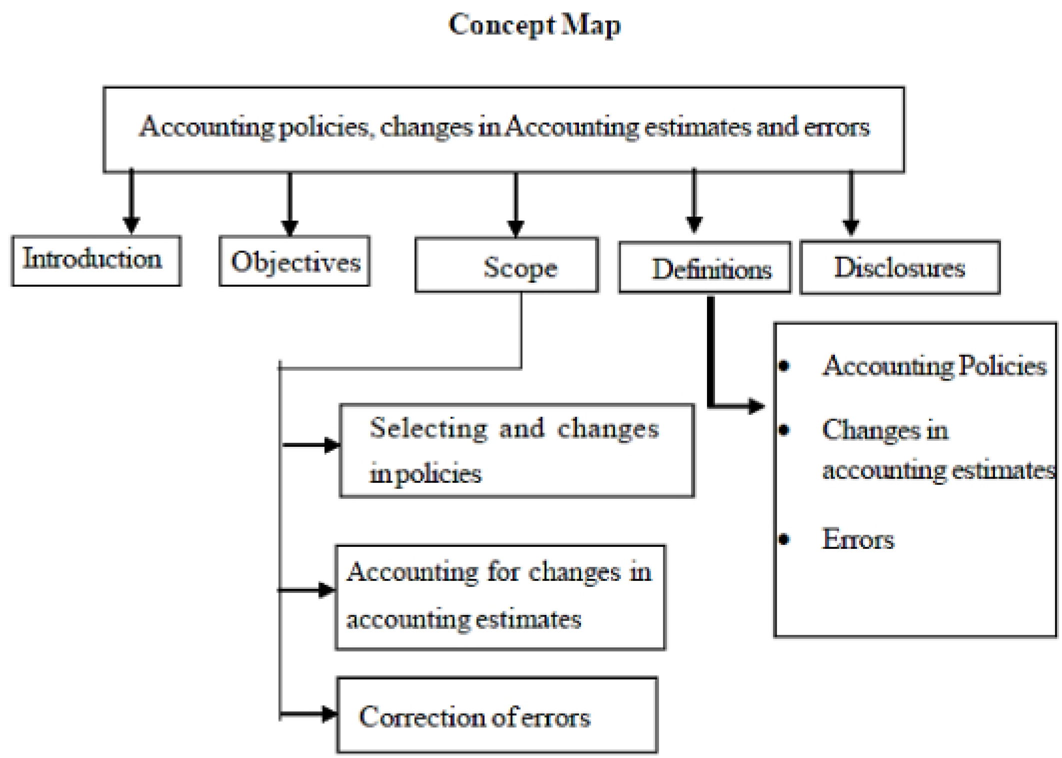
11.3 | Accounting estimates and policies

- **Definition for accounting policies**
- **Selecting accounting policies**
- **Situations when policies could be changed**
- **Accounting for changes in accounting estimates**
- **Disclosure requirements**

Concept map



Accounting policies

- Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

Changes in accounting estimates

- It is an adjustment of the carrying amount of an asset or a liability or the amount of the periodic consumption of an asset.

- This results from the assessment of the present status of and expected future benefits and obligations associated with assets and liabilities.

Errors

- Errors are omissions from and misstatements in the entity's periods arising from a failure to use or misuse reliable information that was available when financial estimates for those periods were authorized for issue.

- Examples: mathematical errors, errors in use of accounting policies, oversight, misinterpretation, frauds

Selecting accounting policies

There are two ways of selecting accounting policies:

- If an accounting standard clearly applies to a transaction or an event, the accounting policy should adhere to the standard.
- If not management shall use its judgment in developing and applying an accounting policy.

Changes in accounting policies

An entity shall change an accounting policy only if the change:

a) Is required by a standard.
b) Is required for changes in the entity's financial position, performance or cash flows to be presented in more reliable and more relevant manner.

Accounting for changes in accounting estimates

- If the change affects only the period in which the change occurred:
  - Then adjust the profit or loss of the period
- Examples:
  - Impairment loss on trade receivables
  - Allowance for expected losses on trade receivables

- If the change affects both the period in which the changes occurred and the future periods.
  - Then adjust the profits / losses of each period affected
- Examples:
  - Changes in depreciation values due to the changes in useful economic life of PPE

- If the change affects assets, liabilities or equity:
  - Then adjust the related period assets, liabilities, equity and their fair values

Disclosure requirements

Changes in Accounting Policies	Changes in Accounting Estimates	Prior period errors
• Nature of the change accounting policy	Reasons for changing the estimates	Nature of the prior period errors.
• The effect on present and future periods	Effect on the financial statements due to the change in the estimate	The correction at the beginning of the earliest period presented.
		A description of how and in which period the error has been occurred.