IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is issued by the International Accounting Standards Board (the Board).

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Approval by the Board of IAS 8 issued in December 2003

International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as revised in 2003) was approved for issue by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
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Anthony T Cope	
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James J Leisenring	
Warren J McGregor	
Patricia L O'Malley	
Harry K Schmid	
John T Smith	
Geoffrey Whittington	
Tatsumi Yamada	

Approval by the Board of *Definition of Material* (Amendments to IAS 1 and IAS 8) issued in October 2018

Definition of Material (Amendments to IAS 1 and IAS 8), was approved for issue by the fourteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Approval by the Board of *Definition of Accounting Estimates* issued in February 2021

Definition of Accounting Estimates, which amended IAS 8, was approved for issue by 12 of 13 members of the International Accounting Standards Board. Mr Mackenzie abstained from voting in view of his recent appointment to the Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
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Tadeu Cendon	
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Jianqiao Lu	
Bruce Mackenzie	
Thomas Scott	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This Basis for Conclusions accompanies, but is not part of, IAS 8.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* in 2003 and on subsequent amendments. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 8. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 The Standard includes extensive changes to the previous version of IAS 8. The Board's intention was not to reconsider all of the previous Standard's requirements for selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of errors. Accordingly, this Basis for Conclusions does not discuss requirements in IAS 8 that the Board did not reconsider.

Removing allowed alternative treatments

BC4 The previous version of IAS 8 included allowed alternative treatments of voluntary changes in accounting policies (paragraphs 54–57) and corrections of fundamental errors (paragraphs 38–40). Under those allowed alternatives:

(a) the adjustment resulting from retrospective application of a change in an accounting policy was included in profit or loss for the current period; and

(b) the amount of the correction of a fundamental error was included in profit or loss for the current period.

BC5 In both circumstances, comparative information was presented as it was presented in the financial statements of prior periods.

BC6 The Board identified the removal of optional treatments for changes in accounting policies and corrections of errors as an important improvement to the previous version of IAS 8. The Standard removes the allowed alternative treatments and requires changes in accounting policies and corrections of prior period errors to be accounted for retrospectively.

BC7 The Board concluded that retrospective application made by amending the comparative information presented for prior periods is preferable to the previously allowed alternative treatments because, under the now required method of retrospective application:

(a) profit or loss for the period of the change does not include the effects of changes in accounting policies or errors relating to prior periods.

(b) information presented about prior periods is prepared on the same basis as information about the current period, and is therefore comparable. This information possesses a qualitative characteristic identified in the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*),[1] and provides the most useful information for trend analysis of income and expenses.

(c) prior period errors are not repeated in comparative information presented for prior periods.

[1] References to the *Framework* in this Basis for Conclusions are to the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the Board in 2001 and in effect when the Standard was revised.

BC8 Some respondents to the Exposure Draft argued that the previously allowed alternative treatments are preferable because:

(a) correcting prior period errors by restating prior period information involves an unjustifiable use of hindsight;

(b) recognising the effects of changes in accounting policies and corrections of errors in current period profit or loss makes them more prominent to users of financial statements; and

(c) each amount credited or debited to retained earnings as a result of an entity's activities has been recognised in profit or loss in some period.

BC9 The Board concluded that restating prior period information to correct a prior period error does not involve an unjustifiable use of hindsight because prior period errors are defined in terms of a failure to use, or misuse of, reliable information that was available when the prior period financial statements were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

BC10 The Board also concluded that the disclosures about changes in accounting policies and corrections of prior period errors in paragraphs 28, 29 and 49 of the Standard should ensure that their effects are sufficiently prominent to users of financial statements.

BC11 The Board further concluded that it is less important for each amount credited or debited to retained earnings as a result of an entity's activities to be recognised in profit or loss in some period than for the profit or loss for each period presented to represent faithfully the effects of transactions and other events occurring in that period.

Eliminating the distinction between fundamental errors and other material prior period errors

BC12 The Standard eliminates the distinction between fundamental errors and other material prior period errors. As a result, all material prior period errors are accounted for in the same way as a fundamental error was accounted for under the retrospective treatment in the previous version of IAS 8. The Board concluded that the definition of 'fundamental errors' in the previous version was difficult to interpret consistently because the main feature of the definition—that the error causes the financial statements of one or more prior periods no longer to be considered to have been reliable—was also a feature of all material prior period errors.

