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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.

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Geoffrey Whittington

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Approval by the Board of *Definition of Material* (Amendments to IAS 1 and IAS 8) issued in October 2018

Definition of Material (Amendments to IAS 1 and IAS 8), was approved for issue by the fourteen members of the International Accounting Standards Board.

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Approval by the Board of *Definition of Accounting Estimates* issued in February 2021

Definition of Accounting Estimates, which amended IAS 8, was approved for issue by 12 of 13 members of the International Accounting Standards Board. Mr Mackenzie abstained from voting in view of his recent appointment to the Board.

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Approval by the IASB of *Disclosures about Uncertainties in the Financial Statements* issued in November 2025

Disclosures about Uncertainties in the Financial Statements was approved for issue by all 12 members of the International Accounting Standards Board.

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Basis for Conclusions on IAS 8 *Basis of Preparation of Financial Statements*

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 and on subsequent amendments. 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.
- BC3A In April 2024 the Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced IAS 1 *Presentation of Financial Statements*. In replacing IAS 1 the Board concluded that some requirements setting out general features of financial statements and some disclosure requirements fit better with the content of IAS 8. The Board decided, therefore, to move those requirements from IAS 1 to IAS 8. The requirements that the Board decided to move are: (i) the concepts of fair presentation and compliance with IFRS Accounting Standards, (ii) whether an entity is a going concern, (iii) the accrual basis of accounting and (iv) disclosure of an entity’s selection and application of accounting policies. This Basis for Conclusions includes extracts from the Basis for Conclusions on IAS 1 relating to the paragraphs moved to IAS 8. The Board decided to change the title of IAS 8 to *Basis of Preparation of Financial Statements* to better reflect the amended content of IAS 8.¹

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.

¹ In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and amended the definition of ‘International Financial Reporting Standards (IFRSs)’ to ‘IFRS Accounting Standards’. All references in this Basis for Conclusions to International Financial Reporting Standards, IFRS Standards or IFRSs refer to IFRS Accounting Standards.

- 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 (Framework)*,² 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.
- 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.

Departures from IFRSs

- BC12A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to fair presentation and compliance with IFRS Accounting Standards from IAS 1 to paragraphs 6A–6J of IAS 8. Extracts from the Basis for Conclusions on IAS 1 relating to those requirements are included in paragraphs BCZ12B–BCZ12I. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.
- BCZ12B Paragraph 6E of IAS 8 permits an entity to depart from a requirement in a Standard 'in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation'. When

² References to the *Framework* in this Basis for Conclusions are to the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the Board in 2001 and in effect when the Standard was revised.

such a departure occurred, paragraph 6F of IAS 8 requires extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

BCZ12C The Board decided to clarify in IAS 1 at that time that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework* at that time. This clarification is now included in paragraph 6A of IAS 8.³

BCZ12D The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

BCZ12E These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.

BCZ12F The Board considered whether IAS 1 at that time should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.

BCZ12G Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. IAS 8 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BCZ12D for departure from a requirement in an IFRS, the entity should proceed as follows:

- (a) when the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 6F.
- (b) when the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 6I.

This amendment enables entities to comply with the requirements of IAS 8 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.

BCZ12H After considering the comments received on the exposure draft of 2002⁴, the Board required an entity to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.

BCZ12I In view of the strict criteria for departure from a requirement in an IFRS, IAS 8 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time.

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);

³ *The Conceptual Framework for Financial Reporting (Conceptual Framework) replaced the Framework for the Preparation and Presentation of Financial Statements (Framework).*

⁴ The exposure draft of 2002 refers to the May 2002 Exposure Draft Improvements to International Accounting Standards that included proposals to revise IAS 1.

- (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.⁵ The term ‘Appendix’ is retained only for material that is part of an IFRS.

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*.⁶
- 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*.⁷
- 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*

⁵ 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.

⁶ In 2018 the Board issued a revised *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The Board also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. That document replaced the reference to the *Framework* in paragraph 11(b) of IAS 8 with a reference to the *Conceptual Framework*, except in the case of some regulatory account balances, as explained in paragraphs 54G of IAS 8 and BC38–BC40.

⁷ When it issued IFRS 18, the IASB carried over the definition of ‘material’ from IAS 1 *Presentation of Financial Statements* to IFRS 18.

International Financial Reporting Standards.⁸ 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*.

- BC21A As a consequence of the *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, the definition of material and the accompanying explanatory paragraphs have been replaced with a reference to the definition of material and explanatory paragraphs in IAS 1.⁹ The Board made this change to avoid the duplication of the definition of material in the Standards.
- 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 disclosures¹⁰. 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 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.¹¹

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.

⁸ *Preface to International Financial Reporting Standards* renamed *Preface to IFRS Standards* December 2018.

