CHAPTER - THREE

ACCOUNTING STANDARDS ON DISCLOSURE OF ACCOUNTING POLICIES
Disclosure is the basic objective of corporate reporting. But what are the fundamental accounting assumptions of disclosure? What basic principles should govern the selection and application of accounting policies? How should the deviations from the declared accounting policies be presented in the annual reports? How far should the management have the discretion as to the adoption of accounting policies? Opinions, however, may differ on these issues. Professional institutes, in India and abroad promulgated standards on the issue. In some points they agree and on others they differ. With a view to analysing the issue this chapter presents first what is meant by disclosure in the accounting context and what are its objectives? This is followed by academic observations on the same. Subsequently, a comparative analysis of accounting standards on disclosure of accounting policies formulated by various authorities is presented. Next a close scrutiny has been conducted to see whether the guidelines suggested by the academicians are used in formulating standards and, if so, to what extent? This is followed by a feasibility study of the academic suggestions. Whether an objective method of disclosure is presented in the standards has been enquired subsequently. Next has followed the discussion on how far the standards have been complied with. Having discussed these issues, it is enquired whether the standards are repetitive or whether they add something new to the existing knowledge.
Answer to these questions are followed by an elaborate discussion on, how far the standards are proper. With a view to verifying empirically the above noted points in general and to study the propriety of the standards in particular, an opinion poll from some eminent academicians, professionals and business executives across the world was conducted and the findings of the same have been subsequently presented. Having described the empirical findings the chapter concludes by way of providing suggestions on the areas where further investigation is imminent.

**Meaning of disclosure**

The dictionary meaning of the term disclosure is exposition or revelation. But in the accounting context, the term denotes much wider sense. According to E.L. Kohler, the meaning of the term is, "An explanation, or exhibit, attached to a financial statement, or embodied in a report (i.e. an auditor's report) containing a fact, opinion, or detail required or helpful in the interpretation of the statement or report, as expanded heading or a footnote."¹

So, disclosure may be defined as the revelation of quantitative and/or qualitative information to the different users of accounting statement. Anything goes to increase the reader's knowledge may be called disclosure. An accounting statement should disclose what is necessary to make it 'not

misleading\(^2\) to a standard, willing and careful reader who is informed on financial matters through commonly used terminology of accounting and finance.

**Purpose**

In the rapidly changing economic environment it is very difficult to incorporate in the report, diverse and complex items in the formal framework when disclosure is supposed to act as a safeguard in favour of different user groups against frauds and deceptive activities. Financial statements are prepared on the basis of accepted accounting policies which vary from country to country, from industry to industry or even from unit to unit of the same industry. As a result, these cannot be properly interpreted by the users. The purpose of disclosure is to solve this problem or at least to reduce it.

Financial statements are required by the users, among other purposes for evaluation of alternatives and taking financial decision. The purpose of disclosure of accounting policies is to enable them to make reliable judgement on the matters reported in those statements. The financial statements prepared from the same set of events and transactions may give different measures of profitability and financial position due to adoption of different accounting policies. Disclosure of

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adopted accounting policies is necessary if the view presented is to be appreciated properly and completely.

Another important purpose of setting accounting standards on disclosure is to promote easier and better understanding of financial statements and also to facilitate a more effective and meaningful comparison between financial statements of different entities and of different periods.

Academic Discussion

The concepts on disclosure are not similar in all cases. They vary from time to time and circumstances to circumstances. Use of the concepts is most important to ensure the purpose for which financial statements are presented. The most important purpose of presentation of financial statement is to communicate information to the interested parties required for financial and managerial decision making and others. For this an adequate disclosure of financial data and other relevant information are needed. Accounting report should disclose not only those necessary to make the same not misleading but also those required for a positive decision. So, any information necessary to remove the doubt of the reader should be disclosed. This implies that the term disclosure should be considered in the broadest possible meaning of the word with reference to financial reporting. It can be analysed in terms of: (a) For whom disclosure should be made, (b) What are the purposes of the users, (c) To what extent disclosure is needed, (d) what is the appropriate timing of disclosure and (e) what should be the method of disclosure?

3. Ibid, p.48
For whom should disclosure be made?

Financial reports are made primarily to serve the needs of the proprietors. But these are also frequently used by the investors, creditors, employees, customers, government agencies and general public. Whoever the user may be, the financial report must disclose information to the extent necessary to serve their respective purposes. For this, the user should go through the report and he should be able to understand the matters contained in it. He must be a 'Standard reader' satisfying at least two criteria: (i) He must be interested enough to read the report carefully and (ii) he should be reasonably informed on financial matters through commonly used terminology of accounting and finance. If the reader is learned enough then minimum disclosure may be sufficient, but in majority cases, above users may not be in a position to analyse and interpret the accounting statement from minimum disclosure and hence minimum disclosure is not sufficient.

Purpose of the users of accounting statement.

