TOPIC 2.

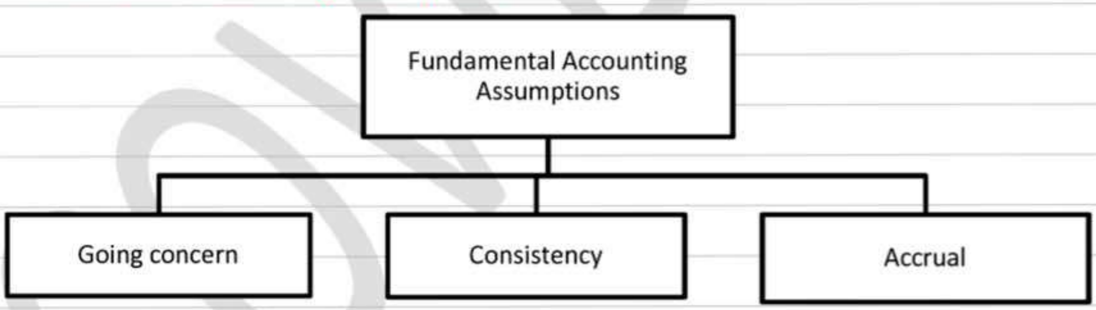
ACCOUNTING STANDARD – 1

DISCLOSURE OF ACCOUNTING POLICIES

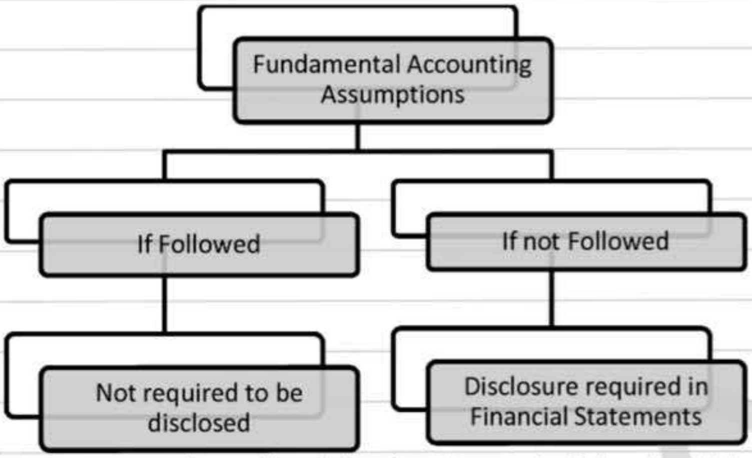
Some Important Para's:

1. **All** significant Accounting Policies adopted in the preparation and presentation of financial statements should be disclosed. (Para 24)
2. The disclosure of significant Accounting policies as such should **form part of financial statements** and the significant accounting policies should normally be disclosed **in one place.** (Para 25)
3. According to AS – I there are three fundamental accounting assumptions:
    - Going Concern
    - Accrual
    - Consistency

    Fundamental Accounting Assumptions

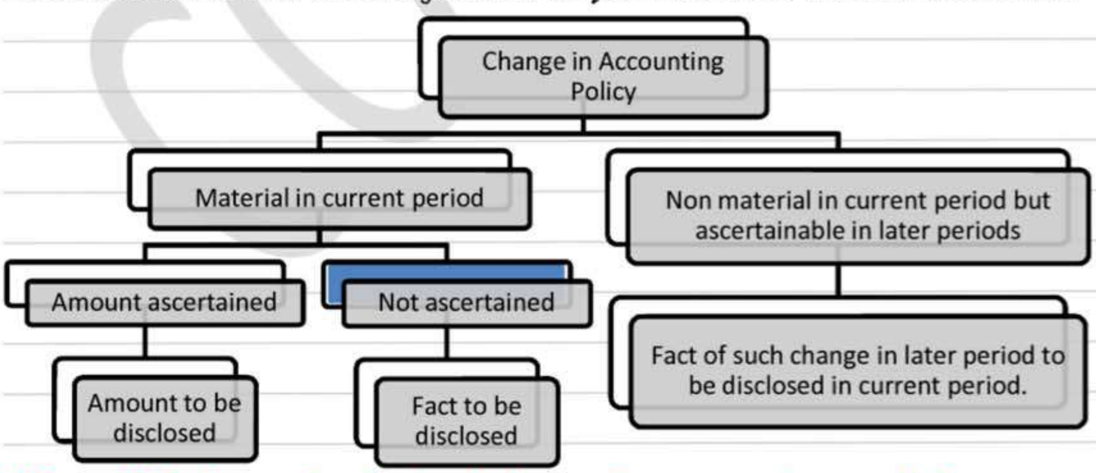


4. If the fundamental accounting assumptions are followed in the financial statements, specific disclosure is **not required**. If a fundamental accounting assumption is not followed, the fact should be disclosed. (Para 27)



5. While Selecting any accounting policy following three principles should be considered:
    - Substance over Form
    - Materiality
    - Prudence
6. **Changes in Accounting Policies:** According to AS – I, an enterprise can change its accounting policies only when any of the following three conditions are satisfied:
    - Adoption of different accounting policy is required by any **statute/law**.
    - Adoption of different accounting policy is for the purpose of **compliance with an Accounting standard**.
    - It is considered that change would result in **more appropriate presentation of financial statements**.
7. Any change in accounting policies which **affects** the financial statements of current period or which is reasonably expected to have effect in later periods' financial statements, then such change should be disclosed.

The amount by which such change affects the financial statements should also be disclosed to the extent ascertainable i.e. the change should be quantified in the financial statements.



****Since AS I is very basic standard, questions are not covered here you can refer sample questions of ICAI module only.**

Question 1 **(ICAI Module)**

In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to Rs 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to Rs 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

Solution

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. 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. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements.

The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs 16,000.

Question 2 **(ICAI Module)**

ABC Ltd. was making provision for non-moving inventories based on issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2017 based on technical evaluation:

Total value of inventory	Rs 100 lakhs
Provision required based on 12 months issue	Rs 3.5 lakhs
Provision required based on technical evaluation	Rs 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Solution

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs 3.5 lakhs to Rs 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2016-17:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs 1 lakh."

Student Notes:-