Ind AS 8
Changes in Accounting Policies, Estimates and Errors

Agenda

- Objective and Scope
- Change in an accounting policy
- Change in an accounting estimate
- Prior Period Error
- What to do when it is impracticable to retrospectively apply & restate
- Key GAAP differences

Objective and scope

- Criteria for selecting and applying accounting policies

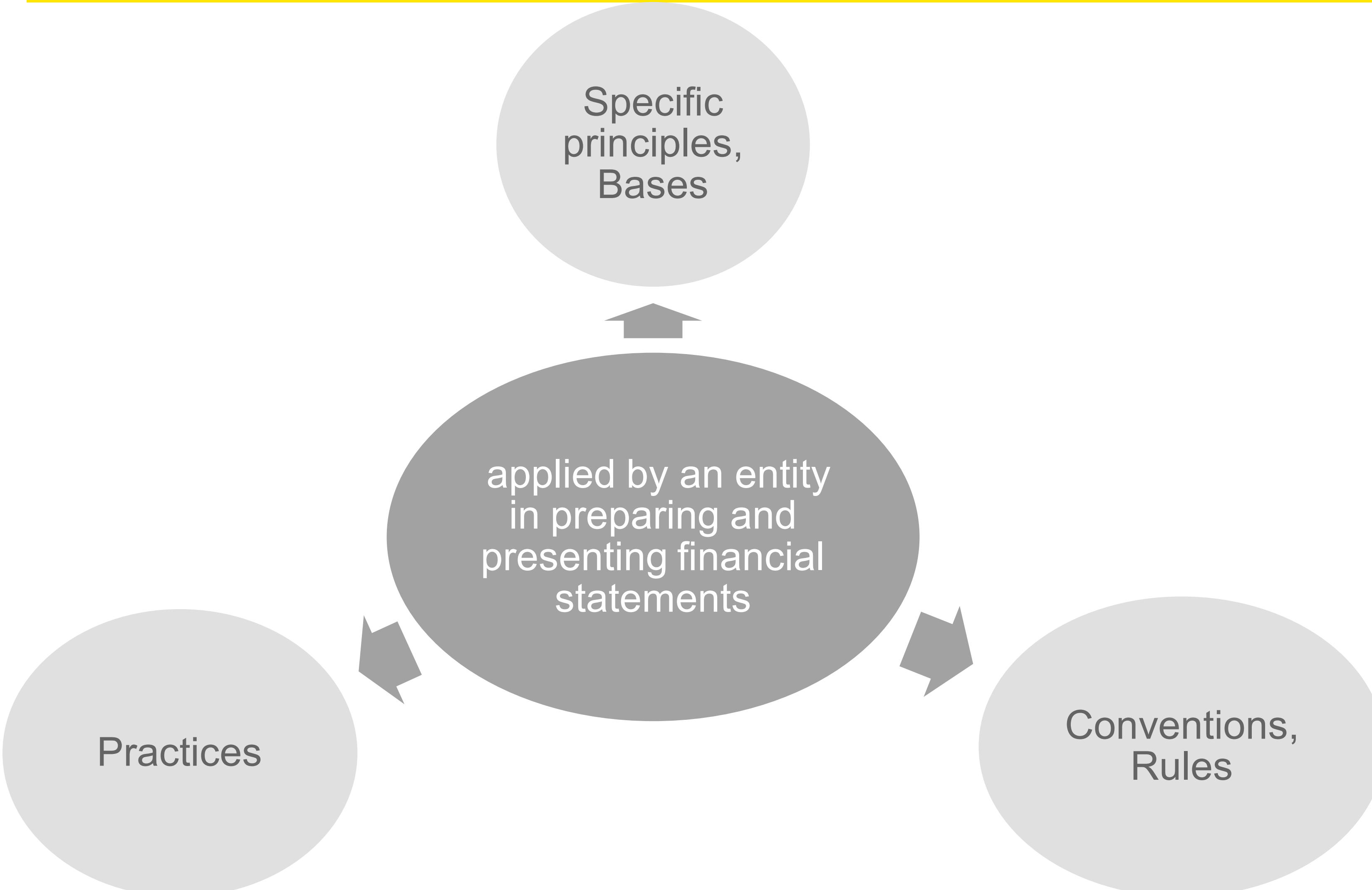
How to account:

