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	Analysis of feedback—other aspects

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Introduction

1. As explained in Agenda Paper 26A, Agenda Paper 26B and 26C for this meeting presents our analysis and preliminary views of the feedback on the Exposure Draft *Accounting Policies and Accounting Estimates*—Proposed amendments to IAS 8 (Exposure Draft). Agenda Paper 26B analyses feedback on the proposed definition of accounting estimates and this paper analyses feedback on other aspects of the Exposure Draft.

Structure of the paper

2. This paper includes:
   (a) summary of staff preliminary views; and
   (b) staff analysis and preliminary views.

3. There are three appendices to this paper:
   (a) Appendix A—analysis of other matters;
   (b) Appendix B—summary and analysis of feedback from Committee and ASAF members; and
   (c) Appendix C—illustrative example.

Summary of staff preliminary views

4. On the basis of our analysis, our preliminary view is that the Board should:

   (a) not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);

   (b) not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft);

   (c) confirm deletion of IE3 in the Guidance on Implementing IAS 8; and

   (d) develop some examples to illustrate the application of the definition of accounting estimates.

Staff analysis and preliminary views

Proposed definition of accounting policies (Issue I)

Proposed amendment

5. The Exposure Draft proposed clarifying the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’ and replacing the term ‘bases’ with ‘measurement bases’. Proposed paragraph 5 of IAS 8 in the Exposure Draft states:

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

Key matters raised

6. Some respondents said it was helpful to amend the definition of accounting policies to remove terms such as ‘conventions’ and ‘rules’ that were not clear. However, some respondents questioned whether the proposed changes would improve the definition. This is because the remaining terms in the definition are also not defined and are open to differing interpretations.

7. Respondents raised the following key matters in this respect:

   (a) clarity of the term ‘practices’ and overlap with accounting estimates (Issue I-A);

   (b) clarity of the term ‘measurement bases’ (Issue I-B);

   (c) the nature of practical expedients (Issue I-C); and

   (d) deletion of the terms ‘conventions’ and ‘rules’ (Issue I-D)

Clarity of the term ‘practices’ and overlap with accounting estimates (Issue I-A)

8. Some respondents suggested that the Board define the term ‘practices’ and asked whether the inclusion of that term is intended only to cover accounting policies that an entity develops in the absence of an IFRS Standard that applies specifically to a particular transaction, event or condition (ie those policies that an entity develops when it applies the requirements in paragraphs 10-12 of IAS 8). One respondent asked whether the term refers to industry practices (as used in paragraph 12 of IAS 8).

9. Some respondents said many accounting estimates are also based on ‘practices’, therefore, retaining the term in the definition of accounting policies without providing a definition could suggest that all practices, including those used in developing an accounting estimate are accounting policies.

10. Some respondents also said it is unclear how an estimation technique or valuation technique differs from a ‘practice’. For example, one respondent said the proposed definition does not make it clear whether the method of allocating overheads in determining the cost of inventories would constitute an estimation technique or whether it would constitute an accounting policy (ie a practice).

Clarity of the term ‘measurement bases’ (Issue I-B)

11. Some respondents said replacing ‘bases’ with ‘measurement bases’ could unintentionally narrow the scope of an accounting policy. In their view, the term ‘bases’ in the original definition included not just measurement bases, but also for example, the basis for recognising or presenting items in the financial statements.

12. Some respondents also suggested the Board define ‘measurement bases’. They said it was not clear whether the Board intended the term to be interpreted in a manner consistent with its use in the *Conceptual Framework for Financial Reporting* issued

by the Board in March 2018 (*Conceptual Framework*)[1] (ie at the level of historical cost or current value for example), or whether it also includes, for example, the use or non-use of the going concern concept or the choice between an accrual approach and a cash-based approach.

13. Some respondents said the term 'measurement bases' is not needed within the definition of accounting policies. This is because, in their view, measurement bases are a subset of principles and paragraph 35 of IAS 8 already states that a change in the measurement basis applied is a change in an accounting policy.

