



# IASB Agenda ref 11C May 2015

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

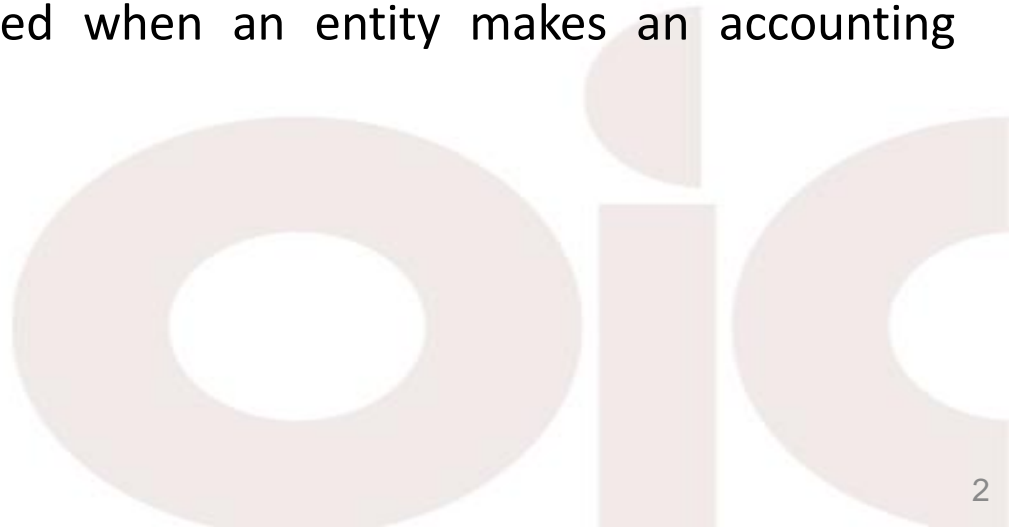
**May 2015 IASB meeting**

***Reference material:  
results of two surveys***

This paper has been prepared by the staff of the OIC for discussion at a public meeting of the IASB and does not represent the views of the OIC or any individual member of the OIC.



- 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 conducted surveys with preparers and investors in order to understand:
  - practical challenges in applying IAS 8 and
  - what information investors need when an entity makes an accounting change.



# Why we are doing this project



- Sometimes is difficult to distinguish between a change in accounting policy (retrospective application) and a change in accounting estimates (prospective application).
- The retrospective application of a change in accounting policy may be onerous for preparers, or it may require the use of hindsight.
- Indeed, when the IASB issues a new Standard, it often does not require retrospective application of the Standard.



This presentation provides a summary of the responses received from:

- ✓ Investors
  
- ✓ Preparers
  
- ✓ Auditors
  
- ✓ Regulators





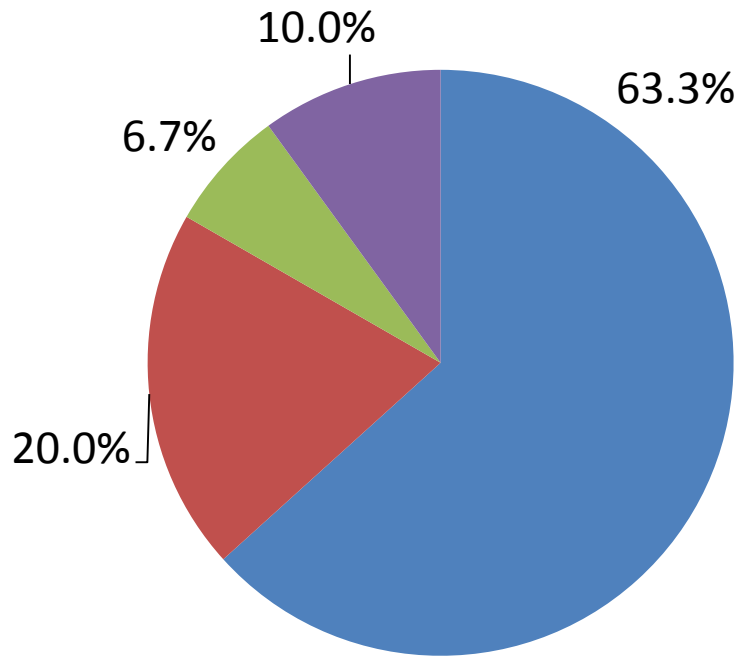
# Investors' survey



# Investors survey - Change in accounting policy: information needs



**Question:** How important is it for you to see a ‘full restatement’ of prior years’ financial statements when management changes an accounting policy?



