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THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

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Agenda

- Accounting policies
- Accounting estimates
- Prior period errors

Objective and scope of LKAS 8

- **Selecting and applying accounting policies**

- **Accounting for changes in:**
  - Accounting policies
  - Accounting estimates

- **Corrections of prior period errors**

Agenda

- Objective and scope of IAS 8
- policies
- Accounting estimates
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Accounting Policies

- **Accounting policies**

  Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements

Selection and application of accounting policies

- **Accounting policy determined by**
  - Applying a specific SLFRS
  - Considering any relevant implementation guidance
- **In absence of a specific SLFRS**
  - Use judgement to develop an accounting policy that results in relevant and reliable information
    - First, refer to SLFRSs dealing with similar and related issues and second, to framework
    - Consider pronouncement of other setters or industry practices if consistent with above

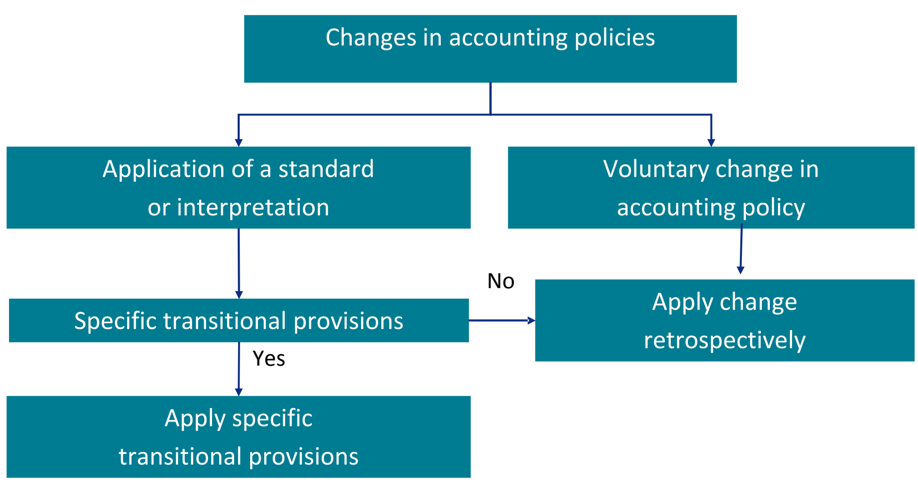
Consistency of accounting policies

- **Select and apply accounting policy consistently for similar transactions, other events and conditions**
  - Example: Fair value model for all assets in one class
- **May adopt different policies**
  - When an LKFRS requires or permits categorisation of items for which different policies may be appropriate
  - But accounting policy selected and applied should be consistent to each category

Changes in accounting policies

- **Consistency is important**
- **Change an accounting policy only if the change:**
  - is required by an LKFRS; or
  - results in the financial statements providing reliable and more relevant information

Applying changes in accounting policies



Applying changes in accounting policies (continued)

Retrospective application is impracticable

Period-specific effects

Apply new accounting policy as at the beginning of the earliest period for which retrospective application is practicable

Cumulative effect at the beginning of the current period

Financial statements are adjusted as at the beginning of the earliest period from which retrospective adjustment is practicable

Retrospective application - Impracticability

- **Use only information that**
  - Provides evidence of circumstances at the time; and
  - Would have been available when the financial statements of that period were authorised for issue
- **If a significant estimate requires the use of information that does not meet these criteria then**
  - Retrospective application is impracticable
- **No hindsight in estimates**

Changes in accounting policies – Disclosure

- **When an entity restates, LKAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- **When initial application of a standard or an interpretation has an effect, disclose**
  - Change in accordance with transitional provisions
  - For current period and each prior period presented the amount of the adjustment for each financial line item affected and for basic and diluted earnings per share, if LKAS 33 applies
  - The amount of the adjustment relating to periods before those presented, to the extent practicable
  - If retrospective application is required but impracticable, the circumstances and a description
- **Need not repeat these disclosures in subsequent periods**

Changes in accounting policies – Disclosure (cont)

- **When a voluntary change:**
  - Has an effect on the current period or any prior period
  - Would have such an effect except that it is impracticable to determine the amount of the adjustment; or
  - Might have an effect on future periods
- **Then we are required to disclose:**
  - Why the change provides reliable and more relevant information
  - For current period and each prior period presented the amount of the adjustment for each line item affected
  - The amount of the adjustment relating to periods before those presented
  - If retrospective application is impracticable, the circumstances and a description
- **Need not repeat these disclosures in subsequent periods**

Changes in accounting policies – Disclosure (cont)

- **When <u>not applying a new</u> LKFRS that has been issued but is not yet effective, disclose**
  - This fact
  - Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the financial statements in the period of initial application

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Changes in accounting estimates

- **Include the effect of a change in an accounting estimate in net profit or loss in**
  - The period of the change, if the change affects the period only, or
  - The period of the change and future periods, if the change affects both
- **If difficult to distinguish between change in accounting estimate and in accounting policy**
  - Treat the change as a change in accounting estimate

Changes in accounting estimates (cont)

- **Disclose the nature and amount of a change in an estimate:**
  - That has an effect in the current period, or
  - Is expected to have an effect in the future periods
- **If impracticable to quantify the amount, disclose that fact**

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Prior period errors

Errors in respect of recognition, measurement, presentation or disclosure

- **Prior period errors**
  - Omission and misstatements for one or more prior periods arising from a failure to use, or misuse of, reliable information
- **Such errors include**
  - The effects of mathematical mistakes in applying accounting policies
  - Oversights or misinterpretations of facts
  - Fraud

Correction of material prior period errors

- **Correct material prior period errors retrospectively in the first set of financial statements authorised for issue after discovery by:**
  - Restating the comparative amounts for the prior period presented in which the error occurred; or
  - If the error occurred before the earliest prior period presented, restating the opening balances for the earliest prior period presented

Correction of material prior period errors (cont)

Retrospective application is impracticable

- Period-specific effects
  - Restate the opening balances of assets and liabilities and equity for the earliest period for which retrospective restatement is practicable
- Cumulative effect at the beginning of the current period
  - Restate comparative information to correct the error prospectively from the earliest date practicable

Disclosure of prior period errors correction

- **When an entity restates, LKAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- **Extensive disclose requirements**
  - Disclose the nature of the prior period error
  - For each prior period presented the amount of the correction
  - The amount of the correction at the beginning of the earliest prior period presented
  - If retrospective restatement is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected
- **Need not repeat these disclosures in subsequent periods**

Effective date

- Annual periods beginning on or after 1 January 2012
- Earlier application is encouraged
- If early adopted, disclose fact

Questions?

LKAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

Thank you.

Presenter Contact Details

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