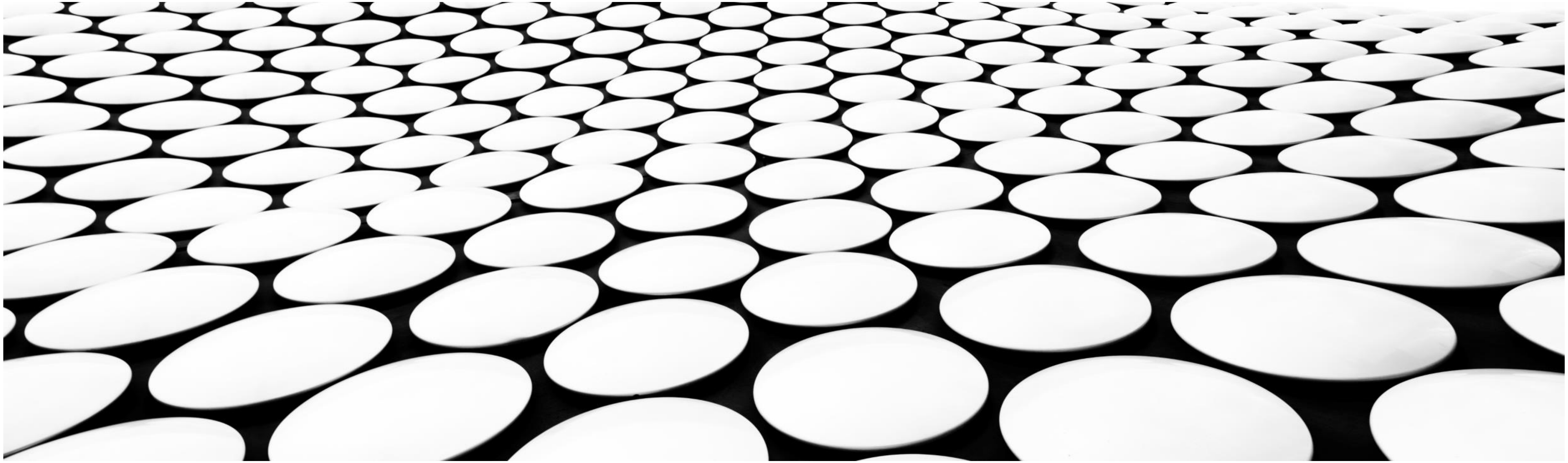
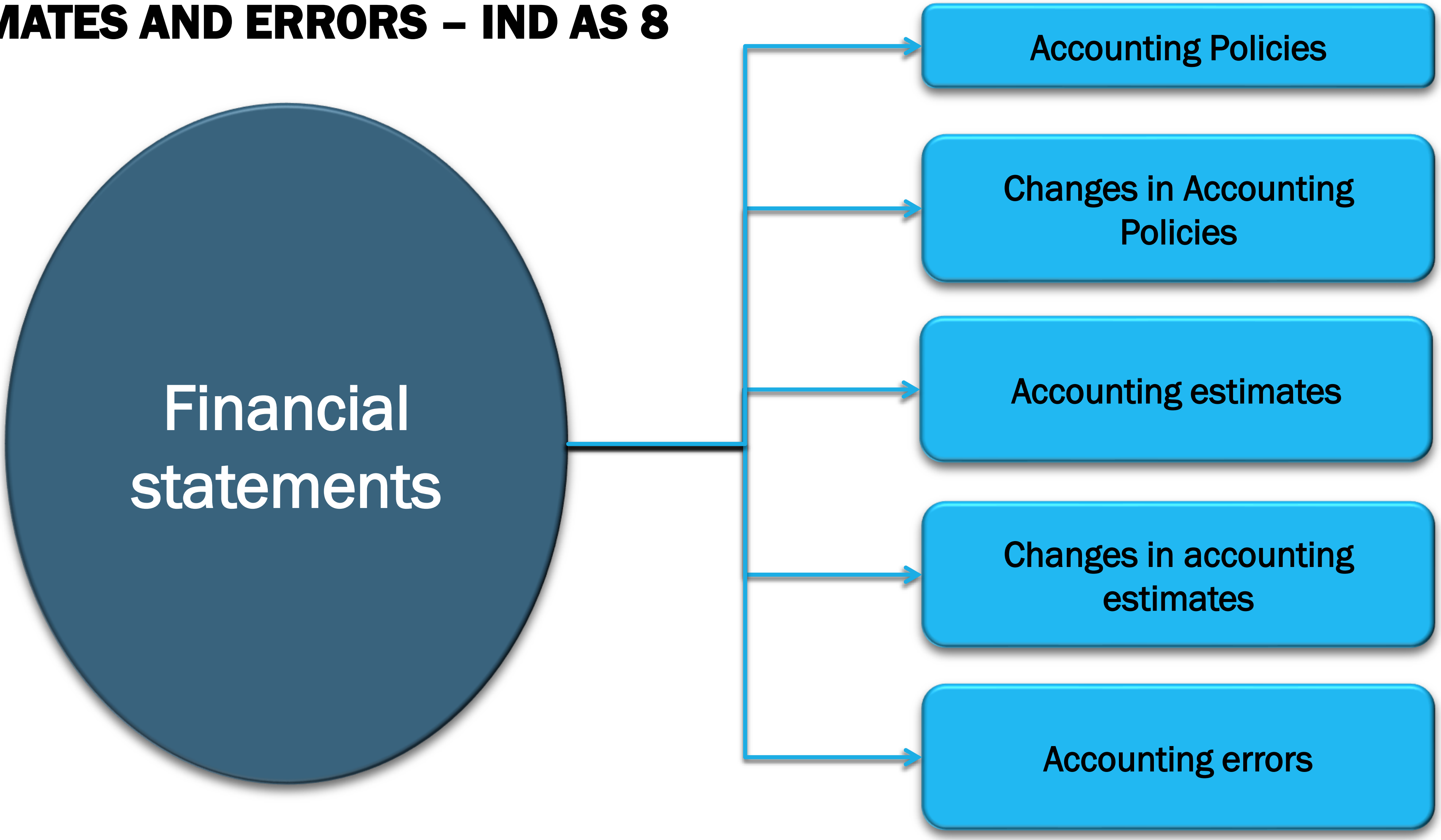
INDIAN ACCOUNTING STANDARDS
ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

