



# **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

Duncan Williamson

# Objective of IAS 8

- The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance
  - Relevance
  - Reliability and
  - Comparability [IAS 8.1]

# [ Scope ]

- This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors. [IAS 8.3]

# [ Key Definitions ]

- **Accounting policies**
- **A change in accounting estimate**
- **International Financial Reporting Standards**
- **Materiality**
- **Prior period errors**
- **[IAS 8.5]**

# Selection and Application of Accounting Policies 1

- ... accounting policy or policies applied ... must be determined by applying the Standard or Interpretation and Implementation Guidance issued by the IASB for the Standard or Interpretation. [IAS 8.7]

# Selection and Application of Accounting Policies 2

- In the absence of a Standard or an Interpretation that specifically applies ... management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. [IAS 8.10].
- In making that judgement, management must refer to ... the following sources in descending order:

# Selection and Application of Accounting Policies 3

- the requirements and guidance in IASB standards and interpretations dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework. [IAS 8.11]
- Management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11. [IAS 8.12]

# Consistency of Accounting Policies

- An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate ... [IAS 8.13]

# Changes in Accounting Policies 1

- An entity is permitted to change an accounting policy only if the change:
  - is required by a standard or interpretation; or
  - results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows. [IAS 8.14]

# Changes in Accounting Policies 2

- If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. [IAS 8.19]
- Retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. [IAS 8.22]

# Disclosures Relating to Changes in Accounting Policies 1

- Disclosures relating to changes in accounting policy caused by a new standard or interpretation include:
  - the title of the standard or interpretation causing the change;
  - the nature of the change in accounting policy;
  - a description of the transitional provisions, including those that might have an effect on future periods;

# Disclosures Relating to Changes in Accounting Policies 1

- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected
- the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied. [IAS 8.28]

**See the Model Statements pages 16, 16, 17 and 38**

# Disclosures Relating to Voluntary Changes in Accounting Policy 1

- Disclosures relating to voluntary changes in accounting policy include:
- the nature of the change in accounting policy;
- the reasons why applying the new accounting policy provides reliable and more relevant information;

# Disclosures Relating to Voluntary Changes in Accounting Policy 2

- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected
- the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.  
[IAS 8.29]

# Changes in Accounting Estimate

- The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:
  - the period of the change, if the change affects that period only; or
  - the period of the change and future periods, if the change affects both. [IAS 8.36]
- However, 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 is recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of the change. [IAS 8.37]

# Disclosures Relating to Changes in Accounting Estimate

- 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 in future periods
- if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact. [IAS 8.39-40]

# Errors 1

- The general principle in IAS 8 is that an entity must correct all material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
  - restating the comparative amounts for the prior period(s) presented in which the error occurred; or
  - if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. [IAS 8.42]

# [ Errors 2 ]

- ... if it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, the entity must restate the opening balances ... for the earliest period for which retrospective restatement is practicable ... [IAS 8.44]
- ... if it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods ... restate ... from the earliest date practicable. [IAS 8.45]

# Disclosures Relating to Prior Period Errors

- Disclosures relating to prior period errors include:
  - the nature of the prior period error;
  - for each prior period presented, to the extent practicable, the amount of the correction:
    - for each financial statement line item affected
  - the amount of the correction at the beginning of the earliest prior period presented; and
  - if retrospective restatement is impracticable, an explanation and description of how the error has been corrected. [IAS 8.49]

# [ Reference ]

- I recognise the help I received from the materials prepared by Deloitte, Touche, Tohmatsu in preparing this presentation.