- It is very important that they restate the prior years’ financial statements
- It is preferable that they restate the prior years’ financial statements
- It is very important that they do not restate the prior years’ financial statements
- I do not care whether management restate the prior years’ financial statements, provided there is adequate disclosure in the notes

# Investors survey - Change in accounting estimates: information needs

**Question:** What information do you need when management change an accounting estimate?

## Responses received

- The effect of the change
- Reasons and circumstances that make the change necessary
- Range of possible values
- An explanation of the change, in particular what assumptions have changed



# Preparers' survey





# Preparers survey - Change in accounting policies, accounting estimates and correction of errors

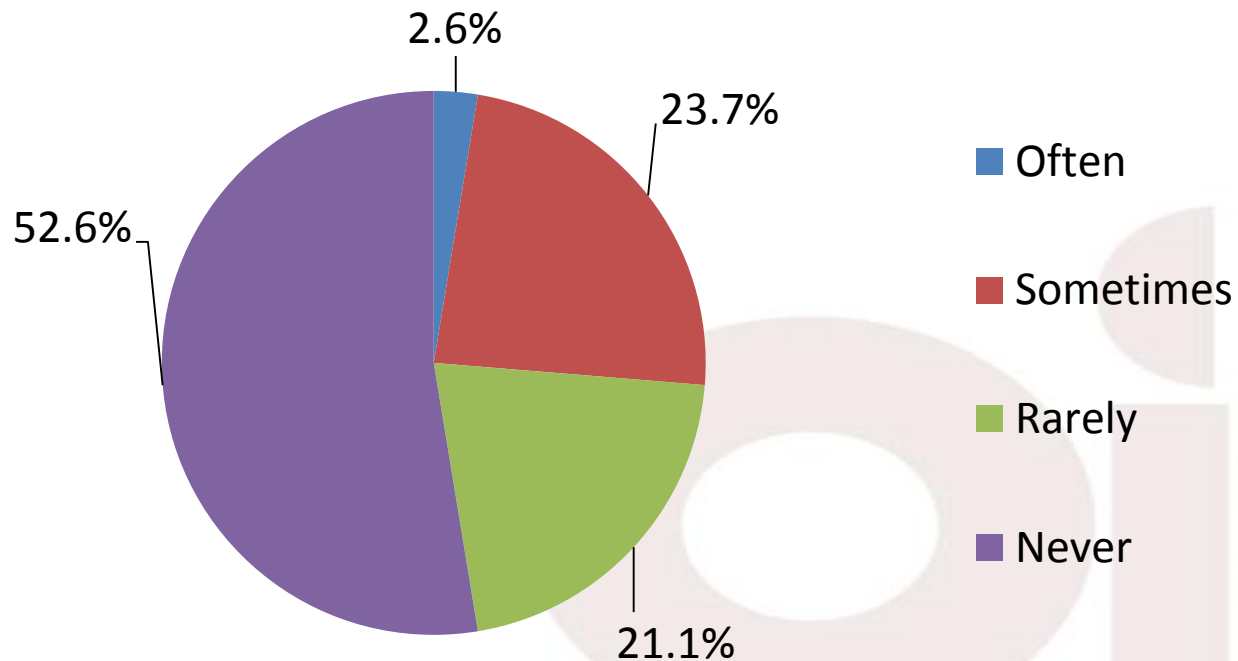
**Question:** *Are voluntary changes in accounting policies, change in accounting estimates and correction of errors common in your experience?*

## Responses received

- Voluntary changes in accounting policies and correction of errors are infrequent/rare
- Changes in accounting estimates are common

