

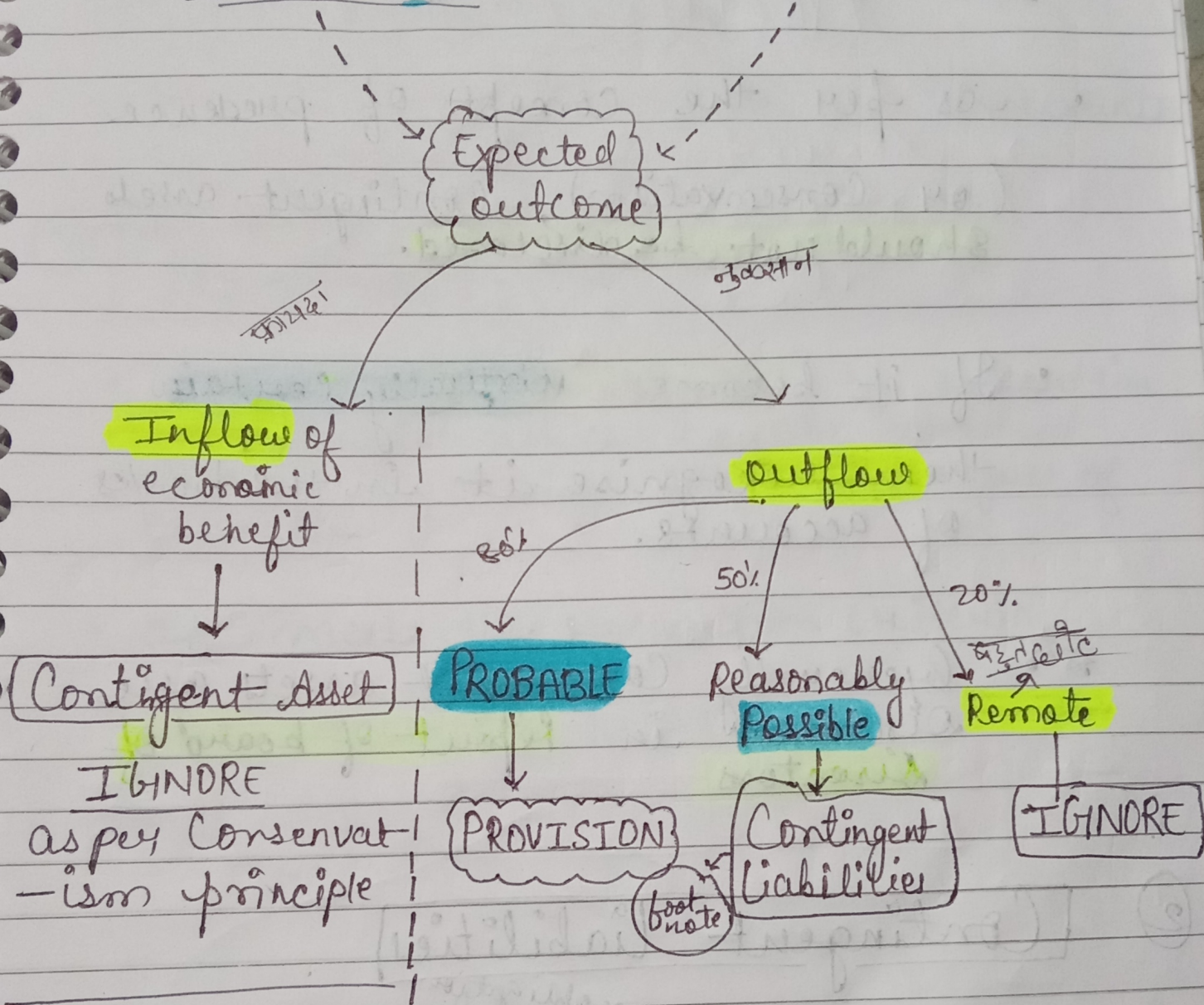
Chapter-1

UNIT-4

→ Not sure!!

Date.....

Contingent Assets, Contingent Liabilities and Provision



→ ① Contingent Assets

- It is a possible assets that arises from past event and whose existence will be confirmed only after occurrence or non occurrence of one or more

Date.....

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

② Contingent Liabilities

→ obligation
£ 1.11

- 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 events not wholly within the control of enterprise.

Date

- It does not meet recognition criteria
i.e it is not recorded
- It is shown in the NOTES to accounts

③ PROVISIONS

- It is a present obligation of uncertain ~~accrue~~ amount which can be measured reliably by using substantial degree of estimation
- If meets the recognition criteria,
i.e recorded in books.

Accounting Policies

→ Accounting policies refer to specific accounting principles and methods of applying these principles

→ Eg:- Valuation of inventories -
valuation of investment
etc etc.

