Accounting for Local Bodies

B.Com. Hons. in Accounting
Semester-VI
Course Code: BCOMHACCC602, Course: CC-14

Compiled By
Sukumar Paitandi
Dept. of Commerce
Raniganj Girls' College

Unit 5: Accounting Standards for Local Bodies (ASLB)

ASLB 3-Accounting Policies

Selection and Application of Accounting Policies

1. When an ASLB specifically applies to a transaction, other event Accounting Policies, Changes in Accounting Estimates and Errors 59 or condition, the accounting policy or policies applied to that item should be determined by applying the Standard.
2. ASLBs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from ASLBs to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.
3. ASLBs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of ASLBs. Guidance that is an integral part of ASLBs is mandatory. Guidance that is not an integral part of ASLBs does not contain requirements for financial statements.

4. In the absence of an ASLB that specifically applies to a transaction, other event, or condition, management should use its judgment in developing and applying an accounting policy that results in information that is:

(a) Relevant to the decision-making needs of users; and

(b) Reliable, in that the financial statements:

- (i) Represent faithfully the financial position, financial performance, and cash flows of the entity;
- (ii) Reflect the economic substance of transactions, other events, and conditions and not merely the legal form;
- (iii) Are neutral, i.e., free from bias;
- (iv) Are prudent; and
- (v) Are complete in all material respects.

5. Paragraph 4 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Compendium of ASLBs

6. In making the judgment, described in paragraph 4, management should refer to, and consider the applicability of, the following sources in descending order:

(a) The requirements in ASLBs dealing with similar and related issues; and
(b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other ASLBs.
7. In making the judgment described in paragraph 4, management may also consider the following in descending order

(a) the most recent pronouncements of the Institute of Chartered Accountants of India, e.g., Accounting Standards and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the Preparation and Presentation of Financial Statements'

(b) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board, and

(c) accepted accounting practices in Local Bodies or in private sector, but only to the extent that these do not conflict with the sources in paragraph 6.

Consistency of Accounting Policies:

An entity should select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. If an ASLB requires or permits such categorisation, an appropriate accounting policy should be selected and applied consistently to each category.

Changes in Accounting Policies

1. An entity should change an accounting policy only if the change:

(a) is required by an ASLB; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows; or

(c) if the adoption of the different accounting policy is required by a statute.

2. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 1.
3. A change from one basis of accounting to another basis of accounting is a change in accounting policy.
4. A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy.
5. The following are not changes in accounting policies:

(a) The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.

6. The initial application of a policy to revalue assets in accordance with ASLB 17, 'Property, Plant and Equipment', is a change in accounting policy to be dealt with as a revaluation in accordance with ASLB 17, 'Property, Plant and Equipment', rather than in accordance with this Standard.

ASLB 3- Changes in Accounting Estimates and Errors

1. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:
(a) Tax revenue due to government;
(b) Bad debts arising from uncollected taxes;
(c) Inventory obsolescence;
(d) The fair value of financial assets or financial liabilities, where applicable; and
(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction.
2. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
3. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
4. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
5. The effect of a change in an accounting estimate, other than a change to which paragraph 6 applies, should be recognised prospectively by including it in surplus or deficit 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.
6. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it should be recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of change.
7. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit, and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised in future periods.

Disclosure

8. An entity should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.
9. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity should disclose that fact.

Errors

10. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with ASLB if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

11. An entity should correct material prior period errors in the first set of financial statements authorised for issue after their discovery by recognising the same in the determination of surplus or deficit for the current period.

12. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

In applying paragraph 11, an entity should disclose the following:

(a) The nature of the prior period error;

(b) For the current period, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) The amount of the correction at the beginning of the current period.

References:
https://shodhganga.inflibnet.ac.in/
https://resource.cdn.icai.org/