INTERNATIONAL ACCOUNTING STANDARD 8
accounting policies, changes in accounting estimates and errors

CONTENTS	Paragraph

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 IAS 1 *Presentation of Financial Statements*.

Scope

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 IAS 12 *Income Taxes*.

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.**

Accounting estimates **are monetary amounts in financial statements that are subject to measurement uncertainty.**

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;

(c) IFRIC Interpretations; and

(d) SIC Interpretations. 1

***Material* is defined in paragraph 7 of IAS 1 and is used in this Standard with the same meaning.**

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

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

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

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

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

(a) the effects of the retrospective application or retrospective restatement are not determinable;

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

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

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

(ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

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

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

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

6 [Deleted]

Accounting policies

Selection and application of accounting policies

7 When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS.

8 IFRSs set out accounting policies that the IASB 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 IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

9 IFRSs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of IFRSs. Guidance that is an integral part of the IFRSs is mandatory. Guidance that is not an integral part of the IFRSs does not contain requirements for financial statements.

10 In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs of users; and

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

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

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting (Conceptual Framework).* 2

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.

Consistency of accounting policies

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

Changes in accounting policies

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

(a) is required by an IFRS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

15 Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.

16 The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

17 The initial application of a policy to revalue assets in accordance with IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with IAS 16 or IAS 38, rather than in accordance with this Standard.

18 Paragraphs 19–31 do not apply to the change in accounting policy described in paragraph 17.

Applying changes in accounting policies

19 Subject to paragraph 23:

(a) an entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and

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

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

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

Retrospective application

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

Limitations on retrospective application

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

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

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

26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an IFRS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

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

Disclosure

28 **When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

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

Financial statements of subsequent periods need not repeat these disclosures.

29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

- **(a) the nature of the change in accounting policy;**
- **(b) the reasons why applying the new accounting policy provides reliable and more relevant information;**
- **(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:**
  - **(i) for each financial statement line item affected; and**
  - **(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;**
- **(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
- **(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

30 When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- **(a) this fact; and**
- **(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.**

31 In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new IFRS;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the IFRS is required;
- (d) the date as at which it plans to apply the IFRS initially; and
- (e) either:
  - (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
  - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Accounting estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

- (a) a loss allowance for expected credit losses, applying IFRS 9 *Financial Instruments*;
- (b) the net realisable value of an item of inventory, applying IAS 2 *Inventories*;
- (c) the fair value of an asset or liability, applying IFRS 13 *Fair Value Measurement;*
- (d) the depreciation expense for an item of property, plant and equipment, applying IAS 16; and
- (e) a provision for warranty obligations, applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IFRS 9) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying IFRS 13).

32B The term 'estimate' in IFRSs sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

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

Changes in accounting estimates

34 An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

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.

Applying changes in accounting estimates

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 that change. 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 a loss allowance for expected credit losses 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 IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- **(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
- **(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.**

Limitations on retrospective restatement

43 A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

44 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

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

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

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

48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing 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 IAS 33 applies to the entity, for basic and diluted earnings per share;**
- **(c) the amount of the correction at the beginning of the earliest prior period presented; and**
- **(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in respect of retrospective application and retrospective restatement

50 In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way

that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51–53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

51 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

(b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (eg a fair value measurement that uses significant unobservable 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 calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective date and transition

54 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

54A [Deleted]

54B [Deleted]

54C IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraph 52. An entity shall apply that amendment when it applies IFRS 13.

54D [Deleted]

54E IFRS 9 *Financial Instruments*, as issued in July 2014, amended paragraph 53 and deleted paragraphs 54A, 54B and 54D. An entity shall apply those amendments when it applies IFRS 9.

54F *Amendments to References to the Conceptual Framework in IFRS Standards*, issued in 2018, amended paragraphs 6 and 11(b). An entity shall apply those amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*. An entity shall apply the amendments to paragraphs 6 and 11(b) retrospectively in accordance with this Standard. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to paragraphs 6 and 11(b) by reference to paragraphs 23–28 of this Standard. If retrospective application of any amendment in *Amendments to References to the Conceptual Framework in IFRS Standards* would involve undue cost or effort, an entity shall, in applying paragraphs 23–28 of this Standard, read any reference except in the last sentence of paragraph 27 to 'is impracticable' as 'involves undue cost or effort' and any reference to 'practicable' as 'possible without undue cost or effort'.

54G If an entity does not apply IFRS 14 *Regulatory Deferral Accounts*, the entity shall, in applying paragraph 11(b) to regulatory account balances, continue to refer to, and consider the applicability of, the definitions, recognition criteria, and measurement concepts in the *Framework for the Preparation and Presentation of Financial Statements* 3 instead of those in the *Conceptual Framework*. A regulatory account balance is the balance of any expense (or income) account that is not recognised as an asset or a liability in accordance with other applicable IFRS Standards but is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers. A rate regulator is an authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.

54H *Definition of Material* (Amendments to IAS 1 and IAS 8), issued in October 2018, amended paragraph 7 of IAS 1 and paragraph 5 of IAS 8, and deleted paragraph 6 of IAS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

54I *Definition of Accounting Estimates*, issued in February 2021, amended paragraphs 5, 32, 34, 38 and 48 and added paragraphs 32A, 32B and 34A. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. An entity shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

Withdrawal of other pronouncements

55 This Standard supersedes IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, revised in 1993.

56 This Standard supersedes the following Interpretations:

(a) SIC-2 *Consistency — Capitalisation of Borrowing Costs*; and

(b) SIC-18 *Consistency — Alternative Methods*.

Guidance on implementing

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. 1

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

		(restated)
	20X2	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
	=======	=======

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.

Footnotes

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

2. Paragraph 54G explains how this requirement is amended for regulatory account balances.

3. The reference is to the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the Board in 2001.

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