

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is issued by the International Accounting Standards Board (the Board).

IFRS Standards together with their accompanying documents are issued by the International Accounting Standards Board (the “Board”).

**Disclaimer:** To the extent permitted by applicable law, the Board and the IFRS Foundation (Foundation) expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

#### **Copyright © IFRS Foundation**

All rights reserved. Reproduction and use rights are strictly limited. Contact the Foundation for further details at [licences@ifrs.org](mailto:licences@ifrs.org).

Copies of IASB publications may be obtained from the Foundation’s Publications Department. Please address publication and copyright matters to:

IFRS Foundation Publications Department  
30 Cannon Street, London, EC4M 6XH, United Kingdom.  
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749  
Email: [publications@ifrs.org](mailto:publications@ifrs.org) Web: [www.ifrs.org](http://www.ifrs.org)



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the “Hexagon Device”, “IFRS Foundation”, “eIFRS”, “IAS”, “IASB”, “IFRS for SMEs”, “IASs”, “IFRS”, “IFRSs”, “International Accounting Standards” and “International Financial Reporting Standards”, “IFRIC” and “IFRS Taxonomy” are **Trade Marks** of the IFRS Foundation.

## **Approval by the Board of IAS 8 issued in December 2003**

---

International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as revised in 2003) was approved for issue by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie

Chairman

Thomas E Jones

Vice-Chairman

Mary E Barth

Hans-Georg Bruns

Anthony T Cope

Robert P Garnett

Gilbert Gélard

James J Leisenring

Warren J McGregor

Patricia L O'Malley

Harry K Schmid

John T Smith

Geoffrey Whittington

Tatsumi Yamada

# Basis for Conclusions on IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

*This Basis for Conclusions accompanies, but is not part of, IAS 8.*

## Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 8. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC3 The Standard includes extensive changes to the previous version of IAS 8. The Board's intention was not to reconsider all of the previous Standard's requirements for selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of errors. Accordingly, this Basis for Conclusions does not discuss requirements in IAS 8 that the Board did not reconsider.

## Removing allowed alternative treatments

- BC4 The previous version of IAS 8 included allowed alternative treatments of voluntary changes in accounting policies (paragraphs 54–57) and corrections of fundamental errors (paragraphs 38–40). Under those allowed alternatives:
- (a) the adjustment resulting from retrospective application of a change in an accounting policy was included in profit or loss for the current period; and
  - (b) the amount of the correction of a fundamental error was included in profit or loss for the current period.
- BC5 In both circumstances, comparative information was presented as it was presented in the financial statements of prior periods.
- BC6 The Board identified the removal of optional treatments for changes in accounting policies and corrections of errors as an important improvement to the previous version of IAS 8. The Standard removes the allowed alternative treatments and requires changes in accounting policies and corrections of prior period errors to be accounted for retrospectively.
- BC7 The Board concluded that retrospective application made by amending the comparative information presented for prior periods is preferable to the previously allowed alternative treatments because, under the now required method of retrospective application:
- (a) profit or loss for the period of the change does not include the effects of changes in accounting policies or errors relating to prior periods.
  - (b) information presented about prior periods is prepared on the same basis as information about the current period, and is therefore comparable. This information possesses a qualitative characteristic identified in the *Framework for the Preparation and Presentation of Financial Statements*,<sup>1</sup> and provides the most useful information for trend analysis of income and expenses.
  - (c) prior period errors are not repeated in comparative information presented for prior periods.

<sup>1</sup> IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

- BC8 Some respondents to the Exposure Draft argued that the previously allowed alternative treatments are preferable because:
- (a) correcting prior period errors by restating prior period information involves an unjustifiable use of hindsight;
  - (b) recognising the effects of changes in accounting policies and corrections of errors in current period profit or loss makes them more prominent to users of financial statements; and
  - (c) each amount credited or debited to retained earnings as a result of an entity's activities has been recognised in profit or loss in some period.
- BC9 The Board concluded that restating prior period information to correct a prior period error does not involve an unjustifiable use of hindsight because prior period errors are defined in terms of a failure to use, or misuse of, reliable information that was available when the prior period financial statements were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- BC10 The Board also concluded that the disclosures about changes in accounting policies and corrections of prior period errors in paragraphs 28, 29 and 49 of the Standard should ensure that their effects are sufficiently prominent to users of financial statements.
- BC11 The Board further concluded that it is less important for each amount credited or debited to retained earnings as a result of an entity's activities to be recognised in profit or loss in some period than for the profit or loss for each period presented to represent faithfully the effects of transactions and other events occurring in that period.