Applying a Standard or an Interpretation that specifically applies to an item

BC13 The Exposure Draft proposed that when a Standard or an Interpretation applies to an item in the financial statements, the accounting policy (or policies) applied to that item is (are) determined by considering the following in descending order:

(a) the Standard (including any Appendices that form part of the Standard);

(b) the Interpretation;

(c) Appendices to the Standard that do not form a part of the Standard; and

(d) Implementation Guidance issued in respect of the Standard.

BC14 The Board decided not to set out a hierarchy of requirements for these circumstances. The Standard requires only applicable IFRSs to be applied. In addition, it does not mention Appendices.

BC15 The Board decided not to rank Standards above Interpretations because the definition of International Financial Reporting Standards (IFRSs) includes Interpretations, which are equal in status to Standards. The rubric to each Standard clarifies what material constitutes the requirements of an IFRS and what is Implementation Guidance.[2] The term 'Appendix' is retained only for material that is part of an IFRS.

[2] In 2007 the Board was advised that paragraphs 7 and 9 may appear to conflict, and may be misinterpreted to require mandatory consideration of Implementation Guidance. The Board amended paragraphs 7, 9 and 11 by *Improvements to IFRSs* issued in May 2008 to state that only guidance that is identified as an integral part of IFRSs is mandatory.

Pronouncements of other standard-setting bodies

BC16 The Exposure Draft proposed that in the absence of a Standard or an Interpretation specifically applying to an item, management should develop and apply an accounting policy by considering, among other guidance, pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. Respondents to the Exposure Draft commented that this could *require* entities to consider the pronouncements of various other standard-setting bodies when IASB guidance does not exist. Some commentators argued that, for example, it could require consideration of all components of US GAAP on some topics. After considering these comments, the Board decided that the Standard should indicate that considering such pronouncements is voluntary (see paragraph 12 of the Standard).

BC17 As proposed in the Exposure Draft, the Standard states that pronouncements of other standard-setting bodies are used only if they do not conflict with:

(a) the requirements and guidance in IFRSs dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.[3]

BC18 The Standard refers to the most recent pronouncements of other standard-setting bodies because if pronouncements are withdrawn or superseded, the relevant standard-setting body no longer thinks they include the best accounting policies to apply.

BC19 Comments received indicated that it was unclear from the Exposure Draft whether a change in accounting policy following a change in a pronouncement of another standard-setting body should be accounted for under the transitional provisions in that pronouncement. As noted above, the Standard does not mandate using pronouncements of other standard-setting bodies in any circumstances. Accordingly, the Board decided to clarify that such a change in accounting policy is accounted for and disclosed as a voluntary change in accounting policy (see paragraph 21 of the Standard). Thus, an entity is precluded from applying transitional provisions specified by the other standard-setting body if they are inconsistent with the treatment of voluntary changes in accounting policies specified by the Standard.

Materiality

BC20 The Standard states that accounting policies specified by IFRSs need not be applied when the effect of applying them is immaterial. It also states that financial statements do not comply with IFRSs if they contain material errors, and that material prior period errors are to be corrected in the first set of financial statements authorised for issue after their discovery. The Standard includes a definition of material omissions or misstatements, which is based on the description of materiality in IAS 1 *Presentation of Financial Statements* (as issued in 1997) and in the *Framework*.

BC21 The former *Preface to Statements of International Accounting Standards* stated that International Accounting Standards were not intended to apply to immaterial items. There is no equivalent statement in the *Preface to International Financial Reporting Standards*.[4] The Board received comments that the absence of such a statement from the *Preface* could be interpreted as requiring an entity to apply accounting policies (including measurement requirements) specified by IFRSs to immaterial items. However, the Board decided that the application of the concept of materiality should be in Standards rather than in the *Preface*.

BC21A As a consequence of the *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, the definition of material and the accompanying explanatory paragraphs have been replaced with a reference to the definition of material and explanatory paragraphs in IAS 1.[5] The Board made this change to avoid the duplication of the definition of material in the Standards.

BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

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[3] In 2018 the Board issued a revised *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The Board also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. That document replaced the reference to the *Framework* in paragraph 11(b) of IAS 8 with a reference to the *Conceptual Framework*, except in the case of some regulatory account balances, as explained in paragraphs 54G of IAS 8 and BC38–BC40.

[4] *Preface to International Financial Reporting Standards* renamed *Preface to IFRS Standards* December 2018.

