PBE IPSAS 3: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Version 1: 2014

Effective Periods Beginning
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ACCOUNTING POLICIES

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

Selection and application of accounting policies:

- If a standard or interpretation deals with a transaction, use the standard or interpretation.
- If no standard or interpretation on a transaction, management judgment should be applied. The following sources should be referred to, to make the judgement:
  - Requirements and guidance in other standards/interpretations dealing with similar issues.
  - Definitions, recognition criteria in the Framework and other PBE Standards.
  - May use other standard setters standards that use a similar conceptual framework AND/OR may consult other industry practice / accounting literature that is not in conflict with PBE standards / interpretations, including accepted practices for for-profit entities in the absence of PBE practices.

Consistency of accounting policies:

Policies must be consistent for similar transactions, events or conditions; unless a PBE Standard allows otherwise.

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions within the standard.

Only change a policy if:

- Standard/Interpretation requires it; or
- Change will provide more relevant and reliable information.

Principle:

- If change is due to new standard / interpretation apply transitional provisions.
- If no transitional provisions, apply **retrospectively**.

If impractical to determine period-specific effects or cumulative effects of the change, then retrospectively apply to earliest period that is practicable.

Disclosure includes:

- The title of the standard / interpretation that caused the change.
- Nature of the change in policy.
- Description of the transitional provisions.
- For the current period and each prior period presented, if practicable, disclose the change for each line item affected.
- Amount of the adjustment at the beginning of earliest period presented.
- If retrospective application is impracticable, explain and describe how the change in policy was applied.

CHANGES IN ACCOUNTING ESTIMATES

Definition:

A change in an accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with the asset or liability.

Principle:

Recognise the change **prospectively** in profit or loss in:

- Period of change, if it only affects that period; or
- Period of change and future periods (if applicable).

Disclosure includes:

- Nature and amount of change that has an effect in the current period (or expected to have in future).
- Disclose the fact if the effect of future periods is not disclosed because of impracticality.

ERRORS

Definition:

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

- Was available when the financial statements for that period were issued.
- Could have been reasonably expected to be taken into account in those financial statements.

Errors include:

- Mathematical mistakes.
- Mistakes in applying accounting policies.
- Oversights and misinterpretation of facts.
- Fraud.

Principle:

- Correct all errors **retrospectively**.
- Restate the comparative amounts for prior periods in which error occurred OR if the error occurred before that date - restate opening balance of assets, liabilities and equity for earliest period presented.

If impractical to determine period-specific effects of the error (or cumulative effects of the error), restate opening balances (restate comparative information) for earliest period practicable.

Disclosure includes:

- Nature of the error.
- For each prior period presented, if practicable, disclose the correction for each line item affected.
- Amount of the correction at the beginning of earliest period presented.
- If retrospective application is impracticable, explain and describe how the error was corrected.