

GPF meeting, 5 March 2015  
Agenda paper 6

# ***Review of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors***

***Preparers Survey – Preliminary Results***





- As part of the *Disclosure Initiative* project, the IASB is reviewing the requirements of IAS 1, IAS 7 and IAS 8
- OIC is assisting the IASB with the review of IAS 8
- OIC is conducting a survey with preparers in order to:
  - understand the practical challenges in applying IAS 8; and
  - collect views on a possible alternative approach proposed by OIC.
- Our objective is to get your views on the preliminary results of this survey

# Change in accounting policies, accounting estimates and correction of errors

**Question 1:** *Are voluntary changes in accounting policies, change in accounting estimates and correction of errors common in your experience?*

## Responses received so far:

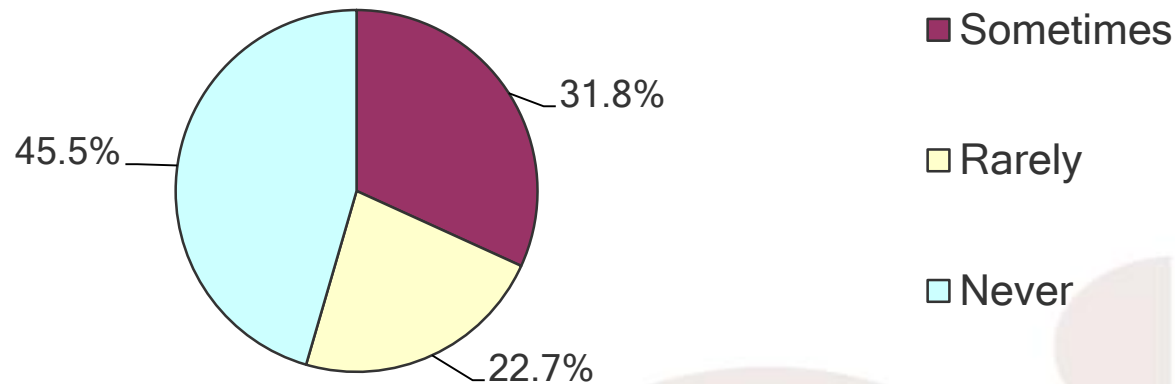
- Voluntary changes in accounting policies and correction of errors are Infrequent/rare
- Change in accounting estimates are common

**Do you agree?**

# Change in accounting policies: impracticability exemption



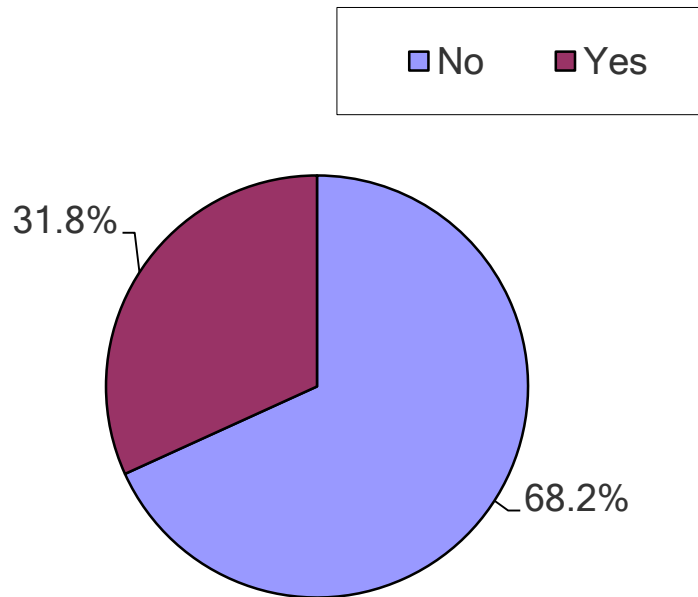
**Question 2:** *When dealing with changes in accounting policies, have you seen the impracticability exemption being used in practice?*



