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# IAS - 8

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## **Policies, Changes in Accounting Estimates and Errors**

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## **International Accounting Standard No. 8 (IAS 8)**

### **Policies, Changes in accounting estimates and errors**

This revised standard replaces IAS 8 Profit or Loss for the period, fundamental errors and changes in accounting policies, and will apply for annual periods beginning on or after January 1, 2005. Earlier application is encouraged.

## Objective

1. The goal of this standard is to prescribe the criteria for selecting and changing accounting policies, as well as the accounting treatment and to disclose information about changes in accounting policies, changes in accounting estimates and correction of errors. The Standard seeks to enhance the relevance and reliability of financial statements of an entity, as well as comparability with the financial statements issued by it in previous years, and with those developed by others.
2. The requirements to disclose information relating to accounting policies, except those related to changes in accounting policies have been established in IAS 1 Presentation of Financial Statements.

## Scope

3. This standard applies in the selection and application of accounting policies, as well as in accounting for changes in applications and accounting estimates, and correction of errors in previous years.
4. The tax effect of correcting the mistakes of previous years, as well as the retroactive adjustments made to make changes in accounting policies, is counted in accordance with IAS 12 Income Taxes, and disclosed the information required by this Standard.
5. **The following terms are used in this Standard with the meanings specified below: The prospective application of a change in accounting policy and a recognition of the effect of a change in an accounting estimate is respectively:**

**(a) the implementation of the new accounting policy for transactions, other events and conditions occurring after the date on which the policy was changed, and**

**(b) the recognition of the effect of the change in accounting estimate for the current and future affected by this change.**

**The retroactive application is to implement a new accounting policy for transactions, other events and conditions, as if it had been applied ever.**

**A change in an accounting estimate is an adjustment in the amount of an asset or a liability, or the amount of regular consumption of an asset, which is produced after assessing the current status of the element, as well as the Expected future benefits and obligations associated with the assets and liabilities. Changes in accounting estimates are the result of new information or new developments and,**

accordingly, are not bug fixes.

**Mistakes of earlier years are the omissions and misstatements in the financial statements of an entity to one or more prior years, resulting from a failure to employ or a mistake in using credible information that:**

**(a) was available when the financial statements for such exercises were formulated and**

**(b) could reasonably be expected to have been obtained and taken into account in the preparation and filing of those financial statements.**

**Within these errors include the effects of arithmetic errors, mistakes in implementing policies, failure to warn or wrong to interpret facts, as well as fraud. Impracticable. The implementation of a requirement would be unworkable if the institution is unable to apply it after making every reasonable effort to do so. For a previous one in particular, it will be impracticable to enforce a change in an accounting policy retroactively or make a retrospective restatement to correct an error if:**

**(a) the effects of the application or the retroactive restatement is not determinable;**

**(b) the application or the retroactive restatement involves establishing assumptions about what could have been the intentions of the leadership in that period;**

**(c) the application or require estimates of retroactive restatement significant amounts, and it is impossible to distinguish objectively informed about such estimates:**

**(i) provide evidence of the circumstances that existed at the date or dates on which such amounts were recognized, valued or was revealed the relevant information and**

**(ii) had been available when the financial statements of prior periods were made.**

**Materiality (or relative). The misstatements or omissions of material items are (or have a relative) if they can, individually or in the aggregate, affect economic decisions taken by users based on the financial statements. Materiality depends on the extent and nature of the omission or inaccuracy, prosecuted, depending on the particular circumstances in which they were produced. The extent or nature of the game, or a combination of both, could be the determining factor.**

**The International Financial Reporting Standards (IFRS) are the standards and**

**interpretations adopted by the International Accounting Standards (IASB). Those standards include:**

**(a) the International Financial Reporting Standards;**

**(b) International Accounting Standards, and**

**(c) the interpretations, whether caused by the Committee on International Financial Reporting Interpretations (IFRIC) or the old Interpretations (SIC).**

**Accounting policies are the specific principles, bases, agreements, rules and procedures adopted by the entity in the preparation and presentation of its financial statements.**

**The retroactive restatement is to correct the recognition, measurement and disclosure of the amounts of the elements of financial statements, as if the mistake made in previous years had not been committed ever.**

6. When evaluating an omission or misstatement could influence the economic decisions of users, considering well with material or relative importance, requiring take into account the characteristics of such users. The Framework for the preparation and presentation of financial information provides, in paragraph 25 that: "it is assumed that users have a reasonable knowledge of economic activities and business, as well as its accounting, and also the desire to study the information with reasonable diligence." Consequently, the assessment required to take into account how they can be expected that, in reasonable terms, users with the features described are influenced in making economic decisions.

## **Policies**

### **Selection and application of accounting policies**

7. **Where a standard or interpretation is specifically applicable to a transaction, or other event condition, the policy or policies applied to that item is determined by applying the rule in question or interpretation, and considering any further relevant Implementation Guide issued by the IASB for that standard or interpretation.**
8. IFRS accounting policies are set on which the IASB has come to the conclusion that result in financial statements that contain information relevant and reliable information on the transactions, other events and conditions to which they apply. These policies need not be applied when the effect of its use is not significant. However, it is not appropriate to stop applying IFRS, or fail to correct mistakes, relying in that the effect is not significant, in order to achieve a particular presentation of the financial position, financial

performance or cash flows of the entity.

9. Guides Implementation of the Regulations issued by the IASB are not part of those standards and therefore do not contain requirements for the preparation of financial statements.
10. **In the absence of a standard or interpretation that specifically applies to a transaction, other events or conditions, the leadership must use his trial in the development and implementation of a policy, to provide information that is:**
  - (a) relevant to the needs of economic decision-making by users; and**
  - (b) reliable in the sense that the financial statements:**
    - (i) produce a credible financial position, financial performance and cash flows of the entity;**
    - (ii) reflect the economic substance of the transactions, other events and conditions, and not merely their legal form;**
    - (iii) are neutral, that is, free from prejudice or bias;**
    - (iv) are prudent and**
    - (v) are complete in all material respects.**
11. **In conducting the trials described in paragraph 10, the address must refer, in descending order, the following sources at the time to consider its applicability:**
  - (a) requirements and guidelines set forth in the Rules and Interpretations dealing with similar issues and related; and**
  - (b) definitions, as well as the requirements for recognition and valuation, for assets, liabilities, income and expenditure in the Framework.**
12. **In conducting the trials described in paragraph 10, management may also consider more recent pronouncements of other institutions, rules, employing a similar conceptual framework to issue accounting standards, as well as other accounting literature and accepted practices in the different sectors activity, to the extent that they do not conflict with the sources mentioned in paragraph 11.**

**Uniformity of accounting policies**

13. **The entity will identify and apply their policies uniformly to transactions, other events and conditions that are similar, unless a standard or interpretation required or permitted to establish specific categories of items for which it might be appropriate to implement different policies. If a standard or interpretation required or permitted to establish these categories will select a suitable policy accountant, and will apply uniformly to each category.**

#### **Changes in accounting policies**

14. **The entity will change an accounting policy only if such a change:**

**(a) is required by a standard or interpretation, or**

**(b) leads to the financial statements provide more reliable and relevant information on the effects of the transactions, other events or conditions that affect the financial position, financial performance or cash flows of the entity.**

15. Users of financial statements need to be able to compare the financial statements of an entity over time in order to identify trends in its financial position, financial performance and cash flows. As a result, will apply the same accounting policies within each financial year and from one year to another, unless he report any change in an accounting policy that met some of the criteria of paragraph 14.

