IAS 8

Accounting policies, changes in accounting estimates and errors

Lesson 1 – objective and scope

This standard deals with the accounting for **accounting policies**, **accounting estimates** and **errors**.

Objective and scope

IAS 8 prescribes criteria for __________ and ___________ accounting policies. It also deals with the _________________________ and ________________________ of changes in accounting policies, accounting estimates and corrections of prior period errors.

Disclosure requirements for accounting policies are set out in IAS 1 and the tax effects of correcting prior period errors and changes in accounting policies are accounted for and disclosed in accordance with IAS 12.

Lesson 2 – Accounting policies

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

Following are **Examples** of accounting policies:

- Valuation of inventory using FIFO, Average Cost or other suitable basis as per IAS 2
- Classification, presentation and measurement of financial assets and liabilities under categories specified under IAS 32 and IAS 39 such as held to maturity, available for sale or fair value through profit and loss
- Timing of recognition of assets, liabilities, expenses and income
- Basis of measurement of non-current assets such as historical cost and revaluation basis
- Accruals basis of preparation of financial statements

When an _________ specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the ________.

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

- _________ to the economic decision-making needs of users; and
- _________, in that the financial statements.

In making the judgement described above, management shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements in _______ dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the __________________.

Consistency of accounting policies

An entity shall select and apply its accounting policies _____________ for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If an IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Lesson 3 – Changes in accounting policies

An entity shall change an accounting policy only if the change:

- is required by an ______; or
- results in the financial statements providing _______ and more _________ information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Could be changes of:

- Measurement (e.g. from FIFO to WAC)
- Recognition (e.g. capitalization of interest: from SoP/LOCI to SoFP)
- Presentation (e.g. reclassification of an expenses from COGS to Admin)

Applying changes in accounting policies

If the change is resulting from an_______, an entity shall apply ____________________ and if no specific transitional provisions exist, an entity shall apply the change _______________.

When a change in accounting policy is applied retrospectively, the entity shall adjust the _______________ of each affected component of equity for the earliest prior period presented and the ___________________ 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 _________________.

Disclosure of changes in accounting policies

Following must be disclosed in the financial statements of the accounting period in which a change in accounting policy is implemented:

- Title of IFRS
- Nature of change in accounting policy
- Reasons for change in accounting policy
- Amount of adjustments in current and prior period presented
- Where retrospective application is impracticable, the conditions that caused this. (explain why it is impracticable).

Lesson 4 – Accounting estimates

Accounting estimates are the estimations used by management to recognize amounts in the financial statements where precise values cannot be determined. The use of reasonable estimates is an essential part of the preparation of financial statements and involves judgement based on the latest available reliable information.

For **example**, estimates may be required for:

- Depreciation expense.
- Value of pension benefit obligations.
- Fair value of assets.
- Impairment assessment of non-current assets.
- NRV assessment of inventory.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

The change in accounting estimates shall be recognised __________________ in profit and loss in the:

- ___________________, if the change affects that period only or;
- ____________________ and _________________ if the change affects both.

Disclosure of changes in accounting estimates

An entity shall disclose the _________ and ____________ 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 estimating it is ___________________, an entity shall disclose that fact.

It can be difficult sometimes to distinguish between changes in accounting policies and changes in accounting estimates.

When there is doubt as to which type of change it is, IAS 8 requires it to be treated as a change in accounting ___________________.

Lesson 5 – Prior period errors

Errors may occur in the recognition, measurement, presentation or disclosure of elements of FS. Prior period errors are defined by IAS 8 as omissions from, and misstatements in, the entity's FS that are discovered in the current period and relate to reliable information that:

- Was available when those prior period FS were prepared; and
- Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those FS.

Errors includes:

- the effects of ______________________,
- mistakes in applying ______________________,
- __________________ or misinterpretations of facts and
- ____________ and effects of ____________

As per IAS 8 an entity shall correct material prior period errors __________________ 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.

Disclosure of prior period errors

An entity shall disclose the following:

- the ____________ of the prior period error;
- the ____________ of the correction:
- the ____________ of the correction at the beginning of the _____________________ presented;

Financial statements of subsequent periods need not repeat these disclosures.