

February 2021

IFRS® Standards

Definition of Accounting Estimates

Amendments to IAS 8

IASB®

 IFRS®

Definition of Accounting Estimates

Amendments to IAS 8

Definition of Accounting Estimates is issued by the International Accounting Standards Board (Board).

Disclaimer: To the extent permitted by applicable law, the Board and the IFRS Foundation (Foundation) expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

ISBN: 978-1-914113-00-0

Copyright © 2021 IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. Please contact the Foundation for further details at permissions@ifrs.org.

Copies of Board publications may be ordered from the Foundation by emailing publications@ifrs.org or visiting our shop at <https://shop.ifrs.org>.



The Foundation has trade marks registered around the world (Marks) including 'IAS®', 'IASB®', the IASB® logo, 'IFRIC®', 'IFRS®', the IFRS® logo, 'IFRS for SMEs®', the IFRS for SMEs® logo, 'International Accounting Standards®', 'International Financial Reporting Standards®', the 'Hexagon Device', 'NIIF®' and 'SIC®'. Further details of the Foundation's Marks are available from the Foundation on request.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

DEFINITION OF ACCOUNTING ESTIMATES

CONTENTS

	<i>from page</i>
AMENDMENTS TO IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS	4
APPROVAL BY THE BOARD OF DEFINITION OF ACCOUNTING ESTIMATES ISSUED IN FEBRUARY 2021	7
AMENDMENTS TO THE GUIDANCE ON IMPLEMENTING IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS	8
AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS	12

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 5, 32, 34, 38 and 48 and the heading above paragraph 32 are amended. Paragraphs 32A–32B, 34A and 54I and the headings above paragraphs 34 and 36 are added. The heading above paragraph 39 is amended to be a sub-heading of the heading added above paragraph 34. Deleted text is struck through and new text is underlined.

Definitions

5 The following terms are used in this Standard with the meanings specified:

...

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

~~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.~~

...

Accounting Changes in accounting estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. 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. Developing accounting estimates involves the use of judgements or assumptions. Estimation involves judgements based on the latest available, reliable information. Examples of accounting estimates include For example, estimates may be required of:

- (a) a loss allowance for expected credit losses, applying IFRS 9 *Financial Instruments*~~bad debts~~;
- (b) the net realisable value of an item of inventory, applying IAS 2 *Inventories*~~inventory obsolescence~~;
- (c) the fair value of an asset or liability, applying IFRS 13 *Fair Value Measurement*~~financial assets or financial liabilities~~;
- (d) the depreciation expense for an item of property, plant and equipment, applying IAS 16~~the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets~~; and

DEFINITION OF ACCOUNTING ESTIMATES

- (e) a provision for warranty obligations, applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IFRS 9) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying IFRS 13).

32B The term 'estimate' in IFRSs sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

...

Changes in accounting estimates

34 An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate ~~the revision of an estimate~~ does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

...

Applying changes in accounting estimates

...

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 ~~that 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 a loss allowance for expected credit losses ~~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

Disclosure

...

Errors

...

- 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing 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.

...

Effective date and transition

...

- 54I Definition of Accounting Estimates, issued in February 2021, amended paragraphs 5, 32, 34, 38 and 48 and added paragraphs 32A, 32B and 34A. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. An entity shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

**Approval by the Board of *Definition of Accounting Estimates*
issued in February 2021**

Definition of Accounting Estimates, which amended IAS 8, was approved for issue by 12 of 13 members of the International Accounting Standards Board. Mr Mackenzie abstained from voting in view of his recent appointment to the Board.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Nick Anderson

Tadeu Cendon

Martin Edelmann

Françoise Flores

Zach Gast

Jianqiao Lu

Bruce Mackenzie

Thomas Scott

Rika Suzuki

Ann Tarca

Mary Tokar

Amendments to the Guidance on implementing IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This guidance accompanies, but is not part of, IAS 8.

Example 3 is deleted and Examples 4–5 are added. In Example 3, deleted text is struck through and new text is underlined. In Examples 4–5, for ease of reading, new text has not been underlined.

Example 3 – Prospective application of a change in accounting policy when retrospective application is not practicable

~~[Deleted]~~

~~3.1 During 20X2, Delta Co changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.~~

~~3.2 In years before 20X2, Delta's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.~~

~~3.3 Delta's management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Delta's new policy prospectively from the start of 20X2.~~

~~3.4 Additional information:~~

~~Delta's tax rate is 30 per cent.~~

CU

~~Property, plant and equipment at the end of 20X1:~~

Cost	25,000
Depreciation	(14,000)
Net book value	11,000

~~Prospective depreciation expense for 20X2 (old basis) 1,500~~

continued...

DEFINITION OF ACCOUNTING ESTIMATES

...continued

Some results of the engineering survey:

Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

Extract from the notes

- 1 From the start of 20X2, Delta changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; increase the opening deferred tax provision by CU1,800; create a revaluation surplus at the start of the year of CU4,200; increase depreciation expense by CU500; and reduce tax expense by CU150.

Example 4 – Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

- 4.1 Entity A owns an investment property that it accounts for by applying the fair value model in IAS 40 *Investment Property*. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a valuation technique consistent with the income approach described in IFRS 13 *Fair Value Measurement*.
- 4.2 However, because of changes in market conditions since the previous reporting period, Entity A changes the valuation technique it uses to a valuation technique consistent with the market approach described in IFRS 13. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IFRS 13 permits such a change. Entity A has also concluded that the change in the valuation technique is not a correction of a prior period error.