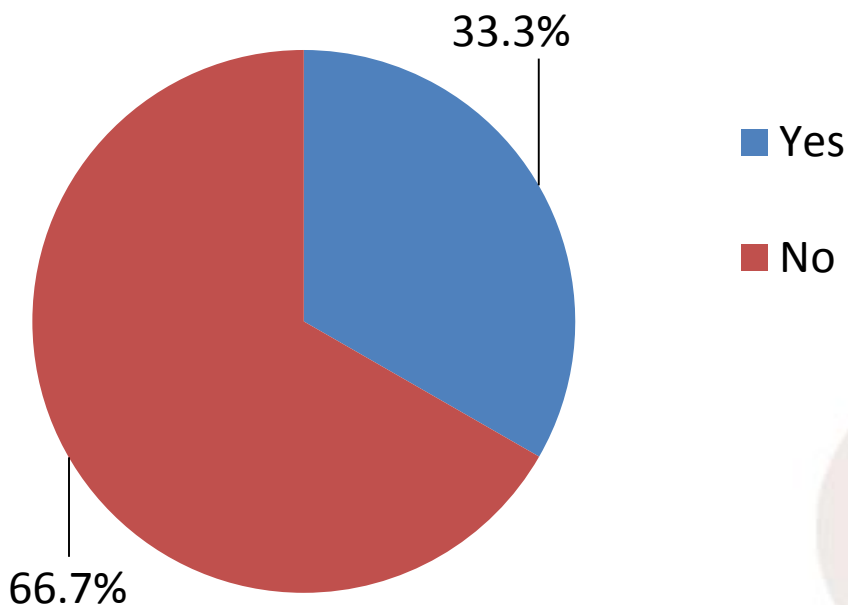
# Preparers survey - Change in accounting policies: impracticability exemption

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



# Preparers survey - Distinction between a change in policy from a change in estimate

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



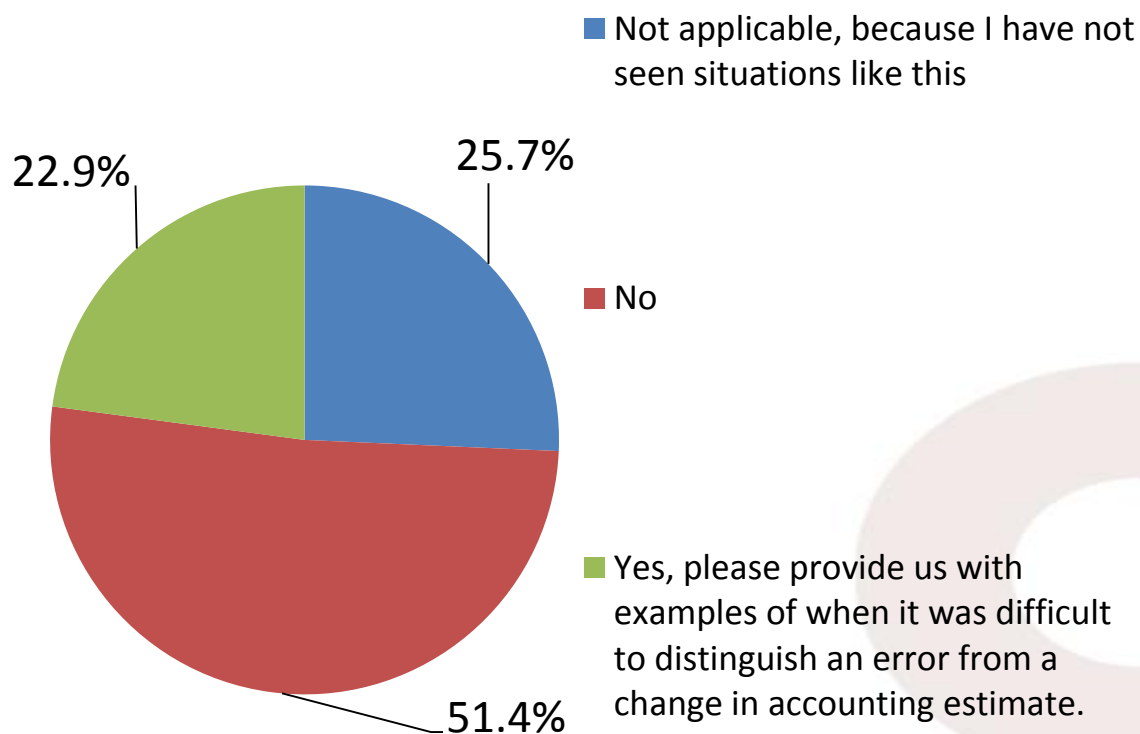
## Comments received:

### *Yes, because:*

- Inventory valuation
- Discount rate
- Impairment of goodwill
- Impairment of loans
- Depreciation/amortization techniques

# Preparers survey - Distinction between a change in estimate and correction of prior year errors

**Question:** *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

- 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

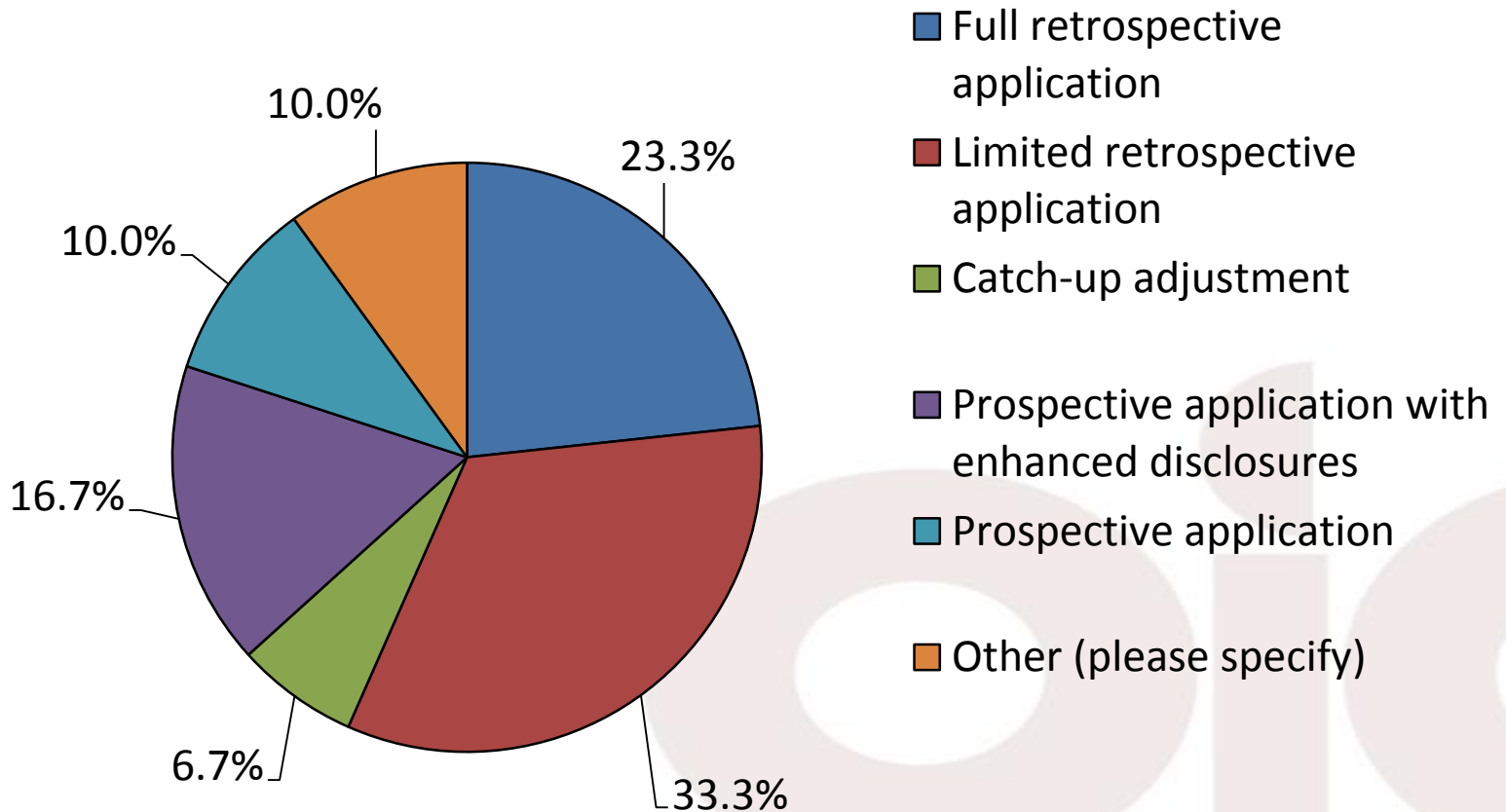
# Ways to represent an accounting change