The nature of practical expedients (Issue I-C)

14. Some respondents said it was not clear from the proposed definitions of accounting policies and accounting estimates whether practical expedients, whether permitted or required by an IFRS Standard, or those applied by an entity on materiality grounds, would meet the definition of accounting policies. In their view practical expedients, particularly those permitted or required by an IFRS Standard, are generally exceptions from principles and are by nature more rules than principles.

Deletion of the terms 'conventions' and 'rules' (Issue I-D)

15. Some respondents did not agree with the Board's rationale for deleting the terms 'conventions' and 'rules' from the definition of accounting policies, ie that the meaning of the terms is not clear, and the terms are not used elsewhere in IFRS Standards. These respondents said the remaining terms in the definition, ie principles, practices and measurement basis were also not defined and were open to differing interpretations. Some respondents said a preferred approach would be for the Board to define all terms used in the definition rather than delete the terms 'conventions' and 'rules'.

16. One respondent said the term 'rules' was well understood in practice and should not be deleted. On the other hand, another respondent said it was appropriate to delete the term 'rules', not because the meaning of the term is not clear, but rather because, in that respondent's view, rules are a subset of principles.

[1] Paragraph 6.1 of the *Conceptual Framework* says that 'A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured'.

17. One respondent said a convention is generally defined as a way in which something is usually done. In the respondent's view, it is appropriate to delete the term 'conventions', not because the meaning of the term is not clear but rather because it was not an appropriate basis on which to develop an accounting policy.

Staff Analysis

18. In proposing to amend the definition of accounting policies, the Board did not intend to narrow or broaden the scope of what constitutes accounting policies. Paragraphs BC6 and BC7 of the Exposure Draft state:

> BC6 In removing the terms 'conventions' and 'rules' from the definition of accounting policies, the Board does not intend to make the definition narrower or broader. Instead it wishes to provide more clarity.
>
> BC7 The Board proposes to keep the term 'practices'. This is because it thinks that referring to 'principles' only may be perceived as making the definition of accounting policies too narrow.

19. Considering the feedback, we think amending the definition of accounting policies could have unintended consequences—in particular, we think some stakeholders could see the changes as narrowing the scope of what constitutes accounting policies while others could see the changes as broadening the scope. The main purpose of the proposed amendments to IAS 8 was to clarify the relationship between accounting policies and accounting estimates (ie that an entity uses accounting estimates in applying accounting policies) and to provide a definition of accounting estimates. The proposed amendments to the definition of accounting policies were only incidental in nature and were intended to remove some ambiguity without narrowing or broadening the scope of what constitutes accounting policies.

20. Accordingly, we think the Board should not amend the definition of accounting policies. We also think that defining the remaining terms in the definition of accounting policies (ie principles, measurement bases and practices) is not necessary to meet the aims of this project. In addition, we think defining the remaining terms would be difficult, would broaden the scope of the project and could have unintended consequences.

Staff preliminary view

21. Our preliminary view is that the Board should not amend the definition of accounting policies (ie the Board should retain the existing definition of accounting policies in IAS 8).

Proposed amendment regarding inventory cost formulas (Issue II)

Proposed amendment

22. The Exposure Draft proposed clarifying that, in applying IAS 2 *Inventories*, selecting the FIFO cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy (see proposed paragraph 32B of IAS 8 in the Exposure Draft—reproduced in Appendix A to Agenda Paper 26A for this meeting). Paragraph BC19–BC20 of the Exposure Draft explain the Board's rationale for proposing this clarification. The Board concluded that selecting one of these two cost formulas does not involve the use of judgement or assumptions to determine the sequence in which those inventories are sold and accordingly, is not an attempt to estimate the actual flow of those inventories. Consequently, selecting one of these two cost formulas does not constitute selecting an accounting estimate.

Key matters raised

23. Several respondents agreed with the Board's conclusion that selecting the FIFO cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy. However, several respondents did not agree with the Board's rationale and said the rationale did not align with the proposed definitions of accounting policy and accounting estimate. These respondents said:

    (a) *selecting a cost formula requires the use of judgements and assumptions and is an attempt to estimate the actual flow of inventories*

        Some respondents said even though IAS 2 allows entities a choice of selecting either the FIFO or the weighted-average cost formula, selecting an inventory cost formula is an attempt to estimate the actual flow of inventories. This is evidenced by paragraph BC10 of IAS 2 which explains the Board's rationale for eliminating the previously allowed alternative of using the last-in, first-out (LIFO) cost formula. This paragraph states that the LIFO cost formula 'is generally not a reliable representation of actual inventory flows'.

