ACCOUNTING STANDARDS

1. WHAT IS AN ACCOUNTING STANDARD

Accounting Standard are the "Policy Documents" issued by recognized expert regulating Accountancy Body relating to various aspects of

(i) **R**ECOGNITION of a Transaction and an Event in Financial Statements;
(ii) **M**EASUREMENT of such Transactions and Events;
(iii) **P**RESENTATION of these Transactions and Events in Financial Statement under legal framework; and
(iv) **D**ISCLOSURE in Financial Statements.

2. ACCOUNTING STANDARDS – LANGUAGE OF BUSINESS

Accounting as a **'Language of Business'** communicates the financial results of an enterprise to various parties by means of financial statements, which have **to exhibit ' true and fair' view of its state of affairs.**

Any language has its own rules and regulations. Accounting has its own set of rules and regulations. These rules have to be used with a reasonable degree of flexibility and also in line with changes in the economic environment, social needs, legal requirement and technological developments. Though account rules cannot be applied rigidly, it does not imply that the accounting rules can be applied arbitrarily. They have to be applied within the boundaries of rationality.

Accounting Standards suggest rules and criteria of accounting language, therefore is a vital step in developing accounting as an effective business language.

3. GLOBAL FRAMEWORK OF ACCOUNTING STANDARD

International Accounting Standard Committee **(IASC)** (Formed in June1973)

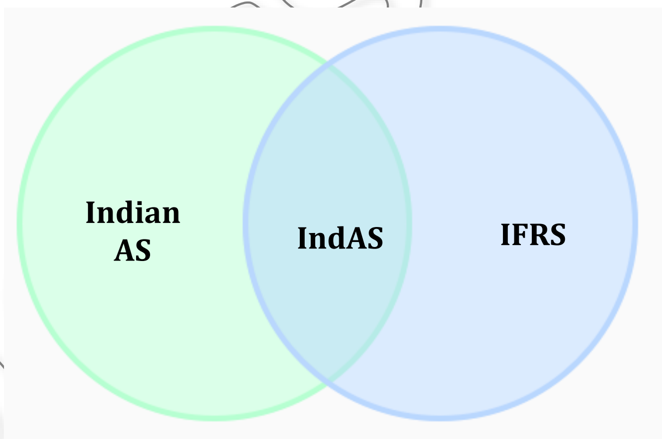
Restructured between 1997-1999 to

International Accounting Standard Board **(IASB)**

- **INTERNATIONAL ACCOUNTING STANDARDS (IAS)** → **JUNE, 1973 TO APR 2001**
- **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** → **APRIL, 2001 TO PRESENT**

The Institute of Chartered Accountants of India (ICAI) formed Accounting Standard Board **(ASB)** on 21st April 1977

- **ACCOUNTING STANDARDS (AS)** → **APRIL, 1977 TO PRESENT**
- **IFRS CONVERGED INDIAN ACCOUNTING STANDARDS (IndAS)** → **2006 TO PRESENT**



ASI - ACCOUNTING STANDARD INTERPRETATIONS issued by ICAI:

- ASI's are interpretation/clarification/answer to the issue/concern/question that arise in the normal course of interpretation/application of an AS.
- If ASB feels that a particular section/para of any standard is mis-interpreted or is interpreted in such a way that it violates it's objectivity, then ASB issues ASI's for such standard. Such ASI subsequently forms part of the main AS and carries same applicability as original AS.

4. PREFACE TO ACCOUNTING STANDARDS

1. GOVERNING BODY – ACCOUNTING STANDARDS BOARD (ASB):

The Institute of Chartered Accountants of India (ICAI) recognising the need to harmonise the diverse accounting policies and practices in use in India Constituted the Accounting Standards Board (ASB) on 21.04.1977.

2. COMPOSITION OF ACCOUNTING STANDARD BOARD (ASB):

The composition of ASB is fairly broad based and ensures participation of all interest groups in the standard setting process. Apart from the elected members of the council of ICAI nominated on the ASB, the following are represented on the ASB.

i. Nominee representing the Department of Company Affairs.
ii. Nominee representing the office of the Comptroller and Auditor General of India.
iii. Nominee representing the Central Board of Direct Taxes.
iv. Representative of the Institute of Cost and works Accountants of India.
v. Representative of the Institute of Company Secretaries of India.
vi. Representative of Industry Associations.
vii. Representative of Reserve Bank of India.
viii. Representative of Securities and Exchange Board of India.
ix. Representative of Controller General of Accounts.
x. Representative of Central Board of Excise and Customs.
xi. Representative of Academic Institutions like Universities, IIM.
xii. Representative of financial institutions.
xiii. Eminent Professionals.
xiv. Other representations.

3. OBJECTIVES OF ACCOUNTING STANDARDS BOARD (ASB):

The following are the objectives of the Accounting Standard Board.

i. To conceive and suggest areas in which Accounting Standards need to be developed.
ii. To formulate Accounting Standards.
iii. To adapt relevant International Accounting Standards while formulating Accounting Standards.
iv. To review and if necessary revise Accounting Standards at regular intervals.
v. To provide interpretations and guidance on Accounting Standards.
vi. To carry out such functions relating to Accounting Standards.

5. SCOPE & OBJECTIVES OF ACCOUNTING STANDARDS

1. Efforts will be made to issue Accounting Standards which are in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular ccounting Standard is found to be not in conformity with law, ***the provisions of the said law will prevail*** and the financial statements should be prepared in conformity with such law.

2. The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country.

3. The Accounting Standards are intended to apply only to items which are material.

4. The Institute will use its best endeavours to persuade the Government, appropriate authorities, industries and business community to adopt the Accounting Standards in order to achieve uniformity in preparation and presentation of financial statements.

5. In formulation of Accounting Standards, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.

6. The ASB may consider any issue requiring interpretation on any Accounting Standard. Interpretations will be issued under the authority of the Council.

Uniformity of FS ← **Objectives of AS** → **Comparability of FS**

6. ADVANTAGES OF ACCOUNTING STANDARDS

1. They encourage uniformity in preparation of Financial Statements of the enterprises.
2. They enable the reader of Financial statements to get a True and Fair view about the results of the operations of enterprise.
3. They ensure that the investors get an unbiased and proper feedback about the activities carried on with the help of their money.
4. They guide experts like Chartered Accountants upon points of discretion.
5. They promote confidence in the results shown by the financial statements.
6. They enable the comparison of results shown by financial statements of two different enterprises engaged in same line of activity.

7. LIMITATIONS OF ACCOUNTING STANDARDS

1. Due to the diverse environment in which the enterprise operate, it is still not possible to achieve precise standardisation in preparation of Financial statements.
2. The Accounting Standards in India are still not at par with global / international standards of reporting. So Indian Entities who want to raise capital outside India still have to rely on foreign experts to bring their financial statements at par with global standards of reporting.
3. Certain loopholes in the Accounting Standards have enabled the Indian entities to alter the financial results in such a way that will serve their interest the best.
4. Only recently the Standards got the statutory backing which was necessary to make them effective.
5. Ignorance about Accounting Standards among accountants operating at base level have been a serious backdrop in spreading awareness about importance of Accounting Standards.

8. APPLICABILITY OF ACCOUNTING STANDARDS

Under The Income Tax Act, 1961:

Sec. 145 (2) of the Income Tax Act ,1961 empowers the Central Government to notify in the Official Gazette, the Accounting Standards to be followed by Income Tax payer w. e. f. 1.4.1996.

Central Government has since notified the following Accounting Standards -

1. **Tax Accounting Standard - I** relating to disclosure of Accounting Policies
2. **Tax Accounting Standard - II** relating to prior period and extraordinary items and changes in accounting policies.

APPLICABILITY OF ACCOUNTING STANDARDS IN INDIA

CORPORATE ENTITIES

- Cos./NBFCs whose equity/debt is listed or in process of listing;
- Unlisted Cos./NBFCs whose Net Worth>Rs. 250 Crores; or
- Holding & Subsidiary entities of any of the above.

(Sec. 133 Companies)

→ Prescribed by Cos. (IndAS) Rules 2015

Any other Company **(Sec. 132 Companies)**

→ Existing AS as prescribed u/s 132 of Cos. Act 2013 and Cos. (AS) Rules, 2006

NON-CORPORATE ENTITIES

E.g. Sole Proprietorship, Partnership Firms, etc.