Change in accounting policies

Change in accounting estimates

Correction of errors

Accounting policies



Selection and application of accounting policies

If specific Ind AS is available	In absence of a specific Ind AS	Process
▶ Applying a specific Ind AS ▶ Considering any relevant implementation guidance	▶ Use judgement to develop an accounting policy that results in relevant and reliable information	▶ Refer to Ind ASs dealing with similar and related issues ▶ Refer to framework ▶ Refer pronouncement of other standard setters or industry practices if consistent with above

Consistency of accounting policies

- Select and apply accounting policy consistently for similar transactions, other events and conditions
- May adopt different policies
  - When an Ind AS requires or permits categorisation of items for which different policies may be appropriate
  - But accounting policy selected and applied should be consistent to each category
- Example:
  - Ind AS 2 Inventories requires that inventory be valued at lower of cost and net realizable value. In identifying cost it allows alternative cost formulas; FIFO and Weighted average. The same cost formula must be applied to items of inventory having similar nature or use, but a different cost formula can be applied to a different classification of inventory

Changes in accounting policies

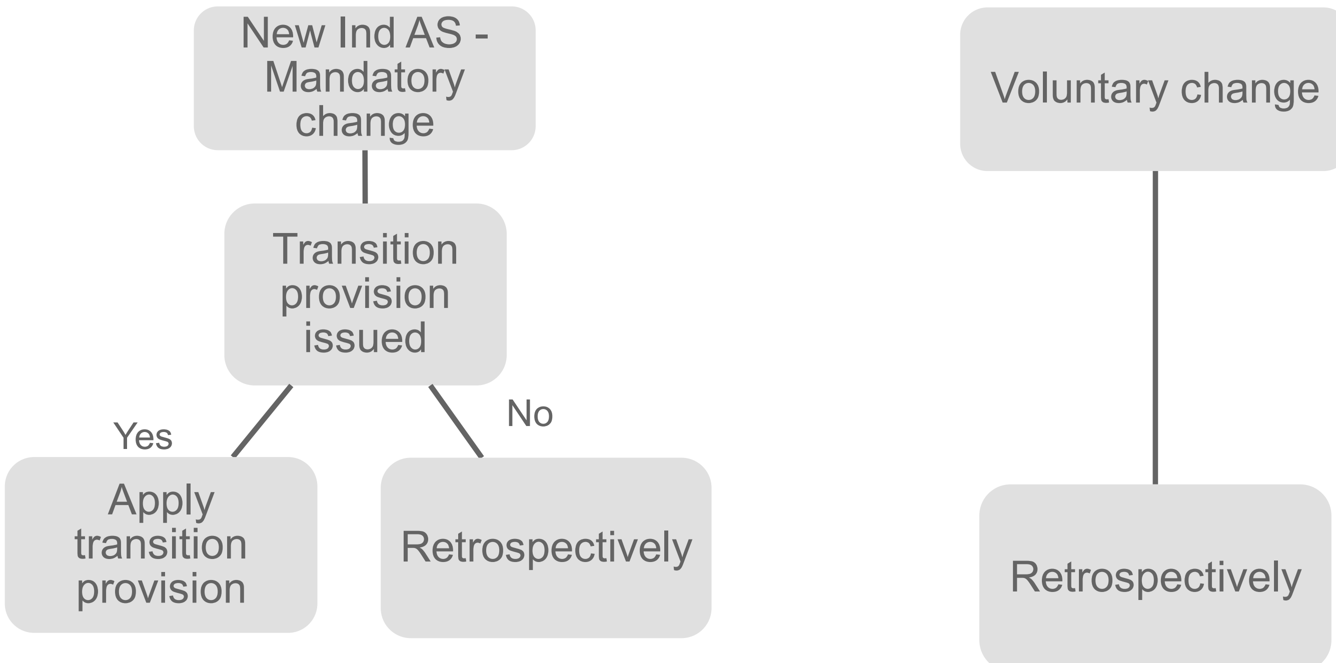
Change in accounting policy can affect the way an item is recognized, measured, presented and / or disclosed

Change an accounting policy only if the change:

is required by an Ind AS; or	results in the financial statements providing reliable and more relevant information
Mandatory	Voluntary

Example:
A carpet retail outlet sells and fits carpets to the general public, it recognizes revenue when the carpet is fitted, which on average is six weeks after the purchase of the carpet.
It then decides to sub-contract out the fitting of carpets to self-employed fitters. It now recognizes revenue at the point-of-sale of the carpet.
This is not a change in accounting policy as the carpet retailer has changed the way that the carpets are fitted. Therefore there would be no need to retrospectively change prior period figures for revenue recognized.