B D CHATTERJEE FCA, ACMA, ACS, DIP IFR (ACCA) – UNITED KINGDOM



INDIAN ACCOUNTING STANDARDS
ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

Accounting policies

- Accounting policies are specific principles, bases, conventions rules and practices applied by an entity in preparing and presenting FS

- **Major areas for which disclosures of accounting policies are made are:**

➢ Revenue recognition
➢ Expenses e.g. research and development expenses
➢ Impairment of assets
➢ Depreciation and amortization
➢ Investments
➢ Inventories
➢ Accounts receivables

ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

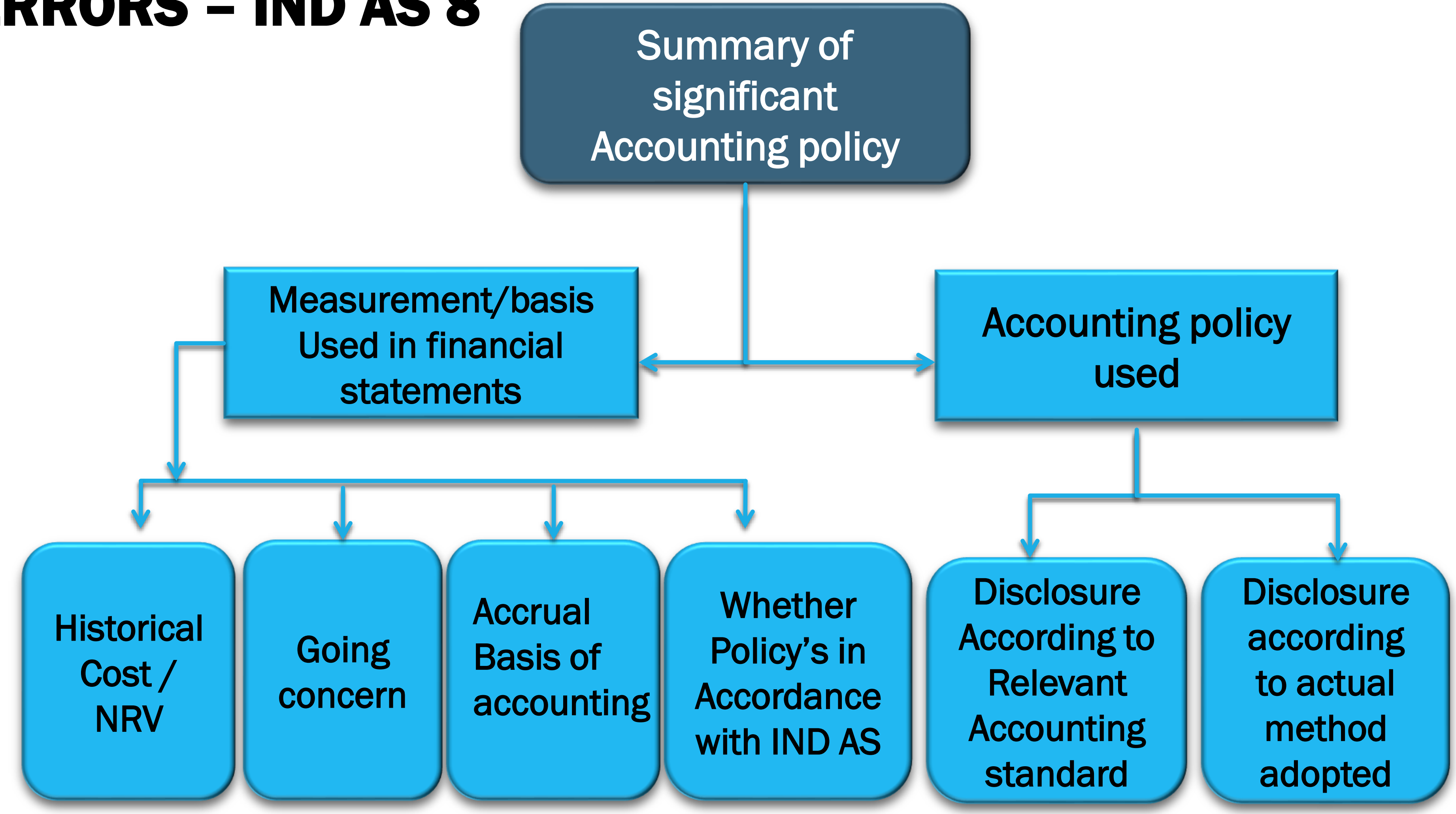
Accounting policies

-Management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable with respect to definitions, recognition criteria and measurement concepts of assets, liabilities, income and expenses in the framework

- Selected accounting policies need to be applied consistently for similar transactions

- An accounting policy can be changed only if the change :
  a) is required by standard or interpretation, or
  b) results in financial statements providing reliable and more relevant information about the effects of transactions, event s or conditions on the entity's financial performance or cash flows

ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



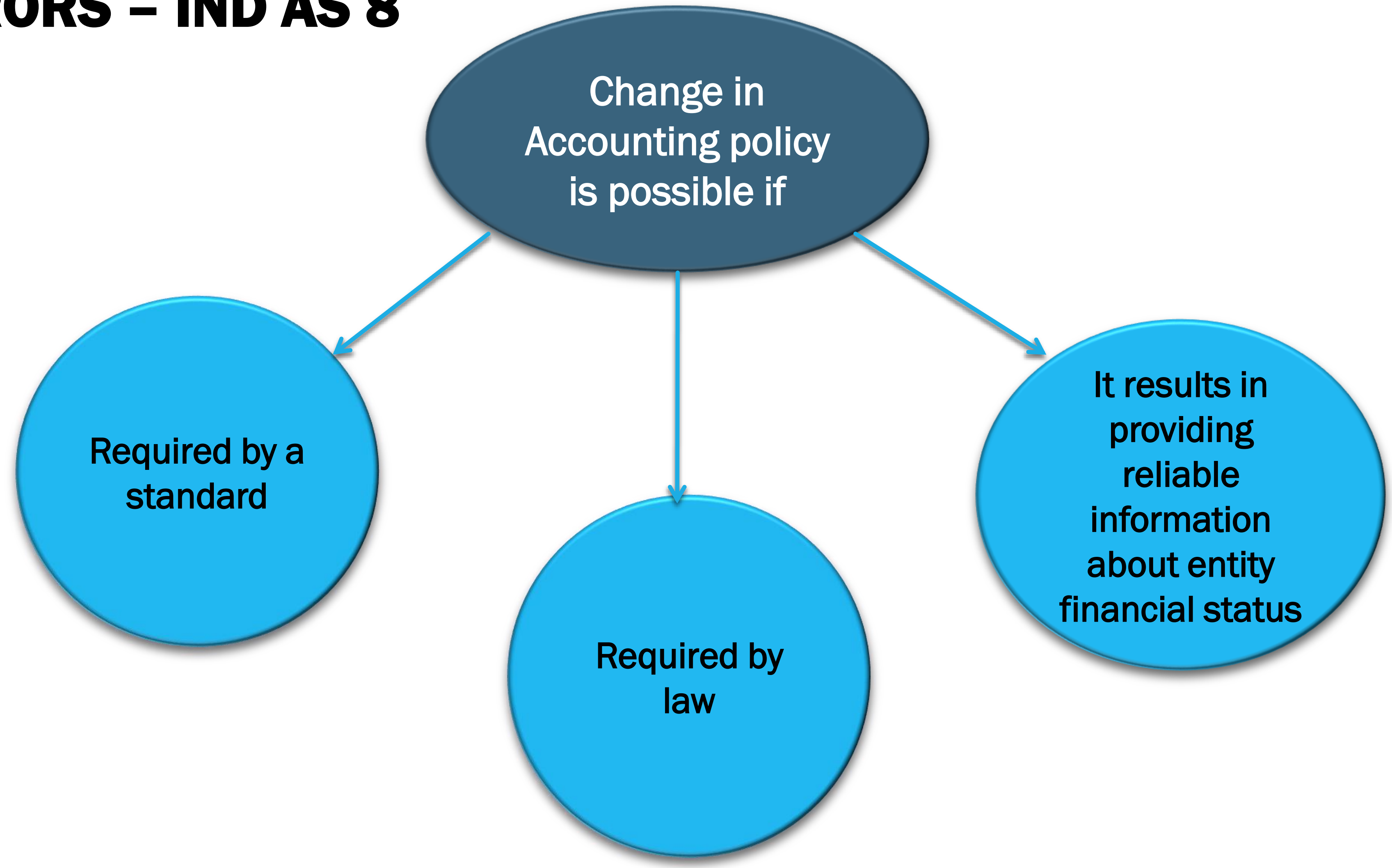
ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

Changes in Accounting policies

- Applying an accounting policy to a kind of transaction or event that did not exist in the past, do not constitute change in accounting policy

- If a change in accounting policy is required by any IASB standard or its interpretation,
  - change would be accounted for as per new pronouncement, or otherwise
  - change is applied retrospectively i.e. adjusting the opening balances of each affected component of equity for the earliest prior period presented as if the accounting policy has always been applied
  - however, if it is impracticable to carry out such change, then the entity shall apply the policy on the carrying amounts of assets and liabilities as at the beginning of the earliest period and make adjustments to the opening balance affected items of equity

ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



Changes in Accounting policies decision tree

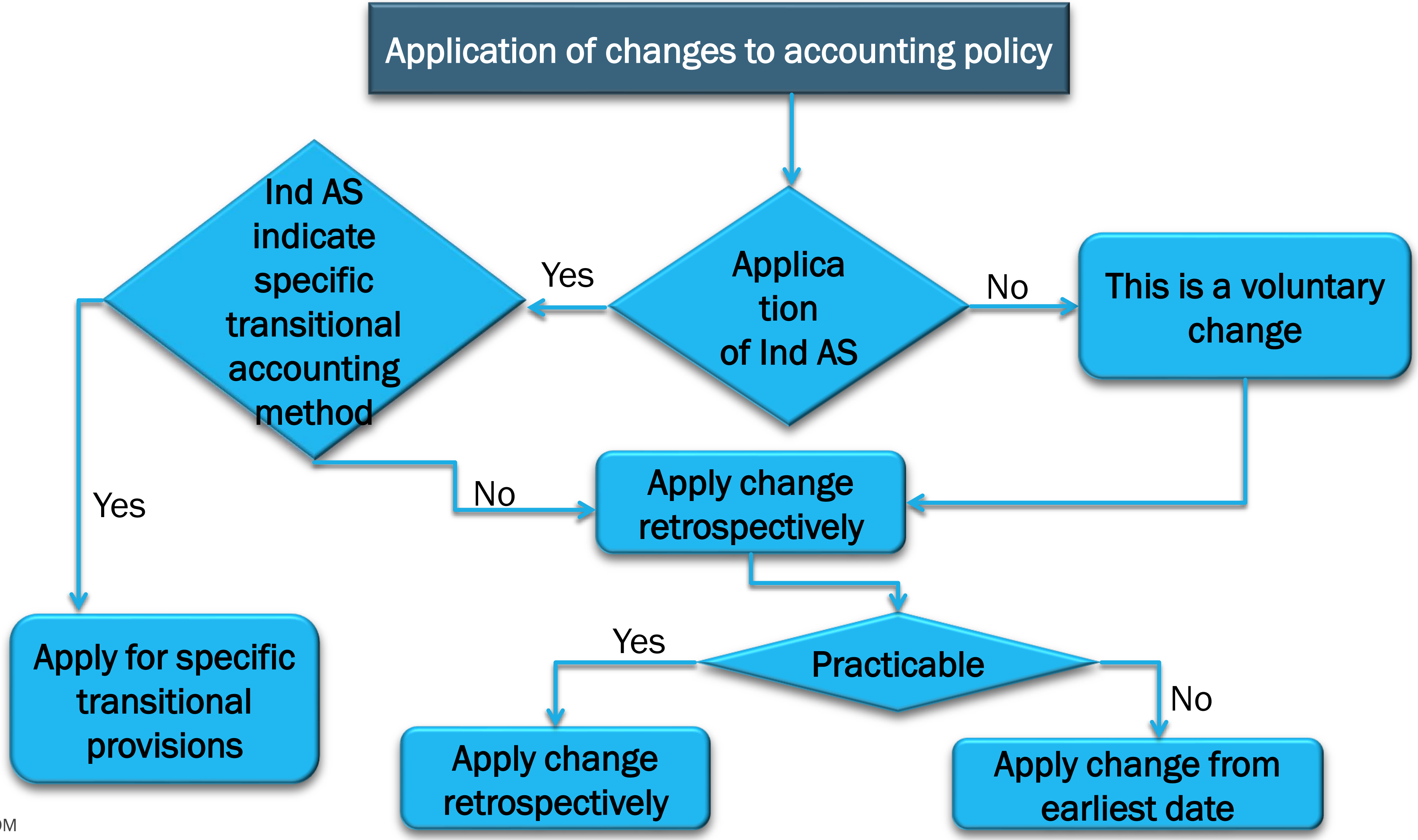


Illustration I

Alpha Co follows the accounting policy of depreciating its plant & machinery using the straight line method. The company feels that the WDV method of depreciation is more realistic. Accordingly, it intends to change its accounting policy to apply depreciation under WDV method. Comment giving reasons for your answer.

Solution

The WDV method of depreciation is permitted by Ind AS 16. Also the company feels that this method of depreciation is more realistic under the circumstances and makes the financial statements more reliable. Hence the change in accounting policy is acceptable.

This signifies that the company is permitted to change its accounting policy and make appropriate disclosures in the financial statements.