⁹ Refer to paragraphs BCZ26 to BCZ44 of the Basis for Conclusions on IFRS 18.

¹⁰ When it issued IFRS 18, the IASB carried over the definition of 'material' from IAS 1 to IFRS 18.

¹¹ 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.

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).
- BC31 Paragraphs 30 and 31 of the Standard differ from the proposals in the Exposure Draft in the following respects:
- 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.
 - 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.

Disclosure of selection and application of accounting policies (paragraphs 27A–27I and 31A–31I)

- BC31A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to an entity's selection and application of accounting policies in IAS 1 to paragraphs 27A–27I of IAS 8. Previously, the Board had amended those disclosure requirements. Extracts from the Basis for Conclusions on IAS 1 relating to those earlier amendments were moved to form part of the Basis for Conclusions on IAS 8 by the Board and are included here as paragraphs BCZ31B–BCZ31AD of this Basis for Conclusions. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.

Disclosure of accounting policies (issued February 2021)

Background

- BCZ31B In March 2017 the Board published the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared by an entity applying IFRS Standards. One issue related to the disclosure of information about accounting policies.

- BCZ31C The Discussion Paper noted that IAS 1 at that time required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differ in their views about what constitutes a significant accounting policy.
- BCZ31D Feedback on the Discussion Paper suggested that the Board develop requirements and guidance to help entities make more effective accounting policy disclosures. Feedback from stakeholders suggested that materiality be the basis of such requirements or guidance.
- BCZ31E In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed to amend IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*.

Replacing ‘significant’ with ‘material’

- BCZ31F The Board found that, because ‘significant’ is not defined in IFRS Standards, entities can have difficulty assessing whether an accounting policy is ‘significant’. The Board also noted that entities can have difficulty understanding the difference, if any, between ‘significant’ and ‘material’ accounting policies. The Board considered developing a definition of ‘significant’ but concluded that this approach could have unintended consequences for other uses of the term ‘significant’ in IFRS Standards.
- BCZ31G Because ‘material’ is defined in IFRS Standards and is well understood by stakeholders, the Board decided to require entities to disclose their material accounting policy information instead of their significant accounting policies.
- BCZ31H The Board observed that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other information in a complete set of financial statements. In the Board’s view, accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements.

Applying the definition of ‘material’ to accounting policy disclosures

- BCZ31I The Board received comments that:
- (a) accounting policy disclosures are useful to users of financial statements when they:
 - (i) relate to material transactions, other events or conditions; and
 - (ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and
 - (b) users of financial statements find entity-specific information more useful than accounting policy disclosures that:
 - (i) contain standardised information, sometimes called boilerplate information; and
 - (ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.
- BCZ31J To assist an entity in determining whether accounting policy information is material to its financial statements and to respond to the feedback described in paragraphs BCZ31D and BCZ31I, the Board added guidance to:
- (a) clarify that not all accounting policy information relating to material transactions, other events or conditions is material (see paragraph 27B of IAS 8). The Board concluded that this amendment would help an entity reduce immaterial accounting policy disclosures in its financial statements.
 - (b) provide examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see paragraph 27C of IAS 8). The examples listed in paragraph 27C are not exhaustive but the Board concluded that they would help an entity determine whether accounting policy information is material.
 - (c) explain that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards (see paragraph 27D of IAS 8). The Board concluded that this amendment would help an entity focus on disclosing accounting policy information that users have identified as the most useful.
- BCZ31K The definition of ‘material’ (see Appendix A and paragraphs B1–B5 of IFRS 18) states that ‘materiality depends on the nature or magnitude of information, or both’. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events or conditions to which the accounting policy information relates, but also the nature of those

transactions, other events or conditions. To clarify this point, the Board included in the amendments an explanation that accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial (see paragraph 27B of IAS 8).

- BCZ31L Some respondents to the Exposure Draft said that sometimes accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards can provide users of financial statements with material information. In the Board's view, accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards is generally less useful to users than entity-specific accounting policy information. However, the Board agreed that such accounting policy information is expected to be material if it is needed to understand other material information in the financial statements. The Board concluded that when such information is material, it is required to be disclosed.
- BCZ31M Such information could be material, for example, when an entity judges the accounting required for a material transaction, other event or condition to be so complex that a primary user would be unable to understand the related material transaction, other event or condition in the absence of that information (see paragraph 27C(e) of IAS 8). The Board acknowledged that because the complexity of accounting required for particular transactions, other events or conditions is ultimately a subjective question, an entity will need to judge whether the relevant accounting is complex. However, the Board concluded that the guidance in the amendments would be sufficient for an entity, auditors, regulators and others to make appropriate judgements about the materiality of such information.
- BCZ31N An entity is permitted to disclose accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards, even when that information is assessed as immaterial. However, if an entity discloses such information, it shall not obscure material accounting policy information (see paragraph 27E of IAS 8).
- BCZ31O The Board deleted the discussion of 'measurement basis (or bases)' that was included in IAS 1 at that time. The Board did so to better enable preparers to apply judgement and thereby disclose only material accounting policy information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some cases, the measurement basis (or bases) used for a particular asset or liability would not be material and, therefore, would not need to be disclosed. For example, information about a measurement basis might be immaterial if:
- (a) an IFRS Standard required an entity to use a measurement basis—in which case an entity would not apply choice or judgement in complying with the Standard; and
 - (b) information about the measurement basis would not be needed for users to understand the related material transactions, other events or conditions.
- BCZ31P The Board decided to emphasise that the amendments do not relieve an entity from meeting other disclosure requirements within IFRS Standards (see paragraph 27F of IAS 8). For example, if an entity applying the amendments decides that accounting policy information about intangible assets is immaterial to its financial statements, the entity would still need to disclose the information required by IAS 38 *Intangible Assets* that the entity had determined to be material.