Applying changes in accounting policies



Retrospective application

Entity shall adjust 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.

If Retrospective application is impracticable:

Period-specific effects	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
Cumulative effect	Adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable

Disclosures in changes in accounting policies

- When initial application of a standard has an effect, disclose
  - The title of the Ind AS
  - Nature of change in accounting policy
  - Amount of the adjustment due to change in policy
  - Change in accordance with transitional provisions along with description
  - Transitional provisions that have an effect on future periods
  - For current period and each prior period presented the amount of the adjustment for each financial line item affected and for basic and diluted earnings per share, if Ind AS 33 applies;
  - The amount of the adjustment relating to periods before those presented, to the extent practicable
  - If retrospective application is required but impracticable, the circumstances and a description
- Need not repeat these disclosure in subsequent periods.

Disclosures (contd.)

- When a voluntary change 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, then disclose:
  - reasons why the change provides reliable and more relevant information
  - the nature and amount of a change in a policy
  - For current period and each prior period presented the amount of the adjustment for each line item affected and for basic and diluted earnings per share, if Ind AS 33 applies;
  - The amount of the adjustment relating to periods before those presented, to the extent practicable
  - If retrospective application is required but impracticable, the circumstances and a description
- Need not repeat these disclosure in subsequent periods.

Disclosures (contd.)

- When not applying a new Ind AS that has been issued but is not yet effective, disclose
  - this fact
  - known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the financial statements in the period of initial application

Changes in accounting estimates

Definition

adjustment to the carrying amount of asset or liability that results from reassessment and its expected future benefits and obligations associated with, assets and liabilities.

- For example, estimates may be required of:
  - bad debts;
  - inventory obsolescence;
  - the fair value of financial assets or financial liabilities;
  - the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
  - warranty obligations

Changes in accounting estimates (cont'd)

Recognition

Include the effect of a change in an accounting estimate prospectively in profit or loss in:

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both

- If difficult to distinguish between change in accounting estimate and in accounting policy - treat the change as a change in accounting estimate.

Disclosures

- Disclose the nature and amount of a change in an estimate:
  - that has an effect in the current period, or
  - is expected to have an effect in the future periods
- If impracticable to quantify the amount, disclose that fact

Errors

- Errors in respect of recognition, measurement, presentation or disclosure
- Prior period errors
  - Omission and misstatements for one or more prior periods arising from a failure to use, or misuse of, reliable information
- Such errors include
  - the effects of mathematical mistakes
  - mistakes in applying accounting policies
  - oversights or misinterpretations of facts
  - fraud

Correction of material prior period errors

- Correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
  - Restating the comparative amounts for the prior period presented in which the error occurred; or
  - If the error occurred before the earliest prior period presented, restating the opening balances for the earliest prior period presented

Disclosures

- When an entity restates, Ind AS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period
- Extensive disclosure requirements:
  - nature of the prior period error;
  - for each prior period presented, the amount of the correction for each line item affected and for basic and diluted earnings per share, if Ind AS 33 applies
  - the amount of the correction at the beginning of the earliest prior period presented
  - if retrospective restatement is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.
- Need not repeat these disclosure in subsequent periods

Key differences

Particulars	Ind AS	Indian GAAP
Change in accounting policy if required by statute	No such requirement	Mandates change in accounting policy if required by statute
Accounting for changes in accounting policies	It requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions.	It does not specify how change in accounting policy should be accounted for (except for change in the method of depreciation to be accounted for retrospectively).

Key differences

Particulars	Ind AS	Indian GAAP
Change in method of depreciation	Change in the method of depreciation is a change in accounting estimate.	Change in the method of depreciation is a change in accounting policy.
Extraordinary items	There is no concept of extraordinary items under Ind AS.	Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
Prior Period items	Statement of financial position as at the beginning of the earliest comparative period needs to be presented, when an entity restates comparative information, if material, following a correction of error.	The effect of prior period items is recognised in current year's Statement of Profit and Loss.

Thank You