



NZ ACCOUNTING
STANDARDS
BOARD

NZ International Accounting Standard 8 (Diff Rep)

Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS 8 (Diff Rep))

Issued November 2012 excluding consequential amendments resulting from early adoption of NZ IFRS 9 (2009) (Diff Rep) *Financial Instruments*, NZ IFRS 9 (2010) (Diff Rep) *Financial Instruments* and NZ IFRS 13 (Diff Rep) *Fair Value Measurement*

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as applied by qualifying entities. Versions of NZ IAS 8 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

The following Interpretations refer to NZ IAS 8 (Diff Rep):

- NZ SIC-7 (Diff Rep) *Introduction of the Euro*
- NZ SIC-10 (Diff Rep) *Government Assistance—No Specific Relation to Operating Activities*
- NZ SIC-12 (Diff Rep) *Consolidation—Special Purpose Entities*
- NZ SIC 13 (Diff Rep) *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*
- NZ SIC-15 (Diff Rep) *Operating Leases—Incentives*
- NZ SIC-25 (Diff Rep) *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*
- NZ SIC-27 (Diff Rep) *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- NZ SIC 31 (Diff Rep) *Revenue—Barter Transactions Involving Advertising Services*
- NZ IFRIC 1 (Diff Rep) *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

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- NZ IFRIC 4 (Diff Rep) *Determining whether an Arrangement contains a Lease*
- NZ IFRIC 5 (Diff Rep) *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- NZ IFRIC 6 (Diff Rep) *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements*
- NZ IFRIC 13 (Diff Rep) *Customer Loyalty Programmes*
- NZ IFRIC 14 (Diff Rep) *NZ IAS 19 (Diff Rep)—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- NZ IFRIC 15 (Diff Rep) *Agreements for the Construction of Real Estate*
- NZ IFRIC 16 (Diff Rep) *Hedges of a Net Investment in a Foreign Operation*
- NZ IFRIC 18 (Diff Rep) *Transfers of Assets from Customers*
- NZ IFRIC 19 (Diff Rep) *Extinguishing Financial Liabilities with Equity Instruments*

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ISBN 978-1-927237-44-1

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NZ International Accounting Standard 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* (NZ IAS 8 (Diff Rep)) is set out in paragraphs 1–56. NZ IAS 8 (Diff Rep) 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 (Diff Rep) should be read in the context of its objective and the IASB’s Basis for Conclusions on IAS 8 and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ Framework (Diff Rep)).

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*

This table lists the pronouncements establishing and substantially amending NZ IAS 8 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 8 (Diff Rep) <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IAS 8 (Diff Rep)		
Paragraph affected	How affected	By ... [date]
All PBE Paragraphs	Deleted	NZ IAS 8 (Diff Rep) [Nov 2012]
Paragraph NZ 2.1	Inserted	NZ IAS 8 (Diff Rep) [Nov 2012]
Paragraph NZ 12.1	Relocated to FRS-44 (Diff Rep)	NZ IAS 8 (Diff Rep) [Nov 2012]
Paragraph 54–NZ 54B.1	Deleted	NZ IAS 8 (Diff Rep) [Nov 2012]
Paragraph NZ 54B.2	Inserted	NZ IAS 8 (Diff Rep) [Nov 2012]

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The following tables list the pronouncements establishing and substantially amending NZ IAS 8 as applied by qualifying entities prior to the issue of this Standard as NZ IAS 8 (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 9 (2009) *Financial Instruments*, NZ IFRS 9 (2010) *Financial Instruments* and NZ IFRS 13 *Fair Value Measurement*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Nov 2004	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>	June 2005	1 Jan 2005	1 Jan 2007
<i>Amendment to the Framework for Differential Reporting</i>	Dec 2005	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009
<i>Improvements to NZ IFRSs</i>	June 2008	Early application permitted	1 Jan 2009
<i>Omnibus Amendments</i> (2008-1)	Oct 2008	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate
<i>Harmonisation Amendments</i>	Apr 2011	Early application permitted	1 July 2011

Table of Amended Paragraphs in NZ IAS 8		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 4.1	Inserted	Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005]