16. **The following situations are not changes in accounting policies:**

**(a) the application of an accounting policy for transactions, other events or conditions that differ substantially from those that have occurred previously, and**

**(b) the implementation of a new accounting policy for transactions, other events or conditions that have not happened before, or that, in the case, lacked materiality.**

17. **The first application of a policy that consists of the revaluation of assets in accordance with IAS 16 Property, plant and equipment, or with IAS 38 Intangible Assets, is considered a change in accounting policy that has to be treated as a revaluation of According to IAS 16 or IAS 38, instead of applying the provisions contained in this Standard.**

18. Paragraphs 19 to 31 do not apply to changes in accounting policies described in paragraph 17.

#### **Implementation of changes in accounting policies**

**19. Subject to paragraph 23:**

**(a) the entity accounted for a change in an accounting policy resulting from the initial implementation of a standard or interpretation, in accordance with specific transitional provisions of this rule or interpretation, if any, and**

**(b) if the entity change a policy, either by the initial implementation of a standard or interpretation that does not include a specific transitional provision applicable to such change, or because they've decided to change it on a voluntary basis, such change will apply retroactively.**

20. For purposes of this Standard, the early application of a standard or interpretation is not considered a voluntary change in accounting policy.

21. In the absence of a specific standard or interpretation applicable to a transaction, other events or conditions, the leadership may, in accordance with paragraph 12, apply an accounting policy by considering the most recent pronouncements of other institutions, rules of employing a similar conceptual framework in issuing standards. If as a result of a change in such a pronouncement, the entity elects to change a policy, that change is counted, and disclosed as a voluntary change in accounting policy.

**Retroactive application**

22. **Subject to the limitation set out in paragraph 23, when a change in accounting policy was applied retroactively in accordance with paragraphs (a) and (b) of paragraph 19, the entity will adjust the opening balances of each affected component of net worth for the previous financial year are older than this, revealing information about the other comparative amounts for each prior period presented, as if the new accounting policy had always been applied.**

**Limitations on the retroactive application**

23. **When the retroactive application is mandatory according to the provisions of paragraphs (a) and (b) of paragraph 19, the change in accounting policy was applied retroactively, except to the extent that it was impracticable to determine the effects of the change in each specific exercise or the cumulative effect.**

24. **When it is impracticable to determine the effects on each specific exercise, a change of accounting policy on comparative information in one or more prior years for which information is presented, the entity will apply the new accounting policy for the opening balances of assets and liabilities at the beginning of the year for the oldest that the retroactive application is practicable, which could be the current-year losses and must make a corresponding adjustment to the**

**opening balances of each component of net worth to be affected for that period .**

- 25. When it is impracticable to determine the cumulative effect at the beginning of the current financial year, by implementing a new accounting policy to all prior periods, the entity shall adjust the comparative information by applying the new accounting policy on a prospective basis, from the earliest date on which is practicable to do so.**
26. When the entity implementing a new accounting policy retroactively apply to the comparative information for prior periods, retrospective in time as much as is practicable. The retroactive application to a previous one will not be feasible unless it is possible to determine the cumulative effect both on the opening balances on the balance sheet for that year. The amount of the resulting adjustment, as it relates to periods prior to those presented in the financial statements, will start against the opening balances of each affected realization of the net assets of the previous oldest on which this information. Normally, the adjustment is made against earnings. However, adjustments can be made against another component of net assets (for example, to comply with a standard or interpretation.) Any other information that is included with respect to prior periods, such as historical summaries of financial data will also be subject to adjustment, retrospective in time as much as is practicable.
27. Where it is impractical for the entity implementing a new accounting policy retroactively, because it cannot determine the cumulative effect of implementing the policy for all prior periods, the entity in accordance with paragraph 25, apply the new accounting policy for prospectively from the beginning of the year oldest as practicable. Therefore, ignoring the portion of the accumulated adjustment of the assets, liabilities and net worth emerged before that date. Will allow changes in accounting policies, even if it was impracticable to apply that policy on a prospective basis to a year earlier. Paragraphs 50 to 53 provide guidance on when it is impracticable to enforce a new policy to one or more earlier periods.