The recipients of financial reports require them for taking their respective decisions on nonhomogeneous decisional matters. Stockholders want to know the profitability and financial position of the business. They have to take decisions on various managerial recommendations and also on approval or disapproval of major changes in firm policy. The investors have to take frequent "buy-sale-hold decision".

5. Moonitz, op.cit., p.49.
The decision to be taken by creditors is related to the extension of credit terms to the enterprise. The Government agencies like tax authority require the financial reports to decide on whether the income statement reveals true and fair view of taxable profit. The objects of presenting financial reports to employees, customers, economists and general public can also be well formulated in the same way. However, under general circumstances, it may be assumed that the information useful to proprietor and investor may also be useful to others.\(^7\) At the time of issuing financial reports and necessary disclosure therein the diversified needs of various users should necessarily be given due consideration.

**What should be disclosed**

What information should be disclosed and how much is a question related to adequate, fair and full disclosure necessary for efficient and effective decision making. Any financial information significant enough to affect the decision of informed and prudent user should be disclosed.\(^8\) The disclosure has long been considered adequate if the minimum information necessary to make accounting report not misleading is disclosed which is undoubtedly a negative approach.

Accounting report which is not misleading need not necessarily

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7. Ibid, P-545.

be helpful to take correct decision. How the term adequate be used so long as the disclosure is not sufficient to take a decision. So, the word 'adequate' used here does not reflect the true sense of the term.

Two other views of fair and full disclosure are more positive concepts. Fair disclosure indicates fair treatment to all the users of accounting statement. This implies that while preparing accounting report, needs of all the potential users have been considered equally. This is an ethical concept which is very difficult to achieve so long as the accountants and auditors are likely to look after the needs of their clients i.e. the proprietors first. Again, the concept of fair disclosure may not be applicable in certain cases.

Full disclosure implies the presentation of all bits of relevant information. Here insignificant information is also disclosed and hence considered by some as superfluous and inappropriate. It is not right to say that the presentation of data in maximum detail will make the statement more informative and less misleading. Because unimportant details may hide more relevant and significant information and create disturbances in interpreting and understanding financial reports properly.  

There is no real difference among the concepts of adequate, fair and full disclosure if they are used in the proper contexts. A positive and important object of disclosure is to provide only the significant and relevant information which may be useful in making the decision in the best possible way and hence it is suggested that insignificant and irrelevant information should be omitted to make the financial report meaningful and understandable.

Although disclosure of significant accounting policies and other information, in as detail a manner as possible has been supported from different corners, too much information and unimportant details may be harmful as pointed out earlier. Some of the disadvantages of full disclosure may be stated as follows:

(i) Full disclosure makes the accounting report widely large and difficult to understand.

(ii) Full disclosure enable the competitors to know the details of operation of the business. However the competitors may be able to obtain such information from other sources also.

(iii) Trade unions and employee associations may gain the advantage of wage and bonus bargaining which is not always harmful.

(iv) Majority of widely scattered shareholders and investors are neither interested nor supposed to understand
the accounting policies and procedures and hence the very purpose of full disclosure may not be fulfilled.

(v) Detail financial information may be available to the prospective users from other sources at a lower cost.

(vi) Since needs of prospective users are not fully known, disclosure should be made only in some limited sense.

However, full disclosure does not require that trade secrets of an enterprise should also be disclosed. It is neither justified nor desirable to insist on the business enterprises to disclose trade secrets or any other information which may be harmfully used by the competitors.\(^{10}\)

When to disclose

The timing of disclosure is also important as it determines the usefulness of information. Significance and relevance of information depends upon the time at which they are available. Information, important today may be unimportant tomorrow. Information received at the time of decision making will be more important than it is received after taking the decision and information of some years back may loose their relevance as we see that in determining the maintainable trading profit, latest periods income is given highest weight.\(^{11}\)

\(^{10}\) Ibid, P-18.

Generally, accounting statements are published after an interval of one year. But reporting on business operation may be required more frequently as in case of Standard costing and Budgetary Control System where deviations of actual from standard are to be communicated as quickly as possible. So, what to disclose and how much depends upon the time and frequency of publishing accounting reports.

**Methods of Disclosure**

Disclosure covers the whole process of accounting and can be made either in the formal financial statement or in some other ways. It is desirable to include all the significant information in the final account so far as it is possible. But different parts of final account are found to contain only the quantitative information against their respective accounting caption. Traditional format of accounting as modified according to necessity may be inadequate to present all the relevant and significant information. This limitation of formal framework of accounting can be avoided by making necessary disclosure through notes treated as integral part of financial statement. For a given volume of information, the more is the disclosure in the body of formal statement, the less in the notes or vice versa. If the body of the statement contains more information, it may look unduly wide and sophistication of presentation will be reduced although it will be more informative. On the contrary a high degree of technical sophistication of presentation of information can be attained if all the nonquantitative information are given on the notes.
Of course, in that case, the formal accounting statement will be useless without the simultaneous consideration of notes. Disclosure can also be made in some other ways. The common methods of disclosure are stated below:

(i) Size, composition and arrangement of formal financial statement

All the significant and relevant information should be presented on the main body of financial statement so long as it is technically feasible. But the size and composition of the statement and arrangement of different items is also very much important. The greater the volume of data to be disclosed, the larger will be the size. Again, composition depends upon the variety of transactions to be grouped together and arrangement may be made in such a way that it may be helpful to the purpose for which the statement will be used.

