THEORETICAL FRAMEWORK

Ex: Purchase/sale of g's, capital investment, expenses incurred

Transaction - a business, performance of an act, an agreement.

event - a happening, as a consequence, a result of transaction

Ex: P/L A/c, closing inventory def

1 Meaning of Accounting:

"Accounting is an art of classifying, recording and summarising in a significant manner and in terms of money, transactions and events which are in part of atleast a financial character and result thereof."

Procedural aspects of Accounting:

1. Generating Financial Information
2. Using Financial Information

1. Generating Financial Information

2 1. Recording: Journal, Purchase, sales, P/Return, S/R, BR, BP, cash book

* Basic function of A/cing.
* Sales bill, Pass book, salary slip etc recorded in books of A/c's
* Recording is done in book called 'Journal'
* This book further divided into several subsidiary books according to size and nature of the business.

2. Classifying: Ledger

* The book containing classified information is called 'Ledger'
* Books contains different pages, Individual A/c's, under which all financial transactions of similar nature are collected

For ex: There may be separate A/c heads for Salaries, Rent, Printing and Stationeries, Advertisement etc

* All expenses under this heads, after being recorded in Journal will be classified under separate heads in Ledger.
* Help in finding out total expenditure incurred in each of above heads.

3. Summarising: Trial balance + P&L A/C + B/S
* concerned with preparation and presentation of classified data in a manner useful to the internal as well as external users of the financial statement.
* This process leads to preparation of financial statements

4. Analysing: Analysing the results Financial Statement
* Analyses means methodical classification of data given in FS.
* Figures given in FS will not help anyone unless they are in simplified form.
For ex: all items relating to fixed assets put at one place while all items relating to current assets put at another place
* concerned with establishment of relationship b/w P&L A/c & Balance sheet
* It provides the basis of interpretation.

5. Interpreting: Analysing the results
* Final function of the A/cing.
* concerned with explaining the meaning and significance of the relationship as established by analyses of A/cing data.
* recorded financial data is analysed and interpreted in a manner that will enable end-users to make a meaningful judgement abt the financial condition & profitability of business operations
* FS should explain not only wt had happened but also why it has happened and wt is likely to happen under specified conditions.

6. Communicating: Details later
* Concerned with the transmission of summarised, analysed and interpreted information to end users to enable them to make the rational decisions.
* Preparation & distribution of a/cing reports which include additional information in the form of a/cing ratios, graphs, diagrams & fund flow statements etc besides the P&L A/c and Balance Sheet.

3

2. Using the Financial Information

* Earlier it was meant that a/cing is for the Proprietor or owner of business, but now it is believed that besides the owner or Mgt of bizz enterprise, users of a/c's include the investors, employees, lenders, suppliers, customers, govt & other agencies & the public at large.
* A/cing Provides out of Presenting information systematically to users of A/c's. A/cing data is more useful if it stresses economic substance rather than technical form. The information should also be free from any biases.

Internal users: The owners or the Mgt of the enterprise, use the a/cing information in an analytical manner to take the valuable decisions for business.

* Even the small details which can affect the internal working of the business are given in the Mgt report.
* FS presented to the External users contains key information regarding assets, liabilities and capital which are summarised in a logical manner that helps them in their decision making.
* Information served to Internal users is presented in a manner different to information presented to external users.

3 Objectives Of Accounting

1. Systematic recording of transactions
   Book Keeping, Journal, Ledger and Trial balance.

* These recorded transactions are classified and summarised logically for Preparation of FS & for their analysis & interpretation.

P/L Balance sheet

2. Ascertainment of results of above recorded transactions
   Manufacturing, trading, Profit & Loss A/c

* to know the results of business operations for a particular period of time
* If revenue exceed expenses, then bizz is running in Profit
  If expenses exceed revenue, then bizz is running in Loss
* helps mgt & other stake holders in taking rational decisions

3. Ascertainment of financial position of business
Balance Sheet
* B/S is a statement of assets & liabilities of the business at a particular point of time and helps in ascertaining the financial health of the business.
* Businessmen are not only interested in knowing the results of the business in terms of P&L for a particular period. But also anxious to know what he owes (liability) to others and what he owns (Assets) on a certain date.