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Table of Amended Paragraphs in NZ IAS 8		
Paragraph affected	How affected	By ... [date]
Paragraph 5 definitions of International Financial Reporting Standards (IFRSs) and Material	Amended	NZ IAS 1[Nov 2007]
Paragraph NZ 5.1	Deleted	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph NZ 5.2 definition of Material	Amended	<i>Omnibus Amendments (2008-1)</i> [Oct 2008]
Paragraph 7	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 9	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 11	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph NZ 31.1	Deleted	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph NZ 54.1	Inserted	<i>Omnibus Amendments (2008-1)</i> [Oct 2008]
Paragraph NZ 54B.1	Inserted	<i>Harmonisation Amendments</i> [Apr 2011]

Introduction to NZ IAS 8 (Diff Rep)

NZ IAS 8 (Diff Rep) is identical to NZ IAS 8 applied by qualifying entities prior to the issuance of NZ IAS 8 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IAS 8 on adoption of this Standard.

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.

Differential Reporting

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

NZ International Accounting Standard 8 (Diff Rep)

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

Objective

- 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 (Diff Rep) *Presentation of Financial Statements*.

Scope

NZ 2.1 This Standard applies only to Tier 3 for-profit entities.

- 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 (Diff Rep) *Income Taxes*.

NZ 4.1 Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

Definitions

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 issued by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.*

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.

* Definition of IFRSs amended after the name changes introduced by the revised Constitution of the IFRS Foundation in 2010.

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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.

NZ 5.1 [Deleted]

NZ 5.3 The following terms are used in this Standard with the meanings specified:
Qualifying entities are entities which meet the requirements of XRB A1 Accounting Standards Framework 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

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of those users. The NZ *Framework* (Diff Rep) 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

Selection and application of accounting policies

- 7 **When an NZ IFRS Diff Rep 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 Diff Rep.**
- 8 NZ IFRS Diff Rep 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 NZ IFRS Diff Rep to achieve a particular presentation of an entity’s financial position, financial performance or cash flows.
- 9 NZ IFRS Diff Rep are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of NZ IFRS Diff Rep. Guidance that is an integral part of NZ IFRS Diff Rep is mandatory. Guidance that is not an integral part of NZ IFRS Diff Rep does not contain requirements for financial statements.
- 10 **In the absence of an NZ IFRS Diff Rep 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**

* IASC’s *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*.

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- (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 IFRS Diff Rep 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* (Diff Rep).
- 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.

NZ 12.1 [Relocated to FRS-44 (Diff Rep) *New Zealand Additional Disclosures*]

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 Diff Rep specifically requires or permits categorisation of items for which different policies may be appropriate. If an NZ IFRS Diff Rep 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 Diff Rep; 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

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- (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 (Diff Rep) *Property, Plant and Equipment* or NZ IAS 38 (Diff Rep) *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with NZ IAS 16 (Diff Rep) or NZ IAS 38 (Diff Rep), 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 Diff Rep in accordance with the specific transitional provisions, if any, in that NZ IFRS Diff Rep; and
- (b) when an entity changes an accounting policy upon initial application of an NZ IFRS Diff Rep 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 Diff Rep is not a voluntary change in accounting policy.

21 In the absence of an NZ IFRS Diff Rep 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**

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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 Diff Rep). 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 Diff Rep 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 Diff Rep;**
 - (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

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- (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 (Diff Rep) *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 (Diff Rep) 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 Diff Rep that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and

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- (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new NZ IFRS Diff Rep 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 Diff Rep;
 - (b) the nature of the impending change or changes in accounting policy;
 - (c) the date by which application of the NZ IFRS Diff Rep is required;
 - (d) the date as at which it plans to apply the NZ IFRS Diff Rep initially; and
 - (e) either:
 - (i) a discussion of the impact that initial application of the NZ IFRS Diff Rep 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.

NZ 31.1 [Deleted]

Changes in accounting estimates

- 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.

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- 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

- 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with NZ IFRS Diff Rep 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

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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 (Diff Rep) 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

- 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

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- (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 (Diff Rep) *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 (Diff Rep) *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

54–NZ 54B.1 [Deleted]

NZ 54.2	This Standard applies to annual periods beginning on or after 1 December 2012. Early application is permitted. This Standard replaces NZ IAS 8 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IAS 8 as it applied to qualifying entities.
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Withdrawal of other pronouncements

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