The size of the formal financial statement can be reduced by leaving some information to be disclosed on notes attached to it on the basis of prudence and judgment. In any case, an event or transaction which has a direct effect on the value of assets and liabilities, income position and proprietary fund, should immediately be recorded in the formal statement as and when they can be measured with a fair degree of accuracy.

Generally, the "formal financial statement" consists of Trading Account, profit and loss Account, profit and loss appropriation Account, Balance Sheet, cash and fundflow statement etc. But, how many parts there will be on the formal
statement and which part will contain which item depends upon the user and his objective.

Arrangement of different items in different portions of the formal statement in some convenient way and relationship in between the items is helpful in easy understanding of financial report. Here, like items should be grouped together. Assets and liabilities can be arranged either on the basis of liquidity or longevity. Again current liabilities can be directly deducted from current assets to reflect the working capital position. Right of every item of liability to particular asset and role of every asset as a claim to service may also be shown by complicated arrangement. Total expense is generally subtracted from total revenue to find out the net income. But to make the income statement more informative, expenses can be classified in fixed and variable to find out contribution and application of marginal costing system for decision making.

However size, composition, form and arrangement can suitably be altered to serve a particular need and to make the financial reporting more meaningful and easily understandable.

(ii) Accounting language, terminology and detail presentation.

Accounting is a particular type of language comprising words and figures for communication of information. The language should be precise, clear and easily understandable to
the general reader. Technical terms can be used only if these are helpful. In some cases accounting terminologies are found to be ambiguous and use of these terms can only lead to confusion or misunderstanding. So easily understandable captions and descriptions should be used for each items presented in the financial statement. However use of unambiguous technical terms in the accounting report should always be appreciated. Because, detail presentation of every item will make the report unduly large.

(iii) Notes and Schedules:

The most significant and relevant information should always be presented in the main body of the formal financial statement. If captions of items in the statement can not be made clear without making it overly long, then the item can be defined and explained in notes. However these notes also should not be very long. Notes are generally used mainly for disclosure of qualitative information.

Use of foot notes makes the financial statement more informative as it ensure a fuller disclosure of events and transactions and other relevant information. But they will substitute the need for more information in the body of the statements and accordingly extensive use of footnotes discourage desperate attempts for development of the financial statements themselves. So, although need for footnotes is not disagreed, they can not be used as a substitute for inadequate formal statement. Formal financial

statement itself should be adequate but to make the disclosure fair and full, footnotes can be used. Too much reliance on footnotes has already placed a danger on the accounting profession. Information significant and relevant enough but cannot be presented in formal statement because of its technical limitations are presented by parenthetical notes as an integral part of financial statement. But information of secondary importance can be disclosed by footnotes.

Examples of items to be disclosed through footnotes are:

as follows:

(a) Accounting principles followed and change therein, if any, with effect thereof on the financial statement may be stated in footnotes. Disclosure of change in principle is more important than the principles themselves so long as the doctrine of consistency is not to be ignored.\(^\text{13}\)

(b) Right of the creditors—short term or longterm, and priority of their claims can be made identifiable by footnotes.

(c) Contingent assets and liabilities like Bills Receivable discounted, probable decisions of pending suits, decision of lower court, probable damages to be compensated etc. can be disclosed in the notes.

(d) Dividend policy and retained earning may be stated by footnotes.

\(^{13}\text{Hendriksen, op.cit., PP-557-558.}\)
(e) Although proprietary fund can be calculated from the Balance sheet itself, footnotes may be given regarding any probable but significant change in share holders right.

(iv) Special Communication to investors:

The investors both present and prospective should be supplied with all the relevant information necessary for decision making. Some special communications are to be made as per legislation. The principles of disclosure can be followed more completely by such special communication.

(v) The Auditors Certificate:

Accounting statements are reported to be true and fair by the auditor under his seal and signature. But disclosure of all significant information is the pre-requisite of true and fair view of accounting. So the auditor can issue certificate only after the disclosure of all the significant and relevant information and naturally the said certificate cannot be used as a place for disclosure. However the audit report may disclose the material effect for use of accounting method which is not generally accepted. It also states the effect of changing from one accounting method to another and differences of opinion between the auditor and the client.
Accounting statements are published by the client and not by the auditor. The auditor only certify these to be true and fair. On doing so, if the auditor finds the use of any method which is not appropriate and generally accepted then he should try to persuade his client first and if fails should report the matter in his certificate. It may be pointed out that generally accepted accounting principles, although believed to be scientific, need not necessarily be appropriate, logical and sound in all cases. What is more important is the use of appropriate, logical and sound principles and not necessarily those accepted in general.