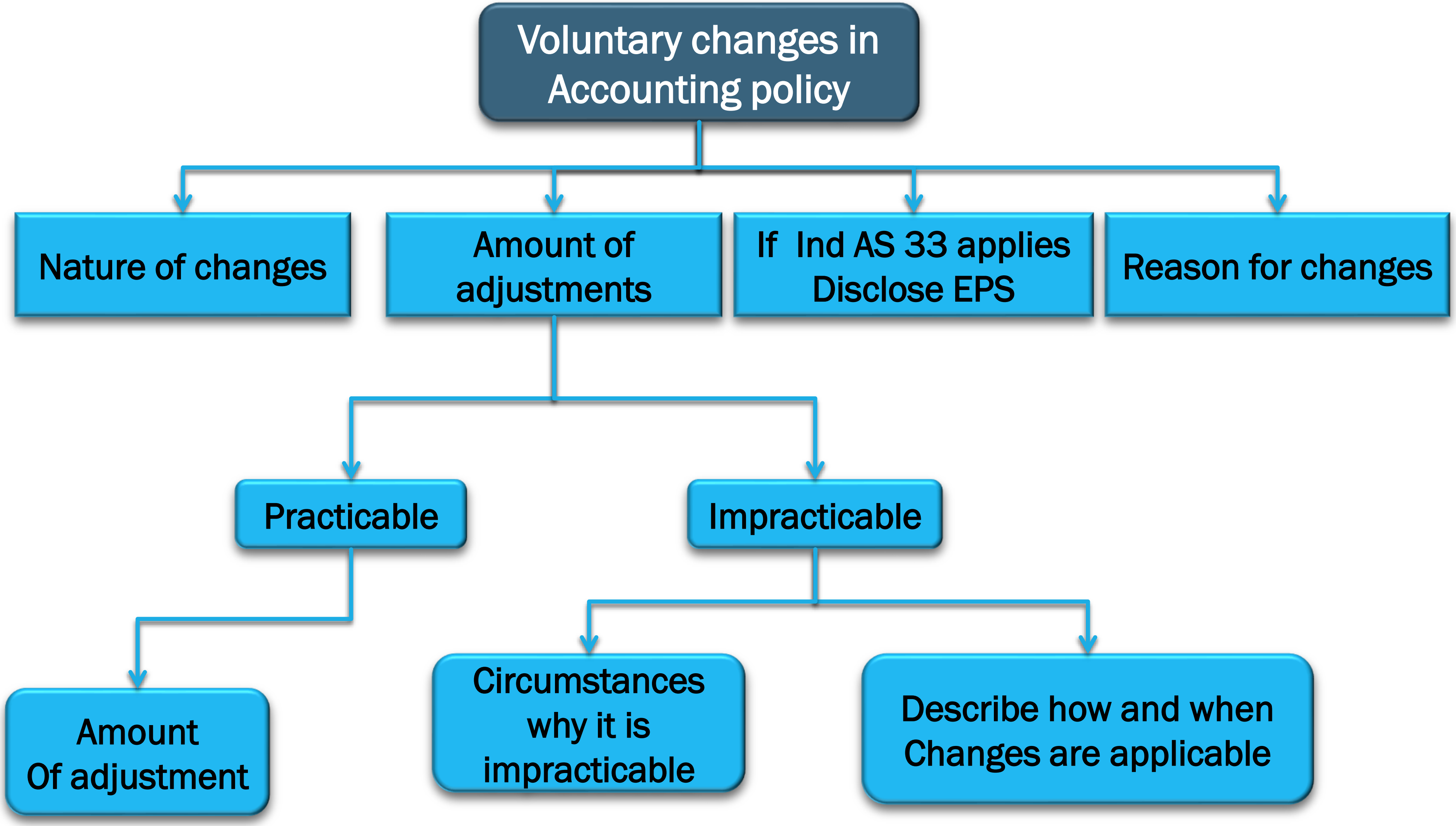
Illustration II

Gamma Co is in the process of finalization of its financial statements for 2022. The management intends to change the valuation of its inventory from FIFO method to weighted average method. Comment whether this is possible and whether this would require a prior period adjustment.

Solution

The above change falls under the purview of change in accounting policy. Hence this would entail a prior period adjustment.

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

Accounting estimates

- The effect of change in an accounting estimate shall be recognized prospectively by including it in the profit or loss of the year of change or also in the future periods, if the change affects both

- If the extent of the change impacts assets and liabilities or relates to any item of equity it is recognized by adjusting the carrying amount of the related asset, liability or equity item

- Ind AS 8 has provided certain disclosures to these accounting estimates

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

Accounting estimates

There are many items in the financial statements which cannot be measured with precision. An entity has to make a judgment to estimate the value of such items

- Some items that require estimation are:
  - bad debts
  - inventory obsolescence
  - the fair value of financial assets or financial liabilities
  - the useful lives of, or expected pattern of consumption of , the future economic benefits in depreciable assets

- Change in accounting estimate is applied *prospective* i.e. from the date of the change in estimate

Illustration III

An equipment has been purchased at a cost of Rs. 100,000 and an estimated useful life of ten years with nil residual value. It is depreciated on a straight line method and the annual depreciation works out to Rs. 10,000 p.a. The carrying amount of the equipment after four years works out to Rs. 60,000. It was decided in the fifth year that the remaining useful life of the equipment is only three years and not six years.
Please state the accounting treatment of the equipment in the books.

