

Accounting Standard - 1

Disclosure of Accounting Policies:-

This standard doesn't say which Accounting policy to follow

but says to disclose whatever Accounting policy you follow.

1 All significant Accounting Policies adopted in Preparation & Presentation of Financial Statement should be disclosed.

2 The disclosure of significant policies should be disclosed @ one place ?? notes to Accounts.

Fundamental Accounting Assumption:-

FAA are those assumption which the entity will follow but will not disclose

Going concern

show an entity is a going concern & will continue operation for foreseeable future

Financial statement have to be prepared on a different basis

Consistency

show that the entity whatever Accounting policy it is followed in the previous Accounting year it is going to follow current year also.

Ex-1 - Management can change A/P on a situation.
① when change is required by AS & change required by statute.

Accrual

FS prepared on accrual basis means not only past event involving payment & cash but obligation to pay cash in future.

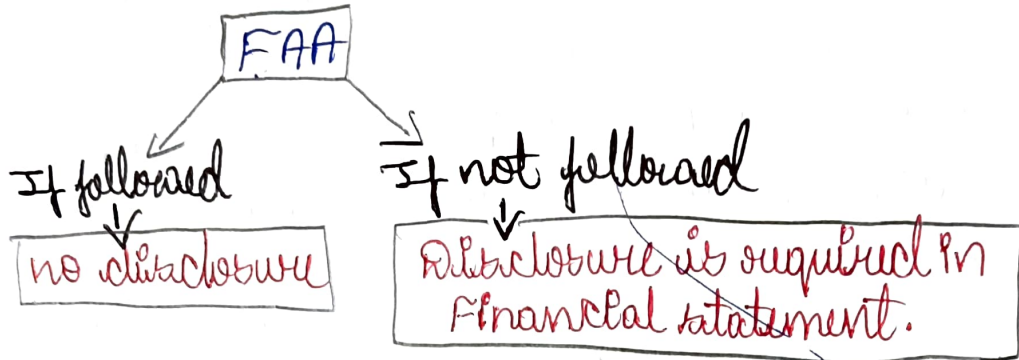
There are 2 types of accrual basis
cash & Accrual

* When an entity prepares its F/S EX 1

It should assume that these will be known to users by default so no need to disclose.

users should assume that we followed even though no disclosures were given about this

at 11



Selecting an Accounting Policy

Principles are :-

substance over legal form

materiality

Prudence conservatism

Reality > legality

legal formality

OR

potential ownership

Person or entity can claim ownership of asset even though based on. ---

something which would be effect the decision making of the users of Financial statement

They always provide for liable losses but don't provide for your future profit.

changes in Accounting Policy

↓
when it is required by statute / law we change the accounting policy from one period to another.

↓
For the purpose of compliance with AS

↓
rather presentation

↓
material in current period

↙ ↘
Amt is Ascertainable not ascertainable

↓
Amt to be disclosed

↓
Fact to be disclosed that are unable to quantify the effect.

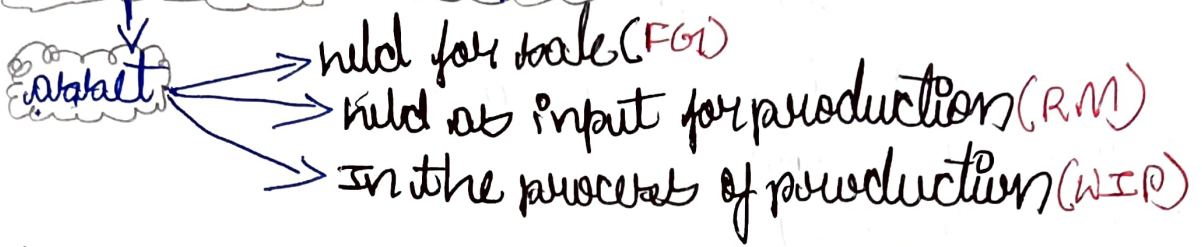
non material in current period by ascertainable in later period

↓
Fact of such change in late period to be disclosed in current period.

