

## AS 1 – Disclosure of Accounting Policies

Accounting Policies refer to the specific accounting principles and methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

⇒ Disclosure of accounting policies or of changes therein cannot remedy wrong or inappropriate treatment of the item in the books of accounts.

### Consideration in Selection of Accounting Policies

- Primary Consideration-Financial statements should represent true and fair view
- Major considerations in achieving the primary consideration Prudence, Substance over form, Materiality

## What are accounting policies?

“Specific accounting principles and methods of applying those in preparation and presentation of financial statements of an entity”

### Examples:

#### 1. Valuation of inventory:

- LIFO (Last in First out)
- FIFO (First in First out)
- Weighted Average
- Retail method
- Standard cost

#### 2.Valuation of investments

#### 3.Depreciation methods:

- SLM Method (Straight Line Method)
- WDV Method (Written down Value Method)

## Need for disclosure of accounting policies?

It's mandatory to disclose the accounting policies followed in preparation of financial statements. The reason behind this is for " better understanding of

financial statements and assets and liabilities in balance sheet and profit & loss account are significantly affected by those accounting policies”

## What are fundamental accounting policies?

Generally it's assumed that financial statements are prepared on the basis of fundamental accounting assumptions. Following are the fundamental accounting assumptions:

### 1. **Going concern:**

It means the entity has an intention of continuing its operations for foreseeable future. Foreseeable future means coming one or two years. In other words neither there is an intention of discontinuance of business, nor necessity of liquidation of organization and discontinuance of major operations of the business.

### 2. **Consistency:**

It means that same accounting policies are followed from one period to another.

### 3. **Accrual:**

It means that the financial statements are prepared on mercantile basis in which the transactions and other events are recognized when they occur and they are recorded in the accounting period to which they relate

## Change in accounting policies:

A change in accounting policies should be made in the following conditions

- Adoption of different accounting policies is required by law.
- Adoption of different accounting policies is required for compliance of accounting standards.
- For more appropriate presentation of financial statements.

# If nothing has been there in the financial statements about the compliance of fundamental accounting policies it can be assumed that they are followed in preparation of financial statements.

## What are the points to be considered for selecting accounting policies?

### 1. **Prudence:**

It means making estimates which is under the conditions of uncertainty.

### **2.Substance over form:**

It means that the transaction should be accounted for in accordance with actual happening and economic reality and not by the legal form.

### **3.Materiality:**

Financial statements should disclose all the items and facts which are sufficient enough to influence the decisions of users of financial statements.

## **Nature of Accounting Policies**

Accounting policies refer to accounting principles and the methods of applying these principles adopted by the organisation in the preparation of their financial statements.

There is no single list of accounting policies which are applicable in all circumstances. The different circumstances in which organisations operate make alternative accounting principles acceptable. The choice of the appropriate accounting principles calls for a large degree of judgement by the management of the organisation.

The various standards of the Institute of Chartered Accountants of India, combined with the efforts of the Government and other regulatory agencies have reduced the number of acceptable alternatives in recent years, particularly in case of corporates. While continuing efforts in this regard in the future are likely to reduce the number still further, the availability of alternative accounting principles is not likely to be eliminated altogether keeping in mind the different circumstances faced by the organisations.

## **Areas in which differing Accounting Policies are possible**

The following are examples of areas in which different accounting policies may be adopted by organisations.

1. Methods of depreciation, depletion and amortisation
2. Treatment of expenditure during construction
3. Conversion or translation of foreign currency items
4. Valuation of inventories
5. Treatment of goodwill
6. Valuation of investments
7. Treatment of retirement benefits
8. Recognition of profit on long-term contracts
9. Valuation of fixed assets
10. Treatment of contingent liabilities

The above list of examples is not exhaustive.

## **Disclosure of Accounting Policies**

To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements must be disclosed.

Such disclosure should form part of the financial statements.

It would be helpful to the reader of financial statements if they are all disclosed in one place instead of being scattered over several statements, schedules and notes.

Any change in an accounting policy which has a significant effect should be disclosed. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent it can be calculated. Where such amount is not ascertainable, wholly or in part, the fact should be disclosed. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but is 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.

Disclosure of accounting policies or of the changes is not a remedy for any wrong or inappropriate treatment of items in the accounts.