

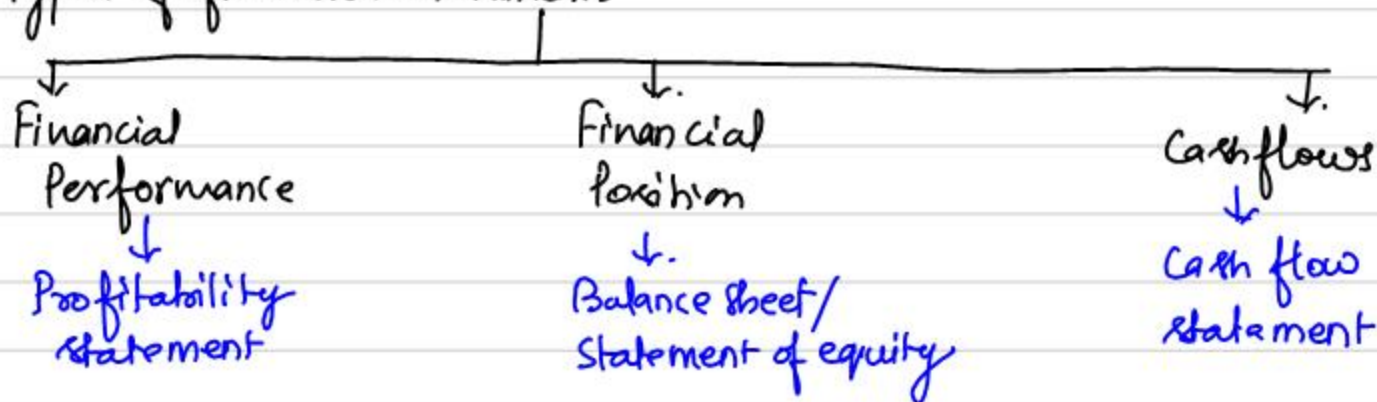
AS-1 (Disclosure of accounting policies)

Ind-AS-1 - Presentation of financial statements.

1) Learning objective

- Types of accounting policies which should be disclosed.
 - Consideration in selection of accounting policies.
- 2) This statement deals with disclosure of significant accounting policies followed in presentation and preparation of financial statements.

3) Types of financial statements



Note: Financial statements includes notes to accounts comprising significant accounting policies and other explanatory information.

4) Fundamental Accounting assumptions

Following are fundamental accounting assumption.

- a) Going Concern
- b) Consistency
- c) Accrual

Note: Fundamental accounting assumptions need not be disclosed but if there is deviation from these fundamental assumptions that need to be disclosed.

5) Going Concern: As per this concept it is assumed that entity will be existing for more than foreseeable future.

Note: It is assumed that enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations

6) Consistency:

It is assumed that accounting policies are consistent from one period to another.

Note: This assumption is important because it results into better comparison of financial statements of different periods

7) Accrual:

As per this assumption revenues and cost are accrued i.e. recognized as they are earned or incurred and recorded in the financial statements of the period to which they relate.

8) Areas where accounting policies may vary

- a) Method of depreciation
- b) Valuation of fixed assets.
- c) Valuation of inventories
- d) Treatment of goodwill
- e) Valuation of investment

9) Consideration in selection of accounting policies

Financial statements should be prepared on the basis of accounting policies which reflects true and fair view of state of affairs of enterprise as at balance sheet date.

(10) → Other accounting concepts

a) 10) Prudence :

- Profits are not anticipated but recognized only when they are realized.
- Provisions should be made for all future liabilities and losses even though exact amount cannot be calculated.

Note: Impact of prudence is that

- i) Profits are not overstated.
- ii) Liabilities & Losses are not understated.

Examples:

- 1) Valuation of inventories is at lesser of cost or net realizable value
- 2) Provision for bad debt, gratuity etc.

b) Substance over form

Transactions and events should be accounted for and presented in accordance of their substance and financial reality and not the legal form

e.g. Hire Purchase

c) Materiality

All material items should be disclosed in financial statement

→ Materiality means an item whose knowledge may influence the decision of user of financial statement

e.g. An item of ₹ 1,00,000 in turnover of ₹ 10 lakhs is material as compared to enterprise having turnover of ₹ 1000 cr.

Note: Normally an item which is having a transaction value of ₹ 5000 or 5% of total turnover whichever ever is higher is considered material.

11) Disclosure of change in accounting policies

a) If any change in accounting policy may have material effect in current period or later period then it should be disclosed.

b) following points should be disclosed.

i) Facts about the change in policy

ii) Amount by which change will be there

iii) Reason for change.

iv) If amount can not be ascertained fact should also be disclosed.

12) All the notes to accounts and disclosures should be at one place and should be on face of financial statement.