

Chp-1. Theoretical Framework

Unit 6: Accounting as a Measurement Discipline

[Evaluation Principles & Accounting Estimates]

① Measurement - Elements

Identification of objects
& events to be measured.

Selection of
standard or scale
to be used

Evaluation of dimensions of measurement standard or scale.

② Accounting as Measurement Discipline

→ Money is the scale of measurement.

→ Money as a measurement scale has no universal denomination [₹, \$, £, etc].

→ Money lacks universal applicability.

→ Money is not stable.

③ Valuation Principles

Ex, A home was purchased 5 years back for ₹ 20 lakhs. Now we estimate its realisable value ₹ 25 lakhs. Also, a similar house can be purchased for ₹ 28 lakhs. The future value of house after 3 years will be ₹ 50 lakhs, whose discounted present value is ₹ 35 lakhs.

(i) Historical cost = ₹ 20,00,000 [Purchase]

(ii) Current cost = ₹ 28,00,000 [Similar asset]

(iii) Realizable ^{value} cost = ₹ 25,00,000 [Sale]

(iv) Present value = ₹ 35,00,000 $\left[P = \frac{A}{(1+i)^n} \right]$

④ Accounting Estimates

→ The measurement of certain assets and liabilities is based on estimates of uncertain future events.

→ The process of estimation involves judgments based on latest information available.

→ The estimates may be revised if changes occur in some circumstances.

→ Eg; Provision for doubtful debts, Estimated useful life of asset, Provision for taxation, etc.