(vi) The Chairman's Speech:

Generally the president or the Chairman of the Board of directors give a written speech in the annual general meeting and through this speech the management try to disclose certain types of information. Through the President's letter the management highlights the future prospects of the company keeping its faults and setbacks in secret. While the accountants are likely to be conservative in estimation and valuation as per the doctrine of conservatism, the Chairman's written speech is found to be full of optimistic expectations of the management about the future prospects of the business and these expectations are supported only by tall talks and not by any objective evidence.
The additional information presented through President's letter may contain the followings:

(a) Personal observations of the President about the profitability and financial position of the business.

(b) Targets of the company about its growth rate.

(c) Disclosure of market values in certain cases.

(d) Expected change in Political power and economic policy and probable effect thereof on the operations of the business.

(e) Abnormal and accidental happenings in the past year if any like riot, war, natural calamity etc. and the measures taken to tackle the raising situation.

(f) Mentioning the turning period, business cycle condition, effect of Govt. Budget and special govt. or foreign order etc.

(g) Change in technology, acquiring new plant and equipment, Capital expenditure plan and necessity of raising fund through public issue etc.

Some of the above informations are also contained in accounting report, footnotes or supplementary schedule and accordingly will be audited by the auditor. But many of the informations presented through President's letter are not found in formal financial reports including notes.
and schedules. In this connection it may be pointed out that auditors are not required to investigate the President's letter and as a result unaudited superfluous information in the President's letter may misguide the user.

Accounting standards on Disclosure of Accounting Policies are promulgated by different standard setting agencies with some similarities and differences. A comparative analysis of the accounting standards set by some major standard setting bodies and the academic views on the issue are presented below:
Statement showing similarities and differences with comments among Accounting Standards on Disclosure of Accounting policies set by some major standard setting authorities and the related academic views.

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**Fundamental Assumptions**

1. Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumption is not required.
   - If fundamental accounting assumptions viz. going concern, consistency and accrual are followed in financial statement, specific disclosure is not required. If these are not followed, the fact should be disclosed.
   - This requirement is similar to that of IAS - 1 with the only difference that reasons for noncompliance need not be disclosed in India.
   - It follows that unless there is a clear statement to the contrary, there is a presumption specific and issued that these concepts have been as directives to be followed. It is stated that management should select those accounting standards.

2. The views of the academicians have tried to formulate a broad conceptual framework of accounting and accounting which departs from the four fundamental concepts, listed a large number of assumptions. Standards are based on accounting and disclosure.

**Role of prudence, materiality etc. on selection of Accounting Policies**

2. Prudence, substance over form and materiality should govern.
   - These considerations are not contained in Indian Standard.
   - The views of accountants should select those accounting standards.

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The views presented in the standards are in support of academic suggestions in this regard. While IAS-1 and AS-1 have left less scope for managerial discretion, SSAP-2 has provided wide scope for this and it is more similar to academic views. The basic requirement laid down in SSAP-2 is that there should be disclosure of accounting policies followed for dealing with items ‘Judged material or critical’ in determining profit or loss for the year and in stating the financial position. The explanation given should be clear, fair and as brief as possible.

So disclosure of accounting policies should form part of accounts. But this is permitted only for internal use. When accounts are issued for external use it must conform to standard. The basic requirement laid down in SSAP-2 is that there should be disclosure of accounting policies followed for dealing with items ‘Judged material or critical’ in determining profit or loss for the year and in stating the financial position. The explanation given should be clear, fair and as brief as possible.

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<td>But in the context to AS-1, all the three assumptions are suggested for selection and application of accounting policies. Here also management's discretion is permitted in some limited sense.</td>
<td>As per IAS-1 and AS-1, the selection and application of accounting policies are not specifically stated to be the criteria for selection of accounting policy. The basic requirement laid down in SSAP-2 is that there should be disclosure of accounting policies followed for dealing with items ‘judged material or critical’ in determining profit or loss for the year and in stating the financial position. The explanation given should be clear, fair and as brief as possible.</td>
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3. Financial statement should include clear and concise disclosure of all significant accounting policies which have been used. It should be an integral part of accounts. The policies should normally be disclosed in one place. Here the criteria for selecting the significant accounting policies are not given. The standard relies upon the management to decide which policies should be considered to be significant.

3. All significant accounting policies adopted in the preparation and presentation of financial statement should be disclosed. It should form part of the financial statements and these should normally be disclosed in one place. Same view is expressed on this point by IAS-1. Here also management is given wide discretion in choosing the significant accounting policies to be presented along with the accounting statement.

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INTERNATIONAL

and disclosed as an integral part of accounting statement. Signifi-
cance of accounting policies are considered with reference to their ability in determining the proper accounting treatment of critical and important items.