**What is your experience?**

# Distinction between a change in accounting policy from a change in accounting estimate

**Question 3:** *Have you seen a situation in which it was difficult to distinguish a change in accounting policy from a change in accounting estimates?*



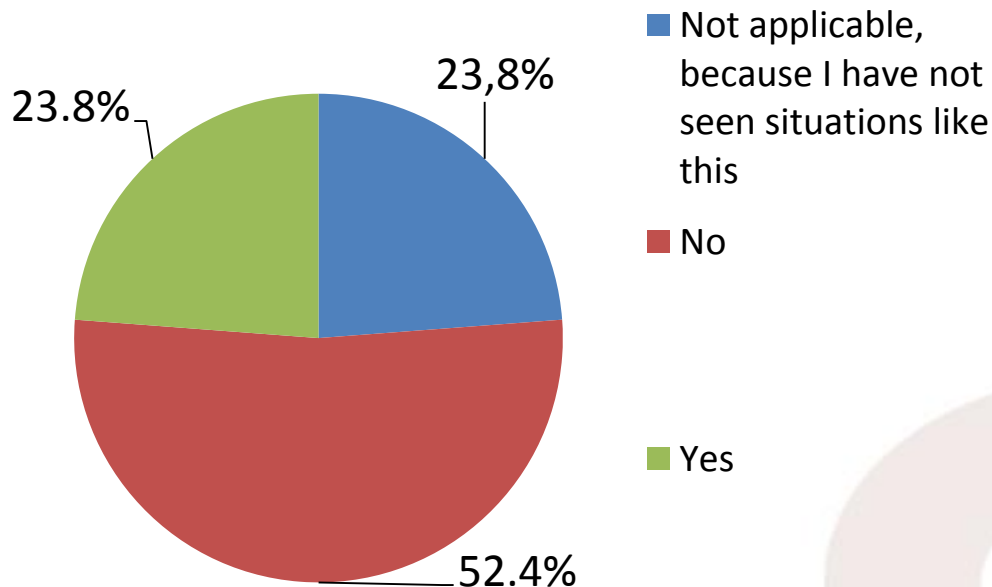
## Comments received so far:

### *Yes, because:*

- Inventory valuation
- Impairment of goodwill
- Impairment of loans
- Depreciation/amortization techniques
- **What is your experience?**

# Distinction between a change in accounting estimate and correction of prior year errors

**Question 4:** *Have you ever found it difficult to distinguish an error from a change in accounting estimates based on the current IAS 8 guidance?*



## Comments received so far:

- Errors and changes in estimates could be interrelated, because changes in estimates usually follow errors;
- sometimes it is difficult to determine whether the current period estimate differs from the previous period estimate because the facts have changed in the period, or because facts were wrongly interpreted in the previous period.
- **What is your experience?**

# A possible alternative approach



- IAS 8 currently distinguishes between changes in accounting policies and changes in accounting estimates.
- OIC is tentatively considering introducing a different distinction. The alternative approach distinguishes between:
  - **changes relating to measurement**, including changes in measurement basis, changes in the methods used to make an estimate and changes in inputs and assumptions; and
  - **other changes** (e.g. changes in the criteria for the recognition, derecognition, classification and presentation)
- The outcome of this proposal would be that:
  - changes relating to measurement will not be accounted for retrospectively, whilst other changes will be and
  - there will no longer be a need to distinguish between changes in accounting policies and changes in accounting estimates.

# A possible alternative approach



Do we need a distinction between accounting estimates and accounting policies?