Solution

Since the estimated useful has been shortened to three years from six years, the carrying amount of Rs.60,000 is to be divided in three years i.e. Rs. 60,000 / 3 =
Rs. 20,000.

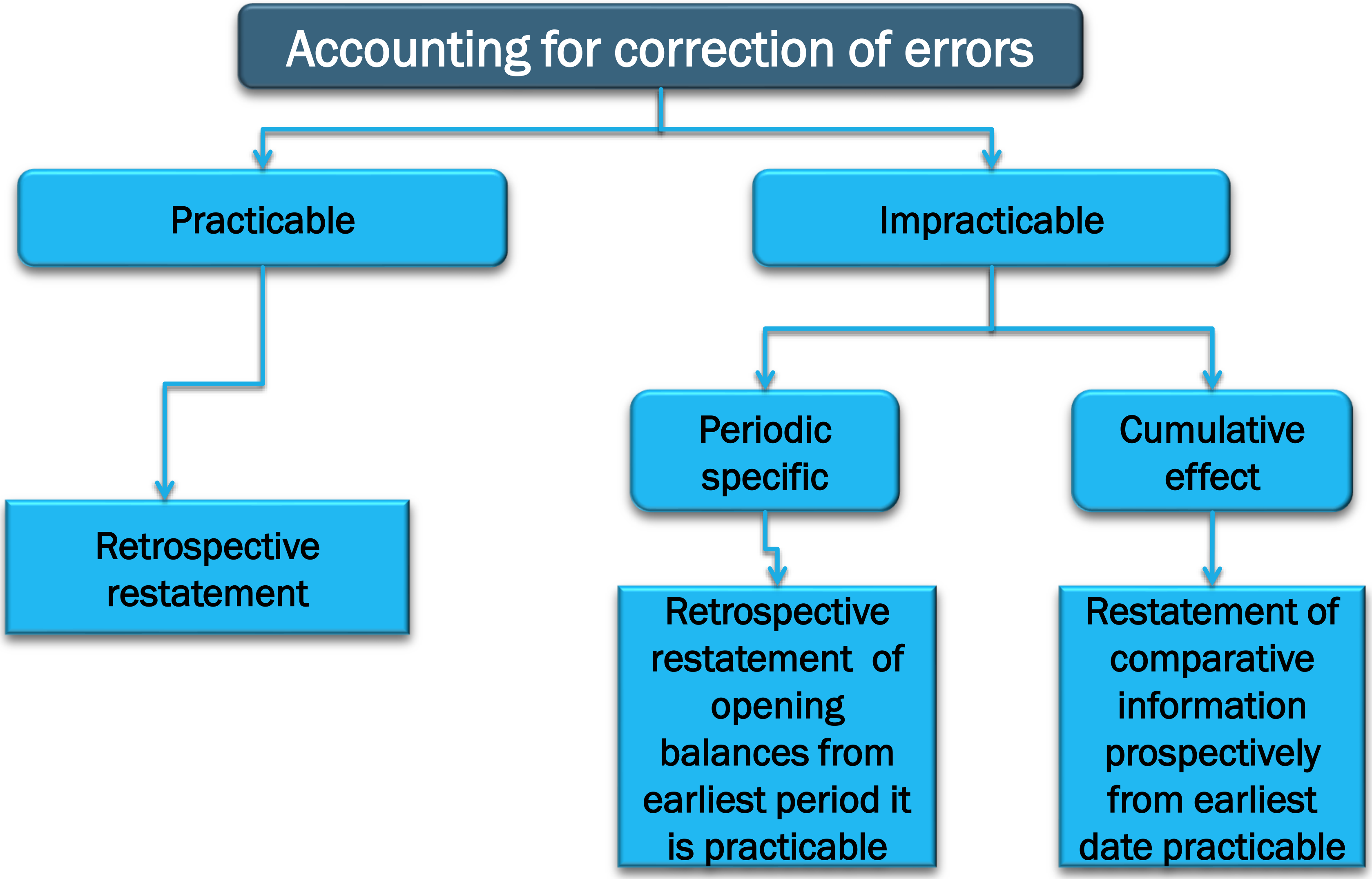
Hence depreciation charged in the past three years will not be changed, additional depreciation of Rs. 10,000 over and above the past three years need to be charged to SOPL and disclosed in the financial statements.