References to accounting policies in other IFRS Standards and publications

- BCZ31Q Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. The Board considered whether any of these requirements should be changed because of the amendments. However, the Board noted that IAS 1 at that time stated that disclosure requirements in IFRS Standards are subject to materiality judgements—a disclosure required by an IFRS Standard is required to be provided only if the information resulting from that disclosure is material. Consequently, the Board concluded that amendments to requirements relating to accounting policy disclosures in other IFRS Standards are unnecessary.

Effect analysis

- BCZ31R The Board acknowledged that the amendments may have:
- (a) an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to accounting policy information; and
 - (b) ongoing costs to preparers, because the amendments require an entity to apply its own judgement to determine what accounting policy information is material and should, therefore, be disclosed in the financial statements.

BCZ31S However, in the Board's view, the amendments will improve the relevance of the financial statements by helping an entity to:

- (a) identify and disclose accounting policy information that is material to users of financial statements; and
- (b) remove immaterial accounting policy information that may obscure material accounting policy information.

BCZ31T The Board also expects that the amendments:

- (a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and
- (b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.

BCZ31U Consequently, the Board expects that the benefits of the amendments will outweigh the costs.

Transition and comparative information

BCZ31V The amendments affect the disclosure of narrative and descriptive information. IAS 1 at that time specified that comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In the Board's view, providing comparative accounting policy information would be unnecessary in most circumstances because if the accounting policy:

- (a) is unchanged from the comparative periods, the disclosure of the current period's accounting policy is likely to provide users with all the accounting policy information that is relevant to an understanding of the current period's financial statements; or
- (b) has changed from the comparative periods, the disclosures required by paragraphs 28–29 of IAS 8 are likely to provide any information about the comparative period's accounting policies that is relevant to an understanding of the current period's financial statements.

Disclosure of the judgements that management has made in the process of applying the entity's accounting policies

BCZ31W IAS 8 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 27G of IAS 8). An example of these judgements is how management determines whether financial assets are held-to-maturity investments¹². The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

BCZ31X Comments received on the exposure draft of 2002¹³ indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 31A of IAS 8) and added another four examples of the types of judgements disclosed (see paragraphs 27H and 27I of IAS 8).

Disclosure of major sources of estimation uncertainty

BCZ31Y IAS 8 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

- (a) their nature; and
- (b) their carrying amount as at the end of the reporting period (see paragraph 31A of IAS 8).

BCZ31Z Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of

¹² IFRS 9 *Financial Instruments* eliminated the category of held-to-maturity financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

¹³ The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.

BCZ31AA The *Framework* at that time stated that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 31A of IAS 8 would be made in respect of relatively few assets or liabilities (or classes of them).¹⁴

BCZ31AB The exposure draft of 2002¹⁵ proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:

- (a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period'; and
- (b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 31D of IAS 8).

BCZ31AC When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value¹⁶.

BCZ31AD IAS 8 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 8 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

Disclosures about Uncertainties in the Financial Statements (November 2025)

BC31AE In November 2025, the IASB issued *Disclosures about Uncertainties in the Financial Statements*, which added Example 6 to the *Guidance on implementing IAS 8*. Paragraphs BC429–BC451 of the *Basis for Conclusions on IFRS 18 Presentation and Disclosure in Financial Statements* include the IASB's overall considerations in developing this illustrative example.

BC31AF The IASB developed Example 6 to illustrate the requirements in paragraphs 31A and 31E of IAS 8 to disclose information about assumptions an entity makes about the future and other major sources of estimation uncertainty. In particular, the example:

- (a) illustrates that paragraph 31A applies to assumptions about uncertainties that will be resolved only after the end of the next financial year. The IASB concluded that this example would help an entity

¹⁴ The *Conceptual Framework for Financial Reporting (Conceptual Framework)* replaced the *Framework for the Preparation and Presentation of Financial Statements (Framework)*.