India

standard does not specifi-
cally require that these should be disclosed in one note to the accounts, rather than in individual notes under the relevant headings. While the academicians have find the possibility of disclosure of accounting policies scattered over different relevant context. The stan-

British Academic Views

require that disclosure of accounting policies should be an integral part of accounts. While the

views of the academicians have provided the various possible methods of disclosure as discussed earlier in this chapter.

Academicians have not pointed out whether or not rectification of error is possible by adequate, fair or full disclosure. So they

Rectification of inappropriate treatment

4. Wrong or inappropriate treatment of items in income statement, balance sheet or any other statement can not be rectified either by disclosure.

4. This recommendation is not contained in AS-1. But in the context to the standard, it is stated that disclosure of accounting policies or of

4. SSAP-2 does not raise the question of rectification of error or inappropriate treatment of item by way of disclosure. It remains

4. Academicians have not pointed out whether or not rectification of error is possible by adequate, fair or full disclosure. So they...
International India UK Academic Views

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<td>5. Financial statement should show corresponding figures for the preceding period. Although such disclosure will help managerial decision making, the treatment is not generally followed in financial accounting.</td>
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<th>Change in Accounting Policy</th>
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Changes therein can not remedy a wrong or inappropriate treatment of item in the accounts. So the view is similar to that of International standard.

Slight on this point. Disclosure is a way of providing information and not of rectification. So, it is implied that a wrong treatment can not be rectified by disclosure or note given to that effect.

In England also, the standard contains no such provision for presentation of figures for the preceding period. English Standard provides no guidance in this respect and left the matter to the management.

Silent on this point. Disclosure is a way of providing information and not of rectification. So, it is implied that a wrong treatment can not be rectified by disclosure or note given to that effect.
The effect of change in accounting policies on the subsequent year's accounting statement should not be lost sight of. However, it is very difficult to ascertain the effect on later period's accounting statement although it is important. Besides, accounting policies are subject to change in the subsequent periods.

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How far the guidelines propounded by the academicians are used

Academicians' detail discussion over a long period of time about disclosure has established the ground for setting accounting standard on disclosure of accounting policies. It is clear from the study made so far that the academicians' suggestion has a direct influence upon every paragraph of the standard. It seems that the standard setters have tried to draw a conclusion of the academic views but in vain. Academic approaches are more theoretical and likely to be an unending process. They are always trying to establish a comprehensive conceptual framework of accounting. Standards are also formulated in that line but conceptual framework of accounting has not yet been made available to the accountants. The most important purpose of the standard is to make uniform code of conduct in accounting profession. This objective of the standard is in full agreement with that of academicians but their critical analysis has widen the scope for use of alternative accounting policies. So while they felt the need for unification, they also find out the usefulness of alternative accounting policies under varying circumstances.

For example, in pricing the issue of material to production department, while FIFO method is recommended in times of fall in price level, LIFO is considered more suitable in times of rise in price level.
The standard setters have considered the guidelines suggested by academicians for establishing accounting standard on disclosure of accounting policies. Most of the important views of academicians has been incorporated in the standard but undoubtedly they should be more specific. Moreover the standards did not attempt to cleanse directly the issues like (a) For whom disclosure should be made, (b) What are the purposes of the users, (c) To what extent disclosure is needed, (d) What is the appropriate timing of disclosure, (e) What should be the method of disclosure. Despite such shortcomings, accounting standards on disclosure, set so far, are undoubtedly a step forward to achieve the uniformity in accounting practices.

Is it feasible to apply all academic suggestions into practice?

Academicians have always tried to formulate a theoretical framework of accounting. They are more interested about what should be done than what is being done and what can be done. Although all the principles and policies recommended by academicians can not be used, those followed by accountants under various circumstances are actually selected out of their suggested policies. Academicians with their analytical mind do not restrict themselves to suggest only those policies which can be used in practice. They have gone beyond the area of existing practices and suggested policies which may be used only under an improved and imaginary model of accounting. But their suggestions have never been so strong to make an overall change in the conventional accounting framework.
Accounting standards are directives in nature and should necessarily be possible to apply in practice. Accounting standards contain only those academic suggestions which have relevance to the accounting practices and to the environment in which accounting will operate. Purely imaginary academic suggestions are not included in the standards irrespective of the merit of such suggestions. So, it is neither possible nor desirable to apply all the academic suggestions into practice. However, academic suggestions are always welcome as because such suggestions have provided the ground for establishment of accounting standard.

**Have the standards made specific or objective method of disclosure?**

Accounting standards on disclosure of accounting policies have been made as a way of making the topic more specific to the accountants. But interpretation of different standards shows that no specific recommendation has been made as to the format and contents of accounting statement. Accountant's conduct has been stated to be disclosed but what should be his conduct has not been defined and as a result variations remain to prevail in accounting practices.

