Guide to Selecting and Applying Accounting Policies—IAS 8
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specifies requirements for entities in selecting and applying accounting policies for transactions, other events and conditions.

This guide explains how to apply those requirements using material and examples that have been discussed by the International Accounting Standards Board (Board) or IFRS Interpretations Committee (Committee).
Guide on Selecting and Applying Accounting Policies

Overview of IAS 8 requirements for selecting and applying accounting policies

When an IFRS Standard specifically applies to a transaction, other event or condition, an entity determines the accounting policy or policies for that item by applying the Standard.

In the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, preparers of an entity’s financial statements use judgement in developing and applying an accounting policy that results in information that is (a) reliable and (b) relevant to the economic decision-making needs of users of financial statements. How preparers develop and apply such an accounting policy depends on whether IFRS Standards deal with similar and related issues.

Figure 1—Steps for selecting and applying accounting policies for a transaction, other event or condition

1 Paragraph 10 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
Step 1—Consider whether an IFRS Standard specifically applies to the transaction, other event or condition

If an IFRS Standard specifically applies to a transaction, other event or condition, an entity applies the requirements of that Standard. The entity does so even if those requirements do not align with concepts in the Conceptual Framework for Financial Reporting (Conceptual Framework)—see Examples 1 and 2.

Why does an entity apply the Standard that specifically applies?

An entity applies the requirements of the Standard that specifically applies because:

(a) IAS 8 states that when an IFRS Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item are determined by applying that Standard.\(^2\)

(b) IAS 1 Presentation of Financial Statements requires financial statements to present fairly the financial position, financial performance and cash flows of an entity. It makes a general statement that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework. It goes on to provide more specific requirements. It states that:
   (i) the application of IFRS Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation;
   (ii) in virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRS Standards; and
   (iii) a fair presentation also requires an entity to select and apply accounting policies in accordance with IAS 8.\(^3\)

(c) the first section of the Conceptual Framework explains its status and purpose. It confirms that the Conceptual Framework is not a Standard and that nothing in the Conceptual Framework overrides any Standard or any requirement in a Standard.\(^4\)

Example 1—A levy triggered when an entity generates revenue in two years

A government charges a levy on entities as soon as they generate revenue in 2021. The amount each entity pays is calculated by reference to the revenue it generated in 2020. The levy is within the scope of IFRIC 21 Levies.

An entity’s reporting period ends on 31 December 2020. The entity generates revenue in 2020, and in 2021 it starts to generate revenue on 3 January.

IFRIC 21

IFRIC 21 states that the event that gives rise to a liability to pay the levy is the event that triggers the payment of the levy, which in this example is the generation of revenue in 2021.\(^5\) The generation of revenue in 2020 is necessary for determining the amount of the liability. However, it is not sufficient to give rise to the liability, even if the entity will be economically compelled to generate revenue in 2021. Applying IFRIC 21, the entity does not recognise a liability in the reporting period ending on 31 December 2020. It first recognises a liability on 3 January 2021.

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\(^2\) Paragraph 7 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

\(^3\) Paragraphs 15 and 17 of IAS 1 Presentation of Financial Statements.

\(^4\) Paragraph SP1.2 in the Status and Purpose section of the Conceptual Framework for Financial Reporting.

\(^5\) Paragraphs 8–9 of IFRIC 21 Levies and Example 2 in the Illustrative Examples accompanying IFRIC 21.
**Conceptual Framework**

If the entity were to apply the concepts in the *Conceptual Framework*, it might recognise a liability earlier. Applying those concepts, the liability to pay the levy would be viewed as arising when the entity:

(a) has already obtained economic benefits or taken an action and, as a consequence, will or may have to pay a levy that it would not otherwise have had to pay; and  
(b) has no practical ability to avoid paying the levy.\(^6\)

Condition (a) is satisfied progressively in 2020 as the entity generates revenue in that year. If at that time the entity has no practical ability to avoid generating revenue in 2021, condition (b) is also satisfied. The liability would be viewed as accumulating as the entity generates revenue in 2020.\(^7\)

**When to recognise a liability**

Because IFRIC 21 specifically applies to this kind of levy and addresses the timing of liability recognition, the entity applies the requirements of IFRIC 21—not concepts in the *Conceptual Framework*—to determine when to recognise a liability.

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**Example 2—Classification of a financial instrument with no contractual obligation to deliver cash or another financial asset**

An entity issues a financial instrument. The terms of the instrument neither oblige the entity to pay dividends or interest to holders of the instrument, nor oblige it to redeem the instrument. However, the instrument includes a ‘dividend blocker’—a term specifying that the entity cannot pay dividends to its ordinary shareholders unless it has paid dividends of a specified amount to holders of the instrument. The effect of the dividend blocker is that the entity may be economically compelled to pay dividends of the specified amount to instrument holders, despite having no contractual obligation to do so.

