

## **New Zealand Equivalent to International Accounting Standard 8**

### **Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS 8)**

**Issued November 2004 and incorporates amendments up to and including 31 October 2010 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments***

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes, in part or in full, Financial Reporting Standards (FRS):

- FRS-1: *Disclosure of Accounting Policies*; and
- FRS-7: *Extraordinary Items and Fundamental Errors*.

The following Interpretations refer to NZ IAS 8:

- NZ SIC-7 *Introduction of the Euro*
- NZ SIC-10 *Government Assistance—No Specific Relation to Operating Activities*
- NZ SIC-12 *Consolidation—Special Purpose Entities*
- NZ SIC 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*
- NZ SIC-15 *Operating Leases—Incentives*
- NZ SIC-21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*
- NZ SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*
- NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- NZ SIC 31 *Revenue—Barter Transactions Involving Advertising Services*
- NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*
- NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- NZ IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- NZ IFRIC 12 *Service Concession Arrangements*
- NZ IFRIC 13 *Customer Loyalty Programmes*

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- NZ IFRIC 14 *NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- NZ IFRIC 15 *Agreements for the Construction of Real Estate*
- NZ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- NZ IFRIC 18 *Transfers of Assets from Customers*
- NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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NZ IAS 8

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New Zealand Equivalent to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (NZ IAS 8) is set out in paragraphs 1–56 and the Appendix. NZ IAS 8 is based on International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 8 should be read in the context of its objective and the IASB’s Basis for Conclusions on IAS 8 and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements (NZ Framework)*.

Any additional material is shown with grey shading. The paragraphs are denoted with “NZ” and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

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## HISTORY OF AMENDMENTS

### Table of Pronouncements – NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This table lists the pronouncements establishing and substantially amending NZ IAS 8. The table is based on amendments approved as at 31 October 2010 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments*.

| <b>Pronouncements</b>  | <b>Date approved (ASRB approval)</b> | <b>Early operative date</b> | <b>Effective date (annual reporting periods... on or after ...)</b> |
|--|--------------------------------------|-----------------------------|---|
| NZ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>  | Nov 2004 (Approval 4)                | 1 Jan 2005                  | 1 Jan 2007  |
| <i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i> | Jun 2005 (Approval 62)               | 1 Jan 2005                  | 1 Jan 2007  |
| <i>Amendment to the Framework for Differential Reporting</i>   | Dec 2005 (Approval 76)               | 1 Jan 2005                  | 1 Jan 2007  |
| NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)  | Nov 2007 (Approval 94)               | Early application permitted | 1 Jan 2009  |
| <i>Improvements to NZ IFRSs</i>  | June 2008 (Approval 102)             | Early application permitted | 1 Jan 2009  |
| <i>Omnibus Amendments (2008-1)</i>   | Oct 2008 (Approval 108)              | Early application permitted | 1 Jan 2009  |
| Minor Amendments to NZ IFRSs   | July 2010 (Approval 132)             | Immediate                   | Immediate   |

| <b>Table of Amended Paragraphs in NZ IAS 8</b>  |                     |  |
|---|---------------------|--|
| <b>Paragraph affected</b>   | <b>How affected</b> | <b>By ... [date]</b>   |
| Paragraph NZ 4.1  | Inserted            | Amendment to the <i>Framework for Differential Reporting</i><br>[Dec 2005] |
| Paragraph 5<br>definitions of<br>International Financial<br>Reporting Standards<br>(IFRSs) and Material | Amended             | NZ IAS 1<br>[Nov 2007]   |
| Paragraph NZ 5.2<br>definition of Material  | Amended             | <i>Omnibus Amendments (2008-1)</i><br>[Oct 2008]                           |
| Paragraph 7   | Amended             | <i>Improvements to NZ IFRSs</i><br>[June 2008]                             |
| Paragraph 9   | Amended             | <i>Improvements to NZ IFRSs</i><br>[June 2008]                             |
| Paragraph 11  | Amended             | <i>Improvements to NZ IFRSs</i><br>[June 2008]                             |
| Paragraph NZ 54.1   | Inserted            | <i>Omnibus Amendments (2008-1)</i><br>[Oct 2008]                           |

## **Introduction to NZ IAS 8**

The Standard:

- (a) prescribes criteria for selecting and changing accounting policies;
- (b) requires consistent selection and application of accounting policies;
- (c) specifies the circumstances in which accounting policies may be changed;
- (d) requires retrospective application of voluntary changes in accounting policies, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change;
- (e) requires disclosure of changes in accounting policies;
- (f) requires prospective application of changes in accounting estimates and the disclosure of changes in accounting estimates; and
- (g) requires retrospective correction of material prior period errors, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, and requires disclosure of prior period errors.

