IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors

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Overview

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors.

The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

IAS 8 was reissued in December 2005 and applies to annual periods beginning on or after 1 January 2005.

History of IAS 8

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)

Related Interpretations

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

Amendments under consideration by the IASB

- Disclosure initiative – Principles of disclosure
- Disclosure initiative – Materiality
- Disclosure initiative — Changes in accounting policies and estimates

Summary of IAS 8

Key definitions [IAS 8.5]

- **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 liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.
- **International Financial Reporting Standards**are standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
  - International Financial Reporting Standards (IFRSs)
  - International Accounting Standards (IASs)
  - Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC) and approved by the IASB.
- **Materiality.** Omissions or misstatements of items are material if they could, by their size or nature, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements.
- **Prior period errors** are 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. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Selection and application of accounting policies

When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item must be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation. [IAS 8.7]

In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. [IAS 8.10]. In making that judgement, management must refer to, and consider the applicability of, the following sources in descending order:

- the requirements and guidance in IASB standards and interpretations dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework. [IAS 8.11]

Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11. [IAS 8.12]

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 categorisation of items for which different policies may be appropriate. If a Standard or an Interpretation requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category. [IAS 8.13]

Changes in accounting policies

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

- is required by a standard or interpretation; or
- 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. [IAS 8.14]

Note that changes in accounting policies do not include applying an accounting policy to a kind of transaction or event that did not occur previously or were immaterial. [IAS 8.16]

If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. [IAS 8.19]

Retrospective application means adjusting 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. [IAS 8.22]

- However, if it is impracticable to determine either the period-specific effects or the cumulative effect of the change for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period. [IAS 8.24]
- Also, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable. [IAS 8.25]

Disclosures relating to changes in accounting policies

Disclosures relating to changes in accounting policy caused by a new standard or interpretation include: [IAS 8.28]

- the title of the standard or interpretation causing the change
- the nature of the change in accounting policy
- a description of the transitional provisions, including those that might have an effect on future periods
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected, and
  - for basic and diluted earnings per share (only if the entity is applying IAS 33)
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- 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 relating to voluntary changes in accounting policy include: [IAS 8.29]

- the nature of the change in accounting policy
- the reasons why applying the new accounting policy provides reliable and more relevant information
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected, and
  - for basic and diluted earnings per share (only if the entity is applying IAS 33)

- the amount of the adjustment relating to periods before those presented, to the extent practicable
- 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.

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 and any and known or reasonably estimable information relevant to assessing the possible impact that the new pronouncement will have in the year it is applied. [IAS 8.30]

Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in: [IAS 8.36]

- 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.

However, 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 is recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of the change. [IAS 8.37]

Disclosures relating to changes in accounting estimates

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
- if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact. [IAS 8.39-40]

Errors

The general principle in IAS 8 is that an entity must correct all material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by: [IAS 8.42]

- 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.

However, if it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity must restate the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable (which may be the current period). [IAS 8.44]

Further, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity must restate the comparative information to correct the error prospectively from the earliest date practicable. [IAS 8.45]

Disclosures relating to prior period errors

Disclosures relating to prior period errors include: [IAS 8.49]

- the nature of the prior period error
- for each prior period presented, to the extent practicable, the amount of the correction:
  - for each financial statement line item affected, and
  - for basic and diluted earnings per share (only if the entity is applying IAS 33)
- the 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.

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