LEVEL-1 ENTITIES:
- Entities whose equity/debt is listed or in process of listing.
- Banks, FI, Entities doing Insurance business.
- Entities with Turnover > Rs. 250 Cr.
- Entities with Borrowings > Rs. 50 Cr.
- Holding & Subsidiary entities of any of the above.

LEVEL-2 ENTITIES:
- Not listed as Level-1.
- Entities with Rs. 50 Crore < Turnover < Rs. 250 Cr.
- Entities with Rs. 10 Crore < Borrowings < Rs. 50 Cr.
- Holding & Subsidiary entities of any of the above.

LEVEL-3 ENTITIES:
- Not listed as Level-1 or Level-2 but falls in below –
- Entities with Rs. 5 Crore < Turnover < Rs. 10 Cr.
- Entities with Rs. 2 Crore < Borrowings < Rs. 10 Cr.
- Holding & Subsidiary entities of any of the above.

LEVEL-4 ENTITIES:
Non Corporate entity not listed as Level-I, II or III.

Companies Act, 2013: Section 133 requires that every Balance sheet and Statement of Profit and Loss shall comply with the Accounting Standards. Accounting Standards means the Standards prescribed by Central Government in consultation with the National Financial Reporting Authority (NFRA) (earlier known as NACAS in Companies Act 1956) constituted under Section 132 of the Companies Act,2013.

Central Government has prescribed that the Accounting Standards issued by the ICAI shall be deemed to be the Accounting Standards for the purpose of this Section.

UNDERSTANDING TERMS
Under Companies (AS) Rules, 2021

SMC's
Small & **M**edium sized **C**ompany

Those Companies:

- Whose equity/debt is listed or in process of listing.
- Which is **NOT** a Banks, FI, Entities doing Insurance business.
- Turnover < Rs. 250 Cr.
- Borrowings < Rs. 50 Cr.
- Holding & Subsidiary entities of any of the above.

A Co. shall qualify as a SMC, if any aforementioned condition is satisfied at the end of the year.

Non-SMC's
Those cos. which are not SMC's.

9. PROCEDURE FOR ISSUING NEW ACCOUNTING STANDARDS

Broadly, the following procedure is adopted for formulating Accounting Standards:

1. The ASB ***determines the broad areas*** in which Accounting Standards need to be formulated.
2. In the preparation of Accounting Standards, the ASB will be assisted by ***Study Groups constituted*** to consider specific subjects.
3. The ***draft of the proposed standard*** will normally include the following:
    a) Objective of the Standard,
    b) Scope of the Standard,
    c) Definitions of the terms used in the Standard,
    d) Recognition and measurement principles, wherever applicable,
    e) Presentation and disclosure requirements.
4. The ASB will ***consider the preliminary draft*** prepared by the Study Group and if any ***revision of the draft*** is required on the basis of deliberations, the ASB will make the same or refer the same to the Study Group.
5. The ASB will ***circulate the draft*** of the Accounting Standard to the Council members of the ICAI and the specified bodies for their comments.
6. On the basis of ***comments received and discussion*** with the representatives of specified bodies, the ASB will ***finalise the Exposure Draft*** of the proposed Accounting Standard.
7. The Exposure Draft of the proposed Standard will be ***issued for comments*** by the members of the Institute and the public.
8. After taking into consideration the comments received, the draft of the ***proposed Standard will be finalised*** by the ASB and submitted to the Council of ICAI.
9. The Council of the ICAI will consider the ***final draft*** of the proposed Standard, and if found necessary, modify the same in consultation with the ASB.

10. For a substantive revision of an Accounting Standard, the procedure followed for formulation of a new Accounting Standard, as detailed above, will be followed.