## **Eliminating the distinction between fundamental errors and other material prior period errors**

---

- BC12 The Standard eliminates the distinction between fundamental errors and other material prior period errors. As a result, all material prior period errors are accounted for in the same way as a fundamental error was accounted for under the retrospective treatment in the previous version of IAS 8. The Board concluded that the definition of 'fundamental errors' in the previous version was difficult to interpret consistently because the main feature of the definition—that the error causes the financial statements of one or more prior periods no longer to be considered to have been reliable—was also a feature of all material prior period errors.

## **Applying a Standard or an Interpretation that specifically applies to an item**

---

- BC13 The Exposure Draft proposed that when a Standard or an Interpretation applies to an item in the financial statements, the accounting policy (or policies) applied to that item is (are) determined by considering the following in descending order:
- (a) the Standard (including any Appendices that form part of the Standard);
  - (b) the Interpretation;
  - (c) Appendices to the Standard that do not form a part of the Standard; and
  - (d) Implementation Guidance issued in respect of the Standard.
- BC14 The Board decided not to set out a hierarchy of requirements for these circumstances. The Standard requires only applicable IFRSs to be applied. In addition, it does not mention Appendices.
- BC15 The Board decided not to rank Standards above Interpretations because the definition of International Financial Reporting Standards (IFRSs) includes Interpretations, which are equal in status to Standards. The rubric to each Standard clarifies what material constitutes the requirements of an IFRS and what is Implementation Guidance.<sup>2</sup> The term 'Appendix' is retained only for material that is part of an IFRS.

---

<sup>2</sup> In 2007 the Board was advised that paragraphs 7 and 9 may appear to conflict, and may be misinterpreted to require mandatory consideration of Implementation Guidance. The Board amended paragraphs 7, 9 and 11 by *Improvements to IFRSs* issued in May 2008 to state that only guidance that is identified as an integral part of IFRSs is mandatory.

## Pronouncements of other standard-setting bodies

---

- BC16 The Exposure Draft proposed that in the absence of a Standard or an Interpretation specifically applying to an item, management should develop and apply an accounting policy by considering, among other guidance, pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. Respondents to the Exposure Draft commented that this could *require* entities to consider the pronouncements of various other standard-setting bodies when IASB guidance does not exist. Some commentators argued that, for example, it could require consideration of all components of US GAAP on some topics. After considering these comments, the Board decided that the Standard should indicate that considering such pronouncements is voluntary (see paragraph 12 of the Standard).
- BC17 As proposed in the Exposure Draft, the Standard states that pronouncements of other standard-setting bodies are used only if they do not conflict with:
- (a) the requirements and guidance in IFRSs dealing with similar and related issues; and
  - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.<sup>3</sup>
- BC18 The Standard refers to the most recent pronouncements of other standard-setting bodies because if pronouncements are withdrawn or superseded, the relevant standard-setting body no longer thinks they include the best accounting policies to apply.
- BC19 Comments received indicated that it was unclear from the Exposure Draft whether a change in accounting policy following a change in a pronouncement of another standard-setting body should be accounted for under the transitional provisions in that pronouncement. As noted above, the Standard does not mandate using pronouncements of other standard-setting bodies in any circumstances. Accordingly, the Board decided to clarify that such a change in accounting policy is accounted for and disclosed as a voluntary change in accounting policy (see paragraph 21 of the Standard). Thus, an entity is precluded from applying transitional provisions specified by the other standard-setting body if they are inconsistent with the treatment of voluntary changes in accounting policies specified by the Standard.

