DIGITAL CFO SOLUTIONS • IFRS SERIES

RENAMED • POST-IFRS 18 (2027)

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 8 — Basis of Preparation of Financial Statements

Formerly "Accounting Policies, Changes in Accounting Estimates and Errors" — renamed and enhanced as part of IFRS 18

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PART I — THE RENAME & EXPANDED SCOPE

A New Name for a Bigger Job

IFRS 18 replaces IAS 1 — and hands several of its general principles to IAS 8, which is renamed to reflect its wider role.

Why the Name Changed

IFRS 18 Presentation and Disclosure in Financial Statements (issued April 2024, effective 1 January 2027) replaces IAS 1 — but the IASB did not rewrite all of it. It focused on the statement of profit or loss, and moved several general requirements to IAS 8.

1 What Moved From IAS 1

Fair presentation & IFRS compliance, the going concern assumption, the accrual basis of accounting, materiality, and offsetting — all now sit within IAS 8.

2 Why It Was Renamed

To reflect this broader role, IAS 8 is retitled from "Accounting Policies, Changes in Accounting Estimates and Errors" to "Basis of Preparation of Financial Statements."

THE RENAME & EXPANDED SCOPE

What's New — "Basis of Preparation" General Matters

A new general-matters section sits alongside the familiar accounting policies, estimates and errors guidance — carried forward from IAS 1 largely unchanged in substance.

1. **Fair Presentation & IFRS Compliance**
2. **Going Concern Assumption**
3. **Accrual Basis of Accounting**
4. **Materiality**
5. **Offsetting**

These are the sections that used to be cited as IAS 1.15, 1.25 and 1.27 — the same requirements, now cited as IAS 8.

PART II — ACCOUNTING POLICIES

Accounting Policies

The specific principles, bases, conventions and practices an entity applies in preparing its financial statements — and when it may change them.

Definition & Disclosure Areas

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements.

1. Revenue recognition
2. Expenses — e.g. research & development
3. Impairment of assets
4. Depreciation & amortisation
5. Investments
6. Inventories
7. Accounts receivable

Selecting & Applying Accounting Policies

1

Judgement Grounded in the Framework

Management uses judgement to develop a policy that results in information that is relevant and reliable — matching the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

2

Applied Consistently

Once selected, an accounting policy must be applied consistently for similar transactions, other events and conditions — unless a standard specifically requires or permits categorisation.

When Can a Policy Change?

Applying an accounting policy to a kind of transaction that did not occur in the past — or was previously immaterial — does not, by itself, constitute a change in accounting policy.

1

Required by a Standard

The change is required by an IFRS Standard or Interpretation

2

More Relevant & Reliable

The change results in financial statements providing reliable and more relevant information about transactions, events or conditions

3

Required by Law

The change is required by an applicable law or regulation

Applying a Change — Retrospective Application

1

Standard-Mandated Change

Apply the transitional provisions specified in the new standard or interpretation

2

No Transitional Provisions / Voluntary Change

Apply the new policy retrospectively — adjust opening balances of each affected equity component for the earliest prior period presented, as if the policy had always applied

3

If Retrospective Application Is Impracticable

Apply the policy to the carrying amounts of assets and liabilities as at the beginning of the earliest practicable period, adjusting opening equity balances

Illustration — Change in Inventory Valuation

SCENARIO

Gamma Co is finalising its 2026 financial statements. Management wants to change its inventory valuation method from FIFO to weighted average cost. Is this permitted, and does it require a prior period adjustment?

SOLUTION

A change in the cost formula used to value inventory (IAS 2) is a change in accounting policy — Gamma Co is choosing a different basis for measuring the same class of transactions. It is permitted, provided it results in reliable and more relevant information. Because it is a policy change, it is applied retrospectively: Gamma Co restates opening retained earnings and comparative inventory figures as if weighted average had always been used, and makes the required disclosures.

Disclosures for Voluntary Policy Changes

1. Nature of the change in accounting policy
2. Reasons why applying the new policy provides reliable and more relevant information
3. Amount of the adjustment for the current period and each prior period presented, and the related earnings per share if IAS 33 applies
4. If retrospective application is impracticable for a particular prior period, the circumstances that led to that impracticability, and a description of how and from when the change has been applied

PART III — ACCOUNTING ESTIMATES

Accounting Estimates

Monetary amounts in the financial statements that are subject to measurement uncertainty — and applied prospectively when they change.

