Disclosure of Accounting Policies

PRESENTED BY- ASHUTOSH KUMAR

INTRODUCTION

Irrespective of extent of standardization, diversity in accounting policies is unavoidable for two reasons. First, accounting standards cannot and do not cover all possible areas of accounting and enterprises have the freedom of adopting any reasonable accounting policy in areas not covered by a standard. Second, since enterprises operate in diverse situations, it is impossible to develop a single set of policies applicable to all enterprises for all time. The accounting standards, therefore, permit more than one policy even in areas covered by it. Differences in accounting policies lead to differences in reported information even if underlying transactions are same. The qualitative characteristic of comparability of financial statements, therefore, suffers due to diversity of accounting policies

PURPOSE OF AS 1

The purpose of Accounting Standard 1, Disclosure of Accounting Policies, is to promote better understanding of financial statements by requiring disclosure of significant accounting policies in an orderly manner. As explained in the preceding paragraph, such disclosures facilitate more meaningful comparison between financial statements of different enterprises for same accounting period. The standard also requires disclosure of changes in accounting policies such that the users can compare financial statements of same enterprise for different accounting periods. This Accounting Standard applies to all enterprises.

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

GOING CONCERN

CONSISTENCY

ACCRUAL

- if followed - Not required to be disclosed
- if not followed - Disclosure required in financial statements

GOING CONCERN

- The Concept of Going Concern says that the life of the business is PERPETUAL / INDEFINITE.
- The Businessman does not have intention to get the business Liquidated neither does he want to Curtail the Operations Materially.
- A Going Concern Entity will follow all the accounting standards as usual.
- A Non - Going Concern Entity does not follow Accounting Standards . It measures all its ASSETS at REALISABLE VALUE , and LIABILITIES at PAYABLE VALUE.

CONSISTENCY

The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods. The consistency improves comparability of financial statements through time. An accounting policy can be changed if the change is required (i) by a statute (ii) by an accounting standard (iii) for more appropriate presentation of financial statements.

ACCRUAL

- Profit and Loss Statement is prepared using Accural Concept.
- An Expense is recorded in the statement of Profit and Loss as and when it is INCURRED . It's Payment is Immaterial.
- An Income is Recorded in the Statement of Profit and Loss as and when it is EARNED. It's Receipts is Immaterial.
- Normally we use the word 'Expenses for the year' to denote as 'EXPENSES INCURRED'.

WHAT IS AN ACCOUNTING POLICY?

- These are the Specific Accounting Principles and Methods of Applying such principles in preparation and presentation of Financial Statements.
- Example - (a) Cash flow Statement - Direct Method , Indirect Method.
  (b) Inventories - FIFO, LIFO, Weighted Average etc.
  (c) Valuation of Depreciation - SLM, WDV, or other methods .
- All the Accounting Policies significant in nature should be Disclosed at one place.

HOW TO SELECT ACCOUNTING POLICY?

- Financial Statements are prepared to portray a true and fair view of the performance and state of affairs of an enterprise. In selecting a policy, alternative accounting policies should be evaluated in that light. In particular, major considerations that govern selection of a particular policy are:

(a) PRUDENCE - In view of uncertainty associated with future events, profits are not anticipated, but losses are provided for as a matter of conservatism. Provision should be created for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. The exercise of prudence in selection of accounting policies ensure that (i) profits are not overstated (ii) losses are not understated (iii) assets are not overstated and (iv) liabilities are not understated.

HOW TO SELECT ACCOUNTING POLICY?

(b) SUBSTANCE OVER FORM - Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely by their legal form.

(c) MATERIALITY - Financial statements should disclose all ‘material items, i.e. the items the knowledge of which might influence the decisions of the user of the financial statement. Materiality is not always a matter of relative size. For example a small amount lost by fraudulent practices of certain employees can indicate a serious flaw in the enterprise's internal control system requiring immediate attention to avoid greater losses in future

(d) MANNER OF DISCLOSURE - All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

DISCLOSURE OF CHANGES IN ACCOUNTING POLICIES

- Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in a later period should be disclosed. In the case of a change in accounting policies, which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

CONCLUSION

Accounting Policy can be Changed :

(a) If law Requires ,

(b) If AS Requires ,

(c) For Better Presentation of Financial Statements.

Thank You

- ASHUTOSH