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LKAS 08 - Accounting Policies, Changes in Accounting Estimates & Errors

AAT Level II

FCA - Financial & Costing Accounting

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LKAS 08 - Accounting policies, changes in accounting estimates and errors

Accounting Policies

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

- An entity must select and apply its accounting policies **consistently** for similar transactions.

- EX: Use **Straight line method** to depreciate PPE, Use **Cost model** for PPE

Changes in the accounting policy

An entity should only change its accounting policies if the change is required by a standard or interpretation, or it results in more reliable and relevant information.

Accounting policy changes should be applied retrospectively. The entity adjusts the opening balance of each affected component of equity, and the comparative figures are presented as if the new policy had always been applied.

Where a change is applied retrospectively, LKAS 1 requires an entity to include in its financial statements a statement of financial position at the beginning of the earliest comparative period. In practice this will result in 3 statements of financial position,

- at the reporting date
- at the start of the current reporting period
- at the start of the previous reporting period

If there a practical limitation to apply retrospectively (at least for beginning of earliest comparative period) can adjust **prospectively.**

Accounting estimates

Changes in accounting estimates

- Making estimate is an essential part of the preparation of financial statements. For example, preparers may have to estimate **allowances for receivables, inventory obsolescence or the useful lives or non-current assets**.
- A change in an accounting estimate is not a change in accounting policy.

- The effect of a change in an accounting estimate must be recognized **prospectively**, by including it in the statements of profit or loss and other comprehensive income for the current period and any future periods that are also affected

Errors

Prior period errors

Prior period errors are **omissions and misstatement** in, the entity's financial statements for one or more prior periods arising from a failure to use reliable information that was available when the financial statements were authorized for issue and could reasonably be expected to have been taken into account.

- **Material prior period errors** should be corrected retrospectively (Retrospective restatement) in the first set of financial statements authorized for issue after their discovery. Opening balance of equity, and the comparative figures, should be adjusted to correct the error.