International Accounting Standard 8

Accounting Policies, Changes in Accounting Estimates and Errors

This revised Standard supersedes IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

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Accounting Policies,
Changes in Accounting Estimates and Errors

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.*

***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.*

***International Financial Reporting Standards** (IFRSs) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:*

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

***Material** Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*

***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.

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

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

<u>Impracticable</u> 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. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that "users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence." Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Accounting Policies

Selection and Application of Accounting Policies

7. ***When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation***.

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. Implementation Guidance for Standards issued by the IASB does not form part of those Standards, and therefore does not contain requirements for financial statements.

10. In the absence of a Standard or an Interpretation 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 and guidance in Standards and Interpretations dealing with similar and related issues; and***
- ***(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the*** **Framework.**

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 a Standard or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate. If a Standard or an Interpretation 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 a Standard or an Interpretation; 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 a Standard or an Interpretation in accordance with the specific transitional provisions, if any, in that Standard or Interpretation; and***

(b) ***when an entity changes an accounting policy upon initial application of a Standard or an Interpretation 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 a Standard or an Interpretation is not a voluntary change in accounting policy.

21. In the absence of a Standard or an Interpretation 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 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 Standard or an Interpretation). 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 a Standard or an Interpretation 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 Standard or Interpretation;***
- ***(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 Standard or Interpretation 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 Standard or Interpretation 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 Standard or Interpretation;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Standard or Interpretation is required;

(d) the date as at which it plans to apply the Standard or Interpretation initially; and

(e) either:

(i) a discussion of the impact that initial application of the Standard or Interpretation 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.

Changes in Accounting Estimates

32. 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 judgements 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.

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

34. 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.

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.

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 the change in estimate. 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 the estimate of the amount of bad debts 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 revision 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

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.

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 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 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 measuring financial assets previously classified as held-to-maturity investments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, 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

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.

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*.

Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. IAS 7 *Cash Flow Statements* is amended as follows:

Paragraphs 29 and 30 on extraordinary items are deleted.

A2. IAS 12 *Income Taxes* is amended as described below.

Paragraph 62(b) is amended to read as follows:

(b) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Paragraph 80(h) is amended to read as follows:

(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively.

Paragraphs 81(b) and 83 are deleted.

A3. IAS 14 *Segment Reporting* is amended as described below.

The definition of accounting policies in paragraph 8 is amended to read as follows:

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

Paragraph 60 is amended to read as follows:

60. IAS 1 requires that when items of income and expense are material, their nature and amount shall be disclosed separately. IAS 1 offers a number of examples, including write-downs of inventories and property, plant, and equipment, provisions for restructurings, disposals of property, plant, and equipment and long-term investments, discontinuing operations, litigation settlements, and reversals of provisions. Paragraph 59 is not intended to change the classification of any such items or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 77 and 78 are amended to read as follows:

77. Changes in accounting policies applied by the entity are dealt with in IAS 8. IAS 8 requires that changes in accounting policy shall be made only if required by a Standard or Interpretation, or if the change will result in reliable and more relevant information about transactions, other events or conditions in the financial statements of the entity.

78. Changes in accounting policies applied at the entity level that affect segment information are dealt with in accordance with IAS 8. Unless a new Standard or Interpretation specifies otherwise, IAS 8 requires that:

(a) a change in accounting policy shall be applied retrospectively and prior period information restated unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change;

(b) if retrospective application is not practicable for all periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date; and

(c) if it is impracticable to determine the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable.

The following changes are made to remove references to extraordinary items:

(a) in paragraph 16, in the definition of segment revenue, subparagraph (a) is deleted.

(b) in paragraph 16, in the definition of segment expense, subparagraph (a) is deleted.

A4. IAS 19 *Employee Benefits* is amended as described below.

Paragraph 131 is amended to read as follows:

131. Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, when the expense resulting from such benefits is material and so would require disclosure in accordance with IAS 1 *Presentation of Financial Statements*. When required by IAS 24 *Related Party Disclosures*, an entity discloses information about other long-term employee benefits for key management personnel.

