K.T.S.P. Mandal's **Hutatma Rajguru Mahavidyalaya** Rajgurunagar – 410505

Second Year B.Com

IIIrd – Sem (CBCS 2019 Pattern) As per the new Syllabus

Subject – Corporate Accounting

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Topic 1 – Accounting Standards 5 & 10

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Accounting Standards

Introduction:

Accounting as a 'language of business' communicates the financial performance and financial position of an enterprise to various interested parties by means of financial statements which have to exhibit a 'true and fair' view of financial results and its state of affairs. As a result, a wide variety of accounting methods were used by different companies. It was then felt that there should be some standardized set of rules and accounting Principles to reduce or eliminate confusing variations in the methods used to prepare financial statements. however, search accounting rules should have a reasonable degree of flexibility in view of specific circumstances of an enterprise and also in line with the changes in the economic environment, social needs, legal requirements and technological developments.

The use of the word 'standard' in accounting literature is of recent origin. What is described as 'standard' today, used who is generally known as ' principles' a few years ago. The British introduced the term standards in place of principles when they set up their accounting standards steering committee at the end of 1969, and the Americans adopted the same term(standard) in 1973, when the accounting principles board was dissolved and the Financial Accounting Standards Board was established. In India, this term has mainly become popular as the formation of the Accounting Standards Board (ASB) In April 1977 by The Institute of Chartered Accounting standard setting bodies were established in developed and developing countries.

An accounting standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. standards conform applicable laws, customs, usage and business environment. so there is no Universal acceptable set of standards.' accounting standard' is considered as a written statement issued from time to time by Institutions of the accounting profession or institutions in which it has sufficient involvement and which are established expressly for this purpose.

Definition:

Accounting Standards are written documents, policy documents issued by an expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statement.

Accounting Standard- 5

"<u>NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN</u> <u>ACCOUNTING POLICIES</u>"

This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the Statement of Profit and Loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Net Profit or Loss for the period -

- All items of income and expense which are recognized in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.
- The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the Statement of Profit and Loss:
 a) Profit or loss from ordinary activities; and
 b) Extraordinary items.

Extraordinary items -

Extraordinary items should be disclosed in the Statement of Profit and Loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner that its impact on current profit or loss can be perceived. Examples are, profit/loss arising due to fire, flood, earthquake, changes in prevailing customs and laws etc.

Accounting Standards: Quick Referencer

Profit or loss from ordinary activities

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Prior period items

The nature and amount of prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived.

Changes in Accounting Policy

- A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an Accounting Standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.
- Refer AS 1 for disclosures with respect to changes in accounting policies.

Changes in Accounting Estimates

- Use of estimates is essential for preparation of financial statements. Estimates may have to be revised if changes occur regarding the circumstances on which the estimates were made or as a result of new information, more experience or subsequent developments.
- The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:
 a) the period of the change, if the change affects the period only; or
 b) the period of the change and future periods, if the change affects both.
- The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.
- Whenever it is difficult to distinguish between change in an accounting policy and change in an accounting estimate, the change is treated as change in an accounting estimate.

Accounting standard - 10

"Property, Plant and Equipment"

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment (PPE).

PPE are tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- 4 Are expected to be used during more than a period of twelve months.

Scope -

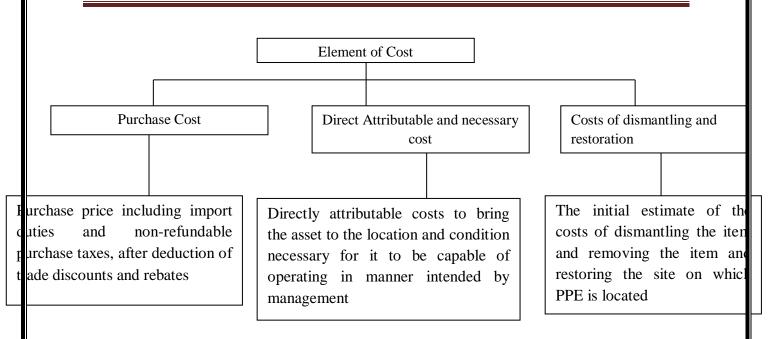
- 1. This standard should be applied in accounting for property, plant and equipment except when another accounting standard requires or permits a different accounting treatment.
- 2. This Standard does not apply to:
 - a) Biological assets related to agricultural activity other than bearer plants. This standard applies to bearer plants but it does not apply to the produce on bearer plants
 - b) Wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources.
 - c) Other Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this standard.

Recognition -

The cost of an item of PPE should be recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and (b) the cost of the item can be measured reliably.

Measurement at recognition

At the time of recognition, an item of PPE that qualifies for recognition as an asset should be measured at its cost.



Recognition of costs ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Examples of Directly Attributable Costs:

• Costs of employee benefits arising directly from the construction or acquisition of the item of PPE

- Costs of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees

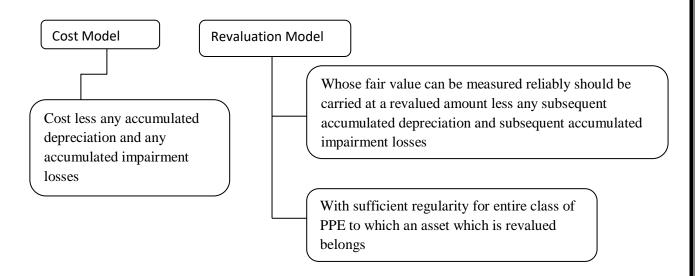
• Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)

Exclusions:

- Administration and other general overhead costs
- Costs of opening a new facility or business, such as, inauguration costs
- Costs of introducing a new product or service (including costs of advertising and promotional activities)
- Costs of conducting business in a new location or with a new class of customer (including costs of staff training)

Measurement after recognition -

An enterprise should choose either the cost model or the revaluation model as its accounting policy and apply that policy to an entire class of PPE.



Accounting for Revaluations -

- Increase in an asset's carrying amount as a result of a revaluation is credited directly to owner's interests under the heading of revaluation surplus. However, the increase should be recognized in the Statement of Profit and Loss to the extent it reverses a revaluation decrease of the same asset previously recognized in the Statement of Profit and Loss.
- Decrease in an asset's carrying amount as a result of a revaluation is recognized in the Statement of Profit and Loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation –

- Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately.
- The depreciable amount should be allocated on a systematic basis over its useful life.
- Depreciation charge for each period should be recognized in the Statement of Profit and Loss unless it is included in the carrying amount of another asset.
- Residual value & useful life to be reviewed at each balance sheet date. Any change is accounted for as change in an accounting estimate as per AS 5.

- Depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the enterprise.
- Depreciation method to be reviewed at least at each financial year end. Any change is accounted for as change in an accounting estimate as per AS 5.
- Depreciation methods include SLM, WDV & Units of Production method.

Retirements –

Items of PPE retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down should be recognised immediately in the Statement of Profit and Loss.

De-recognition –

- The carrying amount of an item of PPE should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.
- Gain/loss on derecognition should be recognised in Statement of Profit and Loss (unless AS 19 requires otherwise in a sale and leaseback) and should not be classified as revenue.
- Gain/loss on derecognition is the difference between net disposal proceeds, if any, and the carrying amount of the derecognised item of PPE.