## Materiality

---

- BC20 The Standard states that accounting policies specified by IFRSs need not be applied when the effect of applying them is immaterial. It also states that financial statements do not comply with IFRSs if they contain material errors, and that material prior period errors are to be corrected in the first set of financial statements authorised for issue after their discovery. The Standard includes a definition of material omissions or misstatements, which is based on the description of materiality in IAS 1 *Presentation of Financial Statements* (as issued in 1997) and in the *Framework*.
- BC21 The former *Preface to Statements of International Accounting Standards* stated that International Accounting Standards were not intended to apply to immaterial items. There is no equivalent statement in the *Preface to International Financial Reporting Standards*. The Board received comments that the absence of such a statement from the *Preface* could be interpreted as requiring an entity to apply accounting policies (including measurement requirements) specified by IFRSs to immaterial items. However, the Board decided that the application of the concept of materiality should be in Standards rather than in the *Preface*.
- BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

## Criterion for exemption from requirements

---

- BC23 The previous version of IAS 8 included an impracticability criterion for exemption from retrospective application of voluntary changes in accounting policies and retrospective restatement for fundamental errors, and from making related disclosures, when the allowed alternative treatment of those items was not applied. The Exposure Draft proposed instead an exemption from retrospective application and retrospective restatement when it gives rise to undue cost or effort.
- BC24 In the light of comments received on the Exposure Draft, the Board decided that an exemption based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities. Moreover, the Board decided that balancing costs and benefits is a task for the Board when it sets accounting

---

<sup>3</sup> In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

requirements rather than for entities when they apply those requirements. Therefore, the Board decided to retain the impracticability criterion for exemption in the previous version of IAS 8. This affects the exemptions in paragraphs 23–25, 39 and 43–45 of the Standard. Impracticability is the only basis on which specific exemptions are provided in IFRSs from applying particular requirements when the effect of applying them is material.<sup>4</sup>

## Definition of ‘impracticable’

- BC25 The Board decided to clarify the meaning of ‘impracticable’ in relation to retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error.
- BC26 Some commentators suggested that retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error are impracticable for a particular prior period whenever significant estimates are required as of a date in that period. However, the Board decided to specify a narrower definition of impracticable because the fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information. Thus, the Board decided that an inability to distinguish objectively information that both provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed and would have been available when the financial statements for that prior period were authorised for issue from other information is the factor that prevents reliable adjustment or correction of comparative information for prior periods (see part (c) of the definition of ‘impracticable’ and paragraphs 51 and 52 of the Standard).
- BC27 The Standard specifies that hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management’s intentions would have been in a prior period or estimating the amounts in a prior period. This is because management’s intentions in a prior period cannot be objectively established in a later period, and using information that would have been unavailable when the financial statements for the prior period(s) affected were authorised for issue is inconsistent with the definitions of retrospective application and retrospective restatement.

## Applying the impracticability exemption

- BC28 The Standard specifies that when it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, or the cumulative effect of an error on all prior periods, the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable (see paragraphs 25 and 45 of the Standard). This is similar to paragraph 52 of the previous version of IAS 8, but it is no longer restricted to changes in accounting policies. The Board decided to include such provisions in the Standard because it agrees with comments received that it is preferable to require prospective application from the start of the earliest period practicable than to permit a change in accounting policy only when the entity can determine the cumulative effect of the change for all prior periods at the beginning of the current period.
- BC29 Consistently with the Exposure Draft’s proposals, the Standard provides an impracticability exemption from retrospective application of changes in accounting policies, including retrospective application of changes made in accordance with the transitional provisions in an IFRS. The previous version of IAS 8 specified the impracticability exemption for retrospective application of only *voluntary* changes in accounting policies. Thus, the applicability of the exemption to changes made in accordance with the transitional provisions in an IFRS depended on the text of that IFRS. The Board extended the applicability of the exemption because it decided that the need for the exemption applies equally to all changes in accounting policies applied retrospectively.

## Disclosures about impending application of newly issued IFRSs

- BC30 The Standard requires an entity to provide disclosures when it has not yet applied a new IFRS that has been issued but is not yet effective. The entity is required to disclose that it has not yet applied the IFRS, and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new IFRS will have on the entity’s financial statements in the period of initial application (paragraph 30). The Standard also includes guidance on specific disclosures the entity should consider when applying this requirement (paragraph 31).