FIFO, LIFO, W.Avg etc

Imp★

Selection of accounting policies is
Based on :-

Prudence

Substance
over form

Materiality

(i) Prudence - judgement about the possible future losses which are to be guarded.

Date

(ii) Substance over form :- It is necessary that transactions are recognised / accounted for & Presented in accordance with their substance & economic reality & not merely their legal form.

(iii) Materiality - Information is material if its misstatement could influence the economic decision of users.

→ 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 statement

Accounting as a measurement discipline

(Valuation Principle & Accounting Estimates)

① Measurement :-

Elements

~~Indefi~~
Identification
 of objects and
 events to
 be measured

selection
 of standards
 or scale

Evaluation
 of dimension
 of measure-
 ment
 standard
 of 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
 ₹ 500 → US

→ Money is not stable

Date

1 Kg Rice $\rightarrow$ year 2010 $\rightarrow$ ₹ 50

1 Kg Rice - years 2020 $\rightarrow$ ₹ 150

Imp $\star\star$

(3) Valuation Principles (4)

A home was purchased 5 years back ₹ 20,00,000.

Now we estimate its realisable value ₹ 25,00,000. Also, a similar house can be purchased today for ₹ 28 Lakhs. The future value of house after 3 years will be 50 lakhs, whose discounted present value is ₹ 35 lakhs.

- ① Historical Cost $\rightarrow$ ₹ 20,00,000
- ② Current Cost $\rightarrow$ ₹ 28,00,000 (Similar asset at value)
- ③ Realisable Value $\rightarrow$ ₹ 25,00,000
- ④ Present Value $=$ ₹ 35,00,000 (Mathematically calculate)
- ⑤ ~~Future Value $=$ 50,00,000~~

31/07/21

Date.....

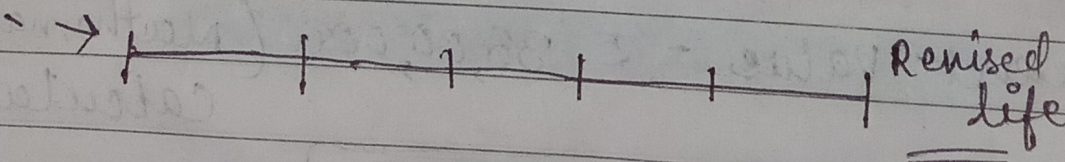
④ Accounting ~~Est~~ Estimates

- The measurement of certain assets and liabilities is based on estimate of uncertain future events

- The process of estimate involves judgements Based on latest information available

- The estimates may be revised if changes occur in some circumstances

- Eg:- Provision for doubtful debts
Estimate useful life of assets
Provision for taxation



Accounting Standards (AS)

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

- (i) Recognition of events & transactions in the financial statements
- (ii) Measurement of these transactions & events
- (iii) Presentation of these transactions & events in the financial statements in a manner that meaningful and understandable to the reader.
- (iv) Disclosure requirements (which enables the users to get an insight into the financial statements)

★ → Objectives of AS

- (i) Eliminate the non-comparability of financial statements

Date ... 01/11/21

and these by improving
of financial statements

the reliability

(ii) Ensures transparency & consistency.

(iii) Provides a set of accounting policies,
norms and disclosure requirements.

5M → Benefits of AS

(i) AS reduces the confusing variation in
the financial statements

AA

(ii) There are certain areas where
important information are not
statutory required to be disclosed.

AS may call for the disclosure beyond
that required by law.

(iii) The application of AS would facilitate
comparison

Standardisation of
alternative accounting
treatments

(ii)

Law → disclosure
(statutory) requirement

Date

AS
disclosure

→ Limitations of AS

- (i) Difficulties in making choice between different treatments.
- (ii) AS cannot override the Law (statutory) Restricted scope
- (iii) AS may lead to Rigidity

AS-2

Inventory valuation

flexible
not

FIFO
OR
W. Avg

→ Process Formulation of AS / Process

ICAI

1977

ASB

Formulates
AS

Accounting
Standards
Board

COMPOSITION

Representative
of "Industries"

Regulators

Academics

Government
departments
etc.

Teacher's Sign

* INDUSTRIES

Date

- ASSOCHAM → (The Associated Chambers of Commerce and Industry of India)
- CII → (Confederation of Indian Industry)
- FICCI → Federation of Indian Chambers of Commerce & Industry

*

Identification of area



Constitution of study group



Preparation of draft & its circulation



Ascertainment of views of different bodies on draft



Finalisation of exposure draft



Comments received on exposure draft



Modification of the draft



Issues of AS.

→ LIST OF AS (NOT TO REMEMBER)

AS - 1

AS-03

AS-02

AS-04

Spiral

29

Teacher's Sign.