## Measurement changes:

- Measurement basis
- Methods
- Assumptions



Non-retrospective application

## Other changes:

- Recognition
- Derecognition
- Classification
- Presentation
- Disclosure



Retrospective application

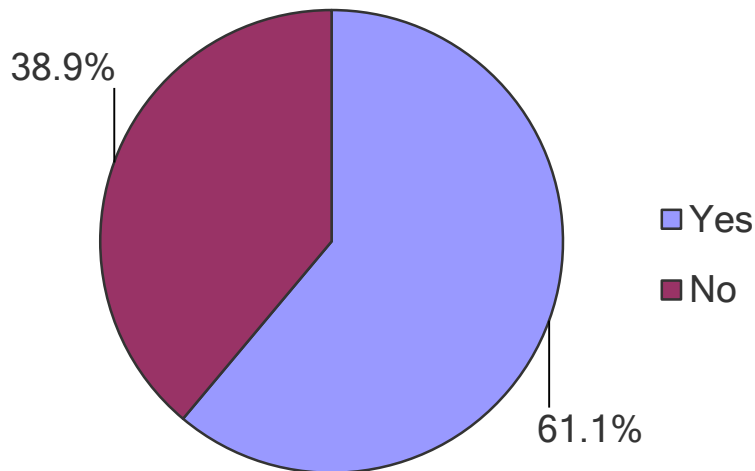




# A possible alternative approach



**Question 5:** *In your view, does it make sense to distinguish between changes in measurements and other changes?*



## Comments received so far:

### *Yes, because:*

- Less complex to apply
- The challenges related to retrospective application of an accounting change outweigh the benefits of retrospective application

### *No, because*

- The current distinction works well

**What is your view?**

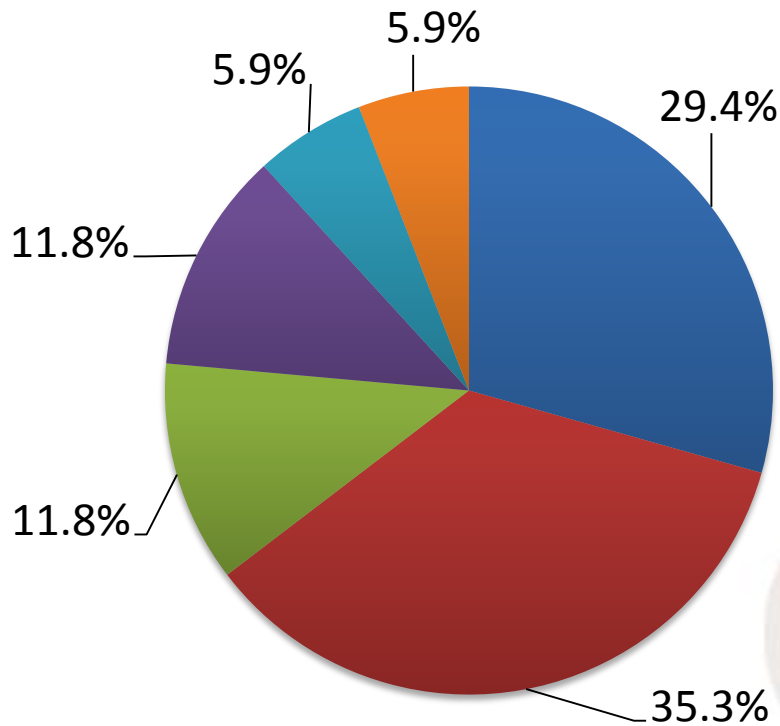
# A possible alternative approach: ways to represent

- **Full retrospective application** in accordance with IAS 8: restatement of all comparatives
- **Limited retrospective application:** starting from the beginning of the earliest comparative period presented (ie only one comparative is restated)
- **Catch-up adjustment:** comparatives are not restated and a catch-up adjustment is recognised in the opening balance of retained earnings
- **Prospective application with enhanced disclosures:** an entity would be required to account for the change prospectively and to disclose information for the current period financial statement line item that is affected, using both the old accounting policy and the new one
- **Prospective application** in accordance with IAS 8: comparatives are not restated and the effect of the change is recognised in P&L

# A possible alternative approach



**Question 6:** *In your view, what would be the best way to represent (i.e. account for or disclose) a change in the measurement basis (eg from cost to fair value)?*

