IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard unless otherwise stated.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 8 was reissued in December 2003 and is applicable for annual reporting periods commencing on or after 1 January 2005.

OBJECTIVE

IAS 8 prescribes the criteria for selecting and changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors.

IAS 8 is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

ACCOUNTING POLICIES

International Financial Reporting Standards set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply.

In the absence of an IFRS that specifically applies to a transaction, other event or condition, management should use its judgement 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, that is, free from bias;
    iv. are prudent; and
    v. are complete in all material respects.

Accounting policies are selected and applied consistently for similar transactions, other events and conditions, unless an International accounting standard requires or permits categorisation of items for which different policies may be appropriate.

An entity is able to change its accounting policy only if the change:

a. is required by an IFRS; or
b. 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, financial performance or cash flows.

Applying changes in accounting policies

Unless there are specific transition policies on initial application of IFRS and it is not impracticable to determine either the period specific effects or the cumulative effect of the change, all changes in accounting policies are applied retrospectively. The entity adjusts 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.

When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

CHANGES IN ACCOUNTING ESTIMATES

The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

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.

The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in:

a. The period of the change, if the change affects that period only; or
b. The period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to items of equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

ERRORS

An entity corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

a. restating the comparative amounts for the prior period(s) presented in which the error occurred; or
b. 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.

A prior period error is corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall 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).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 8 disclosure requirements.

Note: disclosure requirements for accounting policies, except for changes in accounting policies are set out in IAS 1 *Presentation of Financial Statements.*

DEFINITIONS

Accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Change in accounting estimate	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 correction of errors.
Impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. See IAS 8.5 for more guidance.
Prior period errors	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 authorised for issue; and 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 misinterpretation of facts, and fraud.
Prospective application	Of a change in an accounting policy and of recognising the effect of a change in an accounting estimate respectively, are: a. applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and b. recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.
Retrospective application	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
Retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and is applicable for annual reporting periods commencing on or after 1 January 2005.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards* arising from Reduced Disclosure Requirements) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 8.28	When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, has the entity disclosed: a. the title of the IFRS; b. when applicable, that the change in accounting policy is made in accordance with its transitional provisions; c. the nature of the change in accounting policy; d. when applicable, a description of the transitional provisions; when applicable, the transitional provisions that might have an effect on future periods; f. for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: i. for each financial statement line item affected; and ii. if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share; g. the amount of the adjustment relating to periods before those presented, to the extent practicable; and h. if retrospective application required is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied? **Note: Financial statements of subsequent periods need not repeat these disclosures.**		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 8.29	When a voluntary change in accounting policy has an effect on the current period or any prior period, and would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, has the entity disclosed: a. the nature of the change in accounting policy; b. the reasons why applying the new accounting policy provides reliable and more relevant information; c. for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: i. for each financial statement line item affected; and ii. if IAS 33 applies to the entity, for basic and diluted earnings per share; d. the amount of the adjustment relating to periods before those presented, to the extent practicable; and e. if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied? **Note: Financial statements of subsequent periods need not repeat these disclosures.**		
IAS 8.30	When an entity has not applied a new IFRS that has been issued but is not yet effective, has the entity disclosed: a. this fact; and b. known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statement in the period of initial application? This includes: c. the title of the new IFRS; d. the nature of the impending change or changes in accounting policy; e. the date by which application of the IFRS is required; f. the date at which it plans to apply the IFRS initially; and g. either a discussion of the impact that initial application is expected to have or if the impact is not known or reasonably estimable, a statement to this effect?		
IAS 8.39	Has the entity disclosed 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, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 8.40	If the amount of the effect in future periods is not disclosed because estimating is impracticable, has this fact been disclosed?		
IAS 8.49	If a material error has been corrected retrospectively, has the following been disclosed a. the nature of the prior period error; b. for each period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and if IAS 33 applies to the entity for basic and diluted earnings per share; c. the amount of the correction at the beginning of the earliest prior period presented; and d. if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected? Note: Financial statements of subsequent periods need not repeat these disclosures.		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 108.RDR 28.1	An entity applying RDR shall disclose an explanation if it is impracticable to determine the amounts required to be disclosed by paragraphs AASB 108.28 (f)(i) or (g).		

OTHER MATTERS

LEGAL NOTICE

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