GENERAL ACCOUNTING
SECTION 1506
accounting changes

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PURPOSE AND SCOPE

.01 The purpose of this Section is to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section 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.

.02 Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in DISCLOSURE OF ACCOUNTING POLICIES, Section 1505.

.03 *This Section shall be applied in accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.*

.04 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 INCOME TAXES, Section 3465.

DEFINITIONS

.05 The following terms are used in this Section with the meanings specified:

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

(b) 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.

(c) **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:

(i) was available when financial statements for those periods were completed; and

(ii) 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.

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

(e) **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.

(f) 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 if:

(i) the effects of the retrospective application are not determinable;

(ii) the retrospective application requires assumptions about what management's intent would have been in that period; or

(iii) the retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

— provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

— would have been available when the financial statements for that prior period were completed;

from other information.

(g) **Prospective application** of a change in accounting policy and of recognizing the effect of a change in an accounting estimate is, unless otherwise defined in other primary sources of GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100):

(i) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

(ii) recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

CHANGES IN ACCOUNTING POLICIES

.06 *An entity shall change an accounting policy only if the change:*

(a) is required by a primary source of GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100)*;*

(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; or

(c) is specified in paragraph 1506.09*.*

.07 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 1506.06.

.08 *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.

.09 *An enterprise may change the following accounting policies without meeting the criterion in paragraph* 1506.06*(b):*

(a) to consolidate subsidiaries, to account for them using the cost or equity method (see SUBSIDIARIES, Section 1591)*;*

(b) to account for investments subject to significant influence using the cost or equity method (see INVESTMENTS, Section 3051)*;*

(c) to account for interests in jointly controlled enterprises using the cost or equity method or by accounting for rights to the individual assets and obligations for the individual liabilities, in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056*;*

(d) to capitalize or expense expenditures on internally generated intangible assets during the development phase (see GOODWILL AND INTANGIBLE ASSETS, Section 3064)*;*

(e) to measure a defined benefit obligation for defined benefit plans in which an actuarial valuation for funding purposes (funding valuation) is required to be prepared to comply with legislative, regulatory or contractual requirements using an actuarial valuation prepared for accounting purposes (accounting valuation) or the most recently completed funding valuation (see EMPLOYEE FUTURE BENEFITS, Section 3462)*;*

(f) *to account for income taxes using the taxes payable method or the future income taxes method* (see INCOME TAXES, Section 3465)*;*

(g) *to initially measure the equity component of a financial instrument that contains both a liability and an equity component at zero* (see FINANCIAL INSTRUMENTS, Section 3856)*;*

(h) *to determine the cost of agricultural inventories using full cost or only input costs* (see AGRICULTURE, Section 3041); *and*

(i) *to account for expenditures in a cloud computing arrangement using the simplification approach or the accounting policy to expense or capitalize expenditures that are specific to implementation activities, in accordance with ACCOUNTING GUIDELINE* AcG-20*, Customer's Accounting for Cloud Computing Arrangements.*

[Former paragraph 1506.09, amended by ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements, retained in Archived Pronouncements.]

Applying changes in accounting policies

.10 *Subject to paragraph* 1506.14*:*

(a) *an enterprise shall account for a change in accounting policy resulting from the initial application of a primary source of GAAP in accordance with the specific transitional provisions, if any, in that primary source of GAAP;*

(b) *when an enterprise changes an accounting policy upon initial application of a primary source of GAAP that does not include specific transitional provisions applying to that change, it shall apply the change retrospectively; and*

(c) *when an enterprise changes an accounting policy voluntarily, it shall apply the change retrospectively, except as permitted by AGRICULTURE, paragraph* 3041.23.

.11 For the purpose of this Section, early application of a primary source of GAAP is not a voluntary change in accounting policy.

.12 An entity that changes its accounting policy as a result of following sources other than primary sources of GAAP accounts for such a change as a voluntary change in accounting policy.

Retrospective application

.13 *Subject to paragraph* 1506.14*, when a change in accounting policy is applied retrospectively in accordance with paragraphs* 1506.10*(a)-(c), the enterprise 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

.14 *When retrospective application is required by paragraphs* 1506.10*(a)-(c), 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.*

.15 *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.*

.16 *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.*

.17 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 balance sheets 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 a primary source of GAAP). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

.18 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 1506.16, applies the new policy prospectively from the start of the earliest period practicable. Therefore, it 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 1506.30-.33 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

CHANGES IN ACCOUNTING ESTIMATES

.19 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 judgments 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.

.20 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

.21 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.

.22 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.

.23 *The effect of a change in an accounting estimate, other than a change to which paragraph* 1506.24 *applies, shall be recognized prospectively by including it in net income 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.

.24 *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 recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.*

.25 Prospective recognition of the effect of a change in an accounting estimate, unless otherwise described in a primary source of GAAP, 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 net income, or the net income 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 net income and therefore is recognized 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 recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

ERRORS

.26 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with generally accepted accounting principles 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 completed. 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 1506.27-.28).

.27 *An entity shall correct material prior period errors retrospectively in the first set of financial statements completed 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.

.28 The correction of a prior period error is excluded from net income for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated.

.29 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 recognized on the outcome of a contingency is not the correction of an error.

IMPRACTICABILITY IN RESPECT OF RETROSPECTIVE APPLICATION

.30 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 retrospective application of a new accounting policy (including, for the purpose of paragraphs 1506.31-.33, its prospective application to prior periods), and it may be impracticable to recreate the information.

.31 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the balance sheet date. 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.

.32 Therefore, retrospectively applying a new accounting policy 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 completed;

from other information. For some types of estimates (for example, 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 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 retrospectively.

.33 Hindsight is not 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 recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462, 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 completed. 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.

DISCLOSURE

Changes in accounting policies

.34 *When initial application of a primary source of GAAP has an effect on the current period or any prior period or would have such an effect except that it is impracticable to determine the amount of the adjustment, an enterprise shall disclose:*

(a) the title of the primary source of GAAP;

(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) for each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(f) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(g) if retrospective application required by paragraphs 1506.10*(a)-(c) 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.

.35 *When a voluntary change in accounting policy has an effect on the current period or any prior period or would have an effect on that period except that it is impracticable to determine the amount of the adjustment, 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 (see paragraph 1506.06)*, unless an accounting policy choice was allowed under the Sections listed in paragraph* 1506.09*, in which case the entity shall explain why it made the accounting policy choice;*

(c) for each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(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.

Changes in accounting estimates

.36 *An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period.*

Errors

.37 *In applying paragraph* 1506.27*, an entity shall disclose the following:*

(a) the nature of the prior period error;

(b) for each prior period presented, the amount of the correction for each financial statement line item affected; and

(c) the amount of the correction at the beginning of the earliest prior period presented.

Financial statements of subsequent periods need not repeat these disclosures.

EFFECTIVE DATE AND TRANSITION

.38 Except as specified in paragraphs 1506.39-.44, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.39 Amendments to paragraph 1506.09(e), issued in May 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

.40 Amendments to paragraphs 1506.09(a) and 1506.09(c), issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.41 Amendments to paragraph 1506.09(a)-(b), issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

.42 Amendments to paragraphs 1506.34(e) and 1506.35(c), issued in July 2017, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. Earlier application is permitted.

.43 AGRICULTURE, Section 3041, issued in November 2019, amended paragraphs 1506.09-.10, 1506.13-.14 and 1506.34(g). An enterprise shall apply those paragraphs when it applies Section 3041.

.44 New paragraph 1506.09(i), issued in November 2022, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2024. Earlier application is permitted.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

The examples indicate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Example 1 — Retrospective restatement of errors

Example 2 — Change in accounting policy with retrospective application

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 December 31, 20X1 at $6,500.

1.2 Beta's accounting records for 20X2 show sales of $104,000, cost of goods sold of $86,500 (including $6,500 for the error in opening inventory), and income taxes of $5,250.

1.3 In 20X1, Beta reported:

Sales	$ 73,500
Cost of goods sold	(53,500)
Income before income taxes	20,000
Income taxes	(6,000)
Net income	$ 14,000
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1.4 20X1 opening retained earnings was $20,000 and closing retained earnings was $34,000.

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

1.6 Beta had $5,000 of share capital throughout, and no other components of equity except for retained earnings.

Beta Co
Extract from the Income Statement

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

Net income	$ 16,800	$ 9,450
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Beta Co
Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at December 31, 20X0	$ 5,000	$ 20,000	$ 25,000
Net income for the year ended December 31, 20X1 as restated	—	9,450	9,450
Balance at December 31, 20X1	5,000	29,450	34,450
Net income for the year ended December 31, 20X2	—	16,800	16,800
Balance at December 31, 20X2	$ 5,000	$ 46,250	$ 51,250
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Example 2 — Change in accounting policy with retrospective application

2.1 During 20X2, Gamma Co changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station under construction for use by Gamma. In previous periods, Gamma had capitalized such costs. Gamma has now decided to treat these costs as an expense, rather than capitalize them. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making Gamma's financial statements more comparable.

2.2 Gamma capitalized borrowing costs incurred of $2,600 during 20X1 and $5,200 in periods before 20X1. All borrowing costs incurred in previous years in respect of the acquisition of the power station were capitalized.

2.3 Gamma's accounting records for 20X2 show net income before interest and income taxes of $30,000; interest expense of $3,000 (which relates only to 20X2); and income taxes of $8,100.

2.4 Gamma has not yet recognized any depreciation on the power station because it is not yet in use.

2.5 In 20X1, Gamma reported:

Income before interest and income taxes	$18,000
Interest expense	—
Income before income taxes	18,000
Income taxes	(5,400)
Net income	$12,600
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2.6 20X1 opening retained earnings was $20,000 and closing retained earnings was $32,600.

2.7 Gamma's tax rate was 30 percent for 20X2, 20X1 and prior periods.

2.8 Gamma had $10,000 of share capital throughout, and no other components of equity except for retained earnings.

Gamma Co
Extract from the Income Statement

	20X2	(restated) 20X1
Income before interest and income taxes	$30,000	$18,000
Interest expense	(3,000)	(2,600)
Income before income taxes	27,000	15,400
Income taxes	(8,100)	(4,620)
Net income	$18,900	$10,780

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Gamma Co
Statement of Changes in Equity

	Share capital	(restated) Retained earnings	Total
Balance at December 31, 20X0 as previously reported	$10,000	$20,000	$30,000
Change in accounting policy for the capitalization of interest (net of income taxes of $1,560) (Note X)	—	(3,640)	(3,640)
Balance at December 31, 20X0 as restated	10,000	16,360	26,360
Net income for the year ended December 31, 20X1 (restated)	—	10,780	10,780
Balance at December 31, 20X1	10,000	27,140	37,140
Net income for the year ended December 31, 20X2	—	18,900	18,900
Balance at December 31, 20X2	$10,000	$46,040	$56,040
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See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements (extract)

Note X: Capitalized interest

Effective January 1, 20X1 the company changed its accounting policy so as to expense all interest payments. Previously interest payments related to the acquisition of property, plant and equipment were capitalized.
