CHAPTER	
1	**Accounting : An Introduction**
Unit : 4	**Accounting Policies**

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[1] (d) As per the standard issued by ICAI on Disclosure of Accounting Policies i.e. AS-1, disclosure of significant accounting policies should form part of the financial statements. Change in the stated policies should not occur frequently as it will impair comparability and reliability. Any change in Accounting Policy should be made only in the following conditions:

(a) To bring the books of accounts in accordance with issued Accounting Standard.

(b) To comply with provisions of Law.

(c) When under changed circumstances

it is felt that new method will reflect more true and fair picture in the financial statements.

[2] (d) Accounting Policies are diverse in nature and are selected based on the unique position of the enterprise. Hence, it can be said that accounting policies change from concern to concern.

AS-1, states that the organization should disclose the significant accounting.

[3] (d) Accounting policies are diverse and there is no unified and exhaustive list of accounting policies which can have universal application. The major characteristics which should be considered for the purpose of selection and application of accounting policies are:

(i) Prudence

(ii) Substance over form

(iii) Materiality.

Financial Statements should be prepared on the basis of such accounting policies; which exhibit true and fair view of state of affairs of Balance Sheet and Profit & Loss Account.

[4] (d) Standard accounting principles and policies provide greater transparency to the financial statements. If same set of policies are followed over a period of time it lends to consistency which consequently provides greater and enhanced comparability.

[5] (a) Accounting policy refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.

Going concern is an accounting concept and one of the fundamental accounting concepts. It is not an accounting policy.

[6] (a) AS-1, issued by ICAI, states that the financial statements of every organization should fairly and adequately disclose the most significant accounting policies followed by the organisation in presentation of its annual accounts. Therefore, such disclosure should form part of the Final Accounts.

[7] (c) It is required that the accounting policies that are followed by an organization should be disclosed but disclosure cannot rectify a wrong or inappropriate treatment.

Selection of an inappropriate accounting policy may suppress or inflate the financial position.

Therefore, it can be stated that a wrong policy may lead to understatement or overstatement of financial position.

[8] (c) Three major characteristics which should be considered for the purpose of selection and application of accounting policies viz. Prudence, Substance Over form, Materiality.

Hence, amount involved is not an appropriate for selection of accounting policies.

[9] (c) Double entry system of accounting in place of single entry is not an example of change in accounting policy, it is a scientific system of accounting. According to it, every transaction has two - fold aspects - debit and credit and both the aspects are to be recorded in the books of accounts.

[10] (d) Areas where different accounting policies can be encountered are:-

— Valuation of inventories
— Retirement benefits
— Treatment of goodwill

[11] (c) Sometimes a wrong or inappropriate treatment is adopted for items in Balance Sheet, or Profit & Loss Account, or other statement. <u>Disclosure of the treatment adopted is necessary in any case, but disclosure cannot rectify a wrong or inappropriate treatment</u>.

[12] (d) A change in accounting policy is justified for all the reasons mentioned in the question but for no other reason than these. This is provided in AS – 1.