Disclosure of Accounting Policies Special Reference to AS 1

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Abstract: Generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS) are becoming more and more similar. Though their sources are different and though GAAP has the force of the authority in the United States, the two sets of standards are reaching a greater level of convergence. In some cases, GAAP has been altered in order to align with the position of IFRS. Similarly, some IFRS have been altered in order to converge with GAAP. The motivation for these changes is to improve financial reporting standards across political borders by creating a common set of standards. In the process, global markets will benefit from having standards that are comparable worldwide. The purpose of this paper is to summarize the progress made toward convergence and report the results of a survey of accounting educators regarding their opinions of the current progress and future potential for convergence of financial accounting standards with special reference to AS 1

Keywords: IFRS, GAAP, AS

1. Introduction

Accounting standards in the Iraq appear in the form of the generally accepted accounting principles, a set of standards, guidelines and procedures that are used when accounting for the affairs of most governmental and non-governmental bodies. The interpretation of numbers and the wherewithal to place them in the proper context are at the heart of accounting. Standards exist to ensure that accounting decisions are made in a unified and reasonable way. As concerned to the primary role of accounting standards is the universality that it brings to financial record keeping. Governmental organizations must follow accounting procedures that are the same as their counterparts, and non-governmental organizations must do the same. The result is that it is easy to compare the financial standing of similar entities. All comparisons within groups are a matter of comparing "apples to apples." This helps both external and internal observers weigh the state of an entity in the context of other comparable entities. For instance, the financial standing of a town can be measured against a neighboring town with the assumption that the pertinent numbers have been reached in a similar fashion. As accounting standards are designed to enforce transparency in organizations. The principles, procedures and standards that make up the generally accepted accounting principles were chosen with the purpose of ensuring that organizations lean in the direction of openness when deciding how to provide information to observers. This kind of transparency is especially important in the case of public entities, such as governments or publicly traded companies. Standards limit the freedom and flexibility of entities to use clever accounting to move items around or even to hide them. Standards work to help entities provide the most relevant information in the most reasonable way possible. In this way, an organization guided by accounting standards will generate the kind of financial information that observers are most interested in examining. Entities ultimately should provide information in a way that most fairly and clearly represents the current financial standing of the operation. The standards make it more difficult for organizations to misdirect observers and to fool them with data that does not have sufficient relevancy. Finally, the importance of accounting standards lies in the value that it brings to financial documents for the various audiences that view and make critical decisions based on it. An absence of accounting standards would make the work of investors, regulators, taxpayers, reporters and others more difficult and more risky. For instance, without standards, an investor who has studied the financial statements of a large publicly traded company would not know whether to trust the findings on those statements. Standards mean that taxpayers can see how their tax RS are being spent, and regulators can ensure that laws are followed.

2. Benefits of Accounting Standard

The International Accounting Standards Board, or IASB, established international accounting standards to provide globally acceptable financial reporting frameworks. These standards have been adopted in many countries, but not in the U.S. as of October 2013. The Securities and Exchange Commission requires U.S. domestic listed companies to strictly use the generally accepted accounting principles, or GAAP, in financial reporting. But privately held companies do not have to follow GAAP because they are not regulated by the SEC. Privately held businesses have the liberty of using international accounting standards whenever it suits their needs.

2.1 Improved Flow of Capital

International Financial Reporting Standards, or IFRS, facilitates the convergence and transparency of accounting practices. This boosts the flow of capital across the international markets. Investors and other stakeholders find it more convenient to compare their business performance with other international companies. This makes it easier and cheaper for them to raise business capital from investors across the globe.
2.2 Globalized Orientation

Using IFRS frees a business from the restrictive scope of national-level accounting standards. Financial reports become automatically acceptable in IFRS-compliant countries, and companies don't need to prepare alternative sets of financial statements when pursuing business interests in these countries. This reduces a business's costs of preparing financial statements destined for international audiences.

2.3 Generalized Standard-Setting

IFRS stipulations are flexible to both expected and unexpected changes in the global business environment because they are based on broad principles. The generalized stipulations are designed to be applicable and accommodative to varying jurisdictional circumstances and traditions, with minimal interventions of the IASB. For example, the IASB does not recommend any specific formats for preparing financial statements. This gives a business the discretion of choosing the presentation format that best suits it and users of its financial reports.

2.4 Enhanced Financial Reporting

The use of IFRS enhances the quality of financial reports because it leaves little room for undermining the objectives of the set standards. This is unlike country-specific accounting rules that are susceptible to circumventions. Quality financial reports boost investor confidence in a business.

3. Benefits of single set of global accounting standard

With the emergence of International Financial Reporting Standards (IFRS), most discussion of the proposed convergence of U.S. generally accepted accounting principles, or GAAP, and IFRS standards has focused on the effects this would have on large multinational companies. However, these proposed changes have repercussions for small business as well. Learning about the specific advantages of a single set of global accounting standards for small business can help you better understand how these proposed changes could affect your small-business financial reporting and your evaluation of potential investments.

