



IAS 8, IAS 10 & Section 10 & 32 of IFRS for SMEs

- IAS 8/IPSAS 3

Accounting Policies, Changes in Accounting Estimates and Errors



1. Introduction (Objective and Scope)
2. Accounting Policies
3. Change in Accounting Estimates
4. Errors
5. Examples: Application guidance
6. Questions

Objective



To prescribe the criteria for:

- Selection and application of accounting policies
- Changes in accounting policies
- Errors

1. Introduction - Scope



- IAS 8 applies to entities complying with general IFRSs
- Tax prior period adjustments are made in line with IAS 12 Income taxes

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



- When a Standard or an Interpretation specifically applies to a transaction, other event or condition- **apply the Standard or Interpretation and consider any relevant Implementation guidance by IASB**



In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition - **Management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable.**

Managerial Considerations In Selection Of Policies



- Similar and related issues
- Conceptual framework
- Most recent pronouncements of other standard-setting bodies

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 categorization of items for which different policies may be appropriate



If a Standard or an Interpretation requires or permits categorization, an appropriate accounting policy shall be selected and applied consistently to each category

Changes in accounting policies



An entity is permitted to change an accounting policy only if the change:

1. is required by a standard or interpretation;
2. or results in the financial statements providing reliable and more relevant information

Exclusions



- Transaction or event that did not occur previously
- or were immaterial

Treatment of Change In Accounting Policies



- If a change in accounting policy is required by a new standard or interpretation- as per that standard
- If the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively.

Disclosures relating to changes in accounting policies



- Title of the standard or interpretation causing the change
- The nature of the change in accounting policy
- Description of the transitional provisions
- To the extent practicable, the amount of the adjustment: for each financial statement line item affected



- If retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosures For Voluntary Changes In Policies



- Nature
- Amount
- Description

If an entity has not applied a new standard or interpretation that has been issued but is not yet effective, the entity must disclose that fact

Changes in accounting estimates



Adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability

Treatment of Change In Accounting Estimate



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.

Disclosures On Change In Accounting Estimate



- Nature and amount of a change in an accounting estimate
- If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact

Prior Period Errors



Omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements.

Causes Of Errors



Errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud

Mainly errors emanate from non system based accounting

Treatment of Errors



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 for the earliest prior period presented

Disclosures relating to prior period errors



- Nature of the prior period error
- Amount of the correction at the beginning of the earliest prior period presented
- If retrospective restatement is impracticable, an explanation and description of how the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures

- IPSAS 3

Accounting Policies, Changes in Accounting Estimates and Errors Presentation



Scope



IPSAS 3 applies to all public organizations

The standard does not cover the tax effects of corrections of prior period errors and

Selection and Application of Accounting Policies



In selection and application of accounting policies

- An entity shall apply the relevant IPSAS
- If no specific IPSAS the management shall use its discretion in coming up with policies

Changes in Accounting Policies



An organization should only change its accounting policy only if the change:

(a) Is required by an IPSAS; or

(b) Results in the financial statements providing reliable and more relevant information.

Disclosures



- Title of the standard
- Transitional provisions, their nature and effect on the future
- The nature of the change in accounting policy
- Adjustments in the current period
- In case of impracticability, then the situation that led to that.

In all other aspects IPSAS 3 will mirror IAS 8 and in summary

Accounting policies- Retrospective application or adjustment

Errors - Retrospective adjustment

Changes in estimates – prospective application

Section 10 IFRS for SMES Accounting Policies, Estimates and Errors





If the IFRS for SMEs addresses an issue, the entity must follow the IFRS for SMEs

If the IFRS for SMEs does not address an issue:

- Choose policy that results in the most relevant and reliable information
- Try to analogise from standards in the IFRS for SMEs
- Or use the concepts and pervasive principles in Section 2
- Entity may look to guidance in full IFRSs (but not required)

Change in accounting policy



- If mandated, follow the transition guidance as mandated
- If voluntary, retrospective



Change in accounting estimate: prospective

Correction of prior period error: restate prior periods if practicable

IAS 10/IPSAS 14 – Events After the Reporting Period



IAS 10 Events After The Reporting Period contains requirements for when events after the end of the reporting period should be adjusted in the financial statements

Event after the reporting period



An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue

Adjusting Event



An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event



An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

Accounting Treatment



Adjust financial statements for adjusting events

Do not adjust for non-adjusting events - events or conditions that arose after the end of the reporting period.

