-I & II

"ACCOUNTING STANDARDS" CONTACT – +91 9910026755

PRAVEEN TAWANIA CLASSES

GENIUS INSTITUTE OF COMMERCE

1/10 & 1/12, 2nd Floor, Above LG Showroom, Opp. Metro Pillar No. 27, Laxmi Nagar, Vikas Marg, Delhi-110092.

CA PRAVEEN TAWANIA CLASSES

ACCOUNTING STANDARD – 10

ACCOUNTING FOR FIXED ASSETS

Purpose:
⌗ Disclosure of Fixed Assets.

Fixed Assets	**Fixed asset** is an asset ⌗ Held with the intention of being used ⌗ For the purpose of producing or providing goods or services and ⌗ Not held for sale in the normal course of business. E.g. Land, Building, Plant etc.
Whether an expense is to be capitalised or not as Fixed Asset depends upon "Materiality"	**Treatment of Machinery Spares** Machinery spares → Charged to the profit and loss statement as and when consumed. If such spares can be used only in connection with an item of fixed asset + and their **use is expected to be irregular** → Appropriate to allocate the total cost On a systematic basis Over a period not exceeding the useful life of the principal item.
Fair Market Value	**Fair Market Value** is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length.
Gross Book Value	**Gross Book Value** of a fixed asset is its historical cost or other amount substituted for historical cost in the books of accounts. When this amount is shown net of accumulated depreciation, it is termed as net book value.
Elements Of Cost	⌗ Purchase Price (+) Import duties and (+) Non-refundable taxes and levies and (+) Any directly attributable cost of bringing the asset to its working condition for its intended use (-) Trade Discount (-) Rebates ⌗ Administration and General OH – Generally exclude. ⌗ Specifically Incurred – Include. ⌗ The expenditure incurred on **test runs and experimental production,** is capitalised as an indirect element of the construction cost. ⌗ If the time gap between the dates a project is ready to commence production and when production actually begins is prolonged, all expenses incurred during this period are **charged to the profit and loss statement.**

CA. Praveen Tawania Classes

Self Constructed Fixed Assets	- The cost of a self-constructed fixed asset should comprise those costs that relate **directly** to the specific asset and those that are **attributable** to the construction activity in general and **can be allocated** to the specific asset. - Cost = Directly related + Attributable – Internal Profits (if any)
Assets Purchased by Cash	- Record at **Purchase Price**.
Non-monetary consideration	- When a fixed asset is acquired in exchange or in part exchange for another asset/issue of shares, the cost of the asset acquired should be recorded **either** at **fair market value or** at **the net book value/securities issued** of the **asset given up**, adjusted for any balance payment or receipt of cash or other consideration. - For this purpose fair market value may be determined by reference **either** to the **asset given up or** to the **asset acquired/securities issued**, **whichever** is **more** clearly evident.
Assets acquired on hire purchase	Recorded at their **CASH VALUE** with a suitable disclosure, that the enterprise does not have full ownership thereof.
Assets owned jointly with others	- Recorded in the Balance sheet to the extent of the **enterprise's share in such assets**, original cost, and accumulated depreciation and written down value. - Alternatively, the pro rata cost of those assets may be grouped together with similar fully owned assets with an appropriate disclosure.
Assets purchased for a consolidated price	Where several assets are purchased for a consolidated price, the consideration is apportioned to the various assets on a fair basis determined by competent valuer.
Assets acquired by Govt. Grant	Refer AS-12
Addition or Extension to an Existing Asset	The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any addition or extension, which has a separate identity and is capable of being used after the existing asset is disposed of, is accounted for separately.
Improvement And Repairs	Subsequent expenditures related to an item of fixed asset should be added to its book value **only** if it **INCREASES** the **FUTURE BENEFITS** **FROM THE EXISTING ASSET** **BEYOND ITS PREVIOUSLY ASSESSED STANDARD OF PERFORMANCE**.
Revaluation of fixed assets	- When a revaluation is made, either an entire class of assets should be revalued, or the selection of assets should be made on a systematic basis. The basis should be disclosed. - The revaluation in financial statements of a class of assets **should not** result in the net book value of that class being greater than the recoverable amount of assets of that class.

