STAFF PAPER

21 May – 25 May 2012

IASB Meeting

Project	Effective date
Paper topic	**Disclosures about the effect of changes in accounting policies when it is a voluntary change**

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Purpose

1. Entities must disclose information about the quantitative effect for a voluntary change in accounting policy on the current and prior periods. This requirement is set out in paragraph 29(c) of IAS 8 *Accounting Policies, Changes in Estimates and Errors* (included in Appendix A for reference).

2. The Board is asked whether an entity that voluntarily changes its accounting policy should be required to disclose the quantitative effect about changes in accounting policies for the current period. This issue is the same as discussed in paper 10B except that this paper considers the disclosure requirement for voluntary changes in accounting policy. Paper 10B considers the disclosure requirements for changes in accounting policy arising from a change to IFRSs.

3. We recommend that an entity should not be required to disclose the quantitative effect on the current period about a voluntary change in an accounting policy.

Background

4. An entity can *only* change its accounting policy if the change:

   (a) is required by an IFRS; or

   (b) results in the financial statements providing more relevant and faithful representation (reliable) about transactions (IAS 8 paragraph 14).

5. IAS 8 requires entities to apply new accounting policies on a retrospective basis when it changes its accounting policy voluntarily. Entities must disclose the nature of the change in accounting policy and the reasons why applying the new accounting policy provides more relevant and faithfully representational information.

6. Early application of an IFRS is not a voluntary change in accounting policy (IAS 8 paragraph 20).

Staff analysis

7. There is a view that an entity that has voluntarily changed its accounting policy should continue to be required to disclose the effect of the change on the current period. This is because:

   (a) unlike a change in accounting policy because of a new IFRS, users may not be informed in advance about voluntary changes in accounting policies.

   (b) voluntary changes in accounting policy may reduce comparability with other entities in the jurisdiction.

   (c) there is a view that some entities may change their accounting policy to achieve an accounting outcome.

8. However, we note that an entity is not permitted to change an accounting policy unless the change results in providing reliable and more relevant information. Furthermore, a voluntary change in accounting policy must always be applied retrospectively. Accordingly we do not think that requiring disclosure of the 'amount of the adjustment for each financial statement line item affected' is necessary for the current period, if this information is given for the preceding period.

9. ***We therefore recommend removing the requirement that entities quantify the effect on the current period of a voluntary change in accounting policy.*** This is consistent with our recommendation in paper 10B for a change in an accounting policy because of a change in an IFRS.

Staff recommendation

Question
We recommend removing the requirement that entities quantify the effect on the current period of a voluntary change in accounting policy. Do you agree?

Appendix A: Disclosure requirements for a change in accounting policy arising from a voluntary change in an accounting policy

A1. IAS 8 paragraph 29:

> 29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
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> (a) the nature of the change in accounting policy;
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> (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
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> (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
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> (i) for each financial statement line item affected; and
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> (ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;
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> (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
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> (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
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> Financial statements of subsequent periods need not repeat these disclosures.