¹⁵ The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

¹⁶ IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

to determine whether to disclose information about assumptions related to events or conditions that might occur in the medium or long term.

- (b) illustrates how an entity determines what information to disclose about those assumptions in applying paragraph 31E. The IASB concluded that this example would help to explain that an entity is required to disclose information that meets the objective in that paragraph and that disclosing quantitative information might be necessary to meet that objective.

BC31AG Some respondents to the draft illustrative example exposed for comment said:

- (a) there were different views about whether paragraph 31A applied to assumptions about uncertainties that will be resolved only after the end of the next financial year (see paragraph BC31AF(a)). These respondents suggested amending the requirements in that paragraph to clarify their application. The IASB concluded that amending these requirements was unnecessary and that the example appropriately illustrates their application to assumptions about longer-term uncertainties. The fact that the example might provide additional insights into the application of these requirements does not mean standard-setting is necessary.
- (b) the example illustrates a situation in which the specific requirements in IAS 36 *Impairment of Assets* do not require an entity to disclose information about assumptions. In these respondents' view, this situation indicated a deficiency in IAS 36 that the IASB should correct through standard-setting instead of relying on the requirements in paragraph 31A of IAS 8. The IASB concluded that the fact that the requirements in paragraph 31A might apply when the specific disclosure requirements in IAS 36 do not apply does not suggest the disclosure requirements in IAS 36 are deficient.

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.

Amended references to the *Conceptual Framework*

- BC34 Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*), the Board issued *Amendments to References to Conceptual Framework in IFRS Standards*. In IAS 8, that document amended paragraphs 6 and 11(b). That document also amended paragraphs in IAS 1 that have been carried over to paragraphs 6A, 6E–6F, 6I–6J, and 6N of IAS 8.
- BC35 Paragraph 6 of IAS 8 quoted the description of users of financial statements from the *Framework*. To retain the requirements of this paragraph, the Board decided to embed that description of users in the Standard itself instead of updating the reference and the related quotation.
- BC36 *Amendments to References to the Conceptual Framework in IFRS Standards* replaced the reference in paragraph 11(b) to the *Framework* with a reference to the 2018 *Conceptual Framework*. Following this replacement, if management developed accounting policies in accordance with paragraph 11(b), management will need to review whether those policies are still consistent with the 2018 *Conceptual Framework*.
- BC37 The Board analysed the effects on preparers of financial statements of replacing the reference to the *Framework* in paragraph 11(b) of IAS 8 and discussed the results of the analysis at the November 2016 Board meeting (see November 2016 AP10G *Effects of the proposed changes to the Conceptual Framework on preparers*). The analysis suggested that the scope of any changes to preparers' accounting policies is likely to be limited because:
- (a) most preparers of financial statements do not develop accounting policies by reference to the *Framework* because most transactions are:
 - (i) covered by IFRS Standards;
 - (ii) accounted for by applying accounting policies developed using other sources referred to in paragraphs 11–12 of IAS 8; or
 - (iii) exempt from the requirement to apply paragraph 11 of IAS 8; for example, IFRS 6 *Exploration for and Evaluation of Mineral Resources* exempts entities from applying paragraph 11 of IAS 8 to the recognition and measurement of exploration and evaluation assets; and
 - (b) in most of the few remaining areas, application of the revised concepts in the 2018 *Conceptual Framework* would be expected to result in similar accounting outcomes to application of the concepts in the *Framework*.
- BCZ37A The Board does not expect the replacement of the references to the *Framework* to have a significant effect on the application of IAS 8 for the following reasons:
- (a) in paragraph 6A of IAS 8, replacing the reference to the *Framework* should not change the assessment of whether the financial statements present fairly the financial position, financial performance and cash flows of an entity. Paragraph 6A of IAS 8 explains that the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation. Revisions of the *Conceptual Framework* will not automatically lead to changes in IFRS Standards. Hence, entities are expected to continue applying IFRS Standards in preparing their financial statements even in cases in which the requirements of a particular Standard depart from aspects of the *Conceptual Framework*.

- (b) in paragraphs 6E–6F and 6I–6J of IAS 8, replacing the reference to the *Framework* means referring to the revised description of the objective of financial statements in the 2018 *Conceptual Framework* instead of the description provided by the *Framework*. The objective did not change substantively—it is an adapted and updated version of the objective of financial statements from the *Framework* and IAS 1 at that time¹⁷. Hence, applying the revised objective is not expected to lead to changes in the application of the requirements in paragraphs 6E–6F and 6I–6J of IAS 8.
- (c) in paragraph 6N of IAS 8, replacing the reference to the *Framework* in the discussion of the accrual basis of accounting is not expected to result in any changes because no changes were made to the discussion of the accrual basis of accounting in the 2018 *Conceptual Framework*.

