STAFF PAPER

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IASB® meeting

Project	**IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—Accounting policies and accounting estimates**
Paper topic	Cover paper

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Introduction and purpose

1. The International Accounting Standard Board (Board) published the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8) (Exposure Draft) in September 2017.

2. The purpose of this meeting is to provide the Board with our analysis of, and preliminary views on, matters identified in the feedback to the Exposure Draft, including our preliminary views on the project direction.

3. We welcome any questions or comments Board members may have on our analysis but are not asking the Board to make decisions at this meeting. We think it would be helpful for the Board to first discuss the matter and provide advice and feedback on our preliminary views before we then recommend a way forward. We will bring a paper to a future Board meeting that would include a recommendation for the Board's consideration.

Summary of the proposed amendments

4. The proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* aim to help entities distinguish accounting policies from accounting estimates. More specifically, the proposed amendments would clarify:

(a) how accounting policies and accounting estimates relate to each other, by:

(i) explaining that an entity uses accounting estimates in applying accounting policies; and

(ii) making the definition of accounting policies clearer and more concise.

(b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and

(c) that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

5. Appendix A to this paper reproduces pertinent excerpts from the Exposure Draft.

Background

6. At the Board's March 2018 meeting, we presented a paper summarising feedback on the Exposure Draft. Several respondents said the proposed amendments would help clarify the distinction between accounting policies and accounting estimates. However, several respondents also:

(a) raised concerns on particular aspects of the proposed amendments;

(b) suggested providing additional clarity in particular areas; and

(c) suggested adding illustrative examples.

Some respondents also asked whether finalising the proposed amendments would lead to benefits that outweigh the cost.

7. At the Board's July 2018 meeting, we provided an update and discussed next steps for the project. Since then, we have analysed the feedback on the Exposure Draft and formed preliminary views on how the Board could address that feedback, including the possible project direction.

8. We presented our analysis and preliminary views to the members of the IFRS Interpretations Committee (Committee) in September 2018 and the Accounting Standards Advisory Forum (ASAF) in October 2018. Our analysis in the papers for this meeting incorporates feedback we received at these meetings.

Agenda papers for this meeting

9. In addition to this cover paper, we have included the following three agenda papers to support our discussions with the Board:

   (a) Agenda Paper 26B *Analysis of feedback—definition of accounting estimates*. This paper analyses feedback on the proposed definition of accounting estimates which was included in the Exposure Draft and presents our preliminary views on how to address the feedback.

   (b) Agenda Paper 26C *Analysis of feedback—other aspects*. This paper analyses feedback on all other aspects of the Exposure Draft and presents our preliminary views on how to address that feedback.

   (c) Agenda Paper 26D *project direction*. This paper discusses the project direction in the light of the feedback on the Exposure Draft.

10. Within agenda Papers 26B and 26C, we analyse what we consider to be the key matters for redeliberation and outline our preliminary views on how to address those matters. Appendix A to these papers summarise other matters together with our preliminary views on how to address those matters.

Appendix A—Extract from the Exposure Draft: Proposed amendments to IAS 8

Paragraphs 5, 32, 34 and 51–53 are amended and paragraphs 32A, 32B and 54F are added. Deleted text is struck through and new text is underlined. Paragraphs 33, 35–38 and 50 have been included for ease of reference, but are not proposed for amendment.

Definitions

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

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

***Accounting estimates* are judgements or assumptions used in applying an accounting policy when, because of estimation uncertainty, an item in financial statements cannot be measured with precision.**

~~*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.~~

…

~~Changes in a~~ Accounting estimates

32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision~~ but can only be estimated~~. Thus, an entity may need to use accounting estimates in applying its accounting policies for some items. ~~Estimation involves judgements~~ Accounting estimates are based on the latest available, reliable information. For example, estimates may be required of:

(a) bad debts;

(b) inventory obsolescence;

(c) the fair value of~~ financial~~ assets or~~ financial~~ liabilities;

(d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and

(e) warranty obligations.

32A When an item cannot be measured with precision, selecting an estimation technique or valuation technique to measure that item involves the use of judgement or assumptions in applying the accounting policy for that item. For this reason, selecting that estimation technique or valuation technique constitutes making an accounting estimate.

32B Selecting one of the two cost formulas prescribed by paragraphs 25–27 of IAS 2 *Inventories* for ordinarily interchangeable inventories does not involve the use of judgement or assumptions to determine the sequence in which those inventories are sold. For this reason, selecting that cost formula does not constitute making an accounting estimate, it constitutes selecting an accounting policy.

33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Changes in accounting estimates

34 An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information or more experience. By its nature, a ~~revision of~~ change in an accounting estimate does not relate to prior periods and is not the correction of an error.

35 A change in the measurement basis applied is a change in an accounting policy, and it is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.