4. Providing information to the users of rational decision making
* A/cing communicates the financial results of an enterprise to various stakeholders by means of FS./Reports

5. To know the solvency position
* By preparing B/S mgt not only reveals what is owned and owed by the enterprise.
* But also gives information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in long run (solvency position) and when they fall due.

4 Imp Functions of Accounting:
1. Measurement
Measures past performance of business entity and depicts its current financial position.

2. Forecasting
Forecasting future performance using past data and financial position of the enterprise

3. Decision - making: Provides relevant information to the users

Inter firm: comparison b/w two businesses

Intra firm: comparison of Past & current data of same bizz 2010 → 2020

to help them in

Of A/c's to aid rational decision making.

4. Comparison & evaluation: It provides basis for comparison → (Inter firm or Intra firm)

& evaluate results

* Assesses performance achieved in relation to targets.
* discloses information regarding A/cing Policies & contingent liabilities which play an important role in predicting comparing and evaluating the financial results.

5. Control

Identifies weaknesses of operational system & provides feedbacks regarding effectiveness of measures adopted to check such weaknesses.

6. Govt regulation and taxation & helps in collection of taxes

provides necessary info to the govt to exercise control on the entity as well as in collection of tax revenues

5 Sub-Fields of Accounting

1. Financial Accounting: To ascertain profit or loss.

2. Management Accounting: It helps the management in decision making.

3. Cost Accounting:

To ascertain cost of Product + it helps in fixation of Price

4. Social Reporting Accounting:

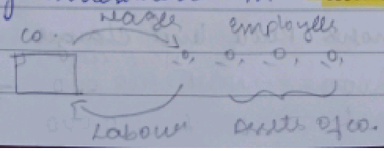
Social cost + Social Benefits

Social cost + Social benefits

emitted CO_2 + Taxes, Hospitals, schools

5. Human Resource Accounting:

Reporting investment in human resource



classmate
Date
Page

6 Evolution of A/cing:

* as early as 4000 B.C (Egyptians)
* Romans used to prepare daybooks, where receipts & Payments were recorded (700 B.C to 400 A.D)
* Kautilya (Minister in chandragupta's kingdom) wrote a book named Arthashasthra
(describes how a/cing records to be maintained)

1494 - Double entry book keeping
Luca pacioli venice wrote First book
(Father of A/cing)

* Debit: It comes from "Italian Debito" which comes from "Latin Debita"
* owed to the proprietor

credit: It comes from "Italian credito" which comes from "Latin credo."
* Belief / trust in proprietor

* Stewardship A/cing - Root of financial accounting system

7 Limitations of A/cing:

1. Accounting is not fully exact
It is based on Estimates
* Provision for doubtful debts
* Estimated useful life of Asset

2. Accounting ignores Qualitative aspects
manager (Honest, disciplined, Hardworking) & slacker kaamchor } Same Ignores A/cing

3. Accounting ignores Price level changes
when we bought Machine - 100,000 cost
Next day M.V = 1,02,000
M.V = 110,000
Ignores

4. There are occasions when a/cing Principles conflict with each other.

5. Window Dressing :
   Manipulation in books of Accounts

8 IMP *** Book - KEEPING

Accounting : Identification -> Measurement -> Recording - classifying process -> Summarising -> Analysis -> Interpretation

"Book-keeping is an activity concerned mainly with recording of financial data relating to business operations in significant and orderly manner."

Objectives of Book keeping

1. Complete recording of transactions
2. Ascertainment of financial effect on the business.

V. IMP **Diff b/w Book keeping & Accounting**

Book keeping	Accounting
1. It is concerned with recording the transactions	1. It is concerned with summarising recorded transaction
2. It is a primary stage	2. Accounting is secondary stage & it begins where BK ends
3. FS do not form part of the process P/L & B/S	3. FS are prepared in this process
4. There is not sub-field of Book keeping	4. There are sub fields of accounting
5 Managerial decisions cannot be taken on its basis	5. Managerial decisions can be taken on its basis
6 It is performed by junior staff (which requires no specilized skills)	6 It is performed by Senior staff (which requires specilized skill)

Subject

Accountancy

Accounting

Book - keeping

Process:
IMRC

Process:
IMRCSAC

9 Users of Accounting Information

1. Internal users: access to the information Mgt, business
2. External users: do not have access to information. Creditors, Govt.

a) Investors: They provided capital to business

b) Employees: Their growth is directly related to growth of the organisation.

c) Lenders: To assess credit worthiness

d) Creditors (suppliers): Timely payment of dues

e) Customers: stability of co, timely delivery of goods

f) Government: Taxation

g) Public: Their contribution to the as whole

h) Management: helps in decision making

10 imp ★★★ Relationship of A/cing with other disciplines

1. A/cing and Economics

* A/cing is a system which provides data to users to help them in decision making

* Economics is viewed as science of rational decision making.