- **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 [it can also include enhanced disclosures]
- **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

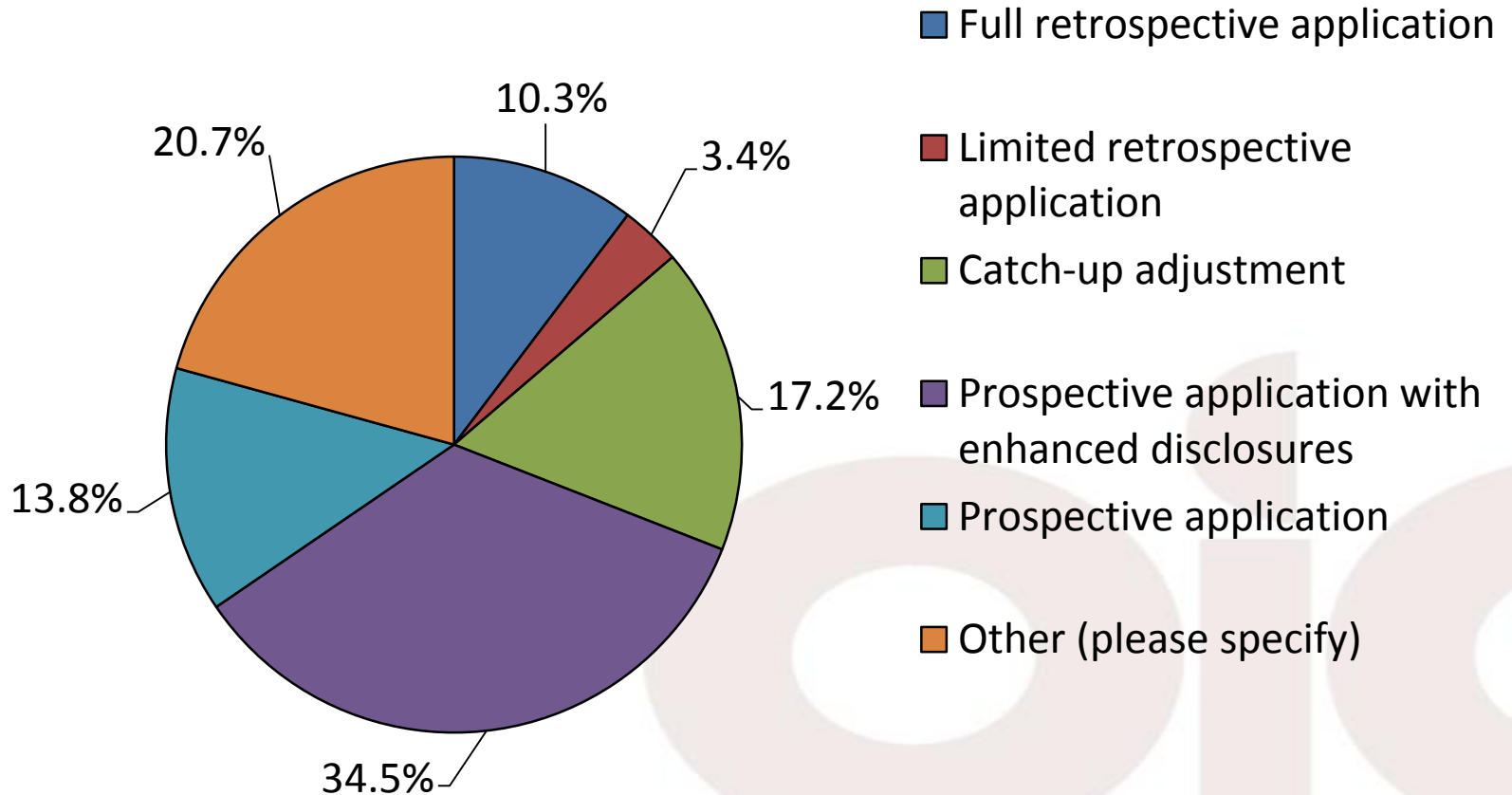
# Preparers survey - ways to represent an accounting change