If an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. That is a non-adjusting event.

Going concern issues arising after end of the reporting period



An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Disclosure



Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

The required disclosure is

- (a) the nature of the event and
- (b) an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made



A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions.

Section 32 IFRS for SMES Events after the End of the Reporting Period

Adjusting Events



Adjust financial statements to reflect adjusting events – events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period.

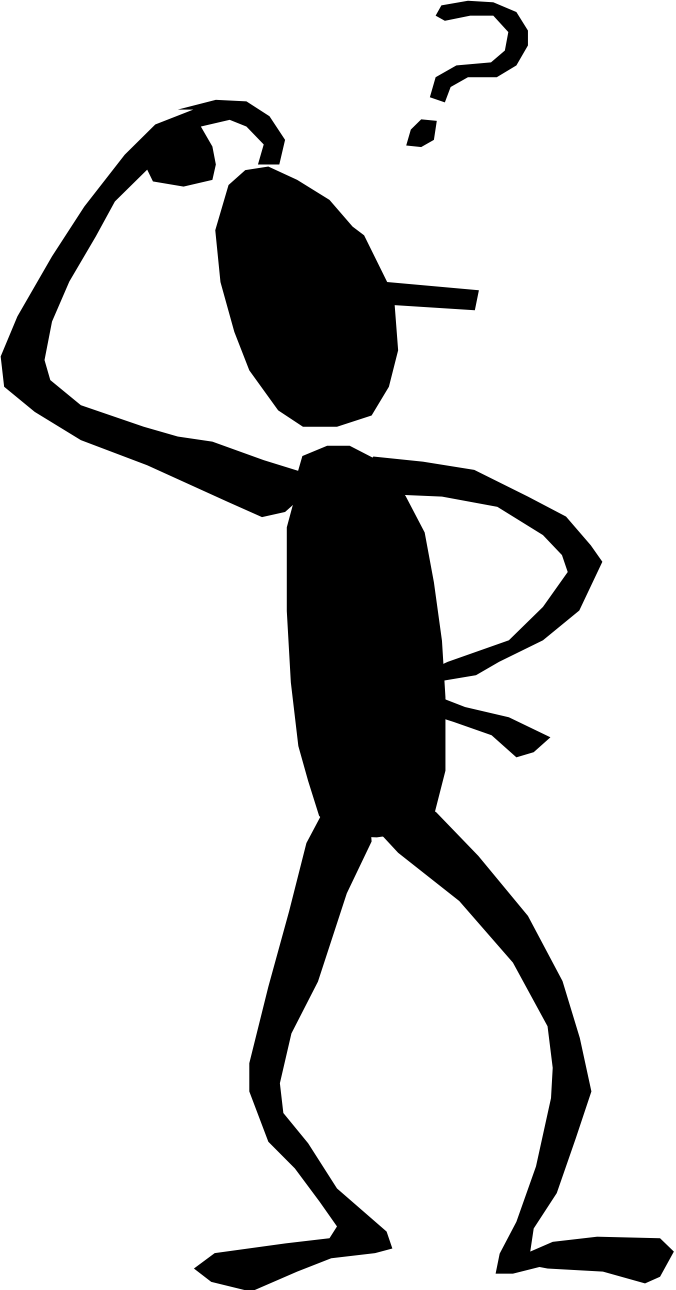
Non-adjusting Events



Do not adjust for non-adjusting events – events or conditions that arose after the end of the reporting period. For these, the entity must disclose the nature of event and an estimate of its financial effect.



If an entity declares dividends after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. That is a non-adjusting event.



CPA Anthony M Njiru

0722 241 005