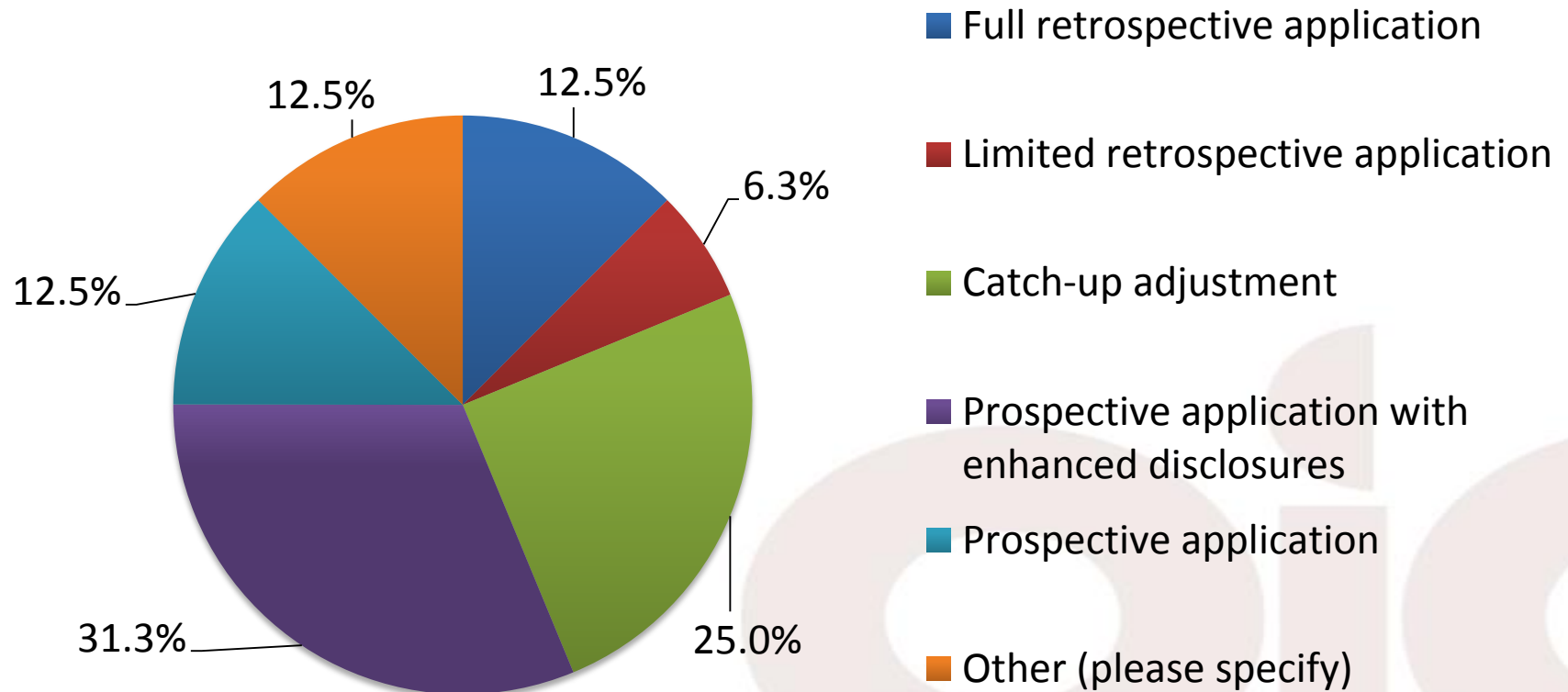


- Full retrospective application
- Limited retrospective application
- Catch-up adjustment
- Prospective application with enhanced disclosures
- Prospective application
- Other (please specify)