Application by rate-regulated entities

- BC38 While assessing possible effects of updating the reference to the *Framework* in IAS 8, the Board identified a potential disadvantage for entities that conduct rate-regulated activities and develop their accounting policies for regulatory account balances by reference to the *Framework* rather than by applying IFRS 14 *Regulatory Deferral Accounts*. If the reference to the *Framework* had been updated, such entities might have needed to revise those accounting policies twice within a short period of time—first, when the 2018 *Conceptual Framework* comes into effect; and, later, when a new IFRS Standard on rate-regulated activities is issued. In the absence of specific guidance, there might have been uncertainty about what would be acceptable if the 2018 *Conceptual Framework* was applied. Establishing what would be acceptable might have been costly and the outcome might have been diversity in practice and a loss of trend information for users.
- BC39 To prevent unhelpful and unnecessary disruption for users of the financial statements of entities that conduct rate-regulated activities and for the entities themselves, the Board provided a temporary exception: paragraph 54G prohibits entities from applying the 2018 *Conceptual Framework* to accounting policies relating to regulatory account balances. Instead, entities are required to continue to apply the *Framework* when developing or revising those accounting policies. Once the Board issues a new IFRS Standard on rate-regulated activities, that prohibition is likely to become unnecessary.
- BC40 The Board based the definition of ‘a regulatory account balance’ on the definition of ‘a regulatory deferral account balance’ in IFRS 14, with one difference: the definition of a regulatory account balance does not mention qualifying for deferral. The reference to deferral in IFRS 14 reflects the fact that IFRS 14 permits continued recognition of some regulatory deferral account balances that an entity previously recognised as assets or liabilities immediately before it adopted IFRS Standards for the first time. In contrast, paragraph 54G of IAS 8 applies only when an entity is not applying IFRS 14 but is instead developing an accounting policy after considering paragraph 11 of IAS 8. Paragraph 54G applies regardless of whether that accounting policy results in recognition of any assets or liabilities, and regardless of whether such recognition could be viewed as deferral.

Transition relief

- BC41 The Board concluded that the retrospective application of revised accounting policies in accordance with IAS 8 would provide the most useful information to users of financial statements. However, in order to keep disruption for users and preparers of financial statements to a minimum, the Board decided not to require retrospective application of any amendment in *Amendments to References to the Conceptual Framework in IFRS Standards* if doing so would either be impracticable or involve undue cost or effort.

Definition of Accounting Estimates (2021 amendments)

Background

- BC42 The IFRS Interpretations Committee informed the Board of difficulties entities faced in distinguishing changes in accounting policies from changes in accounting estimates. The Board understood that such difficulties arose because the previous definition of a change in accounting estimate in IAS 8 was not sufficiently clear.
- BC43 In February 2021, the Board issued *Definition of Accounting Estimates*, which amended IAS 8. The amendments introduced the definition of accounting estimates in paragraph 5 and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

¹⁷ When it issued IFRS 18, the IASB replaced the objective of financial statements in IAS 1 with paragraph 9 of IFRS 18.

Definition of accounting estimates

- BC44 Before the 2021 amendments, IAS 8 included definitions of ‘accounting policies’ and ‘change in accounting estimate’. The combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscured the distinction between accounting policies and accounting estimates. To make that distinction clearer, the Board replaced the definition of a change in accounting estimate with a definition of accounting estimates. The main matters the Board considered in developing the definition and related requirements included:
- (a) *the relationship between accounting policies and accounting estimates*—the amendments clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. The Board’s view was that this clarification would help entities distinguish changes in accounting estimates from changes in accounting policies.
 - (b) *judgements and assumptions*—when it exposed a draft of the 2021 amendments for comment, the Board proposed defining accounting estimates as judgements and assumptions used in applying accounting policies when an item cannot be measured with precision. However, the Board agreed with feedback suggesting it would be more helpful to specify that accounting estimates are the output of measurement techniques that require an entity to use judgements or assumptions and that the judgements or assumptions are not accounting estimates themselves. This approach also avoids confusion about whether other judgements and assumptions an entity makes in preparing its financial statements are accounting estimates.
 - (c) *measurement uncertainty*—the Board introduced the term ‘measurement uncertainty’ in the definition. The Board concluded that using this term would make the definition clearer and be consistent with the 2018 *Conceptual Framework*.¹⁸
 - (d) *monetary amounts*—the definition refers to monetary amounts for consistency with the definition of measurement uncertainty.¹⁹ The Board considered whether the definition should also refer to non-monetary amounts (for example, the useful life of depreciable assets). However, the Board observed that entities use non-monetary amounts as inputs to estimate monetary amounts in the financial statements—for example, an entity uses the useful life of an asset (a non-monetary amount) as an input in estimating the depreciation expense for that asset (a monetary amount). Because the effects of changes in inputs used to develop an accounting estimate are changes in accounting estimates (see paragraph BC46), the Board concluded that it was unnecessary to also include non-monetary amounts in the definition of accounting estimates.
 - (e) *scope*—the Board considered whether the definition should also capture estimates used in applying accounting policies for matters other than measuring items in financial statements (for example, estimates used in determining whether to recognise an item in the financial statements). The previous definition of a change in accounting estimate referred to ‘adjustments to the carrying amount’ of an asset or liability and, therefore, captured only changes in the measurement of items recognised in financial statements. The Board concluded that the amendments should not change the scope of IAS 8 and, accordingly, limited the definition to capture only monetary amounts that are subject to measurement uncertainty.