The instrument is within the scope of IAS 32 *Financial Instruments—Presentation*.

**IAS 32**

IAS 32 specifies how issuers of financial instruments classify the instruments. For an issuer to classify an instrument as an equity instrument rather than a liability, among other things, the instrument must include no contractual obligation to deliver cash or another financial asset to another entity.\(^8\)

In 2006, the Board considered whether economic compulsion affects the classification of a financial instrument. It confirmed that a contractual obligation to deliver cash or another financial asset to the holder of an instrument must be established through the terms and conditions of the instrument—IAS 32 does not require or permit factors outside the contractual arrangement to be taken into consideration. Thus, by itself, economic compulsion would not result in a financial instrument being classified as a liability applying IAS 32.\(^9\)

So, applying IAS 32, the entity classifies the instrument considering only its contractual obligations. An economic compulsion to pay dividends to ordinary shareholders has no effect on classification.

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\(^6\) Paragraphs 4.29 and 4.43 of the *Conceptual Framework for Financial Reporting*.  
\(^7\) IASB meeting, October 2016, Agenda Paper 10C, *Conceptual Framework—Testing the proposed asset and liability definitions—illustrative examples*, Example 2.5(a).  
\(^8\) Paragraph 16(a)(i) of IAS 32 *Financial Instruments—Presentation*.  
\(^9\) IFRIC Update, November 2006, Agenda Decision Classification of a financial instrument as liability or equity.
Conceptual Framework

The Conceptual Framework defines a liability as a present obligation of an entity to transfer an economic resource as a result of past events. It defines an obligation as a duty or responsibility that an entity has no practical ability to avoid. It notes that in some cases, an entity may have no practical ability to avoid a transfer if any action that it could take to avoid the transfer would have economic consequences significantly more adverse than the transfer itself.10

How to classify the financial instrument

Because IAS 32 specifically applies to this financial instrument and addresses its classification, the entity applies the requirements of IAS 32—not concepts in the Conceptual Framework—to classify the instrument.

Considerations for liabilities

For most transactions, other events or conditions, an IFRS Standard specifically applies. This is especially the case for transactions, other events or conditions that give rise to liabilities because the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets is defined broadly. The scope of IAS 37 includes all liabilities of uncertain timing or amount and all contingent liabilities that are not within the scope of another IFRS Standard.

Furthermore, IAS 37 covers many aspects of accounting for items within its scope—it specifies which transactions and events give rise to a liability, the criteria that must be met for recognition of the liability, how an entity measures recognised liabilities initially and subsequently, and what information an entity discloses about both recognised liabilities and unrecognised contingent liabilities. IAS 37 also addresses many of the questions that can arise in accounting for liabilities of uncertain timing or amount—uncertainty about whether an obligation exists (especially if there is a dispute or the obligation is not legally enforceable), uncertainty about when an obligation arises (especially if the outcome depends on the entity’s future actions), uncertainty about the outflows that will be required to settle the obligation, and how to account for the time value of money.

Step 2—Consider whether IFRS Standards deal with similar and related issues

IAS 8 specifies that, in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, preparers use judgement in developing and applying an accounting policy that results in relevant and reliable information. IAS 8 goes on to specify that in making that judgement, preparers refer to and consider the applicability of, in descending order:

(a) the requirements in IFRS Standards dealing with similar and related issues; and
(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework. 11

The phrase ‘in descending order’ creates a hierarchy. At the top of the hierarchy are the requirements in IFRS Standards dealing with similar and related issues. The hierarchy means that, to the extent that there are applicable requirements in one or more IFRS Standards dealing with similar and related issues, preparers of financial statements develop an accounting policy by referring to those requirements, rather than to the definitions, recognition criteria and measurement concepts in the Conceptual Framework. Preparers may need to apply judgement in deciding whether there are IFRS Standards that deal with issues similar and related to those arising for the transaction under consideration.

In developing an accounting policy with reference to the requirements in IFRS Standards dealing with similar and related issues, preparers need to use their judgement in applying all aspects of the Standard that are applicable to an issue. 12 Such aspects could include disclosure requirements. In other words:

(a) it might be inappropriate to apply only some requirements in an IFRS Standard dealing with similar and related issues if other requirements in that Standard also relate to the transaction for which a policy is being developed; but
(b) it might not be necessary to apply all the requirements of the Standard.

Example 3—Back-to-back commodity loans

A bank borrows gold from one party (contract 1) and then lends that gold to another party for the same term and for a higher fee (contract 2). The bank enters into the two contracts in contemplation of each other but the contracts are not linked. In each contract, the borrower obtains legal title to the gold at inception and has an obligation to return, at the end of the contract, gold of the same quality and quantity as that received. Each borrower pays a fee to its lender over the term of the contract but there are no cash flows at the inception of the contract.

