



EFRAG draft comment letter to IASB ED/2017/5 Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

ICAEW welcomes the opportunity to comment on the *EFRAG draft comment letter to IASB ED/2017/5 Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)* published by EFRAG in September 2017.

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MAJOR POINTS

Support for the proposals

1. In our draft response to the IASB we broadly support the proposals but suggest that further clarification to the definition of accounting policies is needed. This is discussed further in our response to question 1 below.

RESPONSES TO SPECIFIC QUESTIONS

Question 1:

The IASB proposes to change the definition of accounting policies by removing the terms ‘conventions’, ‘rules’ and amending bases to ‘measurement bases’.

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

2. In our draft response to the IASB we broadly agree with the proposed amendments to the definition of accounting policies. We also support aligning the definition with the later paragraph in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that refers to measurement basis as it would ensure consistency within the standard.
3. However, we suggest that the definition could be more clearly articulated, for example, if further amendments were made so that it refers explicitly to the recognition, measurement bases and presentation of items. We also suggest that the term ‘practices’ could be removed without making the definition too narrow.

Question 2:

The IASB proposes to:

- (a) clarify how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and
- (b) add a definition of accounting estimates and remove the definition of a change in accounting estimate.

Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?

4. In our draft response to the IASB we agree that it would be useful to clarify how accounting policies and accounting estimates relate to each other in the way specified. We also support the proposal to remove the definition of a change in accounting estimate and instead include a definition of accounting estimates as this will result in greater consistency.
5. However, we plan to suggest that the proposed definition of an accounting estimate is amended slightly to clarify that accounting estimates are the outputs that result from judgements and assumptions being used to apply an accounting policy.

Question 3:

The IASB proposes to clarify that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate to use in applying an accounting policy for that item.

Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

6. In our draft response to the IASB we agree that selecting an estimation or valuation technique involves using judgement or assumptions in applying the accounting policy for that item and as such, constitutes making an accounting estimate.

7. Additionally, we support referring to both estimation and valuation techniques as both terms are used in IFRSs.

Question 4:

The IASB proposes to clarify that, in applying IAS 2 *Inventories*, selecting a cost formula for interchangeable inventories is selecting an accounting policy.

Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?

8. In our draft response to the IASB we agree with this clarification. As stated in IAS 2 *Inventories*, determining cost on an individual asset-by-asset basis is inappropriate for large numbers of items that are ordinarily interchangeable. This is because methods of selecting items could be used to obtain predetermined effects on profit or loss. Determining cost by considering those assets in aggregate is therefore more consistent with achieving comparable information. Selecting a cost formula such as average historical cost or historical cost on a first in first out basis is selecting a measurement base to determine cost. As such, it is a selection of an accounting policy rather than making an accounting estimate.

Question 5:

Do you have any other comments on the proposals?

9. We do not have any further comments on the proposals at this stage.