3.1 Comparability

The biggest advantage of a single set of global accounting standards is the enhancement in comparability between companies in different countries. Currently, accounting standards can differ greatly between countries. Before an investor can compare two potential investments, she must reconcile the two companies to the same basis of accounting. The problem is similar for creditors: When evaluating a company's creditworthiness, differences in accounting standards can make two companies that are in similar economic shape appear very different. Enacting a set of global accounting standards would put comparisons on equal footing, making it easier for small-business owners to evaluate international options for investment and cash management. Right now, many small-business owners do not have the resources to effectively compare international and domestic investment options. If financial statements were more comparable, owners would be able to complete more of these comparisons in house.

3.2 International Expansion

Moving to a single set of global financial standards would also ease barriers to expansion for companies. If companies wish to expand overseas today, they need to consider international costs of compliance, which could mean adopting a completely new set of accounting records to meet statutory requirements in the new country. In some cases, this would nearly double the company's accounting costs. For many small businesses, even the large rewards of moving overseas are dwarfed by these expansion costs.

3.3 Central Authoritative Body

From a policy-making standpoint, moving to a single set of global standards puts rule making into the hands of one body. Currently, accounting standards are set within each country by each standard-setting body, as well as by an international group. One set of standards would reduce disagreement between countries and international regulators, and it might also cut costs. In some countries, businesses are required to pay reporting fees that go to fund these standard-setting bodies. While the costs may not affect large companies, they can have a huge impact on a small business. Moving to a central authoritative body could reduce these costs drastically.

3.4 Disadvantages

Moving to a single standard has plenty of advantages but also some disadvantages. Whatever standard is chosen, some, if not all, companies will have to adjust to it. Some small businesses using a perfectly good accounting system will be forced to incur costs to change to the new system. And even though accounting standards would be standardized across countries, laws and other regulations would not, which could hamper the comparability of financial statements across countries even when the same accounting system is being used. To the extent that these laws and regulations differ, small-business owners comparing domestic and international investment opportunities might have a false sense of security about the actual similarity between investment options.

4. Accounting Standard (AS) 1(issued 1979)

Disclosure of Accounting Policies

(This Accounting Standard includes paragraphs 24-27 set in bold italic type and paragraphs 1-23 set in plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of the Preface to the Statements of Accounting Standards.)

The following is the text of the Accounting Standard (AS) 1 issued by the Accounting Standards Board, the Institute of Chartered Accountants of Iraq on *Disclosure of Accounting
Policies’. The Standard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements. In the initial years, this accounting standard will be recommendatory in character. During this period, this standard is recommended for use by companies listed on a recognized stock exchange and other large commercial, industrial and business enterprises in the public and private sectors. This statement deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements. The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated. The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements is required by law in some cases. The Institute of Chartered Accountants of Iraq has, in Statements issued by it, recommended the disclosure of certain accounting policies, e.g., translation policies in respect of foreign currency items. In recent years, a few enterprises in Iraq have adopted the practice of including in their annual reports to shareholders a separate statement of accounting policies followed in preparing and presenting the financial statements. In general, however, accounting policies are not at present regularly and fully disclosed in all financial statements. Many enterprises include in the Notes on the Accounts, descriptions of some of the significant accounting policies. But the nature and degree of disclosure vary considerably between the corporate and the non-corporate sectors and between units in the same sector. Even among the few enterprises that presently include in their annual reports a separate statement of accounting policies, considerable variation exists. The statement of accounting policies forms part of accounts in some cases while in others it is given as supplementary information. The purpose of this Statement is to promote better understanding of financial statements by establishing through an accounting standard the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in the financial statements. Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises.

4.1 Fundamental Accounting Assumptions

Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

The following have been generally accepted as fundamental accounting assumptions:—

4.1.1 Going Concern

The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

4.1.2 Consistency

It is assumed that accounting policies are consistent from one period to another.

4.1.3 Accrual

Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumption are not dealt with in this Statement.)

4.2 Nature of Accounting Policies

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.

There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise calls for considerable judgement by the management of the enterprise.

The various statements of the Institute of Chartered Accountants of Iraq combined with the efforts of government and other regulatory agencies and progressive management have reduced in recent years the number of acceptable alternatives particularly in the case of corporate enterprises. While continuing efforts in this regard in future are likely to reduce the number still further, the availability of alternative accounting principles and methods of applying those principles is not likely to be eliminated altogether in view of the differing circumstances faced by the enterprises.

4.3 Areas in Which Differing Accounting Policies are Encountered

The following are examples of the areas in which different accounting policies may be adopted by different enterprises.

- Methods of depreciation, depletion and amortisation
- Treatment of expenditure during construction
- Conversion or translation of foreign currency items
- Valuation of inventories
- Treatment of goodwill
- Valuation of investments
- Treatment of retirement benefits
- Recognition of profit on long-term contracts
- Valuation of fixed assets
- Treatment of contingent liabilities.
The above list of examples is not intended to be exhaustive.

4.4 Considerations in the Selection of Accounting Policies

The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date. For this purpose, the major considerations governing the selection and application of accounting policies are:

4.4.1 Prudence

In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only an estimate in the light of available information.