[5] Refer to paragraphs BC13A–BC13T of the Basis for Conclusions on IAS 1.

Criterion for exemption from requirements

BC23 The previous version of IAS 8 included an impracticability criterion for exemption from retrospective application of voluntary changes in accounting policies and retrospective restatement for fundamental errors, and from making related disclosures, when the allowed alternative treatment of those items was not applied. The Exposure Draft proposed instead an exemption from retrospective application and retrospective restatement when it gives rise to undue cost or effort.

BC24 In the light of comments received on the Exposure Draft, the Board decided that an exemption based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities. Moreover, the Board decided that balancing costs and benefits is a task for the Board when it sets accounting requirements rather than for entities when they apply those requirements. Therefore, the Board decided to retain the impracticability criterion for exemption in the previous version of IAS 8. This affects the exemptions in paragraphs 23–25, 39 and 43–45 of the Standard. Impracticability is the only basis on which specific exemptions are provided in IFRSs from applying particular requirements when the effect of applying them is material.[6]

Definition of 'impracticable'

BC25 The Board decided to clarify the meaning of 'impracticable' in relation to retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error.

BC26 Some commentators suggested that retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error are impracticable for a particular prior period whenever significant estimates are required as of a date in that period. However, the Board decided to specify a narrower definition of impracticable because 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. Thus, the Board decided that an inability to distinguish objectively information that both provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed and would have been available when the financial statements for that prior period were authorised for issue from other information is the factor that prevents reliable adjustment or correction of comparative information for prior periods (see part (c) of the definition of 'impracticable' and paragraphs 51 and 52 of the Standard).

BC27 The Standard specifies that 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 in a prior period. This is because management's intentions in a prior period cannot be objectively established in a later period, and using information that would have been unavailable when the financial statements for the prior period(s) affected were authorised for issue is inconsistent with the definitions of retrospective application and retrospective restatement.

Applying the impracticability exemption

BC28 The Standard specifies that when it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, or the cumulative effect of an error on all prior periods, the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable (see paragraphs 25 and 45 of the Standard). This is similar to paragraph 52 of the previous version of IAS 8, but it is no longer restricted to changes in accounting policies. The Board decided to include such provisions in the Standard because it agrees with comments received that it is preferable to require prospective application from the start of the earliest period practicable than to permit a change in accounting policy only when the entity can determine the cumulative effect of the change for all prior periods at the beginning of the current period.

BC29 Consistently with the Exposure Draft's proposals, the Standard provides an impracticability exemption from retrospective application of changes in accounting policies, including retrospective application of changes made in accordance with the transitional provisions in an IFRS. The previous version of IAS 8 specified the impracticability exemption for retrospective application of only *voluntary* changes in accounting policies. Thus, the applicability of the exemption to changes made in accordance with the transitional provisions in an IFRS depended on the text of that IFRS. The Board extended the applicability of the exemption because it

[6] In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC 47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

decided that the need for the exemption applies equally to all changes in accounting policies applied retrospectively.

Disclosures about impending application of newly issued IFRSs

BC30 The Standard requires an entity to provide disclosures when it has not yet applied a new IFRS that has been issued but is not yet effective. The entity is required to disclose that it has not yet applied the IFRS, and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new IFRS will have on the entity's financial statements in the period of initial application (paragraph 30). The Standard also includes guidance on specific disclosures the entity should consider when applying this requirement (paragraph 31).

BC31 Paragraphs 30 and 31 of the Standard differ from the proposals in the Exposure Draft in the following respects:

(a) they specify that an entity needs to disclose information only if it is known or reasonably estimable. This clarification responds to comments on the Exposure Draft that the proposed disclosures would sometimes be impracticable.

(b) whereas the Exposure Draft proposed to mandate the disclosures now in paragraph 31, the Standard sets out these disclosures as items an entity should consider disclosing to meet the general requirement in paragraph 30. This amendment focuses the requirement on the objective of the disclosure, and, in response to comments on the Exposure Draft that the proposed disclosures were more onerous than the disclosures in US GAAP, clarifies that the Board's intention was to converge with US requirements, rather than to be more onerous.

Recognising the effects of changes in accounting estimates

BC32 The Exposure Draft proposed to retain without exception the requirement in the previous version of IAS 8 that the effect of a change in accounting estimate is *recognised 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.