# A possible alternative approach



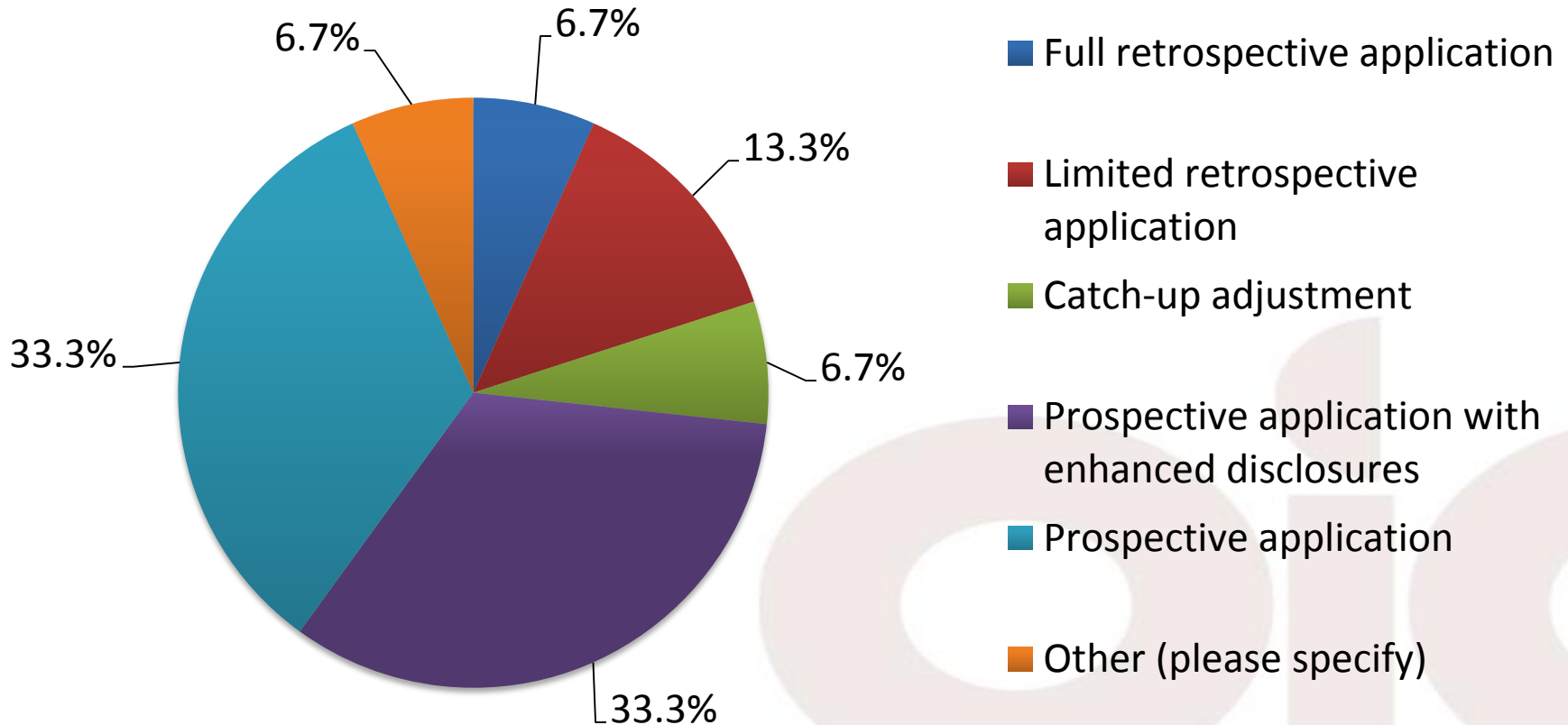
**Question 7:** *In your view, what would be the best way to represent (i.e. account for or disclose) other changes related to measurement (eg a change in the calculation of deferred tax for certain financial instruments)?*