* However there exists a wide gulf b/w economist's and accountant's concept of capital and Income.
* At the macro level Accounting provides the database over which economic decision Models have been developed

2. Accounting and statistics.

* The use of statistics in accounting can be appreciated better in the context of the nature of accounting records
* In accounts, all the values are important individually because they relate to business. However in statistics values are represented as an aggregate
* In accountancy, number of financial and other ratios are based on statistical methods. Statistical methods are helpful in developing accounting data & its interpretation.

3. Accounting and Mathematics

* knowledge of arithmatic and algebra is a pre-requisit for accounting computations (Ex: Interest, Annuity)
* In Modern era Many a/cing transactions are recorded in the Matrix form
* presently graphs & charts are also used for Communicating accounting information.

4. Accounting and Law

Eg: The Indian Partnership Act, 1932

→ Provisions are there and accounting is done on the basis of these provisions

5. Accounting and Management

* A/cing information helps the mgt in decision making.

classmate
Date
Page

11 Role of Accountant in the Society

1. Maintanance of books of Accounts
2. Statutory Audit CA's work
 * company's financial statement should be drue & fair
3. Internal Audit
 * It is a Mgt tool whereby internal auditors examine the accounting transactions.
 an auditor hired by co. to examine the books of A/c's on daily basis. He works for salary.

4. Taxation : Direct + Indirect
 Direct → Income tax
 Indirect → GST

5. Mgt Adving & consultancy service
 helps in the decision making
 helps in consulting businessmen in investing process.

6. Financial advice
 a. Investments
 b. Insurance
 c. Business expansion
 d. Investigation
 e. pension schemes

7. Other Services
 a. Secretarial work
 b. Share registration work
 c. Company formation
 d. Arbitration - settle a dispute
 e. Cost Accountants

Chartered Accountant

1. In Industry: TOP level CA

* Budgeting, Cost A/cing, Taxation, mgt A/cing.

2. In Public - Sector Enterprises

* CA prepares accounts & reports of these enterprises

3. In framing fiscal Policies (Revenue & expenditure)

* CA has Imp role in determination of fiscal policies (Income or expenses)

4. In Economic growth:

* They help in increasing business efficiency.

(V. Imp)

Unit-2: Accounting Principles, concepts & conventions

* Accounting Principles refer to basic norms, general rules for accounting to avoid confusion and to achieve uniformity.

* Accounting Principles must satisfy the following
Imp conditions:

a) They should be based on real assumptions
b) They must be simple, understandable and explanatory
c) They must be followed consistently
d) They should be able to reflect future Predictions
e) They should be informational to users.

Accounting Principle

Accounting CONCEPTS	Accounting CONVENTIONS
Assumptions on the basis of which financial statements are prepared	outcome of accounting principles derived by $\boxed{\text{usage}}$ and $\boxed{\text{Practice}}$.

Fundamental Acc'ing Assumptions

→ Going Concern
→ Consistency
→ Accrual

* If nothing is mentioned, then it is assumed that these are followed

classmate
Date ______
Page ______

1. GOING CONCERN CONCEPT

* It is assumed that business will continue for forseeable future and there is no intention to close the business.

* It is because of this assumption, we make distinction b/w Revenue (short term) expenditure and Capital (long term) expenditure

< 1 year Benefit — Eg: stationery Purchase — Dr in P&L A/C	> 1 year Benefit — Eg: Machine purchase — Asset in B/S

If bizz is going to end tomorrow

* If this assumption is no longer valid then FIXED ASSETS are value at NET Realisable value (market value)

2. CONSISTENCY

If SLM is selected, then it shld be applied year after year

* Accounting Practice once selected and adopted should be applied year after year.
* Accounting Practice may be changed:
  a) If law requires.
  b) If Accounting standard (AS) require
  c) For better presentation of Financial statements (true and fair view)

3. ACCRUAL

* Transaction is recorded when it takes place, Not when the settlement takes place.