4.4.2 Substance over Form

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

4.4.3 Materiality

Financial statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

Such disclosure should form part of the financial statements.

It would be helpful to the reader of financial statements if they are all disclosed as such in one place instead of being scattered over several statements, schedules and notes.

Any change in an accounting policy which has a material effect should be disclosed. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)</th>
<th>Iraqi Accounting Standards (ASs)</th>
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<tbody>
<tr>
<td>IAS/IFRS No.</td>
<td>International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)</td>
<td>Iraqi Accounting Standards (ASs)</td>
</tr>
<tr>
<td>1</td>
<td>IAS 1</td>
<td>Presentation of Financial Statements</td>
</tr>
<tr>
<td>2</td>
<td>IAS 2</td>
<td>Inventories</td>
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<tr>
<td>3</td>
<td>IAS 7</td>
<td>Corresponding IAS has been withdrawn since the matter is now covered by IAS 16 and IAS 38</td>
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<tr>
<td>4</td>
<td>IAS 8</td>
<td>Accounting Policies, Changes</td>
</tr>
<tr>
<td>5</td>
<td>In Accounting Estimates and Errors</td>
<td>AS 5</td>
</tr>
<tr>
<td>6</td>
<td>IAS 10</td>
<td>Events After the Balance Sheet Date</td>
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<tr>
<td>7</td>
<td>IAS 11</td>
<td>Construction Contracts</td>
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<tr>
<td>8</td>
<td>IAS 12</td>
<td>Income Taxes</td>
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<tr>
<td>9</td>
<td>IAS 14</td>
<td>Segment Reporting</td>
</tr>
</tbody>
</table>

Table 1

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II. International Accounting Standard/International Financial Reporting Standard not considered relevant for issuance of either Accounting Standards or the Guidance Notes by the ICAI for the reasons indicated.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)</th>
<th>Reasons</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>IAS/IFRS No.</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>IAS 29 Financial Reporting in Hyper-inflationary Economies</td>
<td>The Institute notes that the hyper-inflationary conditions do not prevail in Iraq. Accordingly, the subject is not considered relevant in the Iraqi context.</td>
</tr>
<tr>
<td>2</td>
<td>IFRS1 First-time Adoption of International Financial Reporting Standards</td>
<td>In Iraq, Iraqi ASs are being adopted since last many years and IFRSs are not being adopted for the first time. Therefore, the IFRS 1 is not relevant to Iraq at present.</td>
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III. Accounting Standards presently under preparation corresponding to the International Accounting Standards/International Financial Reporting Standards

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)</th>
<th>Title of the Standard</th>
<th>Status</th>
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<tr>
<td></td>
<td>IAS/IFRS No.</td>
<td></td>
<td></td>
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<tr>
<td>1</td>
<td>IAS 26 Accounting and Reporting by Retirement Benefit Plans</td>
<td>Under Preparation</td>
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<tr>
<td>2</td>
<td>IAS 30 Disclosure in Financial Statements of Banks and Similar Financial Institutions</td>
<td>Under preparation. At present, Covered by the Banking regulation Act, 1949; also certain disclosure norms have been prescribed by the Reserve Bank of Iraq.</td>
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<tr>
<td>3</td>
<td>IAS 32 Financial Instruments: Disclosure and Presentation</td>
<td>Under Preparation</td>
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<tr>
<td>4</td>
<td>IAS 39 Financial Instruments: Recognition and Measurement</td>
<td>Under Preparation</td>
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<tr>
<td>5</td>
<td>IAS 41 Agriculture</td>
<td>Under preparation.</td>
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<tr>
<td>6</td>
<td>IFRS 2 Share-based Payment</td>
<td>Under preparation. At present, Employee-share based Payments are covered by a Guidance Note issued by the Institute. Further, some other pronouncements deal with other share-based payments, e.g., AS 10, Accounting for Fixed Assets</td>
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<tr>
<td>7</td>
<td>IFRS 4 Insurance Contracts</td>
<td>Under preparation</td>
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</table>
From the above tables it may be noted that International Accounting Standards nos. 3, 4, 5, 6, 9, 13, 15, 22, 25, and 35 have already been withdrawn by the International Accounting Standards Board (IASB). IASB recently issued IFRS 5 and withdrew IAS 35, Discontinuing Operations, on which AS 24 is based. An Iraqi Accounting Standard corresponding to IFRS 5 is under preparation. After the issuance of this Iraqi AS, AS 24 is proposed to be withdrawn. Pending the issuance of a comprehensive Accounting Standard on Financial Instruments, the following pronouncements deal with the accounting for certain types of financial instruments: (1) AS 13, Accounting for Investments (2) Guidance Note on Equity Index and Equity Stock Futures and Options (3) Guidance Note on Investments by Mutual Funds. (4) Guidance Note on Securitization.

Corresponding to IFRS 6 (effective 2006), Exploration for and Evaluation of Mineral Resources, Guidance Note of the ICAI titled ‘Accounting for Oil and Gas Producing Activities’, has been issued.

References

[22] —Simplifying Global Accounting, Headliner Q&A,