10. LIST OF ACCOUNTING STANDARD (AS)

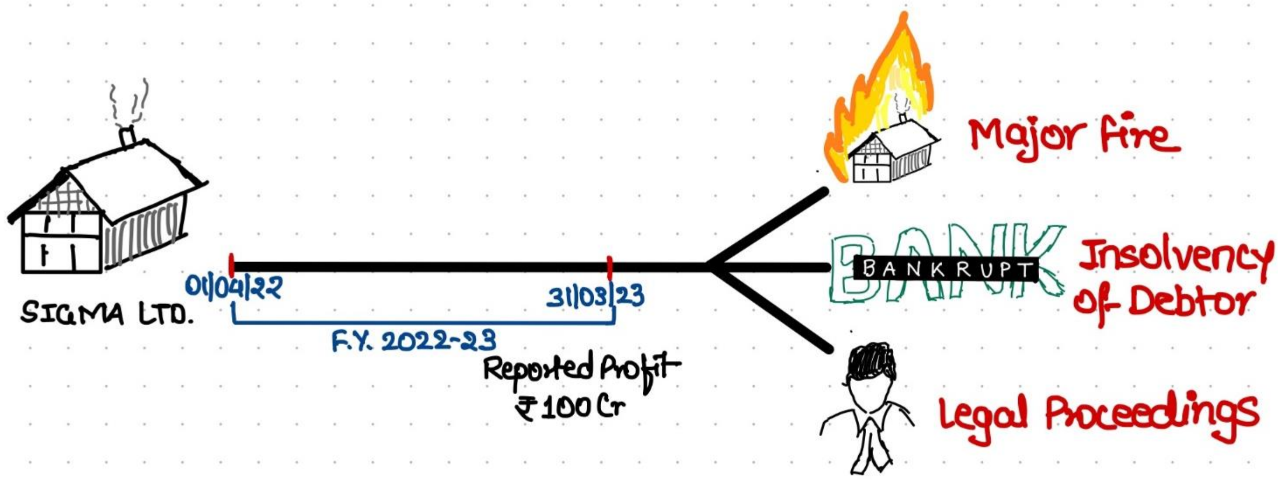
AS NO.	TITLE	PAGE NO.	CATEGORY
AS 1	Disclosure of Accounting Policies	8.10	
AS 2	Valuation of Inventories	8.13	
AS 3	Cash Flow Statements	-	
AS 4	Contingencies and Events occurring after the Balance Sheet Date	8.18	
AS 5	Net Profit or Loss for the period, prior period items and changes in Accounting Policies	8.24	
AS 6	Depreciation Accounting **(ABOLISHED AND MERGED WITH AS-10)**	-	
AS 7	Accounting for Construction Contracts	8.91	
AS 8	Accounting for Research and Development **(ABOLISHED AND MERGED WITH AS-26)**	-	
AS 9	Revenue Recognition	8.29	
AS 10	Property, Plant & Equipment	8.35	
AS 11	The effect of changes in Foreign Exchange rates	8.89	
AS 12	Accounting for Government Grants	8.54	
AS 13	Accounting for Investments	8.103	
AS 14	Accounting for Amalgamations	-	
AS 15	Employee Benefits	8.113	
AS 16	Borrowing Costs	8.42	
AS 17	Segment Reporting	8.48	
AS 18	Related Party Disclosures	8.59	
AS 19	Leases	8.64	
AS 20	Earnings per share	8.72	
AS 21	Consolidated Financial Statements	-	
AS 22	Accounting for Taxes on Income	8.95	
AS 23	Accounting for investment in Associates in Consolidated Fin. Stat.	-	
AS 24	Discontinuing operations	8.100	
AS 25	Interim Financial Reporting	8.109	
AS 26	Intangible Assets	8.77	
AS 27	Financial Reporting of Interests in Joint Venture	-	
AS 28	Impairment of Assets	8.118	
AS 29	Provisions, Contingent Liabilities and Contingent Assets	8.81	

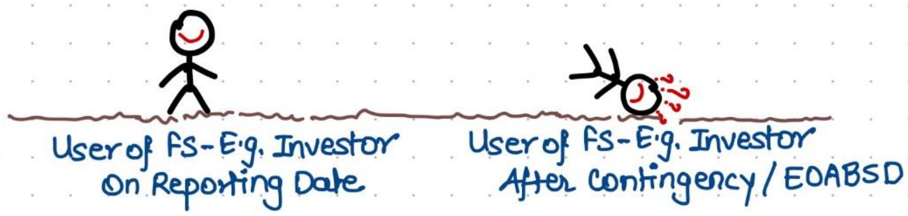
11. LIST OF IFRS CONVERED INDIAN ACCOUNTING STANDARD (IndAS)