No system was recommended to make the disclosure of accounting policies to be supported by any kind of objective evidence. Thus, disclosure of accounting policies suggested to be an integral part of formal financial statement must be supported objectively as the doctrine of objectivity tells
us that every fact and figure of accounting report should be supported by written documents or any other kind of evidence. Most of the recommendations are found to be subjective in nature. These are theoretically based and logically arranged but not empirically tested. Although some agencies have arranged for consultation all over the country or even the world through the issue of exposure draft before the issue of the final standard, unanimity has not yet been achieved. Variations in respect of contents, format, time, method and extent of disclosure of accounting policies still remain great. Naturally doubt arises about the necessity of forming so many committees, conducting country wide discussions and seminars, incurring loss of so many time and money and the preparation of accounting standards. The propriety of accounting standard on disclosure of accounting policies is not as such unquestionable.

Compliance with the Standards

The disciplinary powers of accounting institutes differ from country to country or even from institute to institute within the same country. Studies in accounting standards show that in most cases there is no legal provision for compliance with the same. In India and UK company Acts have not laid down any specific provision for enforcing compliance with the standards. In India most of the accounting standards including accounting standard on disclosure of accounting policies are made mandatory. But these are not legally mandatory. In
USA, the Securities and Exchange Commission has effectively enforced the listed corporations to adopt accounting standards set by Financial Accounting Standard Board. Recommendations of Canadian Institute of Chartered Accountants are also legally enforceable in certain parts of Canada regarding the preparation and presentation of company accounts. There is no national or international organisation to enforce the International Accounting Standards set by the International accounting standard committee in the accounting profession of member countries. So, in general there is no organisation to compel obedience to accounting standards. Standard setters are not entrusted with requisite legislative authority. Again in some countries, particularly in India there is a strong constitutional objection to any attempt to make the standards legally enforceable as because such a law would effectively delegate legislative power to the professional accounting bodies.

However, the professional accounting bodies themselves impose compliance with the standards set by them by means of their own internal disciplinary procedure. So, compliance with the standards in general is possible only to the extent regard is paid to the professional guidance and expert opinion.

There is no system of feedback of information about the impact and effectiveness of the standards on accounting practices. Although some controversies arise after the issue of some standards and subsequently these are replaced or
modified still there is no procedure incorporated in the standards whereby the discussion and criticism about it may comeback to the standard setters. Impact of the standards has not yet been assessed by any formal agency. Informal assessment shows that methods of judgement, estimation and valuation are not generally stated in the financial statement and hence accounting policies has not been accepted generally. In the absence of any formal procedure or agency to study the impact of the standards and feedback of information, promulgation of the same will be useless and ineffective.

Are the standards Repetitive? Do they add something new to the existing knowledge?

The standards provide a set of handy rules for the daily work of accountants. They give certain specific directives to be followed in the preparation and presentation of financial report. There is no, repetition of any directives. Use of standards will add some extra information in the accounting report which are obviously not repeated. Had these been disclosed earlier why the standards will demand these to be stated once again? So, in this sense, the directives of the standard are not repetitive in nature. However, the standards on disclosure set by different agencies i.e. SSAP-2, IAS-1 and AS-1 are of same nature as stated earlier in the comparative statement. All these standards on the same issue repeated almost the same set of directives.
The accounting standards have greatly re-enforced the process of both qualitative and quantitative improvement in the published financial reports. Disclosure of accounting policies has made it possible to ensure comparability between accounting statements prepared on the basis of different accounting policies. The accounting standards on disclosure are set in the line of academic discussions and hence basically there is nothing new in the standards. But academicians have not been able to enforce their suggestions in practice which the standards have made possible at least to some extent. So, accounting standards on disclosure of accounting policies did not add anything new to the existing accounting knowledge but they have made some additions to the existing accounting practices.

**Propriety of the accounting standards**

Propriety of accounting standards depends upon their ability to ensure that transactions and facts are recorded being free from bias and that the accounting report exhibits a true and fair view of the business' profitability and financial position. To be proper, accounting standards should make the accounting report more easily understandable and helpful for judgement, valuation and decision. Accounting standards will not be proper, unless the recommendations are logically sound and practically feasible.
From the academicians point of view, it can be said, the standards have considered major academic suggestions. Although the academicians frequently claim that there is nothing new in the standards, they should remain satisfied with the standards at least for the reason that they have uphold the academicians' views and put a step forward to formalise their suggestions. Hence it can be said that accounting standards are proper at least partially from the academicians point of view.

From the users point of view also it can be claimed that the main purpose of standards is to serve the different users still more adequately. It is said that use of the standards will make the accounting practices more uniform and generally acceptable. Investors and creditors will be in a position to make more reliable judgement, proper valuation and wise decision. Reliability of accounting statement will increase even to the external users.

So, accounting standards on disclosure of accounting policies stand by their own proprieties from different view points. These are the instruments to resolve the sentiments of different parties directly or indirectly related with the accounting statement. However the validity of these proprieties depends upon their relevance with the situation in which accounting profession operates which again is always subject to change. Doubt about the propriety
of accounting standards may increase in the changed situation.