No IFRS Standard that specifically applies

The preparers of the bank’s financial statements might conclude that no IFRS Standard specifically applies to these contracts. They might judge that:

(a) the contracts are not leases within the scope of IFRS 16 Leases. They are not dependent on the use of an identified asset—each borrower may return gold different from that borrowed; and
(b) the contracts are not within the scope of IFRS 9 Financial Instruments. Gold is a commodity, not a financial asset. 13 IFRS 9 applies to some contracts to buy or sell a non-financial item, but the contracts in this example are contracts to lend gold, not to buy or sell it. 14

12 IFRIC Update, March 2011, Agenda Decision Application of the IAS 8 hierarchy.
14 Paragraph 2.4 of IFRS 9 Financial Instruments.
the gold borrowed by the bank is not within the scope of IAS 2 Inventories. It is not (i) an asset held for sale; (ii) an asset in the process of production for sale; or (iii) a material or supplies to be consumed in the production process.\textsuperscript{15}

d) the bank’s obligation to return gold to its lender is not a provision within the scope of IAS 37. It is not ‘a liability of uncertain timing or amount’ because the contract between the bank and its lender leaves no uncertainty about the timing of the return or the quantity of gold to be returned.\textsuperscript{16}

Requirements in IFRS Standards dealing with similar and related issues

Several IFRS Standards might be viewed as dealing with similar and related issues. For example:

(a) IFRS 9 specifies requirements for financial assets borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor. It includes requirements for both transferors and transferees.\textsuperscript{17, 18}

(b) IFRS 16 specifies requirements for entities (intermediate lessors) that lease an asset for a period of time from another party (the head lessor) and sublease that asset to a third party for all or part of that time.\textsuperscript{19}

(c) IAS 2 specifies requirements for inventories purchased by an entity and IFRS 15 Revenue from Contracts with Customers specifies requirements for contracts to sell an asset and repurchase either that asset or one that is substantially the same as that asset.\textsuperscript{20}

Conceptual Framework

The definitions of an asset and a liability in the Conceptual Framework focus on identifying an entity’s rights and obligations. So, if the bank were to apply those definitions, it might:

(a) recognise as an asset its right under contract 2 to receive back the quantity and quality of gold it had lent to its borrower; and

(b) recognise as a liability its obligation under contract 1 to return to its lender the same quantity and quality of gold.

How to develop an accounting policy

The preparers of the bank’s financial statements might conclude that:

(a) no IFRS Standard specifically applies to these contracts; but

(b) some IFRS Standards deal with similar and related issues.

If the preparers reach this conclusion, they develop an accounting policy for the contracts by referring first to applicable requirements in one (or more) of the IFRS Standards dealing with similar and related issues. The preparers use their judgement in applying all aspects of the Standard(s) applicable to those issues, including applicable disclosure requirements.

The policy developed might not be the same as one that the preparers would have developed if they had instead referred to the Conceptual Framework definitions.\textsuperscript{21}
Preparers of financial statements refer to the definitions, recognition criteria or measurement concepts in the Conceptual Framework if both:

(a) no IFRS Standard specifically applies to a transaction, other event or condition; and
(b) no IFRS Standards deal with similar and related issues.

For some transactions, other events or conditions, there could be several issues to consider in developing an accounting policy. For some of those issues, IFRS Standards may deal with similar and related issues; but for other issues, there may be no such Standard. In such situations, preparers of financial statements might refer to the requirements in an IFRS Standard for some issues and to concepts in the Conceptual Framework for other issues—see Example 4.

Example 4—Tax deposit

An entity and a tax authority dispute whether the entity is required to pay a tax. It is not an income tax, so is outside the scope of IAS 12 Income Taxes. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37.

Taking account of all available evidence, preparers of the entity’s financial statements judge it probable that the entity will not be required to pay the tax—it is more likely than not that the dispute will be resolved in the entity’s favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability.

To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will be required to either refund the deposit to the entity (if the dispute is resolved in the entity’s favour) or use the deposit to settle the entity’s liability (if the dispute is resolved in the tax authority’s favour).

Decisions required in developing an accounting policy

In developing an accounting policy for the tax deposit, preparers of the entity’s financial statements need to decide:

(a) whether the deposit gives rise to an asset, a contingent asset or neither; and
(b) if the deposit gives rise to an asset, whether the entity recognises that asset and, if so, how it measures and presents the asset and what information it discloses about the asset.