Applying the definition of accounting estimates

- 4.3 The fair value of the investment property is an accounting estimate because:
- (a) the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.
 - (b) the fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (fair value model).
 - (c) in developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:
 - (i) selecting the measurement technique—selecting the valuation technique that is appropriate in the circumstances; and
 - (ii) applying the measurement technique—developing the inputs that market participants would use in applying the valuation technique, such as information generated by market transactions involving comparable assets.
- 4.4 In this fact pattern, the change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value—has not changed.

Example 5 – Applying the definition of accounting estimates—Fair value of a cash-settled share-based payment liability

Fact pattern

- 5.1 On 1 January 20X0, Entity A grants 100 share appreciation rights (SARs) to each of its employees, provided the employee remains in the entity's employment for the next three years. The SARs entitle the employees to a future cash payment based on the increase in the entity's share price over the three-year vesting period starting on 1 January 20X0.
- 5.2 Applying IFRS 2 *Share-based Payment*, Entity A accounts for the grant of the SARs as cash-settled share-based payment transactions—in doing so it recognises a liability for the SARs and measures that liability at its fair value (as defined by IFRS 2). Entity A applies the Black–Scholes–Merton formula (an option pricing model) to measure the fair value of the liability for the SARs at 1 January 20X0 and at the end of the reporting period.

DEFINITION OF ACCOUNTING ESTIMATES

- 5.3 At 31 December 20X1, because of changes in market conditions since the end of the previous reporting period, Entity A changes its estimate of the expected volatility of the share price—an input to the option pricing model—in estimating the fair value of the liability for the SARs at that date. Entity A has concluded that the change in that input is not a correction of a prior period error.

Applying the definition of accounting estimates

- 5.4 The fair value of the liability is an accounting estimate because:
- (a) the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty. That fair value is the amount for which the liability could be settled in a hypothetical transaction—accordingly, it cannot be observed directly and must instead be estimated.
 - (b) the fair value of the liability is an output of a measurement technique (option pricing model) used in applying the accounting policy (measuring a liability for a cash-settled share-based payment at fair value).
 - (c) to estimate the fair value of the liability, Entity A uses judgements and assumptions, for example, in:
 - (i) selecting the measurement technique—selecting the option pricing model; and
 - (ii) applying the measurement technique—developing the inputs that market participants would use in applying that option pricing model, such as the expected volatility of the share price and dividends expected on the shares.
- 5.5 In this fact pattern, the change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability for the SARs at 31 December 20X1. The effect of this change is a change in accounting estimate because the accounting policy—to measure the liability at fair value—has not changed.

Amendments to the Basis for Conclusions on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

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

Paragraph BC1 is amended with new text underlined. Paragraphs BC42–BC59 and related headings are added. For ease of reading, paragraphs BC42–BC59 and the related headings have not been underlined.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board’s considerations in reaching its conclusions on revising IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* in 2003 and on subsequent amendments. Individual Board members gave greater weight to some factors than to others.

...

Definition of Accounting Estimates (2021 amendments)

Background

BC42 The IFRS Interpretations Committee informed the Board of difficulties entities faced in distinguishing changes in accounting policies from changes in accounting estimates. The Board understood that such difficulties arose because the previous definition of a change in accounting estimate in IAS 8 was not sufficiently clear.

BC43 In February 2021, the Board issued *Definition of Accounting Estimates*, which amended IAS 8. The amendments introduced the definition of accounting estimates in paragraph 5 and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

Definition of accounting estimates

BC44 Before the 2021 amendments, IAS 8 included definitions of ‘accounting policies’ and ‘change in accounting estimate’. The combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscured the distinction between accounting policies and accounting estimates. To make that distinction clearer, the Board replaced the definition of a change in accounting estimate with a definition of accounting estimates. The main matters the Board considered in developing the definition and related requirements included:

- (a) *the relationship between accounting policies and accounting estimates*—the amendments clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. The Board’s view was that this clarification would help entities

DEFINITION OF ACCOUNTING ESTIMATES

distinguish changes in accounting estimates from changes in accounting policies.

- (b) *judgements and assumptions*—when it exposed a draft of the 2021 amendments for comment, the Board proposed defining accounting estimates as judgements and assumptions used in applying accounting policies when an item cannot be measured with precision. However, the Board agreed with feedback suggesting it would be more helpful to specify that accounting estimates are the output of measurement techniques that require an entity to use judgements or assumptions and that the judgements or assumptions are not accounting estimates themselves. This approach also avoids confusion about whether other judgements and assumptions an entity makes in preparing its financial statements are accounting estimates.
- (c) *measurement uncertainty*—the Board introduced the term ‘measurement uncertainty’ in the definition. The Board concluded that using this term would make the definition clearer and be consistent with the 2018 *Conceptual Framework*.¹
- (d) *monetary amounts*—the definition refers to monetary amounts for consistency with the definition of measurement uncertainty.² The Board considered whether the definition should also refer to non-monetary amounts (for example, the useful life of depreciable assets). However, the Board observed that entities use non-monetary amounts as inputs to estimate monetary amounts in the financial statements—for example, an entity uses the useful life of an asset (a non-monetary amount) as an input in estimating the depreciation expense for that asset (a monetary amount). Because the effects of changes in inputs used to develop an accounting estimate are changes in accounting estimates (see paragraph BC46), the Board concluded that it was unnecessary to also include non-monetary amounts in the definition of accounting estimates.
- (e) *scope*—the Board considered whether the definition should also capture estimates used in applying accounting policies for matters other than measuring items in financial statements (for example, estimates used in determining whether to recognise an item in the financial statements). The previous definition of a change in accounting estimate referred to ‘adjustments to the carrying amount’ of an asset or liability and, therefore, captured only changes in the measurement of items recognised in financial statements. The Board concluded that the amendments should not change the scope of IAS 8 and, accordingly, limited the definition to capture only monetary amounts that are subject to measurement uncertainty.

1 Measurement uncertainty is defined in the Appendix to the 2018 *Conