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.

	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.

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.

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