Changes in accounting estimates

- BC45 The previous definition of a change in accounting estimate specified that changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The Board concluded that it would be helpful to retain this aspect of the previous definition and specify that a change in accounting estimate may result from new information or new developments and is not the correction of an error.
- BC46 The Board also concluded that, if accounting estimates are outputs of measurement techniques, it follows that changes in the inputs used, or in the measurement techniques applied to determine those outputs, result in a change in the related accounting estimate and are not the result of a change in accounting policy.

¹⁸ Measurement uncertainty is defined in the Appendix to the 2018 Conceptual Framework as the ‘uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated’.

¹⁹ The term ‘monetary amount’ does not have the same meaning as the term ‘monetary item’ as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

- BC47 In the light of its observations summarised in paragraphs BC45–BC46, the Board specified that:
- (a) a change in accounting estimate may result from new information or new developments and is not the correction of an error; and
 - (b) the effects of a change in an input or in a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.
- BC48 Feedback on the draft amendments expressed a concern that measurement techniques might meet the definition of accounting policies—for example, a valuation technique is a measurement technique but could also be seen as a practice and, therefore, meet the definition of an accounting policy. Accordingly, there is a risk that the effects of a change in a measurement technique could be seen as both a change in accounting estimate and a change in accounting policy. To avoid this risk, the Board specified in paragraph 34A that the effects of a change in measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.
- BC49 The Board also specified that measurement techniques an entity uses to develop accounting estimates include estimation techniques and valuation techniques. Specifying this avoids ambiguity about whether the effect of a change in an estimation technique or a valuation technique is a change in accounting estimate. The terms ‘estimation techniques’ and ‘valuation techniques’ appear in IFRS Standards—for example, IFRS 7 *Financial Instruments: Disclosures* uses the term ‘estimation techniques’ and IFRS 13 *Fair Value Measurement* uses the term ‘valuation techniques’.
- BC50 The Board observed that the term ‘estimate’ in IFRS Standards sometimes refers not only to accounting estimates, but also to other estimates. For example, it sometimes refers to inputs used in developing accounting estimates. As discussed in paragraph BC47(b), the Board specified that the effects on an accounting estimate of a change in an input are changes in accounting estimates. Therefore, the Board concluded it was unnecessary to also amend references to the term ‘estimate’ when that term refers to an input used in developing accounting estimates.

Definition of ‘accounting policies’

Clarifying the definition

- BC51 When it exposed the draft amendments for comment, the Board also proposed to clarify the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’, and referring to ‘measurement bases’ instead of ‘bases’. The Board expected that those changes would not change the scope of the definition. However, feedback suggested those proposed changes:
- (a) might not improve the definition, because the remaining terms in the definition would remain undefined and could be open to diverse interpretations; and
 - (b) might unintentionally narrow the scope of the definition.
- BC52 After considering this feedback, the Board concluded that it would not be feasible to define the remaining terms in the definition of accounting policies within a narrow-scope project, and that the proposed changes to the definition could have unintended consequences. Because the amendments clarify what a change in accounting estimate is, the Board concluded that changing the definition of accounting policies was unnecessary to achieve the objective of the amendments and accordingly did not change that definition.

Selecting inventory cost formulas

- BC53 When it exposed the draft amendments for comment, the Board proposed clarifying that, for ordinarily interchangeable inventories, selecting a cost formula (that is, first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 *Inventories* constitutes selecting an accounting policy. However, some respondents to the draft amendments said selecting a cost formula could also be viewed as making an accounting estimate. The Board observed that paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy. The Board did not revisit this conclusion in the light of the 2021 amendments because it observed that entities rarely change the cost formula used to measure inventories and, accordingly, there would be little benefit in the Board’s doing so.

Illustrative Examples

Deletion of Example 3

- BC54 The Board was informed that Example 3 from *Guidance on implementing IAS 8* could cause confusion because of the way it illustrated the accounting for particular changes in the accounting for property, plant and equipment. The Board concluded that addressing this matter would require a substantial rewrite of the example, for little or no benefit. Therefore, the Board deleted Example 3.

