Think Ahead ACCA

Accounting policies and estimates – proposed amendments to IAS8

An exposure draft issued by the International Accounting Standards Board in September 2017

Comments from ACCA
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About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 200,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and more than 7,200 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence. More information is here: www.accaglobal.com

Further information about ACCA's comments on the matters discussed here may be obtained from the following:

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ACCA welcomes the opportunity to provide views in response to the consultation from the IASB. This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting. They have considered the questions raised and their views are reflected in the following comments.

SPECIFIC QUESTIONS ON WHICH COMMENTS ARE REQUESTED

Question 1
The Board proposes clarifying the definition of accounting policies by removing the terms 'conventions' and 'rules' and replacing the term 'bases' with the term 'measurement bases' (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions).
Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

We agree with this change.

Question 2
The Board proposes:
(a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and
(b) adding a definition of accounting estimates and removing the definition of a change in accounting estimate (see paragraph 5 and paragraphs BC9–BC16 of the Basis for Conclusions).
Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?

We are content with the proposed wording except that we think that accounting estimates are the outcome of the judgements made when measurements cannot be done with certainty, not the assumptions and judgements themselves. So the definition should read "Accounting estimates are the numbers that have been based on judgements or assumptions used in applying an accounting policy …"

The explanation of estimates should include some reference to the principle that a change in estimate would have no implications for the any prior period, in line with the accounting treatment. Nevertheless we are not sure that this new definition will be sufficient to deal with all of the problems that have clearly been arising in practice with distinguishing between policies and estimates. A substantial factor is the behaviour of 'tick box' compliance and more may be needed to overcome this.

It would also be important to include examples (reflecting some of the Interpretations Committee's experience) as implementation guidance to illustrate the difference between accounting policies and accounting estimates, as well as between changes in accounting estimates and errors. Examples might include the choice of depreciation method for property, plant and equipment. A change in method is normally taken as a revision to an estimate, but there might be circumstances where the choice of method was based on an error in interpreting data on the pattern of consumption of the value of the assets leading to the selection of an inappropriate depreciation method.

Question 3
The Board proposes clarifying that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate to use in applying an accounting policy for that item (see paragraph 32A and paragraph BC18 of the Basis for Conclusions).
Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

We agree with the proposed clarification, however there seems to be a need to explain the difference between a measurement basis and a valuation technique.

Question 4
The Board proposes clarifying that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy (see paragraph 32B and paragraphs BC19–BC20 of the Basis for Conclusions).
Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

We agree that the adoption of a cost-formula for inventories is an accounting policy choice and not the application of an estimate. This amendment, however, does not help to make this a principles-based standard. There could be an implication that this is the only example of a problem. It would be better to delete paragraph 32B and instead clarify the cost formula issue by way of an example in the Implementation Guidance along with the others that we are suggesting are included.

Question 5
Do you have any other comments on the proposals?

We agree with the deletion of Example 3 from the Implementation Guidance to this standard. It contains more variables than is helpful to illustrate the principle. It could imply that the application approach to components depreciation amounted to a change of accounting policy, which would not seem to be the Board's intention. As noted above it is important to include other illustrative examples.

The application of this amendment is prospective. The principle of retrospective application is being undermined in most new standards and amendments even though we are of the view that users find that the retrospective approach gives a more faithful representation of performance and is more helpful for them.