FINANCIAL REPORTING WORKSHOP

Accounting Policies, Changes in Accounting Estimates and Errors

Presentation by:

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Learning objectives

Upon completion you will be able to:

1. Determine the **differences** between a change in an accounting policy, accounting estimate and a prior period error

2. Assess what a **change in accounting policy** is, how to account for the changes and what are the disclosure requirements

3. Assess what a **change in estimate** is, how to account for the change and what are the disclosure requirements

4. Assess what a **change in prior period error** is, how to account for the change and what are the disclosure requirements

Agenda

1 Objective and scope of IAS 8

2 Accounting policies

3 Accounting estimates

4 Prior period error

Objective and scope

- **Selecting and applying accounting policies**
- **Accounting for changes in:**
  - Accounting policies
  - Accounting estimates
- **Corrections of prior period errors**

Accounting policies

- **Accounting policies**
  - Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements

Selection and application of accounting policies

- **Accounting policy determined by**
  - Applying a specific IFRS
  - Considering any relevant implementation guidance
- **In absence of a specific IFRS**
  - Use judgement to develop an accounting policy that results in relevant and reliable information
    - I. First, refer to IFRSs dealing with similar and related issues and second, to framework
    - II. Consider pronouncement of other setters or industry practices if consistent with above

Consistency of accounting policies

- **Select and apply accounting policy consistently for similar transactions, other events and conditions**
- **May adopt different policies**
  - When an IFRS requires or permits categorisation of items for which different policies may be appropriate
  - But accounting policy selected and applied should be consistent to each category