Ind AS No.	Title
101	First Time Adoption of Indian Accounting Standards
102	Share Based Payments
103	Business Combinations
104	Insurance Contracts
105	Non-Current Assets Held for Sale and Discontinued Operations
106	Exploration for and Evaluation of Mineral Resources
107	Financial Instruments: Disclosure
108	Operating Segments
109	Financial Instruments
110	Consolidated Financial Statements
111	Joint Arrangements
112	Disclosure of Interest in Other Entities
113	Fair Value Measurement
113	Regulatory Deferral Accounts
1	Presentation of Financial Statements
2	Inventories
7	Statement of Cash Flow
8	Accounting Policies, Changes in Accounting Estimates and Errors
10	Events and the Reporting Period
11	Construction Contracts
12	Income Taxes
16	Property, Plant & Equipment
17	Leases
18	Revenue
19	Employee Benefit
20	Accounting for Government Grants and Disclosure of Government Assistance
21	The Effect of Changes in Foreign Exchange Rates
23	Borrowing Costs
24	Related Party Disclosures
27	Separate Financial Statements
28	Investment in Associates and Joint Ventures
29	Financial Reporting in Hyperinflationary Economies
32	Financial Instruments: Presentation
33	Earnings Per Share

Ind AS No.	Title
34	Interim Financial Reporting
36	Impairment of Assets
37	Provisions, Contingent Liabilities and Contingent Assets
38	Intangible Assets
40	Investment Property
41	Agriculture

Why this AS ? PROBLEM STATEMENT





OBJECTIVES OF AS-4

↓

To prescribe Accounting Treatment of

- CONTINGENCIES
- EVENTS OCCURRING AFTER BALANCE SHEET DATE (EOABSD)

??CONTINGENCY

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, is presently unknown and will be known – or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

The term "contingencies" is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

Estimates are required for determining the amounts to be stated in the financial statements for many on-going and recurring activities. However, we must distinguish between an event which is certain and one which is uncertain.

Contingent Event

↓

Estimate Probable Outcome
on the basis of Conditions & situations on BS date

CONTINGENT GAIN

Not accounted, as it's realisation is uncertain.

However, it can be accounted if realisation is certain.

CONTINGENT LOSS

Contingent loss should be provided in P&L account if following two conditions are satisfied –

(a) It is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date; and

(b) A reasonable estimate of the amount of the resulting loss can be made.

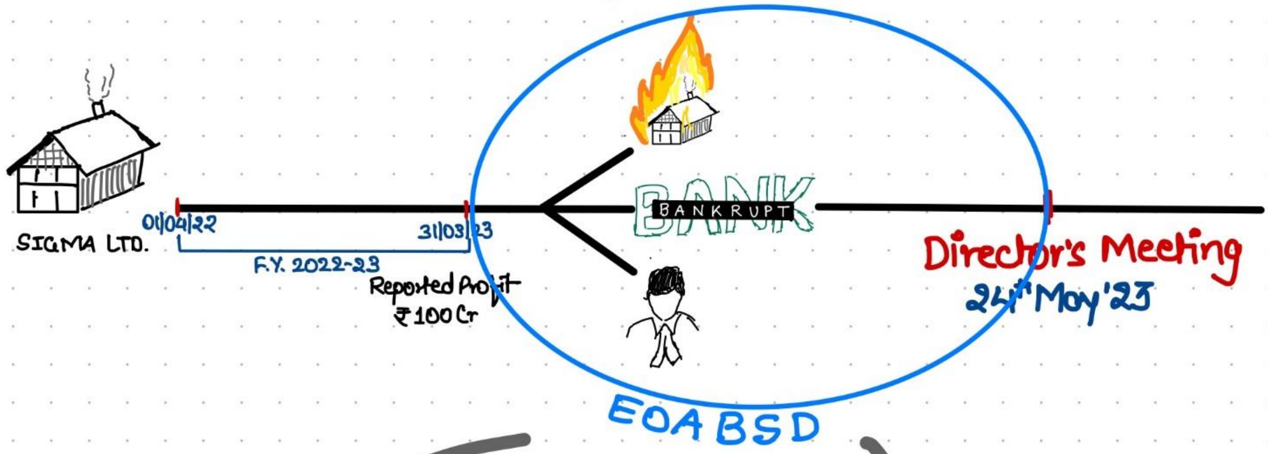
EVENTS OCCURRING AFTER BALANCE SHEET DATE

Events occurring after the balance sheet date are ' those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Two types of events can be identified:

(a) those which provide further evidence of conditions that existed at the balance sheet date i.e. "ADJUSTING EVENTS"; and

(b) those which are indicative of conditions that arose subsequent to the balance sheet date i.e. "NON-ADJUSTING EVENTS".