BC33 Some respondents to the Exposure Draft disagreed with requiring the effects of all changes in accounting estimates to be recognised in profit or loss. They argued that this is inappropriate to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, because the entity's equity does not change as a result. These commentators also argued that it is inappropriate to preclude recognising the effects of changes in accounting estimates directly in equity when that is required or permitted by a Standard or an Interpretation. The Board concurs, and decided to provide an exception to the requirement described in paragraph BC32 for these circumstances.

Amended references to the *Conceptual Framework*

BC34 Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*), the Board issued *Amendments to References to Conceptual Framework in IFRS Standards.* In IAS 8, that document amended paragraphs 6 and 11(b).

BC35 Paragraph 6 of IAS 8 quoted the description of users of financial statements from the *Framework*. To retain the requirements of this paragraph, the Board decided to embed that description of users in the Standard itself instead of updating the reference and the related quotation.

BC36 *Amendments to References to the Conceptual Framework in IFRS Standards* replaced the reference in paragraph 11(b) to the *Framework* with a reference to the 2018 *Conceptual Framework*. Following this replacement, if management developed accounting policies in accordance with paragraph 11(b), management will need to review whether those policies are still consistent with the 2018 *Conceptual Framework.*

BC37 The Board analysed the effects on preparers of financial statements of replacing the reference to the *Framework* in paragraph 11(b) of IAS 8 and discussed the results of the analysis at the November 2016 Board meeting (see November 2016 AP10G *Effects of the proposed changes to the Conceptual Framework on preparers*). The analysis suggested that the scope of any changes to preparers' accounting policies is likely to be limited because:

(a) most preparers of financial statements do not develop accounting policies by reference to the *Framework* because most transactions are:

(i) covered by IFRS Standards;

(ii) accounted for by applying accounting policies developed using other sources referred to in paragraphs 11–12 of IAS 8; or

(iii) exempt from the requirement to apply paragraph 11 of IAS 8; for example, IFRS 6 *Exploration for and Evaluation of Mineral Resources* exempts entities from applying paragraph 11 of IAS 8 to the recognition and measurement of exploration and evaluation assets; and

(b) in most of the few remaining areas, application of the revised concepts in the 2018 *Conceptual Framework* would be expected to result in similar accounting outcomes to application of the concepts in the *Framework*.

Application by rate-regulated entities

BC38 While assessing possible effects of updating the reference to the *Framework* in IAS 8, the Board identified a potential disadvantage for entities that conduct rate-regulated activities and develop their accounting policies for regulatory account balances by reference to the *Framework* rather than by applying IFRS 14 *Regulatory Deferral Accounts*. If the reference to the *Framework* had been updated, such entities might have needed to revise those accounting policies twice within a short period of time—first, when the 2018 *Conceptual Framework* comes into effect; and, later, when a new IFRS Standard on rate-regulated activities is issued. In the absence of specific guidance, there might have been uncertainty about what would be acceptable if the 2018 *Conceptual Framework* was applied. Establishing what would be acceptable might have been costly and the outcome might have been diversity in practice and a loss of trend information for users.

BC39 To prevent unhelpful and unnecessary disruption for users of the financial statements of entities that conduct rate-regulated activities and for the entities themselves, the Board provided a temporary exception: paragraph 54G prohibits entities from applying the 2018 *Conceptual Framework* to accounting policies relating to regulatory account balances. Instead, entities are required to continue to apply the *Framework* when developing or revising those accounting policies. Once the Board issues a new IFRS Standard on rate-regulated activities, that prohibition is likely to become unnecessary.

BC40 The Board based the definition of 'a regulatory account balance' on the definition of 'a regulatory deferral account balance' in IFRS 14, with one difference: the definition of a regulatory account balance does not mention qualifying for deferral. The reference to deferral in IFRS 14 reflects the fact that IFRS 14 permits continued recognition of some regulatory deferral account balances that an entity previously recognised as assets or liabilities immediately before it adopted IFRS Standards for the first time. In contrast, paragraph 54G of IAS 8 applies only when an entity is not applying IFRS 14 but is instead developing an accounting policy after considering paragraph 11 of IAS 8. Paragraph 54G applies regardless of whether that accounting policy results in recognition of any assets or liabilities, and regardless of whether such recognition could be viewed as deferral.

Transition relief

BC41 The Board concluded that the retrospective application of revised accounting policies in accordance with IAS 8 would provide the most useful information to users of financial statements. However, in order to keep disruption for users and preparers of financial statements to a minimum, the Board decided not to require retrospective application of any amendment in *Amendments to References to the Conceptual Framework in IFRS Standards* if doing so would either be impracticable or involve undue cost or effort.

Definition of Accounting Estimates (2021 amendments)

Background

BC42 The IFRS Interpretations Committee informed the Board of difficulties entities faced in distinguishing changes in accounting policies from changes in accounting estimates. The Board understood that such difficulties arose because the previous definition of a change in accounting estimate in IAS 8 was not sufficiently clear.

BC43 In February 2021, the Board issued *Definition of Accounting Estimates*, which amended IAS 8. The amendments introduced the definition of accounting estimates in paragraph 5 and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

Definition of accounting estimates

BC44 Before the 2021 amendments, IAS 8 included definitions of 'accounting policies' and 'change in accounting estimate'. The combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscured the distinction between accounting policies and accounting estimates. To make that distinction clearer, the Board replaced the definition of a change in accounting estimate with a definition of accounting estimates. The main matters the Board considered in developing the definition and related requirements included:

(a) *the relationship between accounting policies and accounting estimates*—the amendments clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. The Board's view was that this clarification would help entities distinguish changes in accounting estimates from changes in accounting policies.

(b) *judgements and assumptions*—when it exposed a draft of the 2021 amendments for comment, the Board proposed defining accounting estimates as judgements and assumptions used in applying accounting policies when an item cannot be measured with precision. However, the Board agreed with feedback suggesting it would be more helpful to specify that accounting estimates are the output of measurement techniques that require an entity to use judgements or assumptions and that the judgements or assumptions are not accounting estimates themselves. This approach also avoids confusion about whether other judgements and assumptions an entity makes in preparing its financial statements are accounting estimates.

(c) *measurement uncertainty*—the Board introduced the term 'measurement uncertainty' in the definition. The Board concluded that using this term would make the definition clearer and be consistent with the 2018 *Conceptual Framework*.[7]

(d) *monetary amounts*—the definition refers to monetary amounts for consistency with the definition of measurement uncertainty.[8] The Board considered whether the definition should also refer to non-monetary amounts (for example, the useful life of depreciable assets). However, the Board observed that entities use non-monetary amounts as inputs to estimate monetary amounts in the financial statements—for example, an entity uses the useful life of an asset (a non-monetary amount) as an input in estimating the depreciation expense for that asset (a monetary amount). Because the effects of changes in inputs used to develop an accounting estimate are changes in accounting estimates (see paragraph BC46), the Board concluded that it was unnecessary to also include non-monetary amounts in the definition of accounting estimates.

(e) *scope*—the Board considered whether the definition should also capture estimates used in applying accounting policies for matters other than measuring items in financial statements (for example, estimates used in determining whether to recognise an item in the financial statements). The previous definition of a change in accounting estimate referred to 'adjustments to the carrying amount' of an asset or liability and, therefore, captured only changes in the measurement of items recognised in financial statements. The Board concluded that the amendments should not change the scope of IAS 8 and, accordingly, limited the definition to capture only monetary amounts that are subject to measurement uncertainty.

Changes in accounting estimates

BC45 The previous definition of a change in accounting estimate specified that changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The Board concluded that it would be helpful to retain this aspect of the previous definition and specify that a change in accounting estimate may result from new information or new developments and is not the correction of an error.

BC46 The Board also concluded that, if accounting estimates are outputs of measurement techniques, it follows that changes in the inputs used, or in the measurement techniques applied to determine those outputs, result in a change in the related accounting estimate and are not the result of a change in accounting policy.

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[7] Measurement uncertainty is defined in the Appendix to the 2018 Conceptual Framework as the 'uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated'.

[8] The term 'monetary amount' does not have the same meaning as the term 'monetary item' as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

BC47 In the light of its observations summarised in paragraphs BC45–BC46, the Board specified that:

(a) a change in accounting estimate may result from new information or new developments and is not the correction of an error; and

(b) the effects of a change in an input or in a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.