What Is an Accounting Estimate?

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Many items cannot be measured with precision, and an entity must exercise judgement to estimate their value.

1. **Bad Debts**
2. **Inventory Obsolescence**
3. **Fair Value of Financial Assets/Liabilities**
4. **Useful Lives of Depreciable Assets**

Change in Estimate — Prospective Application

1

Recognised in Profit or Loss

The effect of a change in an accounting estimate is recognised prospectively — included in profit or loss in the period of change, and in future periods too, if the change affects both.

2

Or Adjusted Directly

If the change affects an asset, liability, or an item of equity directly, it is instead recognised by adjusting the carrying amount of that related asset, liability or equity item.

Distinguishing Estimates from Policy Changes

A change resulting from new information or new developments is a change in accounting estimate, not a correction of an error. Changes to an input or measurement technique used to develop an estimate are also treated as changes in estimate — unless they correct a prior period error.

! **A common exam trap: changing depreciation method, useful life, or residual value**

These are all treated as changes in accounting ESTIMATE (applied prospectively) — not changes in accounting policy — because they reflect a revised view of how an asset's economic benefits are consumed, not a different accounting principle. This is explicit in both IAS 16 and IAS 8.

Illustration — Change in Depreciation Method

SCENARIO

Alpha Co depreciates its plant & machinery on a straight-line basis, but believes the reducing (written-down value) balance method better reflects how the asset is consumed. It wants to switch methods. Is this a policy change requiring restatement?

SOLUTION

The reducing-balance method is permitted by IAS 16, and Alpha Co believes it more realistically reflects the pattern of consumption of economic benefits. This is a change in accounting ESTIMATE, not accounting policy — IAS 16.61 is explicit on this. Alpha Co applies the new method prospectively from the date of change: no restatement of prior periods, only disclosure of the change and its effect on the current and future periods.

Illustration — Revised Useful Life of Equipment

SCENARIO

Equipment was purchased for $100,000 with a 10-year useful life and nil residual value, depreciated straight-line at $10,000 p.a. After four years, carrying amount is $60,000. In year 5, the remaining useful life is reassessed at three years, not six.

SOLUTION

This is a change in accounting estimate, applied prospectively. The carrying amount of $60,000 is spread over the revised remaining life of 3 years: $60,000 ÷ 3 = $20,000 p.a. Depreciation already charged in years 1–4 is not restated. From year 5 onward, Alpha Co charges $20,000 p.a. — an additional $10,000 above the original $10,000 charge — disclosed in the financial statements.

PART IV — ERRORS

Correcting Prior Period Errors

Material errors are corrected retrospectively, as if they had never occurred — the financial statements are restated, not simply adjusted going forward.

Prior Period Errors — Correction Principle

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The entity must correct all material prior period errors retrospectively, in the first financial statements authorised for issue after they are discovered.

Correction is by restating the comparative amounts for the prior period(s) in which the error occurred — or, if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for that earliest period.

ERRORS

Illustration — Correcting a Material Prior Period Error

SCENARIO

While preparing its 2026 accounts, Delta Ltd discovers a warehouse double-counted stock in 2025, overstating closing inventory — and 2025 profit — by $150,000. The error is material and relates entirely to FY2025.

SOLUTION

Because the error relates to the immediately preceding period, Delta Ltd restates its FY2025 comparatives: inventory and profit are both reduced by $150,000, and the FY2025 comparative statement of profit or loss is restated. Opening retained earnings for FY2026 — being FY2025's restated closing balance — is correspondingly reduced by $150,000. Had the error originated earlier still, the opening balances of the earliest period presented would be restated instead.

Practicability Exception & Disclosures

1 **If Fully Practicable**

Restate comparative information retrospectively for all prior periods presented

2 **If Impracticable**

Restate opening balances from the earliest period for which it is practicable — which may be the current period

Required Disclosures

1. Nature of the prior period error
2. Amount of correction for each prior period presented, and the EPS effect if IAS 33 applies
3. If impracticable, the circumstances and a description of how and when the error was corrected

PART V — MATERIALITY & DISCLOSURE

Judgement, Materiality & Disclosure

The enhanced disclosure architecture that IAS 8 inherited from IAS 1 — what must be disclosed, and how materiality decides what counts.