Accounting Standard - 2

Valuation of Inventories

1. Inventories: Component



2. Measurement of Inventories → cost of Inventory?

cost @ NRV, which ever is lower - ^① one only
^② item by item, on B/S date

Net Realisable Value [NRV] → means final value that get in hand after selling product

FGI/WIP

Estimated selling price
 (-) cost of completion
 (-) selling expenses

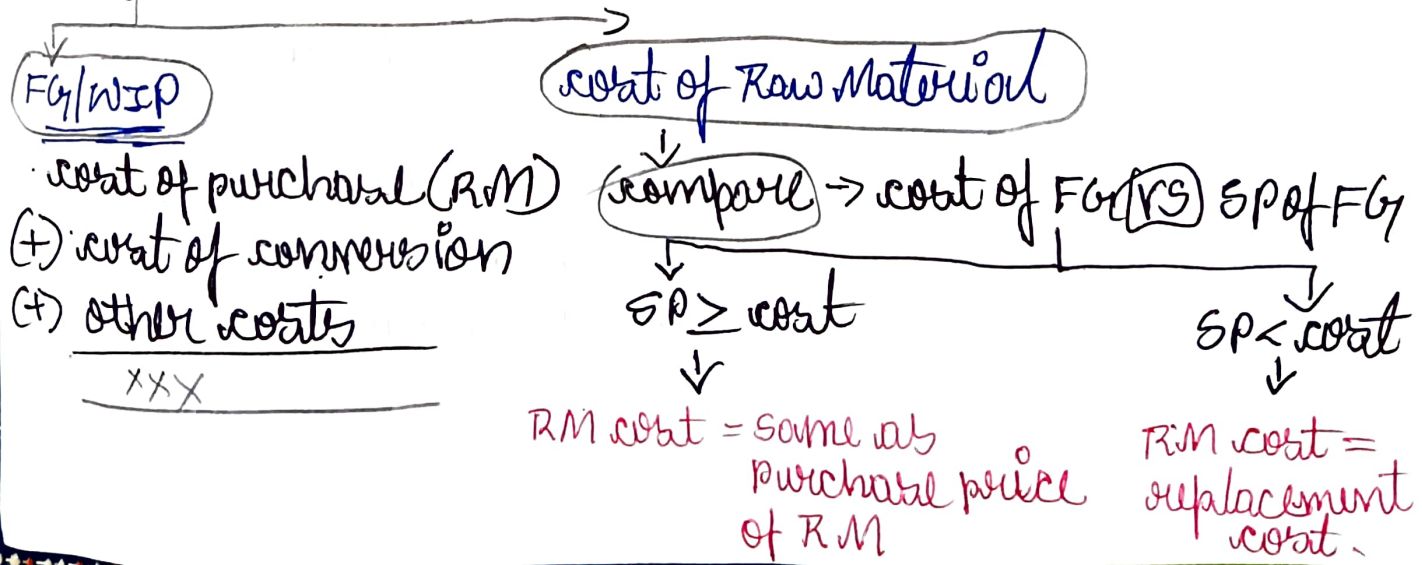
xxx

RM

X NRV

always valued at cost

Cost



① cost of purchase

- Purchase price of RM
- (+) Non refundable taxes
- (+) carrying cost
- (+) inward insurance cost
- (+) Trade Discount [~~X~~ cash discount]
- (-) Quantity Discount
- (-) Duty drawback

② cost of conversion

Ex:- labour, cost, factory rent, fuel cost, etc.

Variable OH

per unit basis

Fixed OH

compare Actual production

normal capacity.

Ex:- normal capacity → 10,000 units

Actual production

↑ 15000 10000 ↓ 5000

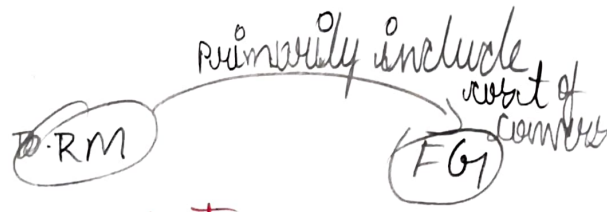
If AP > normal

per unit Fixed OH

$$= \frac{\text{Fixed OH}}{\text{Actual production}}$$

If normal ≥ AP

$$\frac{\text{Fixed OH}}{\text{Normal capacity}}$$



Other costs

cost incurred to bring FG to present location & condition.

↓
EAC: - Packing cost, Quality control cost, R & D cost, etc.

Exclusion from cost

↓
Selling & Distribution cost

↓
Administration cost

↓
Interest & finance charges

↓
Storage cost

↓
Abnormal cost

Impact of under over valuation of Inventories

1] If closing stock → ↑ Profit ↑
↓ Profit ↓

2] If opening stock ↑ Profit ↓
↓ Profit ↑

Valuation of Inventory

Goods which are meant for resale
or using in captive consumption

Classification of Entities for Valuation of Inventory

non manufacturing

[Buy & sell]

FG

Manufacturing

[Buy - process - sell]

R/M - WIP - FG^{100%}

↓
By product

↓
waste

↓
scrap.

Net Realisable Value.

sale price	xxx
(-) cost	<u>xxx</u>
NRV	xxx