



# ACCOUNTING STANDARDS & CAPITAL/REVENUE EXPENDITURE

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# Introduction to AS


- Meaning – documentation of GAAP
- Formulation of AS – ICAI, Government authorities
- Compliance with AS
- Benefits
- Limitations

# AS 1 Disclosure of accounting policies

- Mandatory standard
- Importance and examples of accounting policies
- Fundamental accounting assumptions viz. Going concern, Consistency and Accrual and its disclosure
- Accounting policies – specific accounting principles and methods of its implementation
- Factors in selection of AP – Prudence, substance over form , materiality
- Disclosure requirements for accounting policies
- Change in accounting policies


## AS 2 Valuation of inventories

- Meaning of inventory – assets held for sale in ordinary course of business or for consumption production process or in production process
- Includes – raw materials, WIP , FG, consumables
- Excludes – spare parts, WIP in long term contracts , investments in securities, WIP of service providers, live stock, agricultural or forest produce , mineral oil, gas , ores etc
- Basis of valuation – lower of cost or net realisable value
- Meaning of cost and NRV
- Measurement of cost for raw materials, WIP and FG

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- Exclusion from cost – administrative cost , S&D cost , finance charges
  - FIFO and Weighted average cost method for cost estimation
  - Standard cost method and retail method for cost estimation
  - Change in method
  - Disclosure requirements
  - Mandatory standard

# AS 9 Revenue Recognition

- Mandatory standard
- AS deals with principles to recognize income or revenue
- Covers revenue from sale of goods, income from services, rent, interest , dividend and royalty
- Excludes revenue from construction contracts , lease or hire purchase transactions, government grants/subsidies, insurance contracts
- Revenue from sale of goods – recognized on transfer of property with all risks & rewards
- Revenue from services – recognized by proportionate method or completion method

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- Revenue from interest – on time basis
  - Revenue from royalty – as per terms of agreement
  - Revenue from dividend – right to receive is established
  - Disclosure
  - Examples – sales on approval, goods subject to installation, consignment sales , sales on COD basis, subscriptions , advertisement services , fees for event /performance, tuition fees

# Capital & Revenue expenses/receipts

- Functional classification

Operating activities	Revenue receipts or expenditure
Investment activities	Capital receipts or expenditure
Financing activities	Capital receipts or expenditure



# Features of Capital expenditure/receipts

- Capital expenditure
  - Frequency of recurrence
  - Quantum
  - Acquisition of fixed assets
  - Long term benefit
  - Enhancement of earning capacity
  - Depreciation or amortization
  - Disclosure in accounts
- Capital receipts
  - Amount received on disposal of source of income

# Features of revenue expenditure/receipts

- Revenue expenditure
  - Short term benefit – usually exhausted in accounting year
  - Recurring
  - Disclosure in accounts
  
- Revenue receipts
  - Recurring
  - Receipts from operating activities
  - Receipts from a source of income
  - Disclosure in accounts



Thank You