DAY 2 MENU

1. Conceptual Framework
2. Presentation of financial statements
3. Inventories
4. Income taxes
5. Accounting policies, changes in accounting estimates and errors
6. Fair value measurement

Accounting policies, changes in accounting estimates and errors

IAS 8

Examinability

2017 Possible areas of focus:

- Prior Period Errors- more common
- Change in Estimates (refer to IAS 16)
- Change in accounting policies
  - –Disclosure Voluntary or due to change in IFRS (so many IFRS changes this year and last year)

Key Definitions

- **Accounting policies**

the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

⦿**A change in accounting estimate**

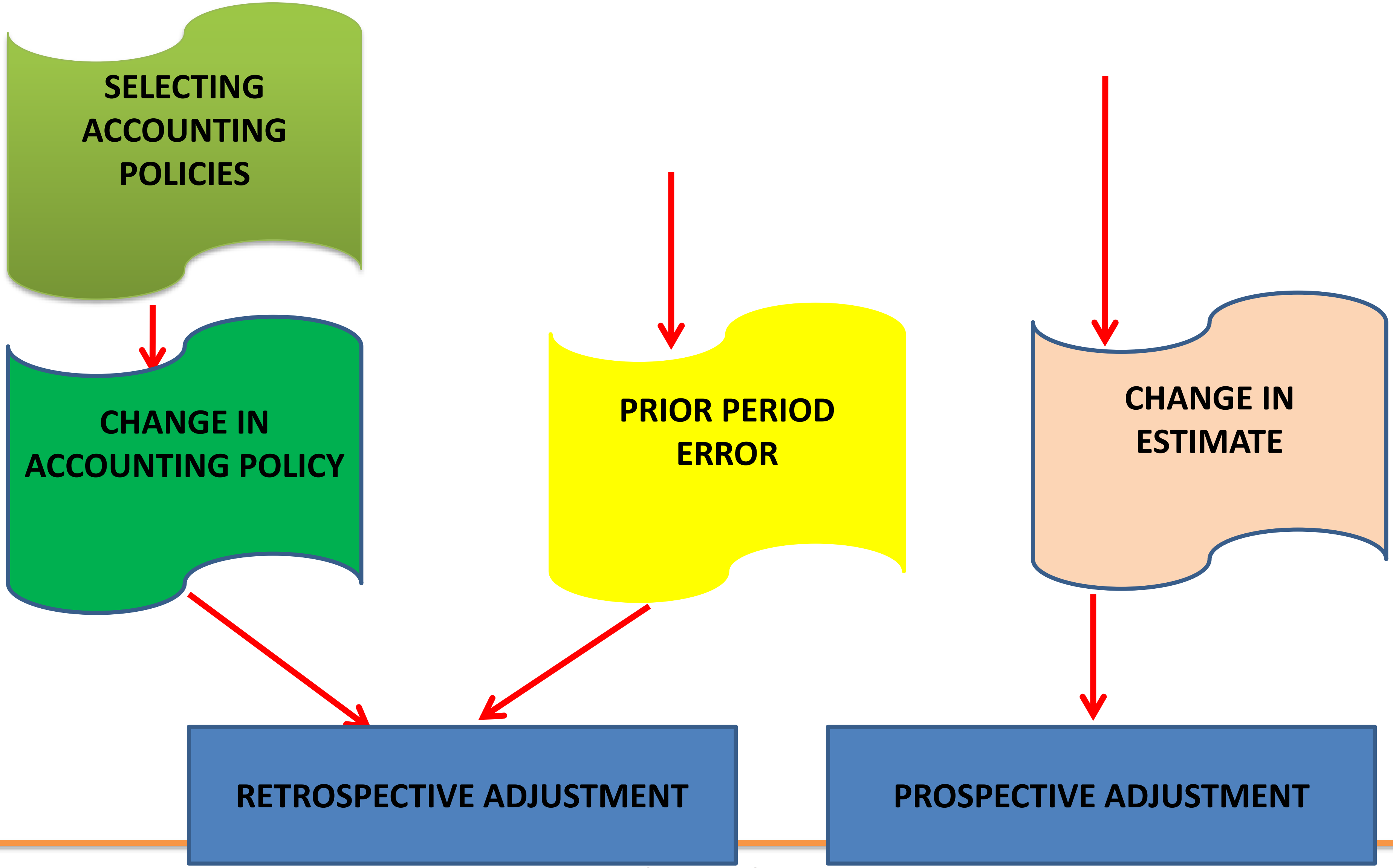
an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability

⦿**Prior period errors**

Omissions from, and misstatements in, an entity's financial statements for one or more **prior periods** arising from a failure to use, or misuse of, reliable information that was **available and could reasonably be expected to have been obtained** and taken into account in preparing those statements. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Read thru Qtn 6.1

IAS 8 OVERVIEW



Errors

- The general principle in IAS 8 is that an **entity must correct** all **material prior period errors retrospectively** in the first set of financial statements authorised for issue after their discovery by: [IAS 8.42]
  - **restating the comparative** amounts for the prior period(s) presented in which the error occurred; or
  - **if the error occurred before the earliest prior period presented**, **restating the opening balances** of assets, liabilities and equity for the earliest prior period presented.