CA. Praveen Tawania Classes

	⌗ When a fixed asset is revalued upwards, any accumulated depreciation existing at the date of the revaluation **should not** be credited to the profit and loss account.
Accounting on retirement /disposal	⌗ Generally, **gain or losses arising on disposal are recognised in P & L A/c.** ⌗ If an asset was previously revalued and increase in revaluation was credited to Revaluation Reserve [RR]. ⌗ Difference between net disposal proceeds and the net book value is normally charged or credited to P & L statement except that, to the extent such a loss RR and which has not been subsequently reserved or utilised, it is charged directly to that account. ⌗ The amount standing in RR following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve.
Goodwill	⌗ **Goodwill needs to be accounted for only when some consideration in money or money's worth has been paid for it.**
Disclosure	⌗ Gross and net book values of fixed assets at the beginning and end of an accounting period along with additions, disposals, acquisitions and other movements during the year. ⌗ Expenditure incurred in the course of construction or acquisition. ⌗ Revalued amounts substituted for historical costs of fixed assets, the method adopted for revaluation, the nature of indices used, the year of any appraisal made and whether an external valuer was involved in carrying out the revaluation.

REVALUATION OF FIXED ASSETS

FIRST TIME

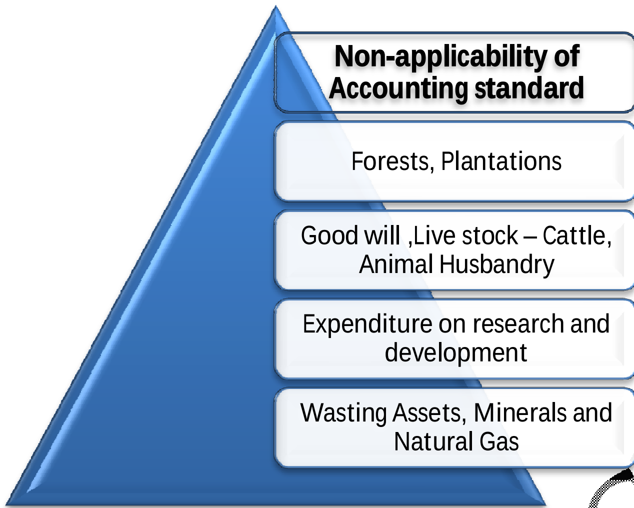
Increase in Net Book Value	Decrease in Net Book Value
⇩	⇩
Credit in RR A/c	Debited to P & L A/c

REVALUATION OF FIXED ASSETS

SECOND TIME

Earlier Revaluation A/c is credited		Earlier P & L A/c is credited	
Increase in Net Book Value	Decrease in Net Book Value	Increase in Net Book Value	Decrease in Net Book Value
⇩	⇩	⇩	⇩
Credit RR A/c	To the extent of RR A/c reverse it, and balance should be transfer to P & L A/c	To the extent of P & L A/c, reverse it and the balance transfer to RR A/c	Debited to P & L A/c

COMMON POINTS IN AS-6 &AS-10



Thanks for YOUR SUPPORT!!

FOR FULL BOOK OF CA-IPCC GROUP-I & II

"ACCOUNTING STANDARDS" CONTACT – +91 9910026558, 9910026755

PRAVEEN TAWANIA CLASSES

GENIUS INSTITUTE OF COMMERCE

1/10 & 1/12, 2nd Floor, Above LG Showroom, Opp. Metro Pillar No. 27, Laxmi Nagar, Vikas Marg, Delhi-110092.

About the Author

CA. Praveen Tawania is a practicing Chartered Accountant and a faculty member, teaching subjects of Accounting, Financial Reporting, AS/IFRS for CA and CWA & CS in Northern Region of the Country. He has also been teaching at various Institutes, Universities and conducting training on whole range of management consultancy services including IFRS, XBRL, Valuations, Foreign Collaborations and Joint Ventures, Taxation, Specialized Audits, ERM, Risk Advisory and Corporate Training services. He is a regular contributor in the various online forums for CA's and CA Students. His contribution is also lies to the "KRN Foundation" for the benefit of Society.

CA. Praveen Tawania Classes