

AS 1 → Disclosure of Accounting Policies

1] Accounting Policy

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

Examples

↳ Choosing btw these 2 is an choice of Acc. Policy.

- i) Inventories → FIFO or Weighted Avg
- ii) Maintaining Books of Acc'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 Deprn method is not an accounting policy, it is an accounting estimate (as per AS 5)

2] Selection of Accounting Policy

⑥ Primary consideration

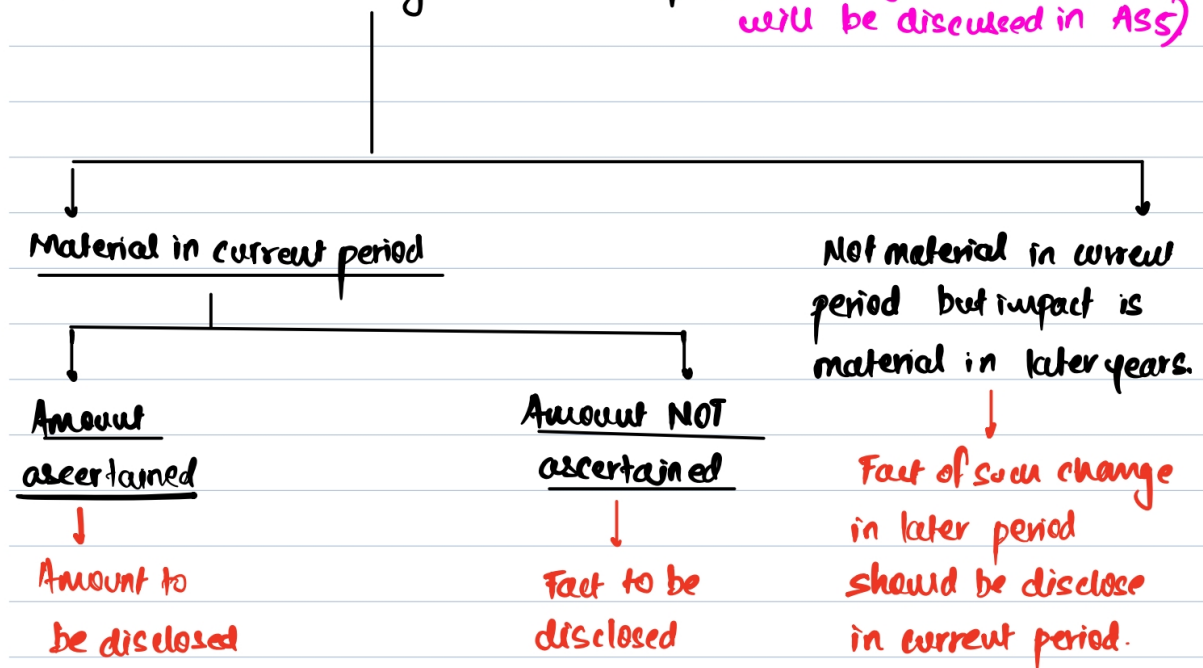
FS prepared should portray True & Fair view of performance & affairs of an enterprise.

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

I] <u>Prudence</u>	II] <u>Substance over form</u> ^{legal}	III] <u>Materiality</u>
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 (ie. in such cases provision should be created with <u>best estimate</u>. Also create prov only when probability of losing is more than 50%.)	Transactions should be accounted based on their substance & not merely by their legal form. eg: land parcel Atk • Cash pay ✓ • Physical poss. on 31st March, 25 Atk is NOT legal owner. But in substance Atk has become the owner (Subst. over legal form)	FS should disclose all material items i.e. items whose knowledge might influence the decision of users. Materiality of transaction can be judged by its <u>size</u> or its <u>nature</u>

Note: All Significant Policies adopted should be disclosed in one place. Also it should form part of FS.
 (Disclose in Notes to Atk's)

3. Disclosure of changes in Acc. Policy (kab change kar sakte ho will be disclosed in AS)



4. Fundamental Accounting Assumptions

I] Going Concern

FS are normally prepared on the assumption that an enterprise will continue its operation in foreseeable future nor there is a need to shut down the busn.

II] Consistency

The enterprise should follow a practice of using same acc-policy for similar transaction

An Acc. Policy can be changed if:

- It is reqd by law
- it is reqd by AS
- It results in better presentation of FS.

III] Accrual Basis

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

Disclosures 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 raka hai

③ If Previously prov were 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 creatg Prov } Change in Acc. Policy.