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

By CA Yagnesh Desai, CPA (USA)

COMPILED BY:MR. YAGNESH DESAI

OBJECTIVE

- Ind-AS 8 prescribes the criteria for :
  1. selection of accounting policies;
  2. changes in accounting policies;
  3. accounting treatment;
  4. disclosure of changes in accounting policies;
  5. changes in accounting estimates;
  6. 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.

IMPORTANT TERMS

- Prior period errors –

  These are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of reliable information that :

  a. Was available when financial statements for those periods were authorized for issue.
  b. Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

- Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

SELECTION & APPLICATION OF AN ACCOUNTING POLICY

- Application of accounting policy is further guided by materiality.
- Accounting policies that has immaterial effect may not be applied.
- But even immaterial departure from application of Ind-ASs is not permitted nor immaterial mistake should be left uncorrected.

SELECTION & APPLICATION OF ACCOUNTING POLICIES, THERE IS NO SPECIFIC IFRS

- 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-ASs dealing with similar and related issues; and

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

(c) Management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the 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 Ind AS.

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.

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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
- 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.
- Retrospective restatement is correcting the **recognition, measurement** and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

- PROSPECTIVE APPLICATION

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

DISCLOSURES

1. Disclosures for change in accounting policies in compliance with new IFRS Para 28, Ind-AS 8.	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. Para 29, Ind-AS 8.	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 Ind -AS 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 IFRS Paras 30-31, Ind-AS 8	Often early adoption of new Ind-As i.e. before the specified implementation date.is permitted 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 IFRS will have on entity's financial statements in period of initial application. The disclosures are not required to be repeated in subsequent period.

IFRS issued but not effective : (Ind-AS 8.30)

(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 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.

CHANGE IN ACCOUNTING ESTIMATES

- Accounting measurement is often affected by uncertainties rendering precise measurement of an accounting element. Given below are some items which are highly vulnerable to measurement uncertainties :
- Bad Debts
- Inventory Obsolesce
- Fair Value of Financial Assets or Liabilities
- Useful lives or expected pattern of consumption
- Warranty Obligations

Change in Accounting Estimate

- 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.**
- 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.**

HOW TO EFFECT CHNGE IN ACCOUNTING ESTIMATES ?

- Change in accounting estimates are given effect prospectively.
- It may affect the current period as well as one or more future periods.
- Prospective recognition implies that change is given effect in the profit or loss of the current period when the changes affects only the current period.

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 authorized 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 :
- Restating the comparative amounts for the prior period(s) presented in which the error occurred.
- 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.

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.