Additionally, some respondents said paragraph 25 of IAS 2 states that an entity uses the same inventory cost formula for all inventories having a similar nature and use to the entity. However, it also states (emphasis added): '…For inventories with a different nature or use, different cost formulas may be *justified*'. This implies that entities must justify and therefore, apply judgement when determining cost formulas in this situation.

(b) *the rationale for the proposed clarification does not align with the proposed definitions*

Paragraph 9 of IAS 2 requires an entity to measure inventories at the lower of cost and net realisable value. An entity applies the FIFO or weighted-average cost formula when measuring inventories at cost. Applying the proposed definitions of accounting policies and accounting estimates, some respondents said cost is the measurement basis for inventory (ie the accounting policy) and the inventory cost formula an entity applies is the estimation technique or valuation techniques the entity uses to determine the cost. Accordingly, selecting a cost formula appeared to constitute making an accounting estimate rather than selecting an accounting policy.

24. Some respondents suggested the Board include the proposed clarification within IAS 2 or as part of a separate section in IAS 8 together with other illustrative examples. These respondents said including this as a separate paragraph within IAS 8 appears to create a rule which is not in line with the principles-based approach in IAS 8. Some respondents also said entities do not often change their cost formulas and questioned the need to provide this clarification particularly when the Board did not provide additional examples of accounting policies and accounting estimates. One respondent said paragraph 36(a) of IAS 2 already says that selecting a cost formula constitutes selecting an accounting policy—this paragraph requires an entity to disclose (emphasis added) 'the *accounting policies* adopted in measuring inventories, *including* the cost formula used'.

Staff Analysis

25. The Board's rationale for why selecting a cost formula constitutes selecting an accounting policy raised broader questions about how the proposed definitions of accounting policy and accounting estimate apply in particular situations. The Board initially proposed this clarification because it is a matter that is frequently raised in discussions about improving the definitions of accounting policies and accounting estimates. However, we agree with respondents who said entities do not often change the cost formula used to measure inventories—we are not aware of particular problems in practice in this regard. We also agree with respondents who said paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy.

Staff preliminary view

26. Our preliminary view is that the Board should not address whether selecting an inventory cost formula constitutes the selection of an accounting policy.

The proposed deletion of IE3 and request for other examples (Issue III)

Proposed amendment

27. The Exposure Draft proposed deleting Example 3 in the Guidance on Implementing IAS 8 (IE3). The rationale for the Board's decision was outlined in paragraphs BC25–BC28 of the Exposure Draft. The Board did not propose adding any additional illustrative examples.

Key matters raised

28. Several respondents suggested providing illustrative examples and supporting guidance to help entities distinguish accounting policies from accounting estimates. Some respondents said that although the proposed amendments would provide some clarity, some uncertainties would remain, and the amendments may not deliver sufficient clarification unless supported by additional illustrative examples.

29. Some respondents commented on the deletion of IE3. These respondents suggested that the Board update, but not delete IE3. These respondents did not disagree with the

Board's rationale for deleting the example, but nonetheless said replacing or updating the example would be helpful.

Staff Analysis

Deletion of IE3

30. We continue to agree with the Board's rationale for deleting IE3. In developing the Exposure Draft, the Board considered a substantial rewrite of the example. However, for reasons outlined in paragraph BC27 of the Exposure Draft, the Board decided against such an approach. Paragraph BC27 of the Exposure Draft states:

> …For the following reasons, the Board considers that such a rewrite would produce little or no benefit to readers of IAS 8:
>
> (a) the example relates too closely to a particular fact pattern to be of general use in distinguishing between accounting policies and accounting estimates; and
>
> (b) paragraphs 23-27 of IAS 8 set out the required approach for cases where retrospective application of a change in accounting policy is not practicable.