**Question:** *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)?*



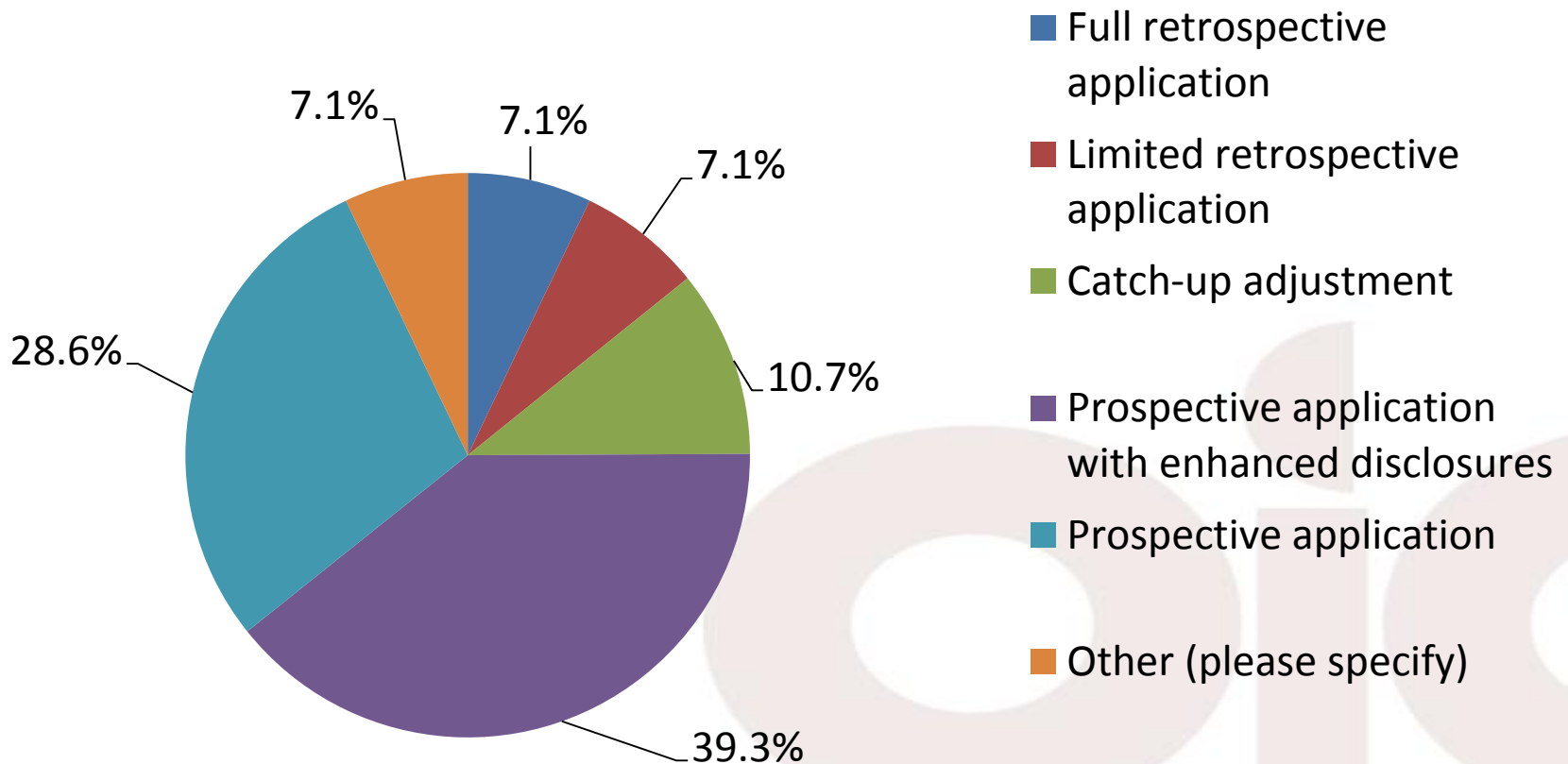
# Preparers survey - ways to represent an accounting change

**Question:** *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)?*



# Preparers survey - ways to represent an accounting change

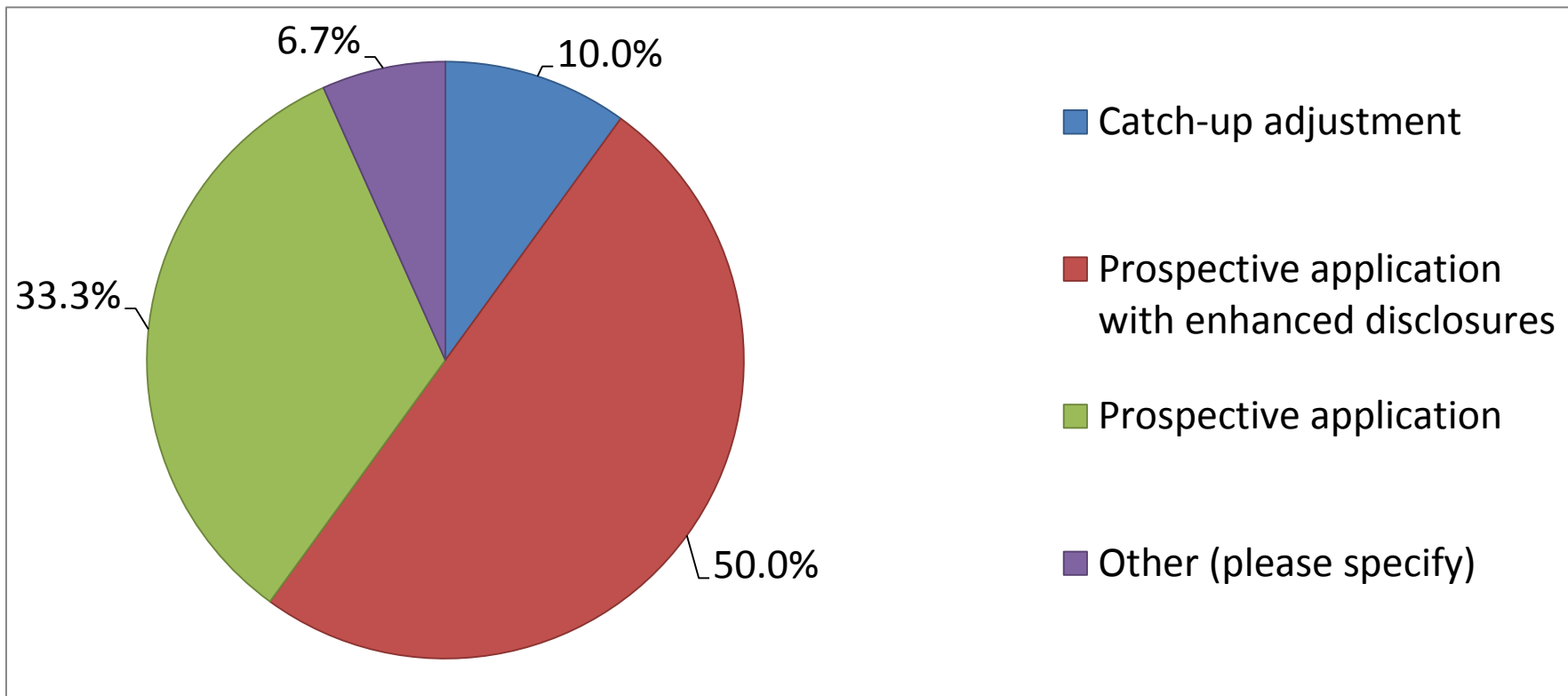
**Question:** *In your view, what would be the best way to represent (i.e. account for or disclose) a change in the method used to make an estimate (eg change of a valuation method for an item measured at fair value)?*





