IAS 8 Basis of Preparation of Financial Statements — Basis for Conclusions (Abridged)

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

Following are the paragraphs from the IASB's Basis for Conclusions on IAS 8 necessary to understand the amendments for IFRS 18 Presentation and Disclosure in the Financial Statements issued by the IASB in April 2024.

Introduction

BC3A In April 2024 the Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced IAS 1 *Presentation of Financial Statements*. In replacing IAS 1 the Board concluded that some requirements setting out general features of financial statements and some disclosure requirements fit better with the content of IAS 8. The Board decided, therefore, to move those requirements from IAS 1 to IAS 8. The requirements that the Board decided to move are: (i) the concepts of fair presentation and compliance with IFRS Accounting Standards, (ii) whether an entity is a going concern, (iii) the accrual basis of accounting and (iv) disclosure of an entity's selection and application of accounting policies. This Basis for Conclusions includes extracts from the Basis for Conclusions on IAS 1 relating to the paragraphs moved to IAS 8. The Board decided to change the title of IAS 8 to *Basis of Preparation of Financial Statements* to better reflect the amended content of IAS 8. *

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Departures from IFRSs

BC12A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to fair presentation and compliance with IFRS Accounting Standards from IAS 1 to paragraphs 6A–6J of IAS 8. Extracts from the Basis for Conclusions on IAS 1 relating to those requirements are included in paragraphs BCZ12B–BCZ12I. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.

BCZ12B Paragraph 6E of IAS 8 permits an entity to depart from a requirement in a Standard 'in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation'. When such a departure occurred, paragraph 6F of IAS 8 requires extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

BCZ12C The Board decided to clarify in IAS 1 at that time that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework at that time. This clarification is now included in paragraph 6A of IAS 8. *

BCZ12D The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

BCZ12E These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.

BCZ12F The Board considered whether IAS 1 at that time should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.

BCZ12G Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. IAS 8 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BCZ12D for departure from a requirement in an IFRS, the entity should proceed as follows:

(a) when the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 6F.

(b) when the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 6I.

This amendment enables entities to comply with the requirements of IAS 8 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.

BCZ12H After considering the comments received on the exposure draft of 2002 *, the Board required an entity to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.

BCZ12I In view of the strict criteria for departure from a requirement in an IFRS, IAS 8 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time.

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Disclosure of Selection and Application of Accounting Policies (Paragraphs 27A–27I and 31A–31I)

BC31A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to an entity's selection and application of accounting policies in IAS 1 to paragraphs 27A–27I of IAS 8. Previously, the Board had amended those disclosure requirements. Extracts from the Basis for Conclusions on IAS 1 relating to those earlier amendments were moved to form part of the Basis for Conclusions on IAS 8 by the Board and are included here as paragraphs BCZ31B–BCZ31AD of this Basis for Conclusions. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.

Disclosure of accounting policies (issued February 2021)

Background

BCZ31B In March 2017 the Board published the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared by an entity applying IFRS Standards. One issue related to the disclosure of information about accounting policies.

BCZ31C The Discussion Paper noted that IAS 1 at that time required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differ in their views about what constitutes a significant accounting policy.

BCZ31D Feedback on the Discussion Paper suggested that the Board develop requirements and guidance to help entities make more effective accounting policy disclosures. Feedback from stakeholders suggested that materiality be the basis of such requirements or guidance.

BCZ31E In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed to amend IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*.

Replacing 'significant' with 'material'

BCZ31F The Board found that, because 'significant' is not defined in IFRS Standards, entities can have difficulty assessing whether an accounting policy is 'significant'. The Board also noted that entities can have difficulty understanding the difference, if any, between 'significant' and 'material' accounting policies. The Board considered developing a definition of 'significant' but concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BCZ31G Because 'material' is defined in IFRS Standards and is well understood by stakeholders, the Board decided to require entities to disclose their material accounting policy information instead of their significant accounting policies.

BCZ31H The Board observed that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other information in a complete set of financial statements. In the Board's view, accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements.