# A possible alternative approach



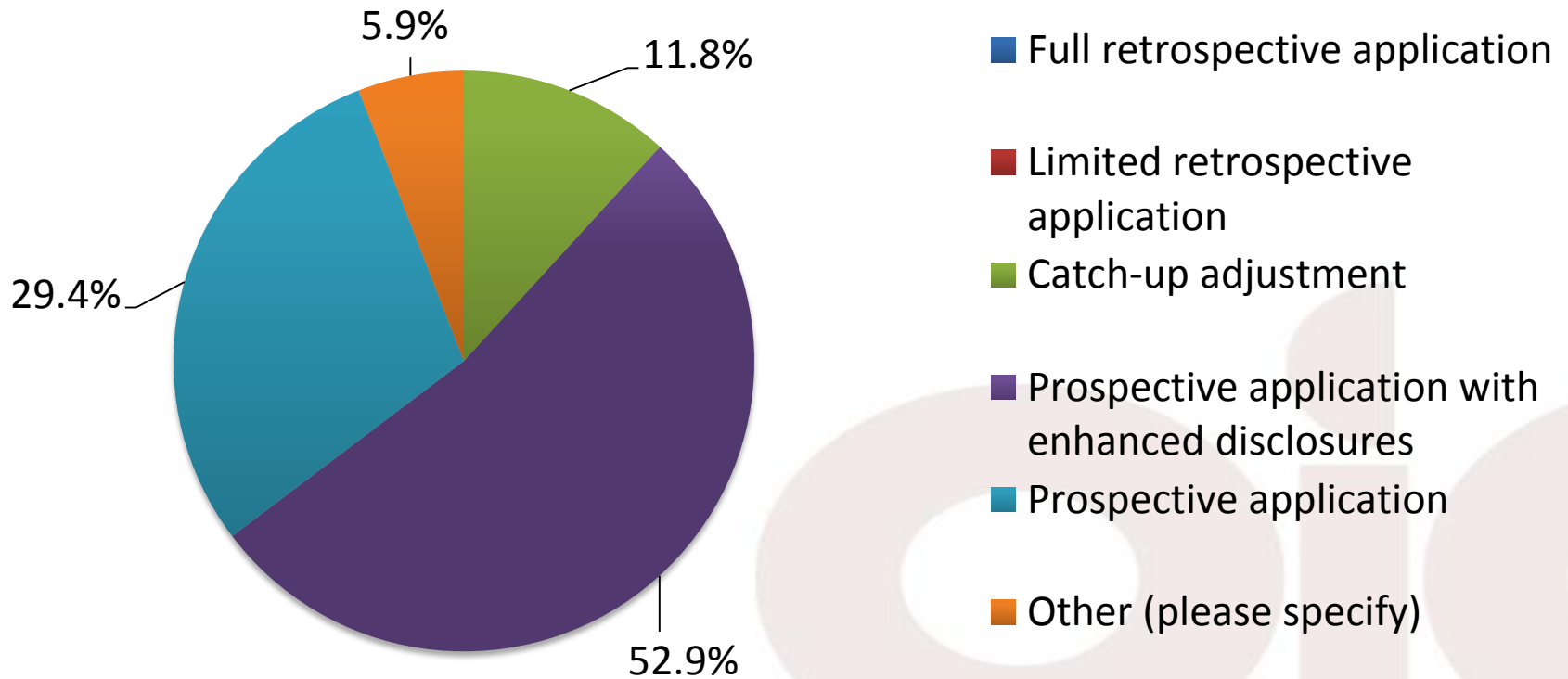
**Question 8:** *In your view, what would be the best way to represent (i.e. account for or disclose) a change in the method used to make an estimate (eg change of a valuation method for an item measured at fair value)?*