Whether the deposit gives rise to an asset, a contingent asset or neither

IAS 37 defines a contingent asset as a possible asset whose existence will be confirmed only by uncertain future events not wholly within the control of the entity. If the tax deposit gives rise to a contingent asset, the requirements of IAS 37 apply to that contingent asset: the tax deposit is recognised as an expense unless an inflow of economic benefits—in this case, a refund of the deposit—is virtually certain.22

If the tax deposit instead gives rise to an asset, it may be that no IFRS Standard specifically applies to the asset. For example:

(a) it is likely that the asset would be a monetary asset. If so, it would not be within the scope of IAS 38 Intangible Assets, which defines an intangible asset as a non-monetary asset.23
(b) unless the asset has arisen from a contract, it would not be within the scope of IFRS 9.

23 Paragraph 8 of IAS 38 Intangible Assets.
In the absence of an IFRS Standard that specifically applies, preparers of the entity’s financial statements consider first whether IFRS Standards deal with issues similar and related to those that arise for the tax deposit.

The preparers might conclude that no IFRS Standard deals with similar and related issues. IAS 38 includes a definition of an asset and requirements to apply in assessing whether particular types of expenditure give rise to assets. However, the assets within the scope of IAS 38 are non-monetary assets and the issues that IAS 38 addresses primarily concern separability from goodwill and uncertainty about the probability or amount of potential future economic benefits. The issues that preparers need to consider for a tax deposit are different from those addressed by IAS 38—the economic benefits are a determinable amount and the uncertainty relates to whether the entity will receive a refund.

If preparers conclude that no IFRS Standards deal with similar and related issues, they refer to and consider the applicability of the asset definition and supporting concepts in the Conceptual Framework. Of particular note are that:

(a) the asset definition in the Conceptual Framework requires an entity to have a right that has the potential to produce economic benefits; and

(b) the Conceptual Framework identifies various ways in which a right could produce economic benefits for an entity. One of those ways is by enabling the entity to extinguish liabilities.24

Applying those concepts leads to a conclusion that the entity has a right that will produce economic benefits irrespective of the outcome of the dispute with the tax authority—if the outcome is favourable to the entity, the economic benefits will be the cash refund; if the outcome is unfavourable, the economic benefits will be the use of the deposit to settle the entity’s tax liability. Although there is uncertainty about the form of the economic benefits, there is no uncertainty about the entity’s right to obtain benefits in one form or the other. Consequently, applying the Conceptual Framework asset definition and supporting concepts leads to a conclusion that the tax deposit gives rise to an asset. It is an asset, not a contingent (possible) asset, because there is no uncertainty about whether the asset exists.

**Recognising, measuring, presenting and disclosing the tax deposit asset**

If preparers of the entity’s financial statements conclude that the tax deposit gives rise to an asset, they need to decide whether the entity recognises that asset and, if so, how it measures and presents the asset and what information it discloses about the asset.

If no IFRS Standard specifically applies to the asset, the preparers apply the IAS 8 hierarchy. They identify the issues that arise in making decisions about recognition, measurement, presentation and disclosure of the tax deposit asset and refer first to any IFRS Standards dealing with similar and related issues. The preparers could, for example, refer to and consider the applicability of requirements for financial assets in IFRS 9 and requirements for income tax assets in IAS 12.

To the extent IFRS Standards deal with similar and related issues, the preparers develop accounting policies for recognising, measuring, presenting and disclosing the tax deposit asset by reference to applicable requirements in one (or more) of those Standards. The preparers use their judgement in applying all aspects of the Standard(s) that are applicable to those issues.

To the extent no IFRS Standards deal with similar and related issues, the preparers refer to the Conceptual Framework.25

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25 IFRIC Update, January 2019, Agenda Decision: Deposits relating to taxes other than income tax.
Other considerations

Other sources of reference

IAS 8 states that in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices. Management may consider these other sources to the extent they do not conflict with the Conceptual Framework or with the requirements in IFRS Standards dealing with similar and related issues.\(^{26}\)

General disclosure requirements

IFRS Standards include disclosure requirements. If no IFRS Standard specifically applies to a transaction, no disclosure requirements may specifically apply to that transaction. However, disclosure of information about the transaction may be necessary to satisfy the general presentation and disclosure requirements in IAS 1.

Presentation and disclosure requirements in IAS 1 include requirements to:

(a) present—in the statement of financial position and statement of profit or loss and other comprehensive income—line items additional to those specifically listed in IAS 1. Presenting additional items is required when such presentation is relevant to an understanding of the entity’s financial position or performance; and

(b) disclose:

(i) the nature and amount of material items of income or expense;
(ii) information relevant to an understanding of any of the financial statements;
(iii) significant accounting policies; and
(iv) information about assumptions made about the future, and other major sources of estimation uncertainty.\(^{27}\)

In addition, if preparers of financial statements are developing an accounting policy by reference to the requirements in IFRS Standards dealing with similar and related issues, they consider all the requirements dealing with those issues, including disclosure requirements.\(^{28}\)

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26 Paragraph 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
27 Paragraphs 55, 85, 97, 112(c), 117 and 125 of IAS 1 Presentation of Financial Statements.