Errors

- However, if it is **impracticable** to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity must restate the opening balances of assets, liabilities, and equity for the **earliest period** for which retrospective restatement is **practicable** (which may be the current period). [IAS 8.44]
- Further, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity must restate the comparative information to correct the error prospectively from the earliest date practicable. [IAS 8.45]

Approach to correction

Determine

- What was done
- What should have been done
- Correction required

Apply on QTN 6.1

Disclosures Relating to Prior Period Errors

[IAS 8.49]

- the **nature** of the prior period error
- for each prior period presented, to the extent practicable, the **amount of the correction**:
  - **for each** financial statement **line item affected**, and
  - **for basic and diluted earnings per share** (only if the entity is applying IAS 33)

Apply on QTN 6.1

Accounting Policies

Selection and Application of Accounting Policies

Condition: **Guidance available**

- When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by **applying the IFRS.** <u>or Interpretation and considering any relevant **Implementation Guidance issued by the IASB** for the Standard or Interpretation</u>. [IAS 8.7]
- An entity shall **apply its accounting policies consistently**

Selection and Application of Accounting Policies

Condition: **Guidance Unavailable**

In the absence of an IFRS that specifically applies to a transaction, other event or condition, **management shall use its judgment in developing and applying an accounting policy that results in information that is:**

(a) relevant to the economic decision-making needs of users; and

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

Selection and Application of Accounting Policies

- In making the judgment described in paragraph 10**, management shall refer to, and consider the applicability of, the following sources in descending order:**
- ❖ **requirements in IFRSs dealing with similar and related issues; and**
- ❖ **the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework.3***
- ❖ 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**, to the extent that these do not conflict with the sources in paragraph 11. [IAS 8.12]

Applying changes in accounting policies-22&23

COMPULSORY CHANGE

- Is required by an IFRS
- Apply specific transitional arrangements of IFRS if applicable
- Otherwise apply retrospectively

VOLUNTARY CHANGE

- Results in more relevant and reliable information
- Apply changes retrospectively to extent practicable

Approach

Amend current & comparative

Amend RE of year prior to comparative (if practicable)

	20.12 Current		20.11 Prior		20.10 Opening Prior
New figures	XXXXX		XXXXX		XXXXX
Old figures	XXXX		XXXX		XXXX
	XXX		XXX		XXX
Tax (28%)	(X)		(X)		(X)
	(XX)		(XX)		(XX)

Apply QTN 6.1

Disclosures Relating to Changes in Accounting Policies – IFRS CHANGE

– **the nature of the change** in accounting policy

– the **title of the standard** or interpretation causing the change

– a description of the **transitional provisions**, including those that might have an effect on future periods

Disclosures Relating to Changes in Accounting Policies

- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected, and
  - for basic and diluted earnings per share (only if the entity is applying IAS 33)
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.
- Financial statements of subsequent periods need not repeat these disclosures.

Disclosures Relating to Changes in Accounting Policies - voluntary changes [IAS 8.29]

- **the reasons** why applying the new accounting policy provides reliable and more relevant information
- **the nature of the change** in accounting policy
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement line item affected, and
  - for basic and diluted earnings per share (only if the entity is applying IAS 33)
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Changes in Accounting Estimate

Examples:

- ❖Over/under provision of income tax
- ❖Provision for Expected Credit Losses
- ❖Change in depreciation rate

Apply prospectively

Disclosures Relating to Changes in Accounting Estimate

- Disclose:
  - the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods
  - if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact. [IAS 8.39-40]

IAS 8: EXAMPLE 3

TYROL LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 FEBRUARY 20.12

PROFIT BEFORE TAX
Profit before tax is shown after taking the following into account:

	20.12	20.11
Depreciation	299 (1)	244 (2)

(1) 896/3 = 299
(2) 1750 * 80% *80% *20%= 244

Included in depreciation for 20.12 is a change in estimate, increase in depreciation by 120(C1) arising from the decision to depreciate plant and machinery on the straight line method in the instead of the reducing balance method. The decision will result in a decrease in depreciation in future of $120.

(C1)
- 896*20% = 179
- 299 – 179 = 120

Good Exam Technique

. Write down proper headings and layout. To earn presentation marks

- Always include comparative unless specifically instructed to ignore!!!
- Show calculations and reference to calculations

- Describe the nature
- The amount of the change
- Indicate how the changes has been accounted for
- The effect on future period If impracticable, a statement to that effect

Apply QTN 6.1