ADJUSTING EVENT

- Adjustment to Assets & Liabilities required if conditions existed on the Balance sheet date

Accounting Entry

E.g. Debtors becoming insolvent after Year Ending Date

NON-ADJUSTING EVENT

- No conditions existed on the Balance Sheet date
- No Accounting Treatment
- Only Disclosure required

Q1. ICAI RTP May'18 & RTP May'20 MTP May'20 REG. PAGE NO.

With reference to AS 4 "Contingencies and events occurring after the balance sheet date", identify whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of Rs. 20 lakhs.

Ans.According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is non- adjusting in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

Q2. ICAI RTP May'19, MTP May 18 REG. PAGE NO.

The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18 th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31 st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended31 st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18 th June, 2017, the same will be paid to all the eligible shareholders. Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31 st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

Ans. As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30 th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs. 4 crores recommended by New Graphics Ltd. in its Board meeting on 18 th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

Q3. ICAI RTP Nov'18 **REG. PAGE NO.**

While preparing its final accounts for the year ended 31st March, 2017, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2017 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2017? You are required to advise the company in line with AS 4.

Ans. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date. Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%) for the year ended 31st March, 2017.

Q4. ICAI RTP Nov'19,MTP May,23 Series II **REG. PAGE NO.**

An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2019. The accounting year of the company ended on 31.3.2019. The accounts were approved on 30.6.2019. The loss from earthquake is estimated at Rs. 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

Ans. Para 8.3 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2018-2019. However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon. Hence, the fact of earthquake together with an estimated loss of Rs. 25 lakhs should be disclosed in the Report of the Directors for the financial year 2018-2019

Q5. ICAI RTP Nov'20 **REG. PAGE NO.**

A fire, on 2nd April, 2020, completely destroyed a manufacturing plant of Omega Ltd. whose financial year ended on 31st March, 2020, the financial statements were approved by their approving authority on 15th June, 2020. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company. How will you disclose it in the financial statements of Omega Ltd. for the year ended 31st March, 2020.

Ans. The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

Q6. ICAI RTP May'21 **REG. PAGE NO.**

A case is going on between ABC Ltd. and Tax department on claiming the exemption for certain items, for the year 2019-2020. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. The financial statements were approved on 31st May, 2020. Shall company account for such tax in the year 2019-2020 or shall it account for in the year 2020-2021?

Ans. To decide whether, the event is adjusting or not adjusting two conditions need to be satisfied,

(a) There has to be evidence

(b) The event must have been related to period ending on reporting date.

Here both the conditions are satisfied. Court order is a conclusive evidence which has been received before approval of the financial statements since the liability is related to earlier year. The event will be considered as an adjusting event and accordingly the amount will be adjusted in accounts of 2019-2020.

Q7. ICAI SM Illu.1 **REG. PAGE NO.**

In X Co. Ltd., theft of cash of Rs. 5 lakhs by the cashier in January, 2021 was detected only in May, 2021. The accounts of the company were not yet approved by the Board of Directors of the company.

Decide whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2021.

Ans. As per AS 4 (Revised) 'Contingencies and Events occurring after the Balance Sheet Date', an event occurring after the balance sheet date may require adjustment to the reported amounts of assets, liabilities, expenses or incomes. If a fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to recognise the loss amounting Rs. 5,00,000 and adjust the accounts of the company for the year ended 31 st March, 2021.

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

Uniformity of FS ← Objectives of AS → Comparability of FS

"Objectives of AS-5"

Presenting Profit or Loss

Net Profit/Loss for the period

Ordinary Activities

These are activities, undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Extra-Ordinary Items

These are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

Prior Period Items

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

Changes in A/c Estimates

Changes in A/c Policies

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

Changes in Accounting Estimates

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

Changes in Accounting Policies

A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

Any change in accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

REVENUE RECOGNITION

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise4 from -

* sale of goods,
* rendering of services, and
* from use by others of enterprise resources yielding interest, royalties and dividends.

Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

- Revenue is measurable
- Collection is reasonably certain
- Make separate provision in case of subsequent uncertainty.

REVENUE RECOGNITION FROM "Sale of Goods"

Seller has transferred the property in the goods to the buyer for a consideration.

The transfer of property in goods, in most cases, results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. However, there may be situations where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership. Revenue in such situations is recognised at the time of transfer of significant risks and rewards of ownership to the buyer. Such cases may arise where delivery has been delayed through the fault of either the buyer or the seller and the goods are at the risk of the party at fault as regards any loss which might not have occurred but for such fault. Further, sometimes the parties may agree that the risk will pass at a time different from the time when ownership passes.

REVENUE RECOGNITION FROM "Rendering Services"

Proportionate Completion Method

It is a method of accounting which recognises revenuein the statement of profit and loss proportionately with the degree of completion of services under a contract..

Completed Service Contract Method

It is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.

REVENUE RECOGNITION FROM

↓

Use by Others

↓

Of Enterprise Resources

↓

Yielding

INTEREST

Recognised on Time Basis

ROYALTIES

In accordance with the terms of relevant agreement

DIVIDENDS

Recognizes only when Right to Receive is established

OBJECTIVES OF AS-10

↓

To prescribe Accounting Treatment of

↓

Property, Plant & Equipments (PPE)

- Recognition
- Determination of CV
- Depreciation
- Impairment Loss
- Derecognition

SCOPE OF AS-10

Includes

- Property
- Plant
- Equipments
- Any other asset required to maintain →
- Bearer Plants

Excludes

- Biological Assets
  - Trees & Plantation
  - Livestock
- Wasting Assets

Mechanical Milking

Oil Rig

RECOGNITION

Recognize PPE when both the following conditions are satisfied -

#1: Probable that future economic benifit will flow.

#2: Cost of an asset can be measured reliably.

MEASUREMENT

Measurement at 'Recognition'

Cost of an assets means & includes all the costs incurred to bring an asset to it's present location and working condition, and it includes cost incurred on Trial Runs, site preparation/demolition charges and any other costs.

Measurement 'After Recognition'

(Initial Cost + Subsequent Cost)

- Revaluation of Assets (Upward & Downward Rev.)
- Impairment of Assets (AS-28)
- Componentization/Grouping of Assets for Depreciation
- Depreciation on Assets
- Derecognition/Retirement of an asset.

PRESENTATION & DISCLOSURE

- Basis of Measurement (Cost/Revaluation Model)
- Accumulated Depreciation at the beg. of the year
- Carrying Amt. & it's reconciliation
- Method of Depreciation

BEARER PLANTS

MEANING

Bearer plant is a plant that
(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than a period of twelve months; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

EXCLUSION

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and
(iii) annual crops (for example, maize and wheat)


OPPORTUNITY PACK OFFER
FOR CA INTER
MAY '24
GROUP 1
ADV. ACC. MRP ~~10,000/-~~ 7,000/-
LAW MRP ~~7,000/-~~ 4,900/-
TAX MRP ~~9,000/-~~ 6,300/-
Group 1 COMBO
MRP ~~24,000~~ 14,999
GROUP 2
COSTING MRP ~~10,000/-~~ 7,000/-
AUDITING MRP ~~7,000/-~~ 4,900/-
FM-SM MRP ~~8,000/-~~ 5,600/-
Group 2 COMBO
MRP ~~24,000~~ 14,999
BOTH GROUPS COMBO
MRP: ~~45,000~~ 27,999
HIGHLIGHTS:
• Includes Hard Copies of the Books
• Includes PDF Notes
• 100% Syllabus covered under New Course
RECORDED CLASSES ON GOOGLE DRIVE
EKAGRATA PLAY
6 MONTHS VALIDITY + 1.25X WATCH TIME
OFFER FROM 9TH JAN TO 31ST JAN, 2024
visit us at www.ekagrata.co.in
call us at +91 97544 55663 +91 91716 45451
+91 97544 55664 +91 97536 45409