ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS
Ind-AS 8

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OBJECTIVE

- Ind AS 8 prescribes the criteria for :

1. selection of accounting policies; and consistent Application of accounting policies
1. changes in accounting policies;
2. accounting treatment;
3. disclosure of changes in accounting policies;
4. changes in accounting estimates;
5. correction of errors;

- To enhance the relevance and reliability And the comparability of those financial statements over time and with financial statements of other entities.

IMPORTANT TERMS

- Accounting policies –

  These are :

  - Specific principles
  - Bases
  - Conventions
  - Rules
  - Practices

- These are applied in preparing and presenting financial statements.

SELECTION & APPLICATION OF AN ACCOUNTING POLICY

- Application of accounting policy is further guided by materiality *** Bayer example**
- Accounting policies that has immaterial effect may not be applied.
- An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions
- But even immaterial departure from application of Ind AS is not permitted nor immaterial mistake should be left uncorrected.

WHEN THERE IS NO SPECIFIC Ind-AS

- In such a situation an entity would use its judgment in developing and applying an accounting policy that results in relevant and reliable information i.e. :

  a. Information should be relevant to the economic decision – making needs of users

  b. Reliable in the sense that the financial statements :

WHEN THERE IS NO SPECIFIC Ind-AS

And while making such judgement management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements in Ind-AS dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

- Besides, also consider the most recent pronouncements of International Accounting Standards Board , in the absence thereof , those 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.

CHANGES IN ACCOUNTING POLICIES

- In following Two circumstances :

1. If the change is required by an Ind-AS

OR

2 If the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, performance or cash flows. (NOIDA)

How to Apply the Changes ?

In accordance with the transitional provisions therein.

If no Transitional Provision OR if accounting policy is changed voluntarily.

Changes shall be applied retrospectively.

CHANGES IN ACCOUNTING POLICIES WHICH ARE NOT REGARDED AS CHANGE

- When applied to transactions or other event or condition

- *that did not occur previously or that was not material previously.*

- *that is substantially different from the one previously occurring,*

RETROSPECTIVE APPLICATION

- Retrospective application is applying a new accounting policy to transactions, other events and conditions.
- **How Retrospective accounting is done ?**

By adjustment of the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented

- As if the new accounting policy had always been applied.

PROSPECTIVE APPLICATION

- When retrospective application becomes impracticable, an entity would apply the new policy prospectively from the start of the earliest period practicable.

- Applying a requirement becomes impracticable when the entity cannot apply it after making every reasonable effort to do so.

Treatment of Revaluation of PPE – Intangible Assets

- Though considered as change in accounting policy

- They are not dealt with by Ind-AS 8

DISCLOSURES

1. Disclosures for change in accounting policies in compliance with new IFRS .	1. The title of the Ind-AS 2. If the Ind-AS contains transitional provisions : i. Description of such provisions. ii. Description of change in accounting policy carried out in compliance with transitional provisions. iii. Effect of transitional provisions in future periods. 3. If there is no transitional provision, nature of change in accounting policies. 4. For the current period & each prior period presented, to the extent practicable, the amount of adjustment : i. For each financial statement line time affected ii. If Ind-AS 33 EPS applies to the entity, for basic & diluted EPS. 5. Amount of adjustment that relates to prior periods not presented to the extent practicable. 6. If retrospective application is required & it becomes impracticable to carry out adjustment for certain prior periods, the reason of such impracticability requires to be disclosed. The disclosures are not required to be repeated in subsequent period.

DISCLOSURES

2. Voluntary change in accounting policies having impact on one or more prior periods.	1. Nature of change in accounting policy. 2. How change in accounting policy would improve relevance & reliability of financial statements information. 3. For the current period & each prior period presented to extent practicable, amount of adjustment : i. For each financial statement line item affected. ii. If IAS 33 EPS applies to the entity, for basic & diluted EPS. 4. Amount of adjustments that relates to prior periods not presented to the extent practicable. 5. If retrospective application is required & it becomes impracticable to carry out adjustment for certain prior periods, the reason of such impracticability requires to be disclosed. The disclosures are not required to be repeated in subsequent period.

DISCLOSURES

3. Change in accounting policy based on early application of Ind-AS	Often early adoption of new Ind-AS is allowed i.e. before the specified implementation date. If an entity opts for early application & there is a change in accounting policy arising thereof, the following disclosures are required : 1. The fact of early application: a. The title of Ind-AS. b. Nature & change in accounting policy. c. Date by which application is required. d. Date when entity plans initial application. 2. A discussion on known or reasonably estimable information relevant to assessing possible impact that application of new Ind-AS will have on entity's financial statements in period of initial application. The disclosures are not required to be repeated in subsequent period.