Providing illustrative examples

31. We considered whether the Board should provide illustrative examples to help entities apply the amendments.

32. In developing the Exposure Draft, the Board considered developing illustrative examples—however, it concluded that any illustrative examples would either be:

    (a) too obvious, and therefore not helpful; or

    (b) too complex, therefore difficult to draft due to lack of guidance in underlying Standards.

33. In addition, we developed and presented an illustrative example to ASAF at its meeting in April 2018. Although ASAF members considered the example somewhat helpful, they were of the view that it would not enhance the amendments proposed in the Exposure Draft.

34. To be useful, we think illustrative examples should be simple and have wide applicability across a range of different situations and different entity types. We agree

with the Board that developing examples that would help entities assess whether a particular change is a change in accounting policy or a change in estimate is difficult. This is because assessing the nature of a change depends on facts and circumstances and we think it is not possible to consider all relevant facts and circumstances while at the same time keeping the example simple and ensuring it continues to be widely applicable.

35. Nonetheless, feedback received from ASAF and Committee members (see paragraphs B6–B9 of Appendix B to this paper) suggests that it might be important to provide illustrative examples that would help entities understand and apply the amendments.

36. Agenda paper 26B for this meeting presents our preliminary views on how the Board could amend the proposed definition of accounting estimates. In addition, on the basis of our analysis in this paper (see paragraph 21) we think the Board should not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8). Accordingly, we think any example the Board develops should be (a) simple; and (b) limited to helping stakeholders understand how to apply the new definition of accounting estimates. It should not necessarily be directed at addressing some or all identified application questions. The example could simply illustrate some or all of the following:

   (a) what constitutes an accounting estimate (ie an example of a monetary amount in the financial statements that is subject to measurement uncertainty);

   (b) what constitutes a measurement technique (ie an example of a measurement technique used to develop that estimate); and

   (c) how an entity would account for the effects of a change in an input and/or measurement technique used to develop that estimate.

37. We think it is possible to develop such examples. Appendix C to this agenda paper includes one such example. We will assess at a later stage whether the Board should publish these examples as material that would accompany IAS 8 (ie part of illustrative examples accompanying IAS 8) or separately as educational material that explains how an entity applies the amendments.

38. Based on our analysis, our preliminary view is that the Board could develop some examples to illustrate how an entity would apply the proposed definition of accounting estimates.

Staff preliminary view

39. Our preliminary view is that the Board:

(a) confirm deletion of IE3; and

(b) develop some examples to help illustrate how an entity would apply the proposed definition of accounting estimates.

Other matters

40. Appendix A to this paper sets out our analysis on other matters raised by respondents. Our preliminary view is that no changes are needed in respect of those matters.

Feedback from Committee and ASAF members

41. Appendix B to this paper analyses feedback from Committee and ASAF members. Our preliminary views in paragraph 39 of this paper reflect feedback about illustrative examples. We think no change is needed to our preliminary views with respect to other aspects of the feedback.

Summary of preliminary views

42. Based on our analysis, our preliminary view is that the Board should:

(a) not amend the definition of accounting policies (ie retain the existing definition of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);

(b) not add discussion of whether selecting an inventory cost formula constitutes selecting an accounting policy (thus not adding material proposed in paragraph 32B of the Exposure Draft);

(c) confirm deletion of Example 3 in the Guidance on Implementing IAS 8; and

(d) develop some examples to illustrate how an entity would apply the proposed definition of accounting estimates.

Question for the Board
Does the Board have any comments or questions on our analysis and preliminary views set out in this paper?

Appendix A—analysis of other matters

A1. The following table summarises other matters raised by respondents together with our analysis and recommendation on those matters.