BC48 Feedback on the draft amendments expressed a concern that measurement techniques might meet the definition of accounting policies—for example, a valuation technique is a measurement technique but could also be seen as a practice and, therefore, meet the definition of an accounting policy. Accordingly, there is a risk that the effects of a change in a measurement technique could be seen as both a change in accounting estimate and a change in accounting policy. To avoid this risk, the Board specified in paragraph 34A that the effects of a change in measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

BC49 The Board also specified that measurement techniques an entity uses to develop accounting estimates include estimation techniques and valuation techniques. Specifying this avoids ambiguity about whether the effect of a change in an estimation technique or a valuation technique is a change in accounting estimate. The terms 'estimation techniques' and 'valuation techniques' appear in IFRS Standards—for example, IFRS 7 *Financial Instruments: Disclosures* uses the term 'estimation techniques' and IFRS 13 *Fair Value Measurement* uses the term 'valuation techniques'.

BC50 The Board observed that the term 'estimate' in IFRS Standards sometimes refers not only to accounting estimates, but also to other estimates. For example, it sometimes refers to inputs used in developing accounting estimates. As discussed in paragraph BC47(b), the Board specified that the effects on an accounting estimate of a change in an input are changes in accounting estimates. Therefore, the Board concluded it was unnecessary to also amend references to the term 'estimate' when that term refers to an input used in developing accounting estimates.

Definition of 'accounting policies'

Clarifying the definition

BC51 When it exposed the draft amendments for comment, the Board also proposed to clarify the definition of accounting policies by removing the terms 'conventions' and 'rules', and referring to 'measurement bases' instead of 'bases'. The Board expected that those changes would not change the scope of the definition. However, feedback suggested those proposed changes:

(a) might not improve the definition, because the remaining terms in the definition would remain undefined and could be open to diverse interpretations; and

(b) might unintentionally narrow the scope of the definition.

BC52 After considering this feedback, the Board concluded that it would not be feasible to define the remaining terms in the definition of accounting policies within a narrow-scope project, and that the proposed changes to the definition could have unintended consequences. Because the amendments clarify what a change in accounting estimate is, the Board concluded that changing the definition of accounting policies was unnecessary to achieve the objective of the amendments and accordingly did not change that definition.

Selecting inventory cost formulas

BC53 When it exposed the draft amendments for comment, the Board proposed clarifying that, for ordinarily interchangeable inventories, selecting a cost formula (that is, first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 *Inventories* constitutes selecting an accounting policy. However, some respondents to the draft amendments said selecting a cost formula could also be viewed as making an accounting estimate. The Board observed that paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy. The Board did not revisit this conclusion in the light of the 2021 amendments because it observed that entities rarely change the cost formula used to measure inventories and, accordingly, there would be little benefit in the Board's doing so.

Illustrative Examples

Deletion of Example 3

BC54 The Board was informed that Example 3 from *Guidance on implementing IAS 8* could cause confusion because of the way it illustrated the accounting for particular changes in the accounting for property, plant and equipment. The Board concluded that addressing this matter would require a substantial rewrite of the example, for little or no benefit. Therefore, the Board deleted Example 3.

Addition of Examples 4–5

BC55 The draft amendments included no examples illustrating the application of the amendments. Respondents to the draft amendments and feedback from subsequent outreach suggested that providing illustrative examples would help entities understand and apply the amendments. In response to this feedback, the Board added two illustrative examples (Examples 4–5). The examples are simple and their aim is limited to helping stakeholders understand how to apply the definition of accounting estimates, rather than aiming to address specific application questions.

Effect analysis

BC56 The Board concluded that the expected benefits of the 2021 amendments outweigh the costs. In particular, the 2021 amendments made the requirements in IAS 8 clearer, and feedback on the draft proposals suggested that the amendments would help entities distinguish changes in accounting policies from changes in accounting estimates.

BC57 Nonetheless, the 2021 amendments might not solve all application questions identified by stakeholders. For example, they may not clarify in all situations whether a change results from:

(a) a change in an underlying measurement objective (which would be a change in accounting policy); or

(b) a change of the measurement technique applied to achieve the same underlying measurement objective (which would be a change in accounting estimate).

BC58 However, the Board concluded that when any uncertainty remains, it could be helpful for an entity to consider the requirement in paragraph 35. That requirement states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the entity treats the change as a change in an accounting estimate.

Transition

BC59 The Board concluded that requiring an entity to apply prospectively the 2021 amendments appropriately balances expected benefits and costs. In particular, the Board assessed that the benefits of requiring an entity to apply the amendments to changes that occurred in a prior period would be minimal. Such changes would generally be non-recurring and restatement of comparative information would often not provide more useful trend information for users of financial statements.

Guidance on implementing IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This guidance accompanies, but is not part of, IAS 8.

