

IFRS in Focus

IASB amends IAS 8 to clarify the definition of accounting estimates

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This *IFRS in Focus* outlines the amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* titled *Definition of Accounting Estimates*, published by the International Accounting Standards Board (Board) in February 2021.

- IAS 8 is amended to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Background

The IFRS Interpretations Committee informed the Board of difficulties entities faced in distinguishing accounting policies and accounting estimates. The distinction is important as changes in accounting policies must be applied retrospectively whereas changes in accounting estimates are required to be accounted for prospectively.

Before the amendments, IAS 8 contained a definition for accounting policies and a definition for a change in accounting estimates. The combination of a definition of one item (accounting policies) with a definition of a change in another item (change in accounting estimates) obscured the distinction between both items. To make the distinction clearer, the Board decided to replace the definition of a change in accounting estimates with a definition of accounting estimates.

The amendments

The Board amends IAS 8 to define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. Accounting policies may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

Observation

The revised Standard lists the following items as examples of accounting estimates:

- A loss allowance for expected credit losses (IFRS 9 *Financial Instruments*)
- The net realisable value of an item of inventory (IAS 2 *Inventories*)
- The fair value of an asset or liability (IFRS 13 *Fair Value Measurement*)
- The depreciation expense for an item of property, plant and equipment (IAS 16 *Property, Plant and Equipment*)
- A provision for warranty obligations (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)

In developing an accounting estimate, an entity uses estimation techniques (for example to estimate the loss allowance for expected credit losses) and/or valuation techniques (for example to measure the fair value of an asset or liability).

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The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

Based on feedback from stakeholders that providing illustrative examples would help entities understand and apply the amendments, the Board added two examples (Examples 4-5) to the *Guidance on implementing IAS 8*, which accompanies the Standard. On the other hand, the Board decided to delete one example (Example 3) as it could cause confusion in light of the amendments.

Effective date and transitional provisions

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier application is permitted.

Further information

If you have any questions about the amendments to IAS 8, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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