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Some Pivotal points from AS 1, 2 and 5

AS-1 Disclosure of Accounting Policies

- Certain fundamental accounting assumptions help in the preparation and presentation of financial statements, they are given as follows;
    1. Going Concern
    2. Consistency
    3. Accrual

- Going concern assumption is **assessed for a foreseeable future**, that is, at least for a period of one year.

- If a fundamental accounting assumption is **not followed**, **the fact thereof should be disclosed.**

- Accounting Policies selected by the enterprise should represent **True and Fair View** of the state of affairs of the enterprise
    - as at the balance sheet date and
    - as of the profit or loss for the period ended on that date.

- **Major considerations** governing *selection and application of accounting policies* are:
    - Prudence,
    - Substance over form, and
    - Materiality.
- Significant Accounting Policies adopted in the preparation and presentation of financial statements should be disclosed **in one place** and **form part of the financial statements**.

- Any change in the accounting policies and material effect thereof should be disclosed.

AS-2 Valuation of Inventories

- Inventories should be valued at the lower of **cost and net realisable value**.

- The cost of inventories ***should comprise all costs*** of
    - Purchase,
    - Costs Of Conversion And
    - Other Costs Incurred In Bringing The Inventories To Their Present Location And Condition.
- Inventories are written down below cost to net realisable value as assets and not be carried in excess of amounts to be realised from their sale or use.

- It is written down to net realizable value on an item-by-item basis

- **Disclosures** :
  - The accounting policies adopted in measuring inventories, including the cost formula used; and
    - The total carrying amount of inventories and its classification appropriate to the enterprise.

AS-5 Net Profit/Loss for The Period, Prior Period Items And Changes In Accounting Policies

- Ordinary activities are any activities which are undertaken by an enterprise **as part of its business** and such related activities which are continuance of, secondary to, or arising from, these activities.

- **Extraordinary items** are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are **not expected to recur frequently or regularly.**

- Whether an event or a transaction is from ordinary activities of the enterprise is determined **by nature of event or transaction** in relation to the business ordinarily carried out by the enterprise.

- **Prior period items** are income or expenses those arise in the current period **as a result of** errors or omissions of one or more prior periods.

- Accounting Estimates are **approximations,** by their nature, that may need revision if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.

Accounting treatment and disclosures

- **Ordinary Activities:**
  - **Items of income** and expense from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance for the period, the nature and amount of such items should be disclosed separately.
  - Such circumstances are
    - the write-down of inventories to net realisable value,
    - disposal of items of fixed assets,
    - disposal of long-term investments,
    - legislative changes having retrospective application, etc.

- **Extraordinary Items:**
  - **Extraordinary Item** is to be disclosed as a part of net profit or loss for the period. The nature and the amount (of each extraordinary item) is to be separately disclosed in a manner that its impact on current profit or loss can be perceived. Examples of events that lead to extraordinary items – attachment of property of the enterprise or an earthquake.

- **Prior Period:**
  - The nature and amount of prior period items should be separately disclosed in a manner that their impact on the current profit or loss can be perceived. Alternatively, prior period items should be shown after the determination of current net profit or loss.

- **Changes in Accounting Estimates :**
  - The effect of a change in an accounting estimate should be included in the determination of net profit or loss (under the same classification as used previously) in:
    - the period of the change, if the change affects the period only; or
    - the period of the change and future periods, if the change affects both.

- **Changes in Accounting Policies:**
  - A change is made only if the adoption of a different accounting policy is required - by statute or for compliance with accounting standard or the change would result in a more appropriate presentation of the financial statements.

- Change in an accounting policy which has a material effect should be disclosed.
  - The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change.

- Where the effect of such change is not ascertainable, wholly or in part, the fact is to be indicated.

- If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

- Where the change in accounting policy is on account of events or transactions
  - that differ in substance from previously occurring events or transactions or which did not occur previously or which were immaterial,
  - the same shall not be treated as a change in accounting policy and accordingly, no disclosure is required.