IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Objective

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 the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

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.

The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with IAS 12 *Income Taxes*.

Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005.

Definitions

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accounting Estimates refer to a change in an accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense or the amount of the periodic consumption of an asset, resulting from reassessing the present status of expected future benefits and obligations associated with the asset or liability.

Errors refer to prior period errors which are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from failure to use/or from misuse of reliable information:

(a) that was available when the financial statements for that period were issued; and
(b) could have been reasonably expected to be taken into account in in the preparation and presentation of those financial statements

Material Omissions or misstatements are items which are material if they could, individually or collectively, influence the economic decisions that users make based on the financial statements.

Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Impracticable means the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;
(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
   (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Accounting policies

Selection and application:

When an IFRS specifically applies to a transaction, event or condition, the policy shall be determined by applying the IFRS.

In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs of users; and
(b) reliable, in that the financial statements:

   (i) represent faithfully the financial position, financial performance and cash flows of the entity;
   (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
   (iii) are neutral, i.e. free from bias;
   (iv) are prudent; and

Consistency of accounting policies:

An entity shall apply its accounting policy consistently for similar transactions, other events or conditions unless an IFRS states otherwise.

If an IFRS requires or permits such categorisation of terms, or which different policies may be appropriate, an appropriate accounting policy shall be selected and applied consistently to each category.

The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

Changes in accounting policies only if:

(a) Required by IFRS; or
(b) Results in the financial statements providing reliable and more relevant information.

Application guidance

Accounting policy changes

If the change is resulting from a Standard; an entity shall apply transitional provisions and if no specific transitional provisions exist, an entity shall apply the change retrospectively.

When a change in accounting policy is applied retrospectively, the entity shall adjust 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.

The Standard refers to limitations on retrospective application when it proves impracticable.

Accounting estimate changes

The change shall be recognised prospectively in profit and loss in the:

(a) period of change, if the change affects that period only or;
(b) period of change and future periods if the change affects both.

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 shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Correction of errors

An entity shall correct material prior period errors respectively in the first set of financial statements authorised for issue after their discovery by:

(a) restating the comparative amounts for prior period(s) in which error occurred, or
(b) If the error occurred before that date – restating the opening balance of assets, liabilities and equity for earliest prior period presented.

The Standard refers to limitations on retrospective application when it proves impracticable.

Presentation and disclosure

Accounting policy changes

In the Notes to the financial statement:

When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the title of the Standard;
(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
(c) the nature of the change in accounting policy;
(d) when applicable, a description of the transitional provisions;
(e) when applicable, the transitional provisions that might have an effect on future periods;
(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

    (i) for each financial statement line item affected;
    (ii) if IAS 33 Earnings per Share applies to the entity, for basic and diluted earnings per share;

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
(h) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy;
(b) the reasons why applying the new accounting policy provides reliable and more relevant information;
(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

    (i) for each financial statement line item affected; and
    (ii) if IAS 33 Earnings per Share applies to the entity, for basic and diluted earnings per share;

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

When an entity has not applied a new Standard that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and
(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.

Accounting estimate changes

In the Notes to the financial statement:
An entity shall 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, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimation of it is impracticable, an entity shall disclose that fact.

Correction of errors

In the Notes to the financial statement:

An entity shall disclose the following:

(a) the nature of the prior period error;
(b) for each prior period presented, to the extent practicable, the amount of the correction:

  (i) for each financial statement line item affected; and
  (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;

(c) the amount of the correction at the beginning of the earliest prior period presented; and
(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected

Applicable to all disclosures - financial statements of subsequent periods need not repeat these disclosures.