Issue	**Staff analysis and recommendation**
1. Transition requirements	
One respondent said the Board constantly undermines the principle of retrospective application by providing transition relief. Some respondents said the proposed wording of the transition requirements in paragraph 54(f) of IAS 8 is not clear and suggested it be amended.	*We recommend no change.* The Board proposed that entities apply the amendments to changes in accounting policies and changes in accounting estimates that occur on or after the start of the first annual period in which the entity first applies the amendments. The Board proposed this requirement because it thought the benefits of applying the amendments to changes that occurred before that date would be minimal. We continue to think the proposed transition requirements are appropriate. We will consider wording suggestions when drafting the final amendments.
2. Other comments and suggestions	
(a) Some respondents suggested the Board consider enhancing disclosure requirements, particularly for changes in accounting estimates.	*We recommend no change.* We are not aware of particular problems with the existing disclosure requirements for changes in accounting estimates and we think providing additional disclosure requirements in this respect is beyond the scope of this project.
(b) Some respondents suggested the Board consider whether the first sentence of paragraph 35 of IAS 8[2] is required, particularly because the proposed definition of accounting policies in the Exposure Draft clarifies that measurement basis are accounting policies.	*We recommend no change* Based on our analysis, we recommend that the Board not change the definition of accounting policies (see paragraph 21 of this paper). Accordingly, we think the Board should not delete the first sentence of paragraph 35 of IAS 8.
(c) Some respondents said the proposed definition of accounting policies focuses on presentation and appears to exclude other elements such as recognition, and measurement.	*We recommend no change.* The existing definition of accounting policies refers to 'preparing and presenting financial statements' and does not only refer to 'presenting individual elements in the financial statements'. We think the definition includes accounting

[2] Paragraph 35 of IAS 8 states: 'A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate…'

Issue	Staff analysis and recommendation
	policies relating to recognition, measurement, presentation and disclosures.
(d) Some respondents requested the Board clarify other aspects of IAS 8 such as: (i) how entities account for changes in classification and presentation; (ii) the meaning of ‘new information’ in the definition of a change in accounting estimate; and (iii) whether the second sentence of paragraph 35 of IAS 8[3] applies only in the context of measurement bases or more generally.	*We recommend no change.* We think clarifying other aspects of IAS 8 is beyond the scope of the narrow-scope amendments.
(e) Some respondents suggested that when the Board develops new or amended requirements in future projects, it should specify whether a change is a change in accounting policy or a change in accounting estimate.	*We agree* We recommend the Board consider this when developing new or amended requirements.
(f) Some respondents suggested the Board align the timing of finalising these amendments with other proposed changes to IAS 8.	*We agree* We suggest that, to the extent feasible, the Board finalise all amendments to IAS 8 at the same time.
(g) Some respondents provided some wording suggestions to improve the clarity of the proposed amendments. For example, some respondents suggested that (i) the wording in paragraph 32 of IAS 8 be amended to conform with the amendments; (ii) the wording in paragraph BC9 of the Exposure Draft could be improved; and (iii) the title of the Standard and other headings be amended to conform with the amendments.	We will consider wording suggestions when drafting the final amendments.

[3] Paragraph 35 of IAS 8 states ‘A change in the measurement basis applied is a change in an accounting policy, and 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.’

Appendix B—summary and analysis of feedback from Committee and ASAF members

B1. Many Committee and ASAF members expressed support for our preliminary views. Nonetheless, some expressed concerns about:

(a) a perceived overlap between the definitions of accounting policies and accounting estimates; and

(b) not providing illustrative examples;

The following paragraphs present a summary of the feedback, together with our analysis.

Overlap between the definitions of accounting policies and accounting estimates

Summary of comments

B2. Some Committee members and one ASAF member said there will still be some overlap between the definitions of accounting policies and accounting estimates (for example, because of the use of the term 'practice' in the definition of accounting policies). To resolve this, some suggested that the Board revisit the definition of accounting policies (including defining the terms used in the definition). In particular, one ASAF member said it would be difficult to eliminate the overlap without 'shifting the boundaries' between accounting policies and accounting estimates. However, some ASAF members explicitly supported the staff recommendation of not amending the definition of accounting policies.

Staff Analysis

B3. As explained in our analysis of this matter in paragraphs 18–21 of this paper, in removing the terms 'conventions' and 'rules' from the definition of accounting policies, the Board did not intend to make the definition narrower or broader. Instead the Board wished to provide more clarity.

B4. We think eliminating any perceived overlap between the definitions of accounting policy and accounting estimates would require either a more fundamental rethinking of the definition of accounting policies or defining each of the terms used in that definition. We think this would be beyond the scope of this narrow-scope project.