# A possible alternative approach



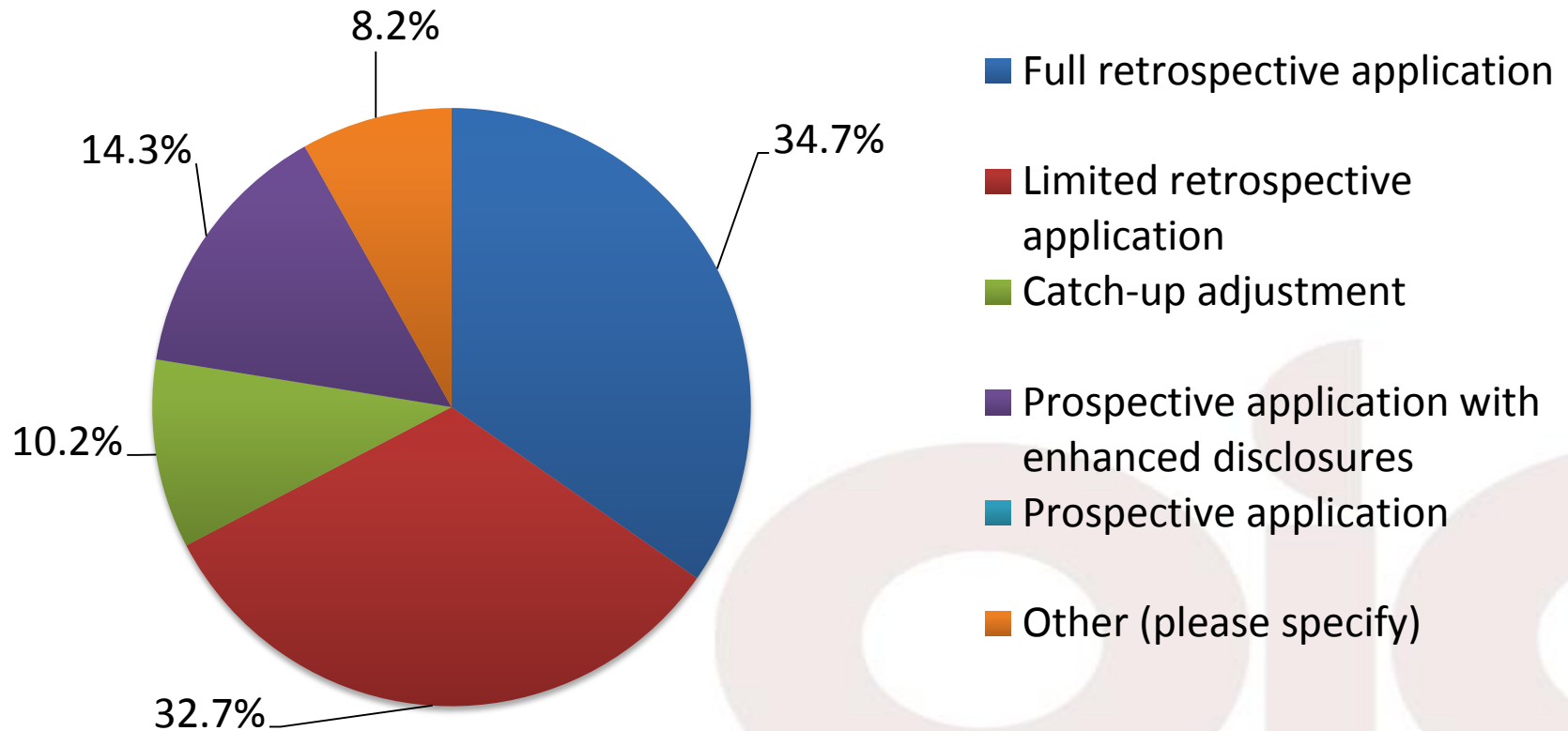
**Question 9:** *In your view, what would be the best way to represent (i.e. account for or disclose) a change in the inputs and assumptions used to make an estimate (eg new assumptions are used to determine the value in use of an asset)?*



# A possible alternative approach



**Question 10:** *In your view, what would be the best way to represent (i.e. account for or disclose) other changes in the financial statements?*





**Questions/Comments?**