Addition of Examples 4–5

- BC55 The draft amendments included no examples illustrating the application of the amendments. Respondents to the draft amendments and feedback from subsequent outreach suggested that providing illustrative examples would help entities understand and apply the amendments. In response to this feedback, the Board added two illustrative examples (Examples 4–5). The examples are simple and their aim is limited to helping stakeholders understand how to apply the definition of accounting estimates, rather than aiming to address specific application questions.

Effect analysis

- BC56 The Board concluded that the expected benefits of the 2021 amendments outweigh the costs. In particular, the 2021 amendments made the requirements in IAS 8 clearer, and feedback on the draft proposals suggested that the amendments would help entities distinguish changes in accounting policies from changes in accounting estimates.
- BC57 Nonetheless, the 2021 amendments might not solve all application questions identified by stakeholders. For example, they may not clarify in all situations whether a change results from:
- (a) a change in an underlying measurement objective (which would be a change in accounting policy); or
 - (b) a change of the measurement technique applied to achieve the same underlying measurement objective (which would be a change in accounting estimate).
- BC58 However, the Board concluded that when any uncertainty remains, it could be helpful for an entity to consider the requirement in paragraph 35. That requirement states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the entity treats the change as a change in an accounting estimate.

Transition

- BC59 The Board concluded that requiring an entity to apply prospectively the 2021 amendments appropriately balances expected benefits and costs. In particular, the Board assessed that the benefits of requiring an entity to apply the amendments to changes that occurred in a prior period would be minimal. Such changes would generally be non-recurring and restatement of comparative information would often not provide more useful trend information for users of financial statements.

Dissenting opinions

Dissent of Françoise Flores from *Disclosure of Accounting Policies*

- DO1 Ms Flores voted against the publication of *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2²⁰. The reasons for her dissent are set out below.
- DO2 Ms Flores agrees with those amendments to IAS 1 and IFRS Practice Statement 2 which aim to provide primary users of financial statements with all and only relevant accounting policy information. She also supports the Board's past and current efforts to clarify how the concept of materiality should be applied more generally. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2.²¹
- DO3 In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.
- DO4 A minority of respondents were concerned that the Board's proposals could be read as prohibiting the publication of any accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.
- DO5 Furthermore, Ms Flores notes that paragraph 2.36 of the *Conceptual Framework of Financial Reporting*, paragraph 7 of IAS 1 and the guidance included in paragraphs 13–23 of IFRS Practice Statement 2 state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity²². In her view, investors are responsible for ensuring that their economic decisions are derived from a proper and knowledgeable understanding of an entity's financial statements, which includes understanding the requirements of IFRS Standards. IFRS Standards should be regarded as public knowledge in a financial reporting environment. No mere recitation of the words from the IFRS Standards can meet the definition of material without stretching that definition endlessly. In Ms Flores' view, improving users' understanding of the requirements in IFRS Standards should be achieved through education by the IFRS Foundation. Such an objective should not be achieved by amending the requirements of IFRS Standards.

²⁰ In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*. The IASB carried over some paragraphs unchanged from IAS 1 to IFRS 18 and moved paragraphs relating to disclosures of accounting policies from IAS 1 to IAS 8 *Basis of Preparation of Financial Statements*.

²¹ Paragraph 117B(d) of IAS 1 is now paragraph 27C(e) of IAS 8.

²² The statement that 'users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an advisor to cope with perceived complexity' that was in paragraph 7 of IAS 1 is now in paragraph B5 of IFRS 18.

Guidance on implementing IAS 8 *Basis of Preparation of Financial Statements*

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 CU6,500.²³

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	<u>20,000</u>
Income taxes	(6,000)
Profit	<u><u>14,000</u></u>

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 income²⁴

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

continued...

²³ In these examples, monetary amounts are denominated in 'currency units (CU)'.

²⁴ This statement of comprehensive income does not aim to illustrate the requirements in IFRS 18 for the structure of the statement of profit or loss.

...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>(4,550)</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

[Deleted]

Example 4 – Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

- 4.1 Entity A owns an investment property that it accounts for by applying the fair value model in IAS 40 *Investment Property*. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a valuation technique consistent with the income approach described in IFRS 13 *Fair Value Measurement*.
- 4.2 However, because of changes in market conditions since the previous reporting period, Entity A changes the valuation technique it uses to a valuation technique consistent with the market approach described in IFRS 13. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IFRS 13 permits such a change. Entity A has also concluded that the change in the valuation technique is not a correction of a prior period error.

Applying the definition of accounting estimates

- 4.3 The fair value of the investment property is an accounting estimate because:
- (a) the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.
 - (b) the fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (fair value model).
 - (c) in developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:
 - (i) selecting the measurement technique—selecting the valuation technique that is appropriate in the circumstances; and
 - (ii) applying the measurement technique—developing the inputs that market participants would use in applying the valuation technique, such as information generated by market transactions involving comparable assets.
- 4.4 In this fact pattern, the change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value—has not changed.

