Accounting Policies , Changes in Estimates and Error.

Ind AS 8

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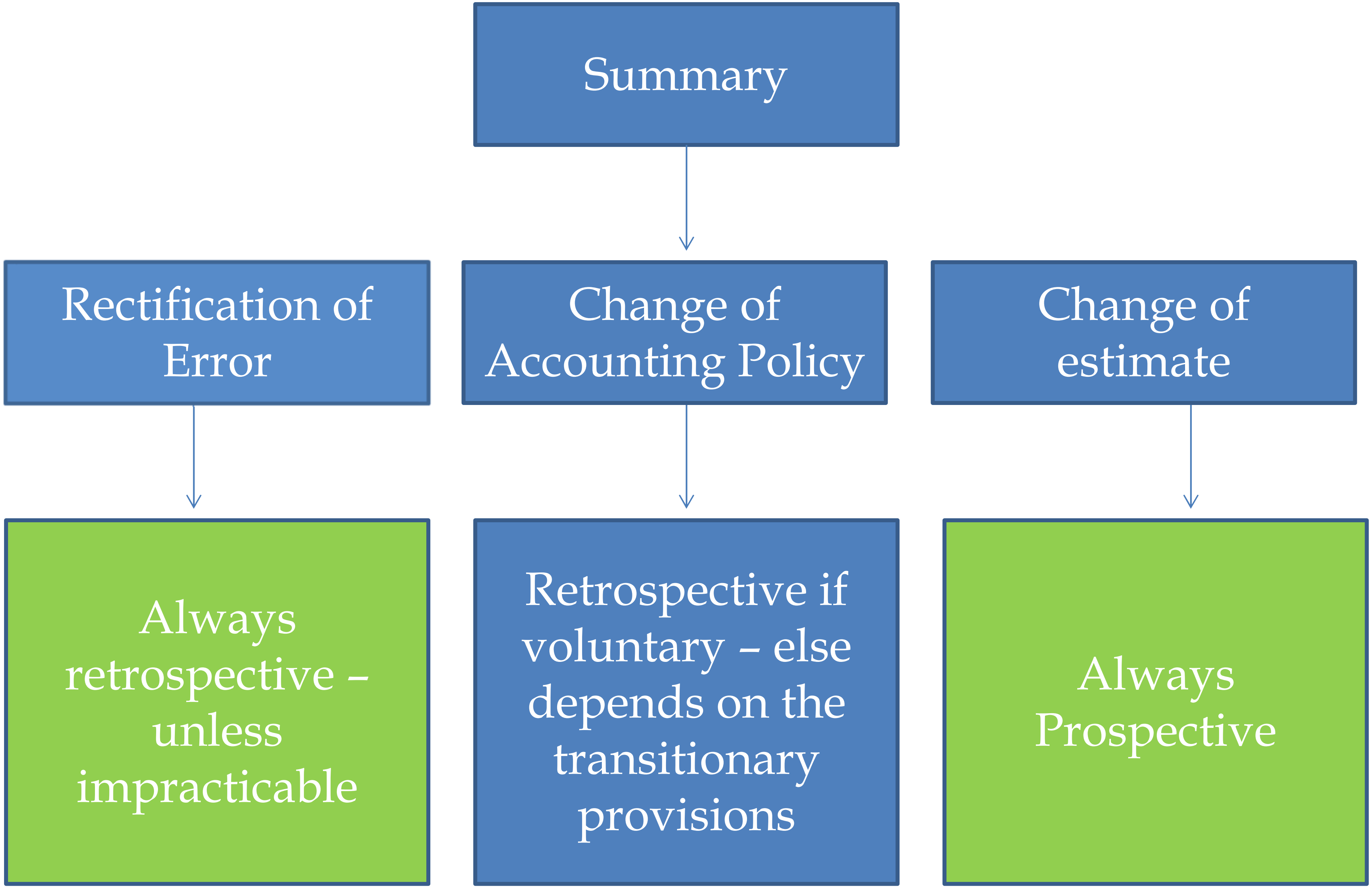
Summary
Rectification of Error
Change of Accounting Policy
Change of estimate
Always retrospective – unless impracticable
Retrospective if voluntary – else depends on the transitionary provisions
Always Prospective

SELECTION & APPLICATION OF AN ACCOUNTING POLICY

- Application of accounting policy is further guided by materiality *** Bayer example .Page 165**
- 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.

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Changes shall be applied retrospectively.

Treatment of Revaluation of PPE – Intangible Assets

- Though considered as change in accounting policy

- They are not dealt with by Ind-AS 8

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.

CASE STUDY

Current Financial Year.	2019-20
Preceding period.	2018-19
Beginning of the preceding period.	1st April, 2018
An error notice in the current year - pertaining to FY 2015-16	FY 2015-16
Type of error found in FY 2019-20	An expense of Rs. 1,00,000 was wrongly charged twice, consequently creditors for expenses would have been credited.

ANALYSIS OF THE CASE COVERING RETROSPECTIVE RESTATEMENT

- What is the impact of this error on the financial statements. (impact on Statement of Cash Flow and deferred tax ignored)

- **On the Balance Sheet -**
- **Equity**
- Retained earnings are understated in the FY 2015-16
- **Current Liability**
- **Creditors for expenses could have been overstated**

- **On the Income Statement -**
- In the year 2015-16, income was understated.

ANALYSIS OF THE CASE COVERING RETROSPECTIVE RESTATEMENT

Under AS	Under Ind AS
In the FY 2019-20	On 1st April, 2018
Entry :	Entry:
Debit Creditors for Expenses 1,00,000	Debit Creditors for Expenses 1,00,000
Credit Profit & Loss A/c 1,00,000	Credit Retained Earnings 1,00,000
FY 2019-20 income is overloaded as compared to preceding year. - Do you thing this is comparable? No.	Statement of changes will be updated on April 1, 2018. After this there wont be any further entries in FY 2018-19 or 2019-20.
Notice the difference in credit : debit remains same.	There should be a note giving description of the entries passed on April 1, 2018.

SUMMARY : RETROSPECTIVE RESTATEMENT

1. If the error pertains to years prior to FY 2017-18.
Restate retained earnings on April 1, 2018 and relevant element of balance sheet, like assets or liability.
And mention the word (Restated) for FY 2018-19.
2. If the error pertains to FY 2018-19.
Re-state the profit and loss account and balance sheet relevant to FY 2018-19.
In both the cases :-
Do consider impact of deferred tax, Detailed note to be given in the disclosure. Discuss intervening period.

SUMMARY : RETROSPECTIVE RESTATEMENT

Three Balance Sheets
Two Profit and Loss Accounts
Two Cash Flow Statements
Two Statement of Changes in Equity – this will be altered – amended.

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.

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. ?

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.

Thank

You.