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B. Com part -1 paper-1 Financial Accounting

Unit -1

Introduction

Lecture no-2

Accounting Standard

Q.1 Define Accounting Standards and discuss important features of AS-I, AS-9, AS-14, AS-20 ?

Ans.: **Accounting Standard:** Accounting standards are the policy documents Issued by the recognized expert accountancy body relating to various Aspects of measurements, treatment and disclosure of accounting Transactions and events.

AS-I : Disclosure of Accounting Policies : The standard issued by Accounting standard Board (ASB) deals with the disclosure of significant Accounting policies followed in preparing and presenting financial Statements. Such disclosure would facilitate a meaningful comparison Between financial statements of different enterprise. Following points are Considered in this disclosure:

- Going concern, consistency and accrual have been generally Accepted as fundamental accounting assumptions.
- The 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.

The areas in which different accounting policies may be adopted Are :-

- Methods of depreciation, depletion and amortization.
  Valuation of Inventories, Investments, Goodwill, fixed Assets.

- Treatment of Contingent liabilities, retirement benefits.

  The basis for the selection of accounting policies is that they should Represent a true and fair view of the state of affairs of the Enterprise.

- Prudence, Substance over form and Materiality are the major Consideration governing the selection of accounting policies.

- Any change in an accounting policy which has a material effect Should be disclosed and the significant accounting policies should Normally be disclosed in one place.

AS-9: Revenue Recognition: Revenue recognition is mainly concerned With the timing of recognition of revenue in the statement of profit and Loss of an enterprise. The amount of revenue arising on a transaction is Usually determined by agreement between the parties involved in the Transaction. The statement is concerned with the bases for recognition of Revenue in the statement of profit and loss account of an enterprise.

The statement is concerned with the recognition of revenue arising in the Course of the ordinary activities of the enterprise from:-

- The sale of goods;
- The rendering of services; and
- The use by others of enterprise resources yielding interest, royalty And divided.

Sale of Goods : A key criterion for determine when to recognize revenue From a transaction involving the sale of goods is that the seller has Transferred the property in the goods to the buyer for a consideration. The Transfer of property in goods, in most cases, results in or coincides with

The transfer of significant risk and rewards of ownership to the buyer.

Rendering of Services: Revenue from service transaction is usually

Recognized as the services is performed, either by the proportionate

Completion method or by the completed service method

(i) Proportionate completion method: - Performance consists of the Execution of more than one act. Revenue is recognized under this Method would be determined on the basis of contract value, Associated costs, number of acts or other suitable basis.

(ii) Completed service method: - Performance consists of the execution

Of a single act. Revenue is recognized when the sale of final act Takes place.

The use by others of Enterprise Resources Yielding interest, Royalties

And Dividends.

(i) Interest accrues (for the use of cash resources) is recognized on the Time basis determined by the amount outstanding.

(ii) Royalties accrue (for the use of know how, patents, trade marks) in Accordance with the terms of relevant agreement.

(iii) Dividends –rewards (from the holding of investment in shares) is Recognized when a right to receive payment is established.

Recognition of revenue requires that revenue is measurable and that at the

Time of sale of goods, or the rendering of services it would not be

Unreasonable to expect ultimate collection.

AS-14 : Accounting for Amalgamations (Come into effect from 1-4-1995):

This Statement deals with accounting for amalgamations and the

Treatment of any resultant goodwill or reserves. This statement is directed

Principally to companies although some of its requirements also apply to

Financial statement of other enterprise.

The following terms are used in this statement with the meaning

Specified :-

(i) Amalgamation means an amalgamation present to the provision of The companies act 1956 or any other statute which may be Applicable to companies.

(ii) Transferor Company means the company which is amalgamated Into another company.

(iii) Transferee Company into which a transferor company is Amalgamated. An Amalgamation may be either:
(a) in the nature of Merger, or
(b) in the nature of purchase.

In case of an amalgamation in the nature of merger following conditions

Should be satisfied:

(i) All assets and liabilities will be the assets and liabilities of Transferee Company.

(ii) Share holders holding not less than 90% of the face value of the Equity shares of the transferor company will be the shareholder of Transferee Company.

(iii) Payment will be made in equity shares to the equity share holders Except cash may be paid in respect of any fractional shares.

(iv) Business of the transferor company will be continued by the Transferee Company.

(v) Book values will be same in the books of Transferee Company.

When any one or more above conditions are not satisfied, an

Amalgamation should be considered to be an amalgamation in the nature

Of purchase. For an amalgamation in the nature of merger, pooling of interest method

Is applied and for an amalgamation in the nature of purchase – purchase Method is applied.

AS-20: Earning Per Share (Come into effect from 1-4-2001) : It is

Mandatory in nature, from that date, in respect of enterprise whose equity Shares are listed on a recognized stock exchange in India.

The objective of this statement is to prescribe principles for the

Determination and presentation of earning per share which will improve

Comparison of performance among different enterprises for the same

Period and among different accounting periods for the same enterprise.

An enterprise should present basic and diluted earnings per share on the

Face of the statement of profit and loss for each class of equity shares that

Has a different right to share in the net profit for the period.

(A) **Basic Earning per Share:** Basic earnings per share should be Calculated by dividing the net profit or loss (after deducting Preference dividend and any attributable tax there to) for the Period, attributable to equity share holder by the weighted average Number of equity shares outstanding during the period.

(B) **Fair Value per Share:** Fair value per share is calculated by adding The aggregate fair value of the shares immediately prior to theExercise of the rights to the proceeds from the exercise of the rights, And dividing by the number of shares outstanding after the exercise Of the rights.

(C) Diluted Earning per Share: For the purpose of calculating diluted Earning per share, the net profit or loss for the period attributable to Equity share holders and the weighted average number of shares Outstanding during the period should be adjusted for the effects of All dilutive potential equity shares.