11th feb — Goods Purchased
3rd March — Payment made

⟹ The Goods purchased is recorded in Accrual Concept.

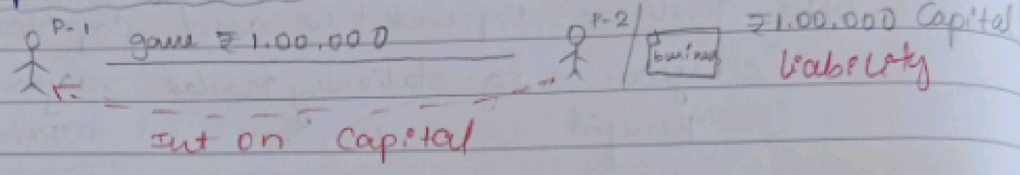
4. BUSINESS ENTITY PRINCIPLE

* Business is considered to be separate from owner

owner separate business

* Accounting is done from business point of view.

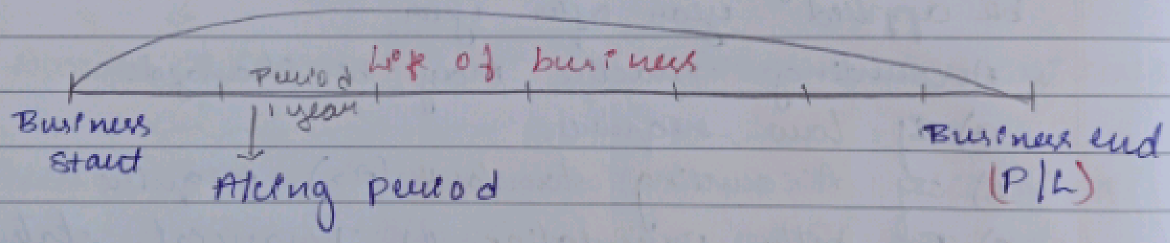
eg: Capital is treated as liability



5. MONEY MEASUREMENT

* Transactions & events that can be measured in money terms are recorded

6. PERIODICITY



* Life of an enterprise business is broken into smaller period
* Generally this period is of 1 year (i.e known as Accounting period)

7. MATCHING PRINCIPLE

* When an item of revenue recognised as income (i.e credited in P&L A/c) then expenses related to that revenue should also be recognised (i.e debited in P&L A/c)

record

Machine used (Depreciation)
1 year

Machine use → Sale of Goods → earned ₹ 100,000 Revenue

Dr. Trading / P/L A/c Cr.

P&L		Revenue	
To Depreciation (expense)	xxx		₹ 100000

* Depreciation is recorded because of Matching Principle

ACCRUAL (+) PERIODICITY (+) MATCHING works together for Income Investment

Dr. P&L A/c for the year (Periodicity) Cr.

Accrual: To salary	xx		
(+) O/S salary	xx		
	xxx	By Revenue	xxx
To Depreciation (Matching)			
Net profit (Income)			

8. COST CONCEPT (Historical cost principle)

* According to this principle, fixed assets are recorded in the books at cost (ignore market value)

B/S

	Machine (cost)	₹ 1,00,000

9. REALISATION CONCEPT

- it follows cost concept only
- change in value of land is recorded only when the business realises it.

10. MATERIALITY

Material means Importance

Mochi ₹100 lost → (Material ×)

M.A ₹100 lost → Important ☹ → Material ✓

- All the material items should be fully disclosed.

FULL DISCLOSURE PRINCIPLE — should disclose everything to user

eg: contingent liabilities are shown as Foot notes

	B/S	
Creditors	10,000	50-50% to pay
Bills payable	20,000	
O/s expense	5,000	

Liabilities (80-100% sure to pay)

Notes to A/c's

court case : Damages claim ₹ 500000

11. REVENUE RECOGNITION (Accrual's small brother)

- Revenue is recognised when transaction takes place and obligation to receive is established,
  not when the actual receipt is received.

1st July — F.D invested 1,00,000 @12% p.a — 31 March

P/L A/c

	Int A/c 9000

Int receive ₹ 12,000

H-5 Marks
IMP

12. DUAL ASPECT PRINCIPLE

- Every transactions has two aspects (i.e Debit & credit)
- Assets = Capital + Liabilities
  Debit   Credit

Eg 1:- Find capital

Loan	₹ 100000	Debtors	₹ 8,000
Creditors	₹ 70,000	Stock	₹ 80,000
Machine	₹ 110,000	Cash	₹ 6000

Soln:- Assets = Capital + Liabilities

8,000 + 110,000 + 80,000 + 6000 = capital + 100000 + 70000

276000 = capital + 170,000

Capital = 1,06,000

Eg 2:- Capital on 1st Apr ₹ 20,000
Capital on 31st March ₹ 26,000
Find profit?

Soln:- Profit = 26000 - 20,000
= 6000

Eg 3:- Capital in 1st April = 15000
Drawings during the year = 8000
Additional capital = 7000
Capital on 31st March = 25000
Find profit

Soln:- Profit = closing capital + drawings - Additional capital - opening capital

= 25000 + 8000 - 7000 - 15000

= 11,000

Eg 4: Find total assets if

capital = ₹40,000

creditors = ₹5000

B/P = ₹3000

Soln: Assets = capital + Liabilities

= 40,000 + 8000

= 48000

*** Eg 5: Give one example of each of the following

Sl.No	Given	Solutions
1.	↑A & ↓A	Purchased goods for cash Stock (+) Cash (-)
2.	↑A & ↑L	Purchased goods on credit Stock (+) creditor (+)
3.	A↑ & C↑ (capital)	Additional capital introduced
4.	↓A and ↓L	Payment to creditor Cash (-) Liability (-)
5.	↓A and ↓capital	Drawings
6.	↑L and ↓L	Accepted Bills payable from creditor BP (+) creditor (-)
*** 7.	↓L and Capital ↑	Conversion of loan into capital
8.	L↑ and capital ↓	Adjustment - Outstanding expenses

13. CONSERVATISM

If u feel like there is profit in future (not record/Ignore)

* Donot anticipate profits but consider all prospec-tive losses — If u feel like there is loss in future (Record)

eg:- provision for doubtful debts.
closing inventory is valued at cost or NRV (Net realisable value) whichever is lower

* For conservatism concept, there should be three qualitative characteristics of financial statements as below:-

a. Prudence: Judgement abt the possible future losses which are to be guarded.

b. Neutrality: unbiased outlook

c. Faithful: representation of alternative values.

P/L, B/S
cash flow statement

** IMP
* Financial Statements and its Qualitative characteristics

TOP 4

1. Understandability
FS should be understandable easily.

2. Relevance
FS must provide useful information to users

3. Reliability
F.S should be free from bias.

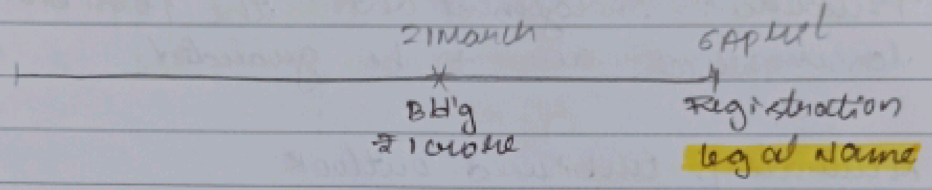
4. Comparability
User can compare F.S → Intrafirm
→ Interfirm

5. Materiality

Information is material if its misstatement could influence the economic decision of user.

6. Faithful representation

7. Substance over form - It is necessary that transactions are accounted for and presented in accordance with their substance & economic reality and not merely their legal form.



Substance
economic reality > Legal form

8. Neutrality

9. Prudence

10. Full, fair, adequate disclosure (Full disclosure principle)

11. Completeness

F.S Must be complete

(Imp) Unit-3: CAPITAL & REVENUE EXPENDITURE & RECEIPTS

Capital → Expenditure, Receipts

Revenue → Expenditure, Receipts

* Consideration in determining Capital & Revenue items

1. Nature of Business:
   - → Furniture dealer - Furniture - Revenue
   - → Stationary shop keeper - Furniture - Capital
   - → Builder - Building - Revenue

2. Recurring Nature
   - → Recurring - Regular (salary) - Revenue
   - → Non Recurring - Not regular - Capital

3. Purpose
   - → Productive capacity 'increase' - Capital
   - → Resale / No productive capacity increase - Revenue

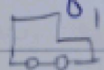
4. Materiality (importance) of amount involve
   - → ₹ 1 - Revenue
   - → ₹ 100,00,000 - Capital

CAPITAL EXPENDITURE

* Acquisition of fixed assets

* Repairs that increase productive capacity

* Any expenditure incurred on the same day just after purchase of second hand asset to make it suitable for use.



