

Accounting Policies

Meaning of Accounting Policies

These are Specific Principles, Bases, Conventions, Rules & Practices applied in Preparation of Financial Statements.

Examples :

- (i) Methods for determination of Cost of Inventories \Rightarrow FIFO, Weighted Average, etc.
- (ii) Measurement Basis for PPE & Intangible Assets \Rightarrow Cost Model or Revaluation Model

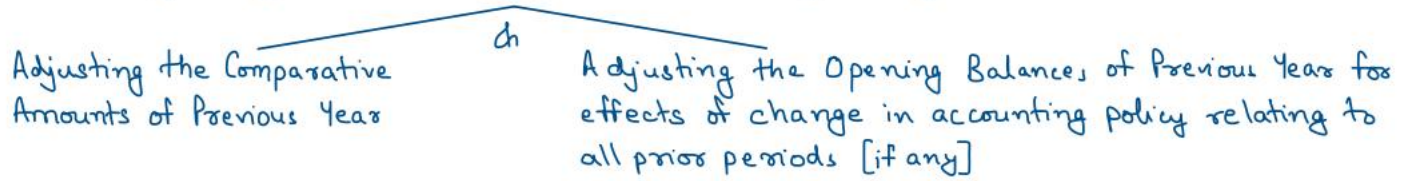
Selection & Application of Accounting Policies

- If specific Ind AS is available for a particular transaction, then Entity shall apply Accounting Policy as determined by that Ind AS.
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Otherwise Entity shall refer following sources in descending order :-
 - (i) Any Other Ind AS on similar transaction.
 - (ii) Framework of Ind AS
 - (iii) Pronouncement of International Accounting Standards Board [IASB]
 - (iv) Pronouncement of Other Standard Setting Bodies [Example: US GAAP, etc.]
 - (v) Accepted Industry Practices
- Entity shall select & apply its Accounting Policy consistently for similar transactions. [Consistency of Accounting Policies]

Changes in Accounting Policies

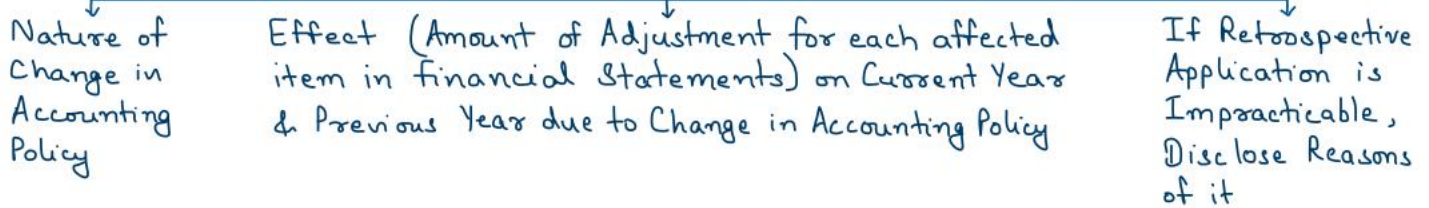
- Entity shall change an Accounting Policy only if :
 - \rightarrow Required by Ind AS, or
 - \rightarrow Results in providing more relevant & reliable information [i.e. Voluntary Change of Accounting Policy]
- Followings are not considered as Change in Accounting Policy :-
 - (i) Application of Accounting Policy for transactions that differ in substance from Previous.
Example: Reclassification of PPE (Revaluation Model) to Investment Property (Cost Model).
 - (ii) Application of New Accounting Policy for transactions that did not occur previously.
Example: Measuring Newly Purchased PPE at Cost Model.
- Applying Change in Accounting Policy :-

→ Entity shall account for Change in Accounting Policy retrospectively, i.e. Apply such Accounting Policy on the transaction from the very 1st day in Past as follows:



→ If Retrospective Application is Impracticable, i.e. Entity cannot apply Accounting Policy retrospectively after making every reasonable effort to do so; then Entity should apply Accounting Policy prospectively.

• Disclosures in financial statements regarding Change in Accounting Policy :-



Accounting Estimates

Meaning of Accounting Estimates

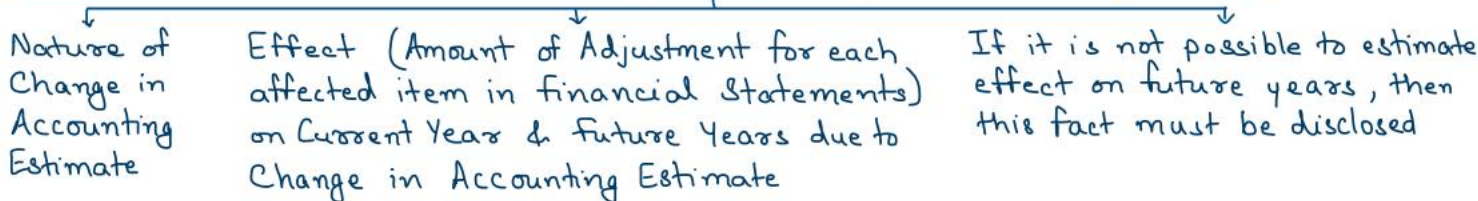
Many Items in financial statements cannot be measured but only can be estimated. Estimation involves judgement on the basis of latest available information.

Examples: Provision for Bad Debts, Warranty Obligations, Depreciation Method, Useful Life, Residual Value, etc.

Changes in Accounting Estimates

- Entity shall revise an Accounting Estimate if circumstances change as a result of new information or more experience.
- Entity shall account for Change in Accounting Estimate prospectively, i.e. Apply change from the date of Change in Estimate.

• Disclosures in financial statements regarding Change in Accounting Estimate :-



Other Points

- Change in Accounting Estimate cannot be treated as a Correction of Prior Period Error.
- If it is difficult to distinguish between a change in accounting policy & change in accounting estimate, then treat it as change in accounting estimate.

Errors

Meaning of Prior Period Errors

These are omissions & misstatements in financial statements of Previous Years.

Examples:

Error of Commission, Error of Omission, Error of Principle, Fraud, Classification Error, etc.

Treatment of Prior Period Errors

- Entity shall correct the Prior Period Errors Retrospectively, i.e. Correct such Errors from the very 1st day in Past as follows:

Restating the Comparative Amounts of Previous Year

&

Restating the Opening Balances of Previous Year for correction relating to All Prior Periods [if Any]

- If Retrospective Restatement is Impracticable, i.e. Entity cannot restate prior period errors retrospectively after making every reasonable effort to do so; then Entity should restate prior period errors prospectively.

Disclosures in Financial Statements for Prior Period Errors

Nature of Prior Period Error

Effect (Amount of Adjustment for each affected item in financial statements) on Previous Years due to Prior Period Error

If Retrospective Restatement is Impracticable, Disclose Reasons of it