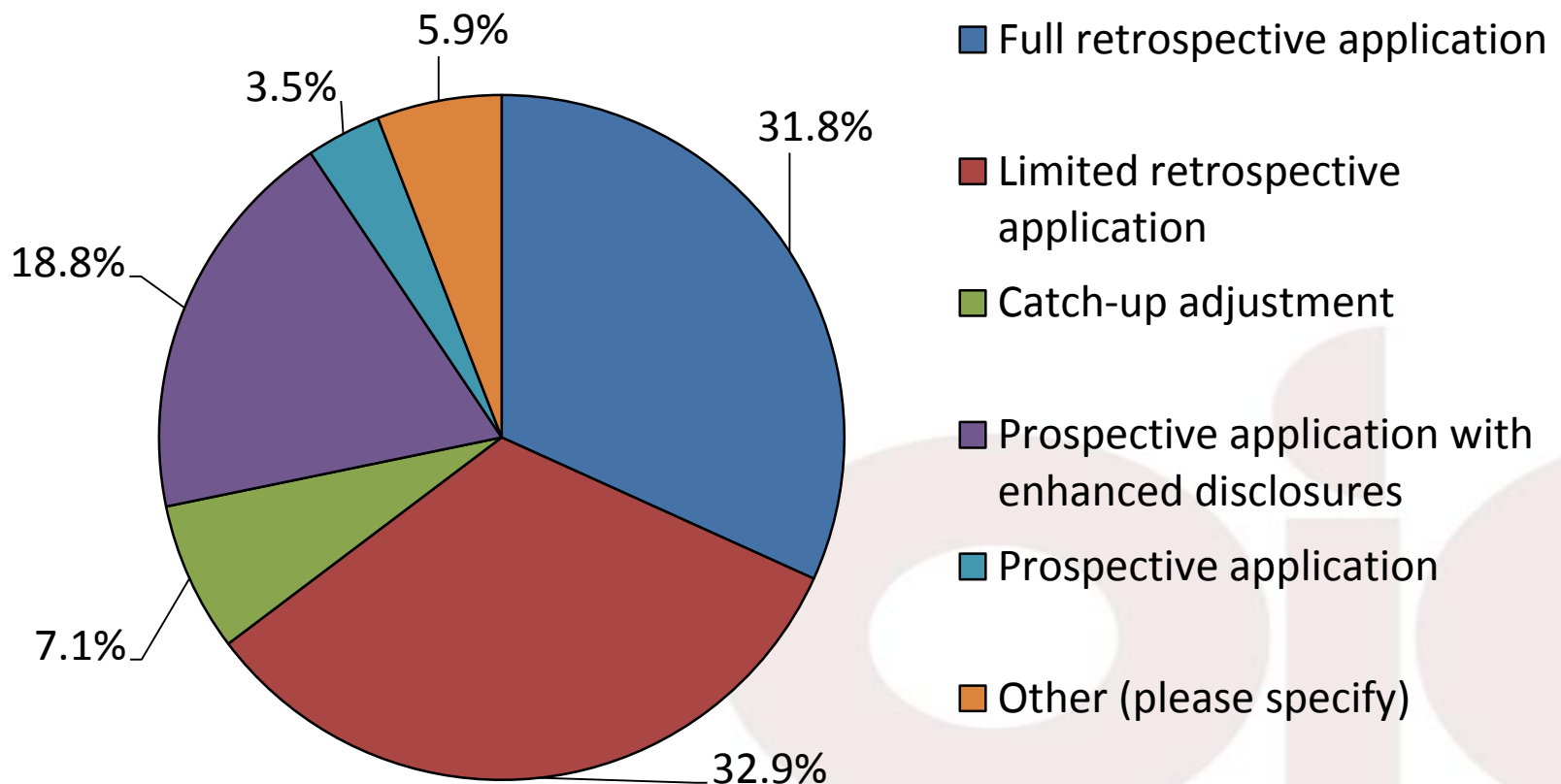
# Preparers survey - ways to represent an accounting change

**Question:** *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)?*



# Preparers survey - ways to represent an accounting change

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





- Sometimes is difficult to distinguish between changes in accounting policies and changes in accounting estimates
- Restatement of prior periods financial statement is important for investors (although they are more willing to accept 'compromises' for new IFRS guidance)
- Investors would like to see more disclosures for changes in estimates
- The majority of the prepares believe that:
  - changes in the measurement basis should be represented retrospectively
  - changes in the method used to make an estimate, changes in the inputs and assumptions and other changes related to measurement should be represented prospectively
  - other changes (ie changes in recognition, derecognition, classification and presentation) should be represented retrospectively



**Questions/Comments**