In adopting IAS 8 for application as NZ IAS 8 the following changes have been made. NZ IAS 8:

- (a) includes a definition of New Zealand equivalents to IFRSs which is applicable to all entities;
- (b) includes additional definitions applicable to public benefit entities (paragraph NZ 5.2); and
- (c) specifies that changes in significant accounting policies shall be reported as such within the summary of significant accounting policies (all entities).

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 8 will simultaneously be in compliance with IAS 8. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 8. Whether a public benefit entity will be in compliance with IAS 8 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

## **Differential Reporting**

Qualifying entities are given a concession to the requirements of this Standard (as identified in the Standard).

# New Zealand Equivalent to International Accounting Standard 8

## ***Accounting Policies, Changes in Accounting Estimates and Errors*** **(NZ IAS 8)**

### **Objective**

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- 1 The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.
- 2 Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in NZ IAS 1 *Presentation of Financial Statements*.

### **Scope**

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- 3 **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**
- 4 The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with NZ IAS 12 *Income Taxes*.

#### **Qualifying Entities**

**NZ 4.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (\*).**

## Definitions

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5 The following terms are used in this Standard with the meanings specified:

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

A *change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

*International Financial Reporting Standards (IFRSs)* are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

*Material* Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

*Prior period errors* are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

*Retrospective application* is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

**Retrospective restatement** is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

**Impracticable** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
  - (ii) would have been available when the financial statements for that prior period were authorised for issue
 from other information.

**Prospective application** of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
- (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

**All Entities**

**NZ 5.1** The following term is used in this Standard with the meaning specified:

*New Zealand equivalents to International Financial Reporting Standards (IFRSs)* are Standards and Interpretations approved by the Accounting Standards Review Board (ASRB) comprising New Zealand equivalents to:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) International Interpretations.

**Public Benefit Entities**

**NZ 5.2** The following terms are used in this Standard with the meanings specified:

**Material** In addition to the definition of “Material” given in paragraph 5, omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

**Public benefit entities** are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

**Qualifying Entities**

**NZ 5.3** The following terms are used in this Standard with the meanings specified:

**Qualifying entities** are entities which meet the requirements of the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* to qualify for differential reporting concessions in standards.

- 6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *NZ Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that “users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.” Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

## **Accounting policies**

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

- 7 **When an NZ IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the NZ IFRS.**
- 8 New Zealand equivalents to IFRSs set out accounting policies that the ASRB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from New Zealand equivalents to IFRSs to achieve a particular presentation of an entity’s financial position, financial performance or cash flows.
- 9 NZ IFRSs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of NZ IFRSs.

Guidance that is an integral part of NZ IFRSs is mandatory. Guidance that is not an integral part of NZ IFRSs does not contain requirements for financial statements.

- 10 In the absence of an NZ IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:**
- (a) relevant to the economic decision-making needs of users; and
  - (b) reliable, in that the financial statements:
    - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
    - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
    - (iii) are neutral, ie free from bias;
    - (iv) are prudent; and
    - (v) are complete in all material respects.
- 11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:**
- (a) the requirements in NZ IFRSs dealing with similar and related issues; and
  - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *NZ Framework*.
- 12 In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.**

#### **Qualifying Entities**

**NZ 12.1** Where a qualifying entity takes advantage of differential reporting concessions, the entity's summary of significant accounting policies shall disclose:

- (a) the criteria which establish the entity as a qualifying entity for differential reporting; and
- (b) the extent to which the entity has applied available differential reporting concessions. The entity shall disclose either:
  - (i) standards where the entity has not taken advantage of differential reporting concessions and has applied the standards obligatory for non-qualifying entities; or
  - (ii) standards where differential reporting concessions have been applied.

## **Consistency of accounting policies**

- 13** An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an NZ IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If an NZ IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

## **Changes in accounting policies**

- 14** An entity shall change an accounting policy only if the change:
- (a) is required by an NZ IFRS; or
  - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- 15** Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.
- 16** The following are not changes in accounting policies:
- (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
  - (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.
- 17** The initial application of a policy to revalue assets in accordance with NZ IAS 16 *Property, Plant and Equipment* or NZ IAS 38 *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with NZ IAS 16 or NZ IAS 38, rather than in accordance with this Standard.
- 18** Paragraphs 19–31 do not apply to the change in accounting policy described in paragraph 17.