Applying the definition of 'material' to accounting policy disclosures

BCZ31I The Board received comments that:

(a) accounting policy disclosures are useful to users of financial statements when they:

   (i) relate to material transactions, other events or conditions; and

(ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and

(b) users of financial statements find entity-specific information more useful than accounting policy disclosures that:

(i) contain standardised information, sometimes called boilerplate information; and

(ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

BCZ31J To assist an entity in determining whether accounting policy information is material to its financial statements and to respond to the feedback described in paragraphs BCZ31D and BCZ31I, the Board added guidance to:

(a) clarify that not all accounting policy information relating to material transactions, other events or conditions is material (see paragraph 27B of IAS 8). The Board concluded that this amendment would help an entity reduce immaterial accounting policy disclosures in its financial statements.

(b) provide examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see paragraph 27C of IAS 8). The examples listed in paragraph 27C are not exhaustive but the Board concluded that they would help an entity determine whether accounting policy information is material.

(c) explain that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards (see paragraph 27D of IAS 8). The Board concluded that this amendment would help an entity focus on disclosing accounting policy information that users have identified as the most useful.

BCZ31K The definition of 'material' (see Appendix A and paragraphs B1–B5 of IFRS 18) states that 'materiality depends on the nature or magnitude of information, or both'. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events or conditions to which the accounting policy information relates, but also the nature of those transactions, other events or conditions. To clarify this point, the Board included in the amendments an explanation that accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial (see paragraph 27B of IAS 8).

BCZ31L Some respondents to the Exposure Draft said that sometimes accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards can provide users of financial statements with material information. In the Board's view, accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards is generally less useful to users than entity-specific accounting policy information. However, the Board agreed that such accounting policy information is expected to be material if it is needed to understand other material information in the financial statements. The Board concluded that when such information is material, it is required to be disclosed.

BCZ31M Such information could be material, for example, when an entity judges the accounting required for a material transaction, other event or condition to be so complex that a primary user would be unable to understand the related material transaction, other event or condition in the absence of that information (see paragraph 27C(e) of IAS 8). The Board acknowledged that because the complexity of accounting required for particular transactions, other events or conditions is ultimately a subjective question, an entity will need to judge whether the relevant accounting is complex. However, the Board concluded that the guidance in the amendments would be sufficient for an entity, auditors, regulators and others to make appropriate judgements about the materiality of such information.

BCZ31N An entity is permitted to disclose accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards, even when that information is assessed as immaterial. However, if an entity discloses such information, it shall not obscure material accounting policy information (see paragraph 27E of IAS 8).

BCZ31O The Board deleted the discussion of 'measurement basis (or bases)' that was included in IAS 1 at that time. The Board did so to better enable preparers to apply judgement and thereby disclose only material accounting policy information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some cases, the measurement basis (or bases) used for a particular asset or liability would not be material and, therefore, would not need to be disclosed. For example, information about a measurement basis might be immaterial if:

(a) an IFRS Standard required an entity to use a measurement basis—in which case an entity would not apply choice or judgement in complying with the Standard; and

(b) information about the measurement basis would not be needed for users to understand the related material transactions, other events or conditions.

BCZ31P The Board decided to emphasise that the amendments do not relieve an entity from meeting other disclosure requirements within IFRS Standards (see paragraph 27F of IAS 8). For example, if an entity applying the amendments decides that accounting policy information about intangible assets is immaterial to its financial statements, the entity would still need to disclose the information required by IAS 38 *Intangible Assets* that the entity had determined to be material.

References to accounting policies in other IFRS Standards and publications

BCZ31Q Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. The Board considered whether any of these requirements should be changed because of the amendments. However, the Board noted that IAS 1 at that time stated that disclosure requirements in IFRS Standards are subject to materiality judgements-a disclosure required by an IFRS Standard is required to be provided only if the information resulting from that disclosure is material. Consequently, the Board concluded that amendments to requirements relating to accounting policy disclosures in other IFRS Standards are unnecessary.

Effect analysis

BCZ31R The Board acknowledged that the amendments may have:

(a) an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to accounting policy information; and

(b) ongoing costs to preparers, because the amendments require an entity to apply its own judgement to determine what accounting policy information is material and should, therefore, be disclosed in the financial statements.

BCZ31S However, in the Board's view, the amendments will improve the relevance of the financial statements by helping an entity to:

(a) identify and disclose accounting policy information that is material to users of financial statements; and

(b) remove immaterial accounting policy information that may obscure material accounting policy information.

BCZ31T The Board also expects that the amendments:

(a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and

(b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.

BCZ31U Consequently, the Board expects that the benefits of the amendments will outweigh the costs.

Transition and comparative information

BCZ31V The amendments affect the disclosure of narrative and descriptive information. IAS 1 at that time specified that comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In the Board's view, providing comparative accounting policy information would be unnecessary in most circumstances because if the accounting policy:

(a) is unchanged from the comparative periods, the disclosure of the current period's accounting policy is likely to provide users with all the accounting policy information that is relevant to an understanding of the current period's financial statements; or

(b) has changed from the comparative periods, the disclosures required by paragraphs 28–29 of IAS 8 are likely to provide any information about the comparative period's accounting policies that is relevant to an understanding of the current period's financial statements.

Disclosure of the judgements that management has made in the process of applying the entity's accounting policies

BCZ31W IAS 8 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 27G of IAS 8). An example of these judgements is how management determines whether financial assets are held-to-maturity investments. * The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

BCZ31X Comments received on the exposure draft of 2002 * indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 31A of IAS 8) and added another four examples of the types of judgements disclosed (see paragraphs 27H and 27I of IAS 8).

Disclosure of major sources of estimation uncertainty

BCZ31Y IAS 8 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

(a) their nature; and

(b) their carrying amount as at the end of the reporting period (see paragraph 31A of IAS 8).

BCZ31Z Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.

BCZ31AA The *Framework* at that time stated that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 31A of IAS 8 would be made in respect of relatively few assets or liabilities (or classes of them). *

BCZ31AB The exposure draft of 2002 * proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:

(a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period'; and

(b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 31D of IAS 8).

BCZ31AC When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value. *

BCZ31AD IAS 8 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 8 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

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). That document also amended paragraphs in IAS 1 that have been carried over to paragraphs 6A, 6E–6F, 6I–6J, and 6N of IAS 8.

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BCZ37A The Board does not expect the replacement of the references to the *Framework* to have a significant effect on the application of IAS 8 for the following reasons:

(a) in paragraph 6A of IAS 8, replacing the reference to the *Framework* should not change the assessment of whether the financial statements present fairly the financial position, financial performance and cash flows of an entity. Paragraph 6A of IAS 8 explains that the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation. Revisions of the *Conceptual Framework* will not automatically lead to changes in IFRS Standards. Hence, entities are expected to continue applying IFRS Standards in preparing their financial statements even in cases in which the requirements of a particular Standard depart from aspects of the *Conceptual Framework*.

(b) in paragraphs 6E–6F and 6I–6J of IAS 8, replacing the reference to the *Framework* means referring to the revised description of the objective of financial statements in the 2018 *Conceptual Framework* instead of the description provided by the *Framework*. The objective did not change substantively—it is an adapted and updated version of the objective of financial statements from the *Framework* and IAS 1 at that time. * Hence, applying the revised objective is not expected to lead to changes in the application of the requirements in paragraphs 6E–6F and 6I–6J of IAS 8.

(c) in paragraph 6N of IAS 8, replacing the reference to the *Framework* in the discussion of the accrual basis of accounting is not expected to result in any changes because no changes were made to the discussion of the accrual basis of accounting in the 2018 *Conceptual Framework*.

Footnotes

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and amended the definition of 'International Financial Reporting Standards (IFRSs)' to 'IFRS Accounting Standards'. All references in this Basis for Conclusions to International Financial Reporting Standards, IFRS Standards or IFRSs refer to IFRS Accounting Standards.

* T*he Conceptual Framework for Financial Reporting* (*Conceptual Framework*) replaced the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*).

* The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

* IFRS 9 *Financial Instruments* eliminated the category of held-to-maturity financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

* The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

* T*he Conceptual Framework for Financial Reporting* (*Conceptual Framework*) replaced the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*).

* The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

* IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

* When it issued IFRS 18, the IASB replaced the objective of financial statements in IAS 1 with paragraph 9 of IFRS 18.