**Empirical findings**

The observations stated above about the various aspects of the accounting standards on disclosure are subject to empirical verification. For this purpose an opinion poll was conducted covering the eminent academicians imparting teaching only in post graduate level, reputed professionals who are members of the Institute of Chartered Accountants of India and renowned business executives who are the members of the Institute of Chartered Accountants of India and/or the Institute of Cost and Works Accountants in India. For the opinion poll of academicians, eminent researchers of USA and UK in addition to those of India have been contacted.

The object of the study is to see how far the issues raised in the standards are settled and to what extent various recommendations of the standards are in agreement with the views expressed by academicians, professionals and executives and also to verify the propriety of the standards from the different users' point of view.

The questionnaire used for the empirical study is attached to Appendix -1. It may be pointed out that each question offers three alternative answers, one of which requires to be ticked.

Findings of the empirical study are briefly described below:

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**Notes:**

i) From the replies it is found that while most of the respondents answered all the questions as per request, some preferred leave a few questions unanswered, while a very few point out the possibility of other alternatives.

ii) Altogether 80 academicians, 60 professionals and 65 business executives were contacted. But only 16 academicians, 12 professionals and 13 business executives responded.
1. In reply to the question on the issue whether or not the principles of going concern, consistency, accrual and prudence be followed as fundamental accounting assumptions in the preparation of financial statements as required by all the standard setting bodies (vide Page 51, Point -1), 90% of the respondents answered in affirmative while 10% expressed their opinions in negative. These 10% respondents belong to academicians and professionals. They may think that these assumptions, though used implicitly, need not be stated expressly. Thus almost all are of the same view that these principles be followed by the accountants as fundamental accounting assumptions.

2. This question rests on the issue of disclosing the fact of non-compliance with the fundamental accounting assumptions. 93% of the respondents are in favour of its disclosure and 7% are against it. Those who answer to Q.No.1 in affirmative are not supposed to answer Q. No.2. But those who answered negative in response to Q.No.1 preferred that the non-compliance with the fundamental assumptions should be reported in the accounts. Thus it is proved that these people even though disagreed with the fundamental principles, are in support of disclosing the fact of non-compliance in the reports. Thus they are also desirous of, it may be inferred, maintaining uniformity in reporting system.
3. On the issue of desirability of disclosing the reasons for non-compliance, 94% respondents considered such disclosure as most desirable. This is also in agreement with the recommendation of the International standard (vide page no.51; point - 1).

4. As regards the issue on the role of prudence, substance over form and materiality on governing the selection of accounting policies, 90% of the respondents supported the idea propounded in the standards (vide page no.51; point-2), 7% did not consider the point and only 3% disagreed with it. Thus all are of the view that prudence, substance over form and materiality should govern the selection and application of accounting policies.

5. In response to the question on the issue of degree of discretion to be allowed to the management as to the selection of accounting policies, 63% of the respondents agreed to allow discretion to a certain extent, while 22% to a very limited extent and 15% to a large extent. Out of the 22% supporting discretion to a very limited extent, a few are from executives themselves, may be due to the fact that most of these respondent executives are not placed in the hierarchy of policy making bodies. While international and Indian standards recommended for a limited discretionary power, English standard allowed wide discretion to the management. Hence the recommendations of standards are in conformity with the findings of the opinion poll.
6. In reply to Q.No.6 on whether the distinction among concepts, bases and policies are clear or not, 32% of the respondents considered the distinction to be clear, 58% considered the distinction not to be clear and 10% are not aware of the issue. So, difference of opinion persists and the issue requires further investigation.

7. This question deals with the issue on disclosing adopted accounting policies as an integral or supplementary part of annual accounts. Surprisingly, the respondents are divided almost equally - 56% recommended the disclosure as an integral part and 44% as a supplementary statement. However the standard setters of different countries are in favour of disclosing it as an integral part of account (vide page no.52;point-3). The issue requires further investigation.

8. Q.No.8 considers the issue of disclosing the accounting policies whether in one place or in scattered way. Two-third of the respondents favoured the disclosure in one place while one third recommended disclosing the same in scattered way. The standard setters, considered in the study, recommended disclosure in one place (vide page no.52; point-3). Of the one-third respondents, who are in disagreement with the standards, more than 50% are, however, academicians. It may be due to the fact that the academicians are interested in pinpointing the importance of the policies through disclosing them in the respective contexts only.
9. In response to question No.9 relating to the possibility of rectifying inappropriate accounting treatment by mere disclosure of accounting policies, 70% of the respondents viewed that it is impossible to rectify the inappropriate accounting treatment by mere disclosure of accounting policies. However 25% answered it as possible and 5% did not consider the point. Thus nearly three fourth of the respondents supported the view expressed in the standards (vide page no.53; point-4). 25% of the respondents favouring the possibility of such rectification are supposed to be optimistic as they expect, it appears, such rectification would enhance the reliability of the disclosed statements. They perhaps considered the cost of such rectification to be far less than the benefits derived from the confidence of the people using such statements.

