AS 1 → Disclosure of Accounting Policies

1] Accounting Policy

→ Acc. Policy refers to specific account^g principles & methods of applying those principles in prep & presentat^n of Fin. Stat.

Examples

Choosing b/w these 2 is an choice of Acc. Policy.

i) Inventories → FIFO or Weighted Avg
ii) Maintaining Books of A/c's → Cash Basis or Accrual Basis.
iii) PPE (Subsequent Meas) → Cost or Revaluation Model.
iv) Cash flow Statement (AS 3) → Direct Method or Indirect Method.

This list is NOT exhaustive. For every item of asset, liab, revenue, expenses, company needs to evaluate a method to adopt these policies. This method of forming & applying accounting principles is known as acc. policies.

Note: Selection of Depr^n method is not an accounting policy, it is an accounting estimate (as per AS 5)

2] Selection of Accounting Policy

ⓐ **Primary consideration**

FS prepared should potray True & Fair view of peformance & affairs of an enterprise.

(b) Secondary / Major consideration for selection of Acc. Policy

I] Prudence

Profits should be recognised only when realised (relevant for those profits which are NOT anticipated to be realised)

But Provision for all known liabilities & losses should be created even though the amt cannot be determined with certainty (i.e. in such cases provision should be created with best estimate. Also create prov only when probability of losing is more than 50%)

II] Substance over legal form

Transactions should be accounted based on their substance & not merely by their legal form.

eg:

FY 24-25

29th March

Land purch A/c

• Cash pay

• Physical poss.

05/04/25

Paper work

on 31st March, 25

A/c is NOT legal owner.

But in substance A/c has become the owner

(Subst. over legal form)

III] Materiality

FS should disclose all material items i.e. items whose knowledge might influence the decision of users.

Materiality of transact^n can be judged by its size or its nature

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Note: All Significant Policies adopted should be disclosed in one place. Also it should form part of FS.

(Disclose in Notes to A/c's)

3. Disclosure of changes in Acc. Policy

(Kab change kar sakte ho will be discussed in AS5)

- **Material in current period**
  - **Amount ascertained** → Amount to be disclosed
  - **Amount NOT ascertained** → Fact to be disclosed
- **Not material in current period but impact is material in later years.** → Fact of such change in later period should be disclose in current period.

4. Fundamental Accounting Assumptions

I] Going Concern	II] Consistency	III] Accrual Basis
FS are normally prepared on the assumption that an enterprise will continue its operation in forseeable future nor there is a need to shut down the busn.	The enterprise should follow a practice of using same acc-policy for similar transaction. An Acc. Policy can be changed if: a) It is reqd by law b) it is reqd by AS c) It results in better presentatn of FS.	Transactions are recorded as soon as they occur or when income or exp are accrued, whether or not payment is actually received or paid.

* Fundamental Accounting Assumptions

- If followed → Not reqd to be disclosed
- If not followed → Disclosure reqd in FS.

Note

1. Disclosure is NOT a remedy for wrong or inappropriate treatment in accounting.

2. Changing the calculation of provision for any exp / losses

eg: Debtors → Prov 5% → 10% → Change in Acc. Est.

Calculation change ho raha hai

3. If Previously prov was calculated on accrual basis & now co. decided that no prov will be created instead exp/loss will be booked as & when incurred

→ Warranty Prov → 5% on Sales

Now Stop creat^g Prov

} Change in Acc. Policy.