2nd hand car

100000 + Paint 20K + Alter 50,000 + Sound 10,000 — capital expenditure

* Amount spent on obtaining licence/rights successfully.
* Trial run expenses of 'New asset'

If you buy a car but u don't know how to drive so u will appoint a person for trial run and he asks for ₹10,000, it is cap expenditure.

It will be on building cost
* Cost of temporary huts while construction of building
* Demolition cost of those temporary huts.

Expense REVENUE EXPENDITURE

* Directly related to sales revenue like Salary, Rent etc.
* Benefit expires with one accounting period
* Maintenance expenses like "whitewash"
* Amt spent on obtaining licence/right (unsuccessfully) — if we get refund then capital; revenue: do not get refund
* Renewal fees paid (insurance premium)
* Damages paid in account of 'breach of contract'
* Inauguration expenses of 'new showroom'.

If Revenue Expenditure is treated as Capital Expenditure then it will lead to OVERSTATEMENT of Profits and Assets.

Advance / Assets, we will get back
* Security Deposits & advances are neither capital expenditure nor revenue expenditure.

CAPITAL RECEIPTS (Amt we got)

L↑ * Loan taken (short term or long term)
L↑ * Share Capital raised
A↓ * Sale of fixed asset
* Insurance claim Received (Non Recurring)

Fayda - benefit
nuksan - loss

REVENUE RECEIPTS

* Receipts from sale of goods or services
* Interest income, dividend income, bad debt recovered etc
(Items credited in P&L A/C)

Unit-4: CONTINGENT ASSETS, CONTINGENT LIABILITIES AND PROVISIONS

Expected outcome

lag raha hai
It seems

Benefit → Inflow of economic benefit
↓
$\boxed{\text{Contingent Asset}}$
$\boxed{\text{Ignore}}$ as per conservatism principle

Loss → Outflow.
- 80% → Probable → PROVISION
- 50% - 50% → Reasonably Possible (Record in Foot Note) → CONTINGENT LIABILITIES
- 20% → Remote (Less chance) → IGNORE

CONTINGENT ASSETS

Defn: It is a possible asset that arises from past event and whose existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future events not wholly within the control of enterprise.

* As per the concept of Prudence (or Conservatism) Contingent assets should not be disclosed.
* If it becomes virtually certain then recognise it in the books of Accounts.

* Generally contingent assets are disclosed in Report of Board of Directors.

CONTINGENT LIABILITIES:

Defn: It is a possible obligation that arises from past event and whose existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future event not wholly within the control of enterprise.

* It doesnot meet recognition criteria i.e it is not recorded.

* It is shown in the NOTES to Accounts.

PROVISIONS

* It is a present obligation of uncertain amount which can be measured reliably by using substantial degree of estimation.

* It meets reconition criteria i.e it is recorded in books.

UNIT-5:- ACCOUNTING POLICIES

Def^n → Accounting Policies refer to specific accounting principles and methods of applying those principles.

Eg:- Valuation of Inventories FIFO, LIFO, SAM, WAM
valuation of Investment

→ **Selection of Accounting policies** is based on

Prudence	Substance over form	Materiality
recording future losses	F.S & Q.C (point - 7)	Importance
ignoring — " — profits	Pg No. 10	

→ Change in Accounting policies
- if law requires
- if AS requires
- for better presentation of financial statements (true & fair view)
- Disclose the effect of change on financial statements

Date
Page

Unit-6 : Accounting as a measurement discipline valuation principles & Afcing estimates

1. Measurement - elements

Identification of objects and events to be measured

Solution of standard or scale to be used

Evaluation of dimension 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
  Eg:- 1kg Rice year 2010 ₹ 50
  1kg Rice year 2020 ₹ 150

(imp)
3. Valuation Principles (A VP)

A home was purchased 5 year back for ₹ 20lakh now we estimates its realisable value ₹ 25lakh also a similar home can be purchased today for ₹ 28 lakhs. The future value of home after 3 years will be 50 lakhs whose discounted present value is ₹ 35 lakhs.