### **Information Disclosure**

- 28. When the first application of a standard or interpretation takes effect in the current period or in any earlier unless it was impracticable to determine the amount of adjustment, or could have an effect on future periods, the entity will reveal:**
- (a) the title of the Standard or Interpretation;**
  - (b) if necessary, that the change in accounting policy has been conducted in accordance with its transitional provision;**
  - (c) the nature of change in accounting policy;**

**(d) if applicable, a description of the transitional arrangement;**

**(e) any disposition that could impact on future periods;**

**(f) for the current financial year and for each prior period presented, to the point where it is practicable, the amount of adjustment:**

**(i) for each category of statement that is affected; and**

**(ii) whether the IAS 33 Earnings per share is applicable to the entity, for the earnings per share both basic and diluted;**

**(g) the amount of the adjustment relating to prior periods presented, as far as practicable, and**

**(h) whether the retroactive application, as required by paragraphs (a) and (b) of paragraph 19, was impractical for a year prior specifically, or for periods prior to the presented, the circumstances leading to the existence of this situation and a description of how and when it has been applied since the change in accounting policy.**

**Financial statements for the years later are not necessary to repeat such disclosures.**

**29. When a voluntary change in accounting policy has an effect in the current period or in any previous year, or would be effective in such an exercise if it were not impractical to determine the amount of adjustment, or could have an effect on future periods, the entity will reveal:**

**(a) the nature of change in accounting policy;**

**(b) the reasons why we apply the new accounting policy provides more reliable and relevant information;**

**(c) for the current financial year and for each of the previous year to present information to the point where it is practicable, the amount of adjustment:**

**(i) for each heading of the financial statement and**

**(ii) whether the IAS 33 Earnings per share is applicable to the entity, for profit per share both basic and diluted;**

**(d) the amount of the adjustment relating to prior periods presented, to the point where it is practicable, and**

**(e) whether the retroactive application was impractical for a previous one in particular or for prior periods presented, the circumstances leading to this situation, along with a description of how and when it has been applied since the change in accounting policy.**

**Financial statements for subsequent years are not necessary to repeat such disclosures.**

**30. When an entity has not applied a new standard or interpretation that, having been issued has not yet entered into force, the institution must disclose:**

**(a) result; and**

**(b) relevant information known or reasonably estimated, to assess the possible impact that the implementation of the new standard or interpretation will have on the financial statements of the entity in the year to apply for the first time.**

**31. To comply with paragraph 30, the entity will reveal:**

(a) the title of the new standard or interpretation;

(b) the nature of the impending change or changes in accounting policy;

(c) the date on which it is required to implement the Standard or Interpretation;

(d) the date from which it is prescribed as standard or interpretation for the first time, and

(e) any of the following information:

(i) an explanation of the expected impact, stemming from the initial application or interpretation of Norma on the financial statements of the entity or

(ii) whether the impact was unknown or cannot be reasonably estimated, a statement to that effect.

### **Changes in accounting estimates**

**32. As a result of the uncertainties inherent in the business world, many items in the financial statements cannot be valued accurately, but only estimated. The estimation process involves the use of judgments based on the latest available reliable information.**

For example, estimates might be required to:

- (a) the receivables recovery issues;
- (b) the obsolescence of inventory;
- (c) the fair value of financial assets or liabilities;
- (d) the life or consumption patterns of expected future economic benefits embodied in depreciable assets, and
- (e) obligations for guarantees.