B5. Our proposal to revise the proposed definition of accounting estimates would state that valuation and estimation techniques (which are often seen as practices) are applied in developing accounting estimates. Accordingly, in our view, it would help reduce any perceived overlap between the definitions. Based on our analysis, we propose no change to our preliminary view as a result of this matter.

Illustrative examples

Summary of comments

B6. Many Committee members suggested providing examples to illustrate (a) the thought process an entity would apply when distinguishing accounting policies from accounting estimates and (b) how an entity would apply the revised definition of accounting estimates.

B7. Some Committee members agreed with our analysis and preliminary view that developing illustrative examples would be challenging. However, they said even simple examples would be helpful. They said not providing examples could make it difficult to apply the amendments and could lead to misapplication of the definitions. Some ASAF members said that if the definitions are clear, the Board should be able to develop illustrative examples. However, one ASAF member said the Board should not provide illustrative examples.

B8. Some ASAF members and Committee members said the Board could provide examples either as part of the amendments or as separate educational materials that would accompany the amendments. However, some said the Board should provide examples as part of the amendments, because entities would be able to access the material more easily.

B9. One Committee member suggested that the Board could seek help from national standard-setters to develop the illustrative examples.

Staff Analysis

B10. Our analysis in paragraphs 31–38 of this paper reflects this feedback.

Other comments from the Committee and ASAF members

Summary of comments

B11. One ASAF member said the Board should be careful not to characterise a change in inventory cost formulas as a change in accounting estimates—because entities might then change cost formulas frequently. One ASAF member suggested the Board include the clarification originally proposed in the Exposure Draft, but in IAS 2, rather than in IAS 8.

Staff Analysis

B12. As explained in paragraph 25 of this paper, we think paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy and therefore think no further clarification is needed in this respect.

Appendix C—illustrative example

Fact pattern

C1 At 1 January 20X0, Entity A acquires a machine for use in its operations. The machine meets the definition of property, plant and equipment (PPE) in IAS 16 *Property, Plant and Equipment*.

C2 IAS 16 allows an entity to choose, as its accounting policy, either the cost model or the revaluation model to measure PPE after initial recognition. An entity is required to apply that policy to an entire class of PPE. Entity A chooses to apply the cost model for the class of PPE that includes the machine.

C3 Applying the cost model in IAS 16, an entity:

(a) carries an item of PPE at its cost less any accumulated depreciation and any accumulated impairment losses.

(b) calculates a depreciation charge for each period. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. An entity makes that allocation using a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits.

(c) recognises the depreciation charge for the period in profit or loss (unless it is included in the carrying amount of another asset).

C4 At the time of acquisition, Entity A decides to use the straight-line method to depreciate the machine and expects the useful life of the machine to be 5 years.

C5 At 30 June 20X1, on the basis of new information and new developments, Entity A reviews the useful life of the machine and determines that the remaining useful life of the machine is only two years. The revision results from a change in the production schedule of the product for which the entity uses the machine. The change does not result in any change to the depreciation method or any impairment charge for the machine.

Applying the proposed definition of accounting estimates

C6 The depreciation charge would meet the proposed definition of accounting estimates. This is because:

(a) the depreciation charge is a monetary amount in the financial statements that is subject to measurement uncertainty. It cannot be observed directly and instead must be estimated.

(b) the depreciation charge is an output of a measurement technique used in applying the accounting policy (cost model); and

(c) to determine the depreciation charge, Entity A is required to use judgements and assumptions in determining, amongst other things, the depreciation method that reflects the pattern in which it expects to consume the PPE's future economic benefits (straight-line), the period over which it expects the asset to be available for its use, and the residual value of the asset.

C7 Any change the entity makes to the inputs as a result of new information or new developments would not be a change in accounting policy. The objective of the accounting policy—to carry the machine at its cost less accumulated depreciation and any accumulated impairment losses—does not change. Rather, any such change results from new information or new developments in applying that accounting policy.

C8 In the fact pattern, the revision to the useful life on 30 June 20X1 would be a change to an input used in determining the depreciation charge (the depreciation charge would be the accounting estimate). Any effect of this change would be part of the change in accounting estimate. The effect of the change would not be the correction of a prior period error because it results from new information and new developments.