<sup>4</sup> In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC 47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

- BC31 Paragraphs 30 and 31 of the Standard differ from the proposals in the Exposure Draft in the following respects:
- (a) they specify that an entity needs to disclose information only if it is known or reasonably estimable. This clarification responds to comments on the Exposure Draft that the proposed disclosures would sometimes be impracticable.
  - (b) whereas the Exposure Draft proposed to mandate the disclosures now in paragraph 31, the Standard sets out these disclosures as items an entity should consider disclosing to meet the general requirement in paragraph 30. This amendment focuses the requirement on the objective of the disclosure, and, in response to comments on the Exposure Draft that the proposed disclosures were more onerous than the disclosures in US GAAP, clarifies that the Board's intention was to converge with US requirements, rather than to be more onerous.

## **Recognising the effects of changes in accounting estimates**

---

- BC32 The Exposure Draft proposed to retain without exception the requirement in the previous version of IAS 8 that the effect of a change in accounting estimate is *recognised 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.
- BC33 Some respondents to the Exposure Draft disagreed with requiring the effects of all changes in accounting estimates to be recognised in profit or loss. They argued that this is inappropriate to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, because the entity's equity does not change as a result. These commentators also argued that it is inappropriate to preclude recognising the effects of changes in accounting estimates directly in equity when that is required or permitted by a Standard or an Interpretation. The Board concurs, and decided to provide an exception to the requirement described in paragraph BC32 for these circumstances.

## Guidance on implementing IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

*This guidance accompanies, but is not part of, IAS 8.*

### Example 1 – Retrospective restatement of errors

- 1.1 During 20X2, Beta Co discovered that some products that had been sold during 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500.<sup>5</sup>
- 1.2 Beta's accounting records for 20X2 show sales of CU104,000, cost of goods sold of CU86,500 (including CU6,500 for the error in opening inventory), and income taxes of CU5,250.
- 1.3 In 20X1, Beta reported:
- |                            | CU       |
|----------------------------|----------|
| Sales                      | 73,500   |
| Cost of goods sold         | (53,500) |
| Profit before income taxes | 20,000   |
| Income taxes               | (6,000)  |
| Profit                     | 14,000   |
- 1.4 20X1 opening retained earnings was CU20,000 and closing retained earnings was CU34,000.
- 1.5 Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.
- 1.6 Beta had CU5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

#### Beta Co Extract from the statement of comprehensive income

	20X2	(restated) 20X1
	CU	CU
Sales	104,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450

*continued...*

<sup>5</sup> In these examples, monetary amounts are denominated in 'currency units (CU)'.



...continued

**Beta Co Statement of changes in equity**

	Share capital	Retained earnings	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Profit for the year ended 31 December 20X1 as restated		9,450	9,450
Balance at 31 December 20X1	5,000	29,450	34,450
Profit for the year ended 31 December 20X2		16,800	16,800
Balance at 31 December 20X2	5,000	46,250	51,250

**Extracts from the notes**

- 1 Some products that had been sold in 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 20X2.

	Effect on 20X1 CU
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expense	1,950
(Decrease) in profit	<u>(4,550)</u>
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	<u><u>(4,550)</u></u>

**Example 2 – Change in accounting policy with retrospective application**

[Deleted]

### Example 3 – Prospective application of a change in accounting policy when retrospective application is not practicable

- 3.1 During 20X2, Delta Co changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.
- 3.2 In years before 20X2, Delta's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.
- 3.3 Delta's management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Delta's new policy prospectively from the start of 20X2.
- 3.4 Additional information:

Delta's tax rate is 30 per cent.

	CU
Property, plant and equipment at the end of 20X1:	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey:	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

#### Extract from the notes

- 1 From the start of 20X2, Delta changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; increase the opening deferred tax provision by CU1,800; create a revaluation surplus at the start of the year of CU4,200; increase depreciation expense by CU500; and reduce tax expense by CU150.