33. The use of reasonable estimates is an essential part of the preparation of financial statements, and does not undermine their reliability.
34. If changes occur in the circumstances underlying the estimates, it is possible that it may need to be revised as a result of new information obtained or possess more experience. The revision of the estimate, by their very nature, is not related to prior periods nor is it a correction of an error.
35. A change in the valuation criteria applied is a change in an accounting policy, not a change in an accounting estimate. When it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate, the change is treated as if it were an estimate.
- 36. The effect of a change in an accounting estimate, other than those changes to which the provisions of paragraph 37, will be recognized on a prospective basis, including it in the result of:**
- (a) exercise that takes place in the change, if it affects only one year, or**
  - (b) exercise that takes place in the future and change, if it affects a number of years.**
- 37. To the extent that a change in an accounting estimate will lead to changes in assets and liabilities, or referring to a provision of equity, will be recognized by adjusting the book value of the corresponding item of assets, liabilities or net worth in the exercise that the change takes place.**
38. The recognition of the prospective effect of change in an accounting estimate means that the change applies to transactions, other events and conditions, from the date of the change in the estimate. A change in an accounting estimate could affect the outcome of the current financial year, or at his and that of future periods. For example, a change in

estimates of the amount of customers' doubtful debts will affect only the result of the current financial year and therefore will be recognized in this exercise. However, a change in the estimated useful life, or in patterns of consumption in the future economic benefits embodied in a depreciable asset, will affect the depreciation expense for the current period and each of the years of life remaining assets. In both cases, the effect of the change for the current period will be recognized as income or expense for the current period, while the eventual effect on future periods will be recognizing, in the course of the same.

### **Information Disclosure**

39. **The entity shall disclose the nature and amount of any change in an accounting estimate that has produced effects in the current financial year, or are expected to be produced in future periods, with the exception of the above information disclosure of the effect on future periods, in the if it was impracticable to estimate that effect.**
40. **If not reveal the amount of the effect in future years because the estimate is impractical, the entity shall disclose that fact.**

### **Errors**

41. The errors can arise in recognizing, valuing, submit or disclose information of the elements of financial statements. The financial statements do not comply with IFRS when containing errors, material or immaterial errors, committed with intent to achieve a particular presentation of the financial position, financial performance or cash flows of an entity. Potential errors for the current period, discovered in the same year, will be corrected before the financial statements to be made. However, errors sometimes are not discovered until a year later, so that such mistakes will be corrected prior periods in the comparative information presented in the financial statements of future periods (see paragraphs 42 to 47).
42. **Subject to the provisions in paragraph 43, the entity would correct the errors of previous years, so retroactively, in the first statements made after they discovered:**

**(a) Restated comparative information for the previous period or periods in which the error originated, or**

**(b) if the error occurred prior to the oldest year for which information is presented, restated opening balances of assets, liabilities and net worth for that year.**

### **Limitations on the retroactive restatement**

43. **The error for a prior period will be corrected restatement by retroactively unless it is impracticable to determine the effects on each specific exercise or the cumulative effect of the error.**
44. **When it is impracticable to determine the effects on each specific exercise, an error on the comparative information for one or more prior years for which information is presented, the entity shall restate the opening balances of assets, liabilities and net worth for the oldest exercises in which such retroactive restatement as practicable (which could also be its own current financial year).**
45. **When it is impracticable to determine the cumulative effect at the beginning of the current financial year, an error on all prior periods, the entity restate comparative information correcting the error on a prospective basis, from the earliest date as is practicable to do so.**
46. The effect of the correction of an error from previous years will not be included in income for the year in which the error is discovered. Any other information that is included with respect to prior periods, such as historical summaries of financial data, is subject to restatement, going as back as possible.
47. When it is impracticable to determine the amount of a mistake for all periods prior (e.g. a mistake to apply an accounting policy), the entity in accordance with paragraph 45, restate the comparative information on a prospective basis from the earliest date possible. Therefore, ignoring the portion of the adjustment of accumulated assets, liabilities and net assets that arose before that date. In paragraphs 50 to 53 are provided guidelines on when it is impractical to correct a mistake for one or more earlier periods.
48. The correction of errors can easily be distinguished from changes in accounting estimates. Accounting estimates are by their nature, approaches that may need revision when it became aware of additional information. For example, gains or losses are recognized as a result of the outcome of a contingency, no correction of a mistake.