Materiality & Accounting Policy Disclosure

Entities disclose material accounting policy information — not simply "significant" policies as a blanket category. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of the primary users of the financial statements.

1 The Test That Changed

The old approach disclosed policies simply because they were common practice. The material-information test instead asks whether the policy is entity-specific and helps users understand the entity's own transactions.

2 Practical Guidance

IFRS Practice Statement 2 Making Materiality Judgements gives entities a four-step process for judging which accounting policy information to disclose, and which to leave out as immaterial clutter.

Judgement & Estimation Uncertainty

1

Significant Judgements

Disclose the judgements management has made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements

2

Sources of Estimation Uncertainty

Disclose information about key assumptions concerning the future, and other major sources of estimation uncertainty, that carry a significant risk of a material adjustment within the next financial year

3

Offsetting

Assets and liabilities, and income and expenses, are not offset against each other unless an IFRS Standard specifically requires or permits it

PART VI — TRANSITION

Getting to the New IAS 8

How and when the renamed standard takes effect, and what changes for entities citing the old paragraph references.

TRANSITION

Transition & Effective Date

1

Effective Date

Annual reporting periods beginning on or after 1 January 2027 — aligned with IFRS 18. Early application is permitted.

2

Substance Unchanged

The guidance transferred from IAS 1 is carried over largely unchanged — this is a reorganisation for clarity, not a rewrite of the underlying requirements.

3

New Paragraph References

Entities citing the old IAS 1 paragraphs (e.g. IAS 1.15 fair presentation, IAS 1.25 going concern) now cite the equivalent renumbered IAS 8 paragraphs.

TRANSITION

Old vs New IAS 8 — At a Glance

Aspect	Before IFRS 18	From 1 January 2027
Title	Accounting Policies, Changes in Accounting Estimates and Errors	Basis of Preparation of Financial Statements
Core scope	Accounting policies, estimates and errors only	Same, plus general financial statement principles moved from IAS 1
Fair presentation & IFRS compliance	Governed by IAS 1.15–24	Now governed by IAS 8
Going concern	IAS 1.25	Now IAS 8
Accrual basis & materiality	IAS 1	Now IAS 8
Policy / estimate / error guidance	IAS 8 (as before)	IAS 8 — unchanged in substance, renumbered

THANK YOU

IAS 8 — Basis of Preparation of Financial Statements

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A Career Built on Making IFRS Understandable

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

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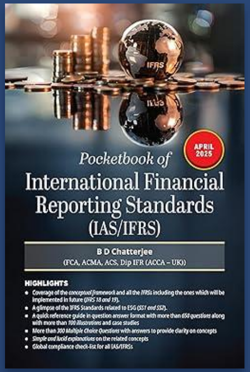

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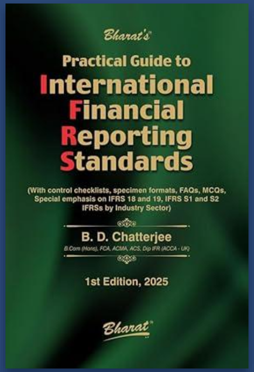
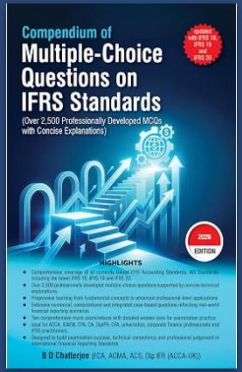


Practical Guide to International Financial Reporting Standards

Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



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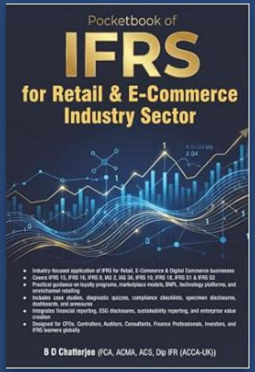
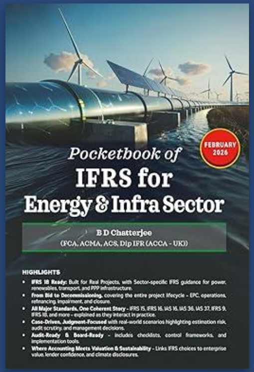


Pocketbook of IFRS for Retail & E-Commerce Industry Sector



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