Accounting Standard 1 – "Disclosure of Accounting Policies"

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Introduction

- This Standard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements.
- The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements is required by law in some cases.
- Such disclosure would also facilitate a more meaningful comparison.
- Accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

Fundamental Accounting Assumptions

- **Going Concern** - It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations
- **Consistency** - It is assumed that accounting policies are consistent from one period to another.
- **Accrual** - Revenues and costs are accrued, that is, recognised as they are earned or incurred

Areas in which different Accounting Policies can be adopted

- Methods of depreciation – SLM/WDV
- Treatment of expenditure during construction
- Valuation of inventories – FIFO/LIFO/Weighted Avg
- Valuation of investments – FIFO/Weighted Avg
- Recognition of profit on long-term contracts
- Valuation of fixed assets – Cost/ Revaluation Model

Considerations in selection of policies

- **Prudence** - Provision is made 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.
- **Substance over form** - Accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.
- **Materiality** - Financial statements should disclose all “material” items

Disclosures

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- Any change in the accounting policies which has a material effect in the current period should be disclosed
- Whether fundamental accounting assumptions are followed in preparation of financial statements, should be disclosed
- Significant accounting policies should normally be disclosed in one place.

Issues

- Whether claims raised by lenders for interest from the due date of payment to actual date of payment amounts to “Claims not acknowledged as debts” and whether non-provision of interest liability due to uncertainties amounts to violation of accrual concept? (EAC Vol 16 Page 85)
- Whether the concept of materiality also applies to the fundamental accounting assumptions? (EAC Vol 21 Page 211)

Thank You