**To disclose information about errors from previous years**

49. **In application of paragraph 42, the entity shall disclose the following information:**
- (a) the nature of the error of the previous year;**
- (b) for each prior period presented, to the point where it is practicable, the amount of adjustment:**
- (i) for each heading of the financial statement and**

**(ii) the amount of earnings per share both basic and diluted, if the IAS 33 was applied to the entity;**

**(c) the amount of adjustment to the top of the previous year older on which this information; and**

**(d) if it was impractical restatement retroactive to a previous one in particular, the circumstances leading to this situation, along with a description of how and since when has corrected the error.**

**Financial statements for subsequent years will not be necessary to repeat such disclosures.**

### **Impracticability of enforcement and the retroactive restatement**

50. In some circumstances it is impractical, when you want to achieve comparability with the current financial year, adjust the comparative information for one or more earlier periods. For example, data could not be collected in the previous period or periods, so as to allow the retroactive application of a new accounting policy (including, for the purpose of paragraphs 51 to 53, its prospective application to prior periods) or the retroactive restatement to correct an error in an earlier period, as a result of which it is impractical to reconstruct the information.

51. Often it is necessary to make estimates applying an accounting policy to elements of financial statements or disclosed recognized that refer to specific transactions, other events and conditions. The estimate is subjective in it, and could have been carried out after the balance sheet date. The development of estimates may be even more difficult when applied retroactively an accounting policy, or when it makes a retrospective restatement to correct an error in previous years, due to the long period of time that could have elapsed since the transaction involved or occurred on another event or condition subject of the restatement. However, the goal of an estimate, which relates to prior periods, is the same as for the estimates made in the current financial year, i.e. over and has to reflect the prevailing circumstances when the transaction, event or condition has occurred.

52. Consequently, the retroactive application of a new accounting policy or correction of an error in a previous one requires the information to differentiate:

(a) provides evidence of the circumstances prevailing at the date of the transaction, other event or condition has occurred, and

(b) would have been available when the financial statements for the previous financial year were made.

For some types of estimates (for example, an estimate of fair value that is not based on observable prices or factors) impracticable to distinguish these types of information.

When the application or require retroactive restatement make significant estimates, for which it is impossible to distinguish those two types of information, it impracticable to enforce the new accounting policy or correct the mistake of the previous financial year retroactively.

53. When implementing a new accounting policy or correcting amounts of a previous one, no assumptions should be retroactive, and consisting of assumptions about the intentions of the leadership in a year or in previous estimates of the amounts that were recognized, valued or revealed earlier this year. For example, if an institution is correcting a mistake of a previous one, on valuation of financial assets previously classified as investments held to maturity in accordance with IAS 39 Financial Instruments: Recognition and Measurement, will not change the endpoint for this year, even if that management subsequently decided not to keep them until maturity. On the other hand, when an appropriate entity to correct a miscalculation of its liabilities accumulated paid absence in case of illness in accordance with IAS 19 employees, will ignore the information that has appeared in the following year on a severe epidemic flu, if this information has been available since the financial statements for the prior year were made. The fact that often requires making significant estimates when changes are made to the comparative information presented for prior periods, does not adjust or correct such comparative information.

#### **Effective Date**

54. **An entity shall apply this standard for annual periods beginning on or after January 1, 2005. Earlier application is encouraged. If an entity applies this standard for a period that starts before January 1, 2005, disclose that fact.**

#### **Repeal of other pronouncements**

55. The Standard replaces IAS 8 Profit or Loss for the period, fundamental errors and changes in accounting policies, last revised in 1993.
56. The Standard replaces the following interpretations:
- (a) SIC-2-Uniformity capitalization of costs for interest and
  - (b) SIC-18-Uniformity alternative methods.