ACCOUNTING STANDARD – 1: DISCLOSURE OF ACCOUNTIG POLICIES

❖ *This accounting standard is mandatory to be followed.*

Accounting policies means specific accounting treatments, principles & methods of applying such principles for preparation & presentation of financial statements. Following are some examples of accounting policies-

- Charging of depreciation
- Treatment of foreign exchange
- Treatment of borrowing cost
- Treatment of lease
- Treatment of investments

All accounting policies which are significant in preparation & presentation of financial statements should be disclosed at one place.

How to select an accounting policy for an entity?

Whenever any accounting policy has to be selected then-

- Primary consideration is 'true & fair view' It means those accounting policies should be selected which give true & fair position of financial statements

Following are secondary considerations-

- Prudence principle should be followed, also called concept of conservatism. It means those policies should be given preference which allow higher expense and lower income.
- Substance over form (reality over legality) it means importance should be given to actual transactions. For example – If a car is purchased on hire purchase, whose ownership remains with the seller, then also we consider purchase of asset.
- Materiality it means accounting policies should be framed for material items only. Items which are not material should be w/off instantly. For example – Assets whose value is up to ₹5,000 are w/off at once. Hence, accounting policy is to treat material value of assets.

Fundamental accounting assumptions (FAAs)

FAAs are those assumptions which are required for preparation of financial statements.

Treatment – FAAs should not be disclosed if followed by the entity. It should be disclosed, only if not followed by the entity.

Types of FAAs

- Going concern – A general assumption is made that the business will continue forever & there is no necessity to close down operations.
- Accrual assumptions – It means recording of income & expenses on time period basis, irrespective of actual payment/receipt.
- Consistency – It means that all accounting policies & treatments will be consistently followed.

AS-1 SUMMARY