## **Applying changes in accounting policies**

- 19** Subject to paragraph 23:
- (a) an entity shall account for a change in accounting policy resulting from the initial application of an NZ IFRS in accordance with the specific transitional provisions, if any, in that NZ IFRS; and

- (b) when an entity changes an accounting policy upon initial application of an NZ IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

20 For the purpose of this Standard, early application of an NZ IFRS is not a voluntary change in accounting policy.

21 In the absence of an NZ IFRS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

#### *Retrospective application*

22 **Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

#### *Limitations on retrospective application*

23 **When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

24 **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**

25 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. The amount

of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an NZ IFRS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

- 27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50-53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

### **Disclosure**

- 28 **When initial application of an NZ IFRS 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, an entity shall disclose:**
- (a) **the title of the NZ IFRS;**
  - (b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**
  - (c) **the nature of the change in accounting policy;**
  - (d) **when applicable, a description of the transitional provisions;**
  - (e) **when applicable, the transitional provisions that might have an effect on future periods;**
  - (f) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:**
    - (i) **for each financial statement line item affected; and**
    - (ii) **if NZ IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;**
  - (g) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
  - (h) **if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

**Financial statements of subsequent periods need not repeat these disclosures.**

- 29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**
- (a) **the nature of the change in accounting policy;**
  - (b) **the reasons why applying the new accounting policy provides reliable and more relevant information;**
  - (c) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:**
    - (i) **for each financial statement line item affected; and**
    - (ii) **if NZ IAS 33 applies to the entity, for basic and diluted earnings per share;**
  - (d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
  - (e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**
- Financial statements of subsequent periods need not repeat these disclosures.**
- \*30 **When an entity has not applied a new NZ IFRS that has been issued but is not yet effective, the entity shall disclose:**
- (a) **this fact; and**
  - (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new NZ IFRS will have on the entity's financial statements in the period of initial application.**
- 31 In complying with paragraph 30, an entity considers disclosing:
- (a) the title of the new NZ IFRS;
  - (b) the nature of the impending change or changes in accounting policy;
  - (c) the date by which application of the NZ IFRS is required;
  - (d) the date as at which it plans to apply the NZ IFRS initially; and
  - (e) either:
    - (i) a discussion of the impact that initial application of the NZ IFRS is expected to have on the entity's financial statements; or
    - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

**All Entities**

**NZ 31.1 Changes in significant accounting policies shall be reported as such within the summary of significant accounting policies.**

## Changes in accounting estimates

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- 32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:
- (a) bad debts;
  - (b) inventory obsolescence;
  - (c) the fair value of financial assets or financial liabilities;
  - (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
  - (e) warranty obligations.
- 33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- 34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
- 35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- 36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:**
- (a) the period of the change, if the change affects that period only; or**
  - (b) the period of the change and future periods, if the change affects both.**
- 37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.**
- 38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as

income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

## Disclosure

- 39** An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.
- 40** If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

## Errors

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- 41** Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with New Zealand equivalents to IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).
- 42** **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:**
- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
  - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

## Limitations on retrospective restatement

- 43** A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.
- 44** When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the

**earliest period for which retrospective restatement is practicable (which may be the current period).**

**45 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.

47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.

48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

## **Disclosure of prior period errors**

**49 In applying paragraph 42, an entity shall disclose the following:**

- (a) **the nature of the prior period error;**
- (b) **for each prior period presented, to the extent practicable, the amount of the correction:**
  - (i) **for each financial statement line item affected; and**
  - (ii) **if NZ IAS 33 applies to the entity, for basic and diluted earnings per share;**
- (c) **the amount of the correction at the beginning of the earliest prior period presented; and**
- (d) **if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

**Financial statements of subsequent periods need not repeat these disclosures.**

## **Impracticability in respect of retrospective application and retrospective restatement**

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- 50 In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51–53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
- 51 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.
- 52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and
  - (b) would have been available when the financial statements for that prior period were authorised for issue
- from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.
- 53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with NZ IAS 19 *Employee Benefits*, it disregards information about an unusually

severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

## **Effective date**

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- 54 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

### **Public Benefit Entities**

NZ 54.1 The *Omnibus Amendments* (2008-1) amended paragraph NZ 5.2. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Early application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

## **Withdrawal of other pronouncements**

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- 55–56 [Paragraphs 55 and 56 are not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

## **Appendix Amendments to other pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

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*The amendments contained in this appendix when this Standard was revised in 2003 have been incorporated into the relevant pronouncements published in this volume.*

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