CA CS HUB
Dream Never Sleeps

As-1 Disclosure Of Accounting Policies

Applicability- This Standard Applies to all enterprises.

Purpose - The purpose of Accounting Standard 1, Disclosure of Accounting Policies, is to promote better understanding of financial statements by requiring disclosure of significant accounting policies in orderly manner, such disclosures facilitate more meaningful comparison between financial statements of different enterprises for same accounting periods. *The standard also requires disclosure of changes in accounting policies such that the users can compare financial statements of same enterprise for different accounting periods.*

Fundamental Accounting Assumptions

- Going Concern
- Consistency
- Accrual

Going Concern - The financial statements are normally prepared on the assumption that an enterprise will *continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.* Financial statements prepared on going concern basis recognise among other things the need for sufficient retention of profit to replace assets consumed in operation and for making adequate provision for settlement of its liabilities.

Consistency - The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods. The consistency improves comparability of financial statements through time. An accounting policy can be changed if the change is required *(by a statute (ii) by an accounting standard (iii) for more appropriate presentation of financial statements.*

Accrual - Under this basis of accounting, *transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.* Accrual basis ensures better matching between revenue and cost and profit/loss obtained on this basis reflects activities of the enterprise during an accounting period, rather than cash flows generated by it. Section 128(1)(iii) of the Companies Act makes it mandatory for companies to maintain accounts on accrual basis only. It is not necessary to expressly state that accrual basis of accounting has been followed in preparation of a financial statement. In case, any income/expense is recognised on cash basis, the fact should be stated.

If all the above, fundamental accounting assumptions is followed, then there is no requirement to disclose in financial statements. If is it not followed then there is mandatory requirement to disclose in the financial statement.

Accounting Policies

The accounting policies refer to the *specific accounting principles and the methods of* *applying those principles* adopted by the enterprise in the preparation and presentation of financial statements.

Selection of Accounting Policy

Financial Statements are prepared to portray a true and fair view of the performance and state of affairs of an enterprise. In selecting a policy, alternative accounting policies should be evaluated in that light. In particular, major considerations that govern selection of a particular policy are:

- **Prudence -** In view of uncertainty associated with future events, profits are not anticipated, but losses are provided for as a matter of conservatism. Provision should be created for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. *The exercise of prudence in selection of accounting policies ensure that (i) profits are not overstated (ii) losses are not understated (iii) assets are not overstated and (iv) liabilities are not understated.*

- **Substance over form:** Transactions and other events should be accounted for and presented in accordance with their substance and *financial reality and not merely by their legal form.*

- **Materiality:** Financial statements should disclose all 'material items, i.e. the items the knowledge of which might influence the decisions of the user of the financial statement. Materiality is not always a matter of relative size.

Manner of Disclosure - All significant accounting policies adopted in the preparation and presentation of financial statements should be *disclosed*.
The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be *disclosed in one place.*

Disclosures of Change in Accounting Policies

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a *material effect in a later period should be disclosed.* In the case of a change in accounting policies, which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be *disclosed* to the extent ascertainable. *Where such amount is not ascertainable, wholly or in part, the fact should be indicated.*

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