1. Historical cost - 20 lakhs
2. current cost - 28 lakhs (similar asset value)
3. Realisable value - 25 lakhs
4. Present value - 35 lakhs (Mathematically calculated)

4. Accounting Estimates

- The measurement of certain assets and liabilities is based on **estimates** of uncertain future events
- The process of estimation involves **judgements** 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.

Unit-7: ACCOUNTING STANDARDS (AS)

Rules, standardisation, ICAI

meaning → Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering aspects of :-

Salary Record, Not Record, Electricity bill Paid — 1) **Recognition** of events and transactions in the Financial statements

money terms — 2) **Measurement** of these transactions & events.

Dr in P&L A/c — 3) **Presentation** of these transactions & events in the financial statements in a manner that is meaningful and understandable to the reader.

4) **Disclosure requirements** (which enables the users to get an insight into the financial statements)

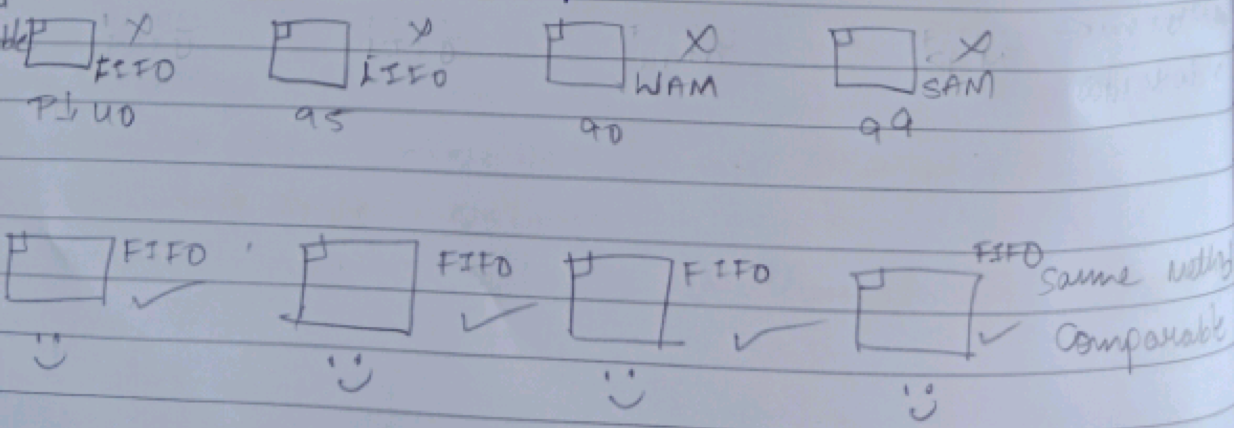
Objectives of A.S

i) **Eliminate the non-comparability** of financial statements and there by improving the **reliability** of F.S

ii) Ensures **transparency** & **consistency**

iii) Provides a set of accounting Policies, **norms** and **disclosure requirements**.

Diff method not comparable



Benefits of A.S :-

i) AS reduces the confusing variations in the financial statements.

ii) There are certain areas where important information are not statutorily required to be disclosed. AS may call for the disclosure beyond that required by law.

iii) The application of AS would facilitate comparision.

Standardisation of alternative accounting treatments

Law + disclosure — AS can only
Statutory replacement ☹ — disclosure ✓

Limitations of AS

i) Difficulties in making choice between different treatments.
AS-2 Inventory value [FIFO / LIFO] Difficulties in making the choice

ii) AS cannot override the statue (i.e Restricted Statue) law
Law is ↑ than AS ; AS cannot go against law.

iii) AS may lead to Rigidity

Formulation of AS / Process:

ICAI ⟶ 1977 ASB (Accounting standard Board) ⟶ formulate AS

Accounting standard Board

↓

COMPOSITION

Representative of Industries
- ASSOCHAM
- CII
- FICCI

Regulators

Academicials

Government departments

* Identification of area

↓

Constitution of study Group

↓

Preparation of draft & it's circulation

↓

Ascertainment of ~~views~~ of different bodies on draft

↓

Finalisation of Exposure Draft

↓

Comments received on Exposure Draft

↓

Modification of the Draft

↓

Issue of AS