10. In reply to the question on the issue whether financial statement should show corresponding figures for the preceeding period, 98% of the respondents recommended such presentation, while 2% of them remained silent on the point. So almost all the respondents supported this view of the international standard (vide page no. 54; point-5). Thus all are of the opinion that provision for interperiod comparison is most desirable.

11. On question No.11 dealing with the issue of disclosing change in accounting policies, 93% of the respondents are in favour of such disclosure, while 7% are of the opinion that
necessity of such disclosure depends upon the nature of change. Thus all are in agreement with the view expressed in the accounting standards that any change in accounting policy that has a material effect in the current period or may have a material effect in the subsequent period be disclosed (vide page no. 54; point-6).

12. Question No. 12 relates to the issue of justification of quantifying and disclosing the effect of change in accounting policies on earlier period's, current period's and/or subsequent period's accounting statement. Investigation reveals that 63% of the experts recommended the quantification and disclosure of the effect both for current and subsequent periods and 37% required that the effect of the current period only should be disclosed. These views are found to be consistent with the recommendation of the standards (vide page no. 54; point-6).

13. In response to question No.13 dealing with the frequency of publishing accounting statement, 39% of the respondents recommended a shift from the conventional annual accounting reporting to half yearly reporting, while 61% favoured the preparation of accounting statement once in every year. None of the respondents favoured a 2 yearly accounting statement as offered in the questionnaire. Majority of the 39% respondents favouring half yearly accounting statement are found to be professionals. This may be due to the fact that in that event they will be in a position to discharge their
professional obligations more efficiently.

14. In reply to the question on whether standards should clearly define the phrases adequate, full and fair, 88% of the respondents are of the opinion that these phrases should be clearly defined. Only 5% are against such clarity and 7% have not considered the issue. These terms are not clearly defined in the accounting standards.

15. Question No.15 deals with the issue on whether or not the major business houses in India disclose accounting policies regularly and fully as required by the standards. 71% of the respondents opined that it is not complied with regularly and fully, 11% of the respondents thought that it is complied with and 18% of the respondents are not aware of the fact.

Conclusion and Suggestion

The standards on the issue, no doubt set milestones in the advancement of accounting practices. But they did not consider critically all the issues raised by the academicians. They are: (a) For whom disclosure should be made, (b) What are the purposes of the users, (c) To what extent disclosure is needed, (d) What is the appropriate timing of disclosure, (e) What should be the method of disclosure. The present study did not make opinion poll on these issues. It tried to confine itself only on the issues raised by the standard setters. But that does not imply that these issues are less important or they are settled. These issues require detail investigation.
In regard to the basic questions surrounding the propriety of accounting standards on disclosure set by various bodies, it is evident from the empirical findings that all are in complete agreement with the standards that going concern, consistency, accrual and prudence be followed as fundamental accounting assumptions in the preparation of financial statement. All the academicians, professionals and executives supported the view expressed in the standards that prudence, substance over form and materiality should govern the selection and application of accounting policies. All the respondents recommended, in conformity with the standards that deviations from the declared accounting policies and their noncompliance should be expressly presented in the annual report along with reasons for such non-compliance. Regarding the management's discretion as to the adoption of accounting policies, although diversities are found in the opinion poll, these differences are also found in the accounting standards themselves. Here also study results are found to be in line with the recommendation of the standards. However, this issue is not yet settled completely.

Although some of the issues dealt with in the standards are still unsettled, it can not be denied that standards are the basis for development of a modern accounting system. Major issues are found, as inferred from the empirical findings, to be settled at least for the time being. It is a fact that standards have not yet yielded the desired result completely. Still, it is an attempt in the way of further improvement of accounting practices and the attempt is not a complete
failure. Volumes of publication of accounting standards provide a clear sign of its liveliness. It is a burning topic to be discussed now a days.

Accounting profession has provided a wide field of enquiry and development of the same must be guided by some formal research. Accounting practices are subject to frequent change due to change in industrial practices. With the evolution of new and improved recommendations to suit the new changes, the old one is expected to be replaced.

The unsettled issues, as evident from the empirical findings, require immediate investigation. So there is foreseeable scope for further development of accounting practices with improved model of accounting standards backed by research and investigation.

Example of important issues on which opinion differs significantly and the probable areas where further investigation and research may be carried out in this context are given below:

i) Finding out the new topic on which standard should be formulated.

ii) Preserving or disclosing business secrets.

iii) Way to ensuring compliance with the standards.

iv) The way to help audit work through disclosing accounting policies.
v) Studies on the desirability of accepting management's discretion in the selection and application of accounting policies.

vi) Clarity in the distinction among accounting concepts, accounting bases and accounting policies.

vii) Impact of disclosure of significant accounting policies as an integral part of accounts.

viii) Feasibility of disclosing accounting policies in scattered way over different but relevant contexts.


x) How to quantify and disclose the effect of change in accounting policies.

xi) A study on the frequency of disclosing the periodical accounting statements.

xii) Implications of accounting standards on disclosure in Indian context.