Updates on IFRS, IAS, IFRIC and SCI

The Journal is running a series of updates on IFRS, IAS, IFRIC and SCI and this section has been updated by **Md. Abu Khair Hasanul Hasif Sowdagar,** FCMA, FCA. He is currently working with Standard Chartered Bank, Bangladesh as Senior Manager, Financial Controls and Risk.

International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Abstract:

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.

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.***

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in ***IAS 1 Presentation of Financial Statements.***

History of IAS 8

Date	Development & Comments
October 1976	Exposure Draft E8 *The Treatment in the Income Statement of Unusual Items and Changes in Accounting Estimates and Accounting Policies*
February 1978	IAS 8 *Unusual and Prior Period Items and Changes in Accounting Policies*
July 1992	Exposure Draft E46 *Extraordinary Items, Fundamental Errors and Changes in Accounting Policies*
December 1993	IAS 8 (1993) *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised as part of the 'Comparability of Financial Statements' project)*
1 January 1995	Effective date of IAS 8 (1993)
18 December 2003	Revised version of IAS 8 issued by the IASB
1 January 2005	Effective date of IAS 8 (2003)
1 January 2007	Effective date of IAS 8 (in Bangladesh on or after 1 January 2007)

Related Interpretations:

- IAS 8(2003) supersedes SIC-2 Consistency - Capitalisation of Borrowing Costs
- IAS 8(2003) supersedes SIC-18 Consistency - Alternative Methods.

Definitions:

The following terms are used in this Standard with the meanings specified:

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

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.

International Financial Reporting Standards (IFRSs) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of 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.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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 Applying a requirement is impracticable when 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

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS and considering any relevant Implementation Guidance issued by the IASB for the IFRS.

In the absence of a Standard or an Interpretation 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 relevant and reliable. In making the judgement management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in IFRSs dealing with similar and related issues; and
(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

An entity shall select and apply its accounting policies consistently 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.

An entity shall change an accounting policy only if the change:
(a) is required by an IFRS; or
(b) 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.

An entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS. When an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

However, a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Other changes in accounting policy:

IAS 8 requires ***retrospective application,*** unless it is ***impracticable*** to determine the cumulative amount of charge. Any resulting adjustment should be reported as an adjustment to the opening balance o retailed earnings. Cooperative information should be restated unless it is impracticable to do so.

This is means all comparative information must be restated as ***if the new policy had always been in force,*** with amounts relating to earlier periods reflected in an adjustment to opening reserve of the earliest period presented.

Prospective application is allowed only when it is impracticable to determine the cumulative effect of the change.

Certain ***disclosure*** are required when a change in accounting policy has a material effect on the current period or any prior period presented, or when it may have a material effect in subsequent periods.
(a) Reasons for the changes
(b) Amount of the adjustment for the current period and for each period presented
(c) Amount of the adjustment relating to periods prior to those included in the comparative information
(d) The fact that comparative information has been restated or that it is impracticable to do so

An entity should also disclose information relevant to assessing the impact of new IFRS on the financial statements where these have not yet come into force.

Change in accounting estimate:

The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. A change in accounting estimateis 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.

Here are some examples of accounting estimates:

- A necessary bad debt provision
- Useful lives of depreciable assets
- Provision for obsolescence of inventory

Changes in accounting estimates result from ***new information or new developments*** and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate, shall be recognised ***prospectively*** by including it in profit or loss in:

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

An example of a change in accounting estimate which affects only the ***current period*** is the bad debt estimate. However, a revision in the life over which an asset is depreciated would affect both the ***current and future periods,*** in the amount of the depreciation expense.

The **materiality** of change is also relevant.

Prior period errors:

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
(b) 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.

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of 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.

Only where it ***is impracticable*** to determine the cumulative effect of an error on prior periods can an entity correct an error ***prospectively***.
Various disclosures are required:

(a) Nature of the prior period error
(b) For each prior period, to the extent practicable, the amount of the correction.
   i. For each financial statement line item affected
   ii. If IAS 33 applies, for basic and dilute earnings per share
(c) The amount of correction at the ***beginning of the earliest prior period*** presented
(d) If ***retrospective restatementis 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. Subsequent periods need not repeat these disclosures.

> "One whose knowledge is confined to books and whose wealth is in the possession of others, can use neither his knowledge nor wealth when the need for them arises."
> - Chanakya