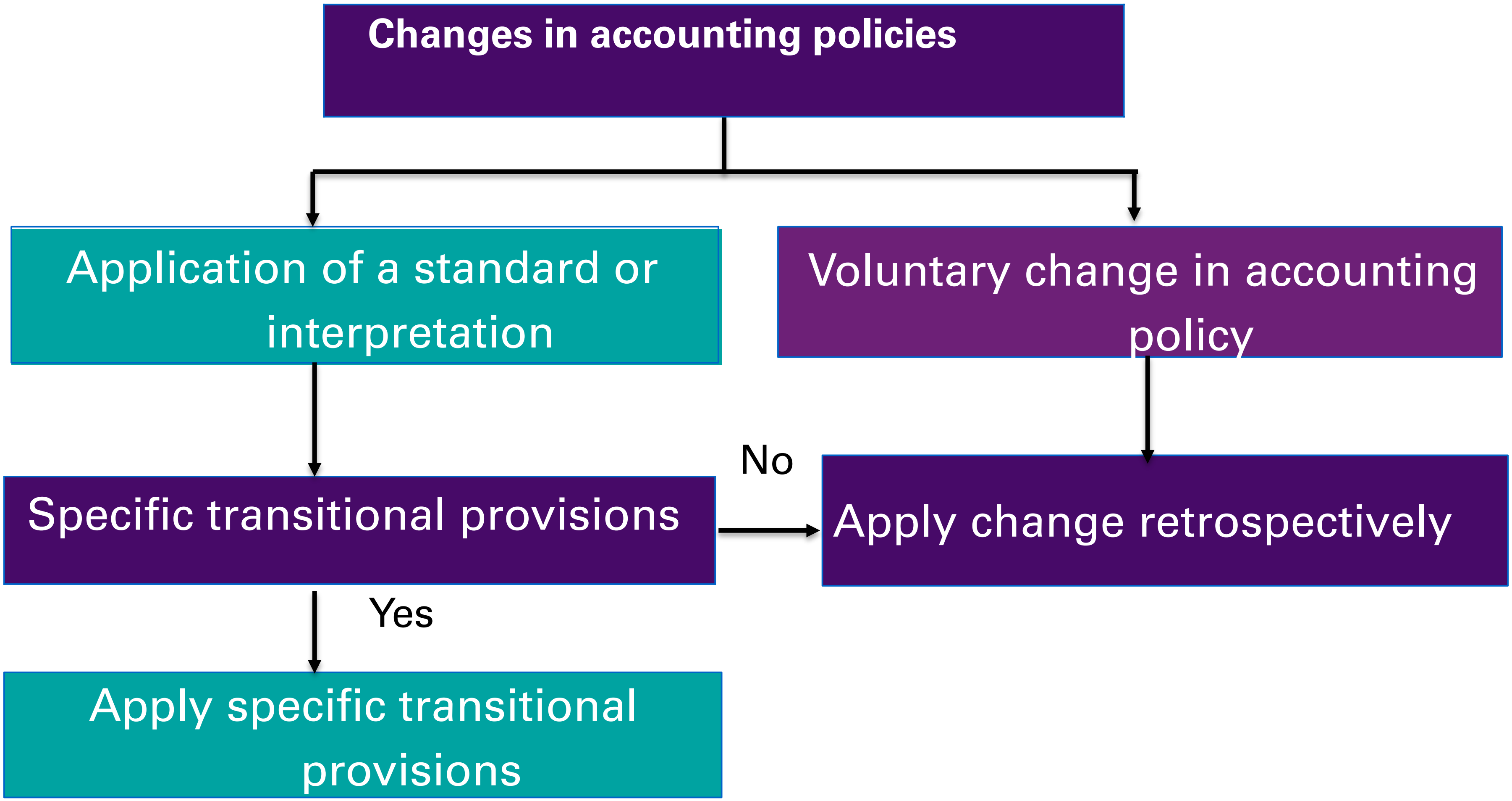
Disclosure – Judgment and estimation

- **Disclose the judgements made by management**
  - that have the most significant effect
- **Disclose information about key assumptions**
  - concerning the future, and other key sources of estimation uncertainty
  - disclose for those assets and liabilities
    I. their nature; and
    II. their carrying amount at the end of the reporting period

Change of accounting policies

- **Consistency is important**
- **Change an accounting policy only if the change:**
  - is required by an IFRS; or
  - results in the financial statements providing reliable and more relevant information

Applying changes in accounting policies



Applying changes in accounting policies (cont'd)

Retrospective application is impracticable

Period-specific effects

Cumulative effect at the beginning of the current period

Apply new accounting policy as at the beginning of the earliest period for which retrospective application is practicable

Financial statements are adjusted as at the beginning of the earliest period from which retrospective adjustment is practicable

Retrospective application - Impracticability

- **Use only information that**
  - Provides evidence of circumstances at the time; and
  - Would have been available when the financial statements of that period were authorised for issue
- **If a significant estimate requires the use of information that does not meet these criteria then**
  - Retrospective application is impracticable
- **No hindsight in estimates**

Changes in accounting policies -Disclosure

- **When an entity restates, IAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- **When <u>initial application</u> of a standard or an interpretation has an effect, disclose**
  – Change in accordance with transitional provisions
  – For current period and each prior period presented the amount of the adjustment for each financial line item affected
  – The amount of the adjustment relating to periods before those presented, to the extent practicable
  – If retrospective application is required but impracticable, the circumstances and a description
- **Need not repeat these disclosures in subsequent periods**

Changes in accounting policies - Disclosure (cont'd)

- **When a <u>voluntary change</u>:**
  - 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
- **Then we are required to disclose:**
  - Why the change provides reliable and more relevant information
  - For current period and each prior period presented the amount of the adjustment for each line item affected
  - The amount of the adjustment relating to periods before
  - those presented
  - If retrospective application is impracticable, the circumstances and a description
- **Need not repeat these disclosures in subsequent periods**

Changes in accounting estimates

- **Include the effect of a change in an accounting estimate in net profit or loss in**
  - The period of the change, if the change affects the period only, or
  - The period of the change and future periods, if the change affects both
- **If difficult to distinguish between change in accounting estimate and in accounting policy**
  - Treat the change as a change in accounting estimate

Changes in accounting estimates (cont'd)

- **Disclose the nature and amount of a change in an estimate:**
  - That has an effect in the current period, or
  - Is expected to have an effect in the future periods
- **If impracticable to quantify the amount, disclose that fact**

Prior period errors

- **Errors in respect of recognition, measurement, presentation or disclosure**
- **Prior period errors**
  – Omission and misstatements for one or more prior periods arising from a failure to use, or misuse of, reliable information
- **Such errors include**
  – The effects of mathematical mistakes in applying accounting policies
  – Oversights or misinterpretations of facts
  – Fraud

Correction of material prior period errors

- **Correct <u>material</u> prior period errors retrospectively in the first set of financial statements authorised for issue after discovery by:**
  - Restating the comparative amounts for the prior period presented in which the error occurred; or
  - If the error occurred before the earliest prior period presented, restating the opening balances for the earliest prior period presented

Correction of material prior period errors (cont'd)

Retrospective application is impracticable

- **Period-specific effects**
  - Restate the opening balances of assets and liabilities and equity for the earliest period for which retrospective restatement is practicable
- **Cumulative effect at the beginning of the**
  - Restate comparative information to correct the error prospectively from the earliest date practicable

Disclosure of prior period errors correction (cont'd)

- **When an entity restates, IAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- **Extensive disclose requirements**
  - Disclose the nature of the prior period error
  - For each prior period presented the amount of the correction
  - The amount of the correction at the beginning of the earliest prior period presented
  - If retrospective restatement is impracticable, the circumstances that led to the error and in which period the error has been corrected
- **Need not repeat these disclosures in subsequent periods**

Q & A Session