Ind-AS issued but not effective

And entity who has not applied disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind-AS will have on the entity's financial statements in the period of initial application.

In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new Ind-AS;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Ind-AS is required;

(d) the date as at which it plans to apply the Ind-AS initially; and

(e) either:
(i) a discussion of the impact that initial application of the Ind-AS is expected to have on the entity's financial statements; or
(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Estimates

CHANGE IN ACCOUNTING ESTIMATES

- Accounting measurement is often affected by uncertainties – this results in lack of precision in measurement. Given below are some items which are highly vulnerable to measurement uncertainties :

- Bad Debts ,Inventory valuations, Warranty Obligation, Useful life or expected patter of consumption , Fair Value of Financial Instruments

- A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors

CHANGE IN ACCOUNTING ESTIMATES ?

- An estimate may need revision ***if changes occur in the circumstances*** on which the estimate was based or ***as a result of new information or more experience***. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

- Change in accounting estimates are given effect prospectively. It may affect the current period as well as one or more future periods.

- Depreciation method is considered as change in an estimate.

Quiz

Parent and Subsidiary – different method of depreciation

Paragraph 19 and paragraph B87 of Ind AS 110, Consolidated Financial Statements states as follows

"19 A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

B87 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Parent is follows WDV and subsidiary follows SLM . What is the impact on consolidation. ?

DISCLOSURES

- The following disclosures for change in accounting estimates are required :

1. Nature of change in accounting estimate.
2. Amount of change in accounting estimates that has effect on current period &/or one or more future periods.
3. If amount of effect for future periods is impracticable to estimate, the fact is to be disclosed.

ERRORS

- Prior period errors are omissions from, and mis – statements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that :

  i. Was available when financial statements for those periods were approved for issue.

  ii. Could reasonably be expected to have been obtained & taken into account in preparation & presentation of financial statements.

ERRORS

- Errors are corrected retrospectively in the first set of financial statements authorized for issue after their discover by :

1. Restating the comparative amounts for the prior period(s) presented in which the error occurred.
2. If error occurred before earliest prior period presented, restating the opening balances of assets, liabilities & equity for earliest prior period presented.

- Retrospective statement is required for correction of errors unless it is impracticable. In case its impracticable to give retrospective effect, entity shall apply retrospective adjustments at earliest prior period.

DISCLOSURES

- The following disclosures are required for prior period errors :

1. Nature of the prior period error.

2. For each prior period presented, to extent practicable, amount of correction :
   - For each financial statement line item affected.
   - If Ind-AS 33 applies to entity, for basic & diluted EPS.

DISCLOSURES

3. The amount of the correction at the beginning of the earliest period presented.

4. If retrospective application becomes impracticable, the reason thereof and the prior periods from when it was corrected.

MEANING OF IMPRACTICABILITY

- The practical problem arises in retrospective application is that data might not have been collected in prior periods in a way that is required for application of new accounting policies.

- It becomes impracticable to rebuild the data.

MEANING OF IMPRACTICABILITY

- Developing estimates in retrospective application is more difficult because of elapse of time since the transaction, other event or condition occurred.

- But the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

MEANING OF IMPRACTICABILITY

- Therefore an entity should have distinguishing information that :-

  a. Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred.
  b. Would have been available when the financial statements for that prior period were authorized for issue.

- For estimation of fair value based on non – observable price, it becomes impracticable to obtain such level of distinguishing information. The entity should apply 'hindsight' to evaluate management's intention in a prior period for retrospective application.

Summary

Rectification of Error	Change of Accounting Policy	Change of estimate
Always retrospective – unless impracticable	Retrospective if voluntary – else depends on the transitionary provisions	Always Prospective

Ind-AS 8 V/s. IAS 8

In paragraph 12 of Ind AS 8, it is mentioned that in absence of an Ind AS management may first consider the most recent pronouncements of International Accounting Standards Board.

Whereas

IAS 8 management may also consider the most recent pronouncements of other standard-setting bodies

Quiz

An entity was only trading in computer equipment and softwares. The revenue of sale of goods is recognised as per paragraph 14 of Ind-AS 18, Revenue. It now decides to develop customised software. For this activity it wants to adopt paragraph 20 of Ind-AS 18.

Is this a change in accounting policy ?

This is not a change in accounting policy as development of customized software is a new business.

Quiz

An entity changed in 2017 its accounting policy with respect to valuation of its inventory from FIFO to weighted average cost formula. This being a voluntary change, it has to be applied retrospectively. The entity had commenced operation in 2009. The records of all years are available except for 2012 when due to floods, the same were washed away.

It is not possible to recreate the records. It is therefore, impracticable to determine the period-specific impact for 2012.

The entity will apply the change in accounting policy from 2013.

You.