Example 5 – Applying the definition of accounting estimates—Fair value of a cash-settled share-based payment liability

Fact pattern

- 5.1 On 1 January 20X0, Entity A grants 100 share appreciation rights (SARs) to each of its employees, provided the employee remains in the entity's employment for the next three years. The SARs entitle the employees to a future cash payment based on the increase in the entity's share price over the three-year vesting period starting on 1 January 20X0.
- 5.2 Applying IFRS 2 *Share-based Payment*, Entity A accounts for the grant of the SARs as cash-settled share-based payment transactions—in doing so it recognises a liability for the SARs and measures that liability at its fair value (as defined by IFRS 2). Entity A applies the Black–Scholes–Merton formula (an option pricing model) to measure the fair value of the liability for the SARs at 1 January 20X0 and at the end of the reporting period.
- 5.3 At 31 December 20X1, because of changes in market conditions since the end of the previous reporting period, Entity A changes its estimate of the expected volatility of the share price—an input to the option pricing model—in estimating the fair value of the liability for the SARs at that date. Entity A has concluded that the change in that input is not a correction of a prior period error.

Applying the definition of accounting estimates

- 5.4 The fair value of the liability is an accounting estimate because:
- the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty. That fair value is the amount for which the liability could be settled in a hypothetical transaction—accordingly, it cannot be observed directly and must instead be estimated.
 - the fair value of the liability is an output of a measurement technique (option pricing model) used in applying the accounting policy (measuring a liability for a cash-settled share-based payment at fair value).
 - to estimate the fair value of the liability, Entity A uses judgements and assumptions, for example, in:
 - selecting the measurement technique—selecting the option pricing model; and
 - applying the measurement technique—developing the inputs that market participants would use in applying that option pricing model, such as the expected volatility of the share price and dividends expected on the shares.
- 5.5 In this fact pattern, the change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability for the SARs at 31 December 20X1. The effect of this change is a change in accounting estimate because the accounting policy—to measure the liability at fair value—has not changed.

Example 6 – Disclosures about assumptions

- 6.1 This example illustrates the requirements in paragraphs 31A and 31E of IAS 8. In particular, it illustrates how an entity:
- might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;
 - identifies the assumptions about which it is required to disclose information; and
 - determines what information about these assumptions it is required to disclose.

Background

- 6.2 The entity operates in a capital-intensive industry. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.
- 6.3 At the end of the current reporting period, there are indications that some of the entity's non-current assets might be impaired. Because the entity concludes it is not possible to estimate the recoverable amount of the individual assets, it tests the cash-generating unit (CGU) to which they belong for impairment. The entity concludes that the CGU's recoverable amount is greater than its carrying amount and, therefore, recognises

no impairment loss. In determining the CGU's recoverable amount, the entity makes several assumptions related to the climate-related transition risks to which it is exposed. Such assumptions include assumptions about future:

- (a) legal and regulatory developments;
- (b) consumer demand;
- (c) commodity prices; and
- (d) costs of acquiring greenhouse gas emission allowances.

Application

Considering the specific requirements in IFRS Accounting Standards

- 6.4 IAS 36 *Impairment of Assets* does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognises no impairment loss for that CGU during the current reporting period. However, the entity considers whether paragraph 31A of IAS 8 requires it to disclose information about these assumptions.

Considering the requirements in paragraph 31A of IAS 8

- 6.5 Paragraph 31A of IAS 8 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. That paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.
- 6.6 The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year. The entity reaches this conclusion after considering:
- (a) *the size of the CGU's carrying amount*—the CGU makes up a large portion of the entity's total assets. Therefore, a relatively small adjustment to the CGU's carrying amount might result in a material impairment loss.
 - (b) *the subjectivity or complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because they reflect management's expectations about highly uncertain future events that will take place over the medium and long term, such as government actions to limit the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.
 - (c) *the risk that new information or new developments in the next financial year might result in changes to the assumptions*—frequent new climate-related market, economic, regulatory and legal developments increase the risk that the entity might have to review its assumptions within the next financial year (including assumptions about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.
 - (d) *the sensitivity of the CGU's carrying amount to changes in the assumptions*—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction in the CGU's recoverable amount and a material impairment loss.
- 6.7 Applying paragraph 31A of IAS 8 to the assumptions identified in paragraph 6.6, the entity discloses:
- (a) information about these assumptions; and
 - (b) details of the nature and carrying amount of the CGU's non-current assets at the end of the reporting period.
- 6.8 Paragraph 31E of IAS 8 requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information an entity provides vary according to the nature of the assumption and other circumstances.

- 6.9 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 31E of IAS 8 for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.