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8

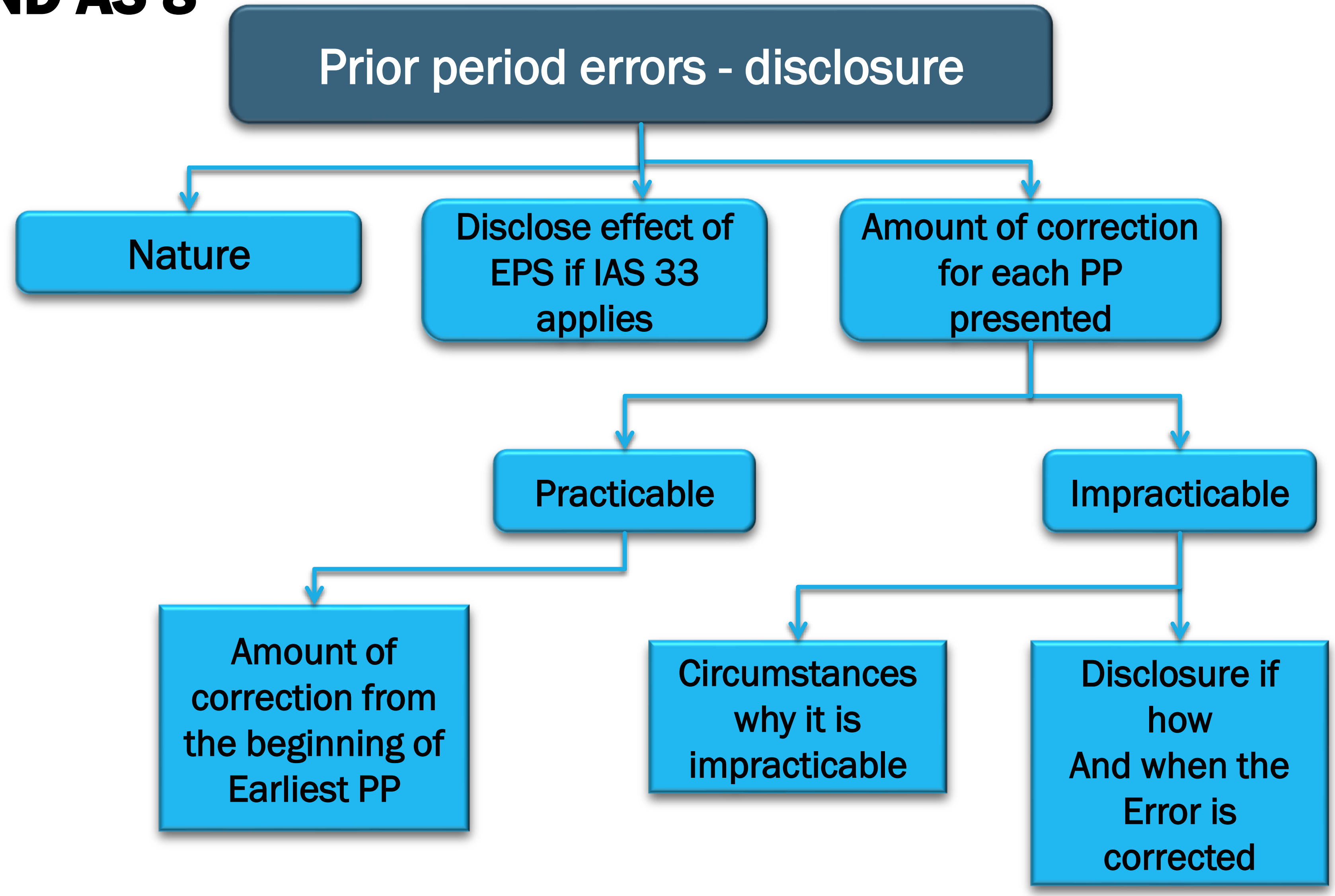
Accounting Errors

- The general principle is that the entity must correct all material prior period errors retrospectively as soon as they are discovered by
- restating the comparative amounts for the prior period(s) presented in which the error occurred or
- if the error occurred before the earliest prior period presented, restate the opening balances of assets, liabilities and equity for the earliest period presented.

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS – IND AS 8



THANK YOU!