Paragraph 142 is amended to read as follows:

142. As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

Paragraph 160 is amended to read as follows:

160. IAS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159 and 159A. In applying those changes retrospectively, as required by IAS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard.

A5. In IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, paragraphs 20-22 are amended to read as follows:

20. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.

21. In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to an individual entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant as income in the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

22. A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised as income of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

A6. In IAS 22 *Business Combinations*, paragraph 100 is deleted.

A7. In IAS 23 *Borrowing Costs*, paragraph 30 is amended to read as follows:

30. When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors.** ***Alternatively, entities shall capitalise only those borrowing costs incurred after the effective date of the Standard that meet the criteria for capitalisation.***

A8. IAS 34 *Interim Financial Reporting* is amended as described below.

Paragraph 17 is amended to read as follows:

17. Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual Standards and Interpretations provide guidance regarding disclosures for many of these items:

    (a) the write-down of inventories to net realisable value and the reversal of such a write-down;

    (b) recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

    (c) the reversal of any provisions for the costs of restructuring;

    (d) acquisitions and disposals of items of property, plant and equipment;

    (e) commitments for the purchase of property, plant and equipment;

    (f) litigation settlements;

    (g) corrections of prior period errors;

    (h) [deleted];

    (i) any loan default or breach of a loan agreement that has not been remedied on or before the balance sheet date; and

    (j) related party transactions.

Paragraphs 24, 25 and 27 are amended to read as follows:

24. IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. IAS 1 requires separate disclosure of material items, including (for example) discontinuing operations, and IAS 8 requires disclosure of changes in accounting estimates, errors and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

25. While judgement is always required in assessing materiality,

this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

27. IAS 8 requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the current period or is expected to have a material effect in subsequent periods. Paragraph 16(d) of this Standard requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the financial year. The disclosure required by the preceding paragraph is consistent with the IAS 8 requirement and is intended to be narrow in scope—relating only to the change in estimate. An entity is not required to include additional interim period financial information in its annual financial statements.

Paragraphs 43 and 44 are amended to read as follows:

43. A change in accounting policy, other than one for which the transition is specified by a new Standard or Interpretation, shall be reflected by:

(a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8; or

(b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods,

adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

44. One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.

A9. In IAS 35 *Discontinuing Operations*, paragraphs 41, 42 and 50 are deleted.

A10. In IAS 36 *Impairment of Assets*, paragraph 13 of the Introduction is deleted, and paragraphs 120 and 121 are deleted.

A11. In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 94 is deleted.

A12. In IAS 38 *Intangible Assets*, paragraph 120 is deleted.

A13. In SIC-12 *Consolidation—Special Purpose Entities*, the effective date paragraph is amended to read as follows:

Effective Date: This Interpretation becomes effective for annual financial periods beginning on or after 1 July 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A14. In SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions* *by Venturers*, the effective date paragraph is amended to read as follows:

Effective Date: This Interpretation becomes effective for annual financial periods beginning on or after 1 January 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A15. In SIC-21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*, the effective date paragraph is amended to read as follows:

Effective Date: This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A16. [Amendment not applicable to bare Standards]

A17. In SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*, the effective date paragraph is amended to read as follows:

Effective Date: This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A18. In SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, the effective date paragraph is amended to read as follows:

Effective Date: This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A19. In SIC-31 *Revenue—Barter Transactions Involving Advertising Services*, the effective date paragraph is amended to read as follows:

Effective Date: This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A20. In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the definition of International Financial Reporting

Standards in Appendix A is amended to read as follows:

International Financial Reporting Standards (IFRSs)

Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

A21. The rubric of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended to read as follows:

International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) is set out in paragraphs 1-47 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

A22. The rubrics of all other International Accounting Standards are replaced by a new rubric in the following form:

International Accounting Standard X *Title in Words* (IAS X) is set out in paragraphs 1-000 [and Appendices A-C]*. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS X should be read in the context of [its objective and the Basis for Conclusions,]† the *Preface to International Financial Reporting Standards* and the *Framework for* *the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

* used only for those appendices that are part of the Standard.

† used only where the Standard contains an objective or is accompanied by a Basis for Conclusions.

A23. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* are amended to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.