Example 1 – Retrospective restatement of errors

1.1 During 20X2, Beta Co discovered that some products that had been sold during 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500.[9]

1.2 Beta's accounting records for 20X2 show sales of CU104,000, cost of goods sold of CU86,500 (including CU6,500 for the error in opening inventory), and income taxes of CU5,250.

1.3 In 20X1, Beta reported:

	CU
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000

1.4 20X1 opening retained earnings was CU20,000 and closing retained earnings was CU34,000.

1.5 Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.

1.6 Beta had CU5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

Beta Co Extract from the statement of comprehensive income

	20X2	(restated) 20X1
	CU	CU
Sales	104,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450

continued…

[9] In these examples, monetary amounts are denominated in 'currency units (CU)'.

…continued

Beta Co Statement of changes in equity

	Share capital	Retained earnings	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Profit for the year ended 31 December 20X1 as restated		9,450	9,450
Balance at 31 December 20X1	5,000	29,450	34,450
Profit for the year ended 31 December 20X2		16,800	16,800
Balance at 31 December 20X2	5,000	46,250	51,250

Extracts from the notes

1 Some products that had been sold in 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 20X2.

	Effect on 20X1
	CU
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expense	1,950
(Decrease) in profit	(4,550)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

Example 2 – Change in accounting policy with retrospective application

[Deleted]

Example 3 – Prospective application of a change in accounting policy when retrospective application is not practicable

[Deleted]

Example 4 – Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

4.1 Entity A owns an investment property that it accounts for by applying the fair value model in IAS 40 *Investment Property.* Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a valuation technique consistent with the income approach described in IFRS 13 *Fair Value Measurement.*

4.2 However, because of changes in market conditions since the previous reporting period, Entity A changes the valuation technique it uses to a valuation technique consistent with the market approach described in IFRS 13. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IFRS 13 permits such a change. Entity A has also concluded that the change in the valuation technique is not a correction of a prior period error.

Applying the definition of accounting estimates

4.3 The fair value of the investment property is an accounting estimate because:

(a) the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.

(b) the fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (fair value model).

(c) in developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:

(i) selecting the measurement technique—selecting the valuation technique that is appropriate in the circumstances; and

(ii) applying the measurement technique—developing the inputs that market participants would use in applying the valuation technique, such as information generated by market transactions involving comparable assets.

4.4 In this fact pattern, the change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value—has not changed.

Example 5 – Applying the definition of accounting estimates—Fair value of a cash-settled share-based payment liability

Fact pattern

5.1 On 1 January 20X0, Entity A grants 100 share appreciation rights (SARs) to each of its employees, provided the employee remains in the entity's employment for the next three years. The SARs entitle the employees to a future cash payment based on the increase in the entity's share price over the three-year vesting period starting on 1 January 20X0.

5.2 Applying IFRS 2 *Share-based Payment*, Entity A accounts for the grant of the SARs as cash-settled share-based payment transactions—in doing so it recognises a liability for the SARs and measures that liability at its fair value (as defined by IFRS 2). Entity A applies the Black–Scholes–Merton formula (an option pricing model) to measure the fair value of the liability for the SARs at 1 January 20X0 and at the end of the reporting period.

5.3 At 31 December 20X1, because of changes in market conditions since the end of the previous reporting period, Entity A changes its estimate of the expected volatility of the share price—an input to the option pricing model—in estimating the fair value of the liability for the SARs at that date. Entity A has concluded that the change in that input is not a correction of a prior period error.

Applying the definition of accounting estimates

5.4 The fair value of the liability is an accounting estimate because:

(a) the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty. That fair value is the amount for which the liability could be settled in a hypothetical transaction—accordingly, it cannot be observed directly and must instead be estimated.

(b) the fair value of the liability is an output of a measurement technique (option pricing model) used in applying the accounting policy (measuring a liability for a cash-settled share-based payment at fair value).

(c) to estimate the fair value of the liability, Entity A uses judgements and assumptions, for example, in:

(i) selecting the measurement technique—selecting the option pricing model; and

(ii) applying the measurement technique—developing the inputs that market participants would use in applying that option pricing model, such as the expected volatility of the share price and dividends expected on the shares.

5.5 In this fact pattern, the change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability for the SARs at 31 December 20X1. The effect of this change is a change in accounting estimate because the accounting policy—to measure the liability at fair value—has not changed.