Think Ahead ACCA

Accounting Policy Changes: Proposed amendments to IAS 8

Exposure Draft issued for comment by the International Accounting Standards Board in March 2018

Comments from ACCA
June 2018

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Further information about ACCA's comments on the matters discussed here can be requested from:

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's proposed amendments to IAS 8. This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting. If further information is needed, please get back to us.

AREAS FOR SPECIFIC COMMENT

Question 1
Do you agree with the proposed amendments? Why or why not?

ACCA welcomes the Board's intention to encourage preparers to improve the quality of financial reporting, by lowering the barriers to making voluntary changes in accounting policy. We believe, however, a lower threshold to retrospective application should not be limited to changes in accounting policy in response to agenda decisions, but rather should be extended to all changes in accounting policy as well as the correction of errors. This is important in order to minimise complexity, and ensure consistent application.

In this, we share the concern of some Board members, as described in paragraph BC7, that a separate threshold applying only to changes in accounting policy that result from an agenda decision may create an arbitrary distinction between these and other voluntary changes in accounting policy.

By extension, arbitrary distinctions are also likely to arise should different thresholds apply to changes in accounting policy and errors. This could further exacerbate the difficulties in distinguishing errors from changes in accounting policies and estimates, which we pointed to in our earlier response to proposed amendments to IAS 8 in January 2018[1].

While we welcome the consideration of the expected benefit to users in determining whether retrospective application is required, this adds a potentially disproportionate level of complexity. Unlike the costs to the entity, which preparers should be able to reasonably estimate, it is much more difficult for preparers to objectively assess the impact of retrospective application on the decisions that users make. Paragraph A8 does set out some guidance. However, its application on a period-by-period basis, to determine 'the earliest period for which the expected benefits to users of applying the change retrospectively exceed the cost to the entity of determining the effects of the change' (paragraph 25A) is likely to prove extremely challenging to put into practice. We would encourage the Board to simplify the criteria in paragraphs A8 and A10.

[1] https://www.accaglobal.com/content/dam/ACCA_Global/Technical/consultation-responses/AccountingEstimatesand%20policiesResp0118.pdf

As noted in the Basis for Conclusions (BC10), an existing basis for assessing related costs and benefits can be found in IFRS 9. However, we observe that IFRS 9 refers to 'undue cost *or* effort,' whereas paragraph A10 of the exposure draft refers to 'undue cost *and* effort.' This inconsistency in wording should be corrected.

We welcome the addition to paragraph 5, and the moving of original paragraphs 50-53 to application guidance is positive. We would further recommend that wording in paragraph 5 clarifies that agenda decisions are non-authoritative.

Question 2
Do you think the explanation provided in paragraphs BC18-BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not?

We do not believe that the explanation provided in paragraphs BC18-BC22 will help. As stated above, our view is that changes in accounting policy resulting from an agenda decision should be applied in the same way as other changes in accounting policy. In considering the timing of the voluntary change, entities will inevitably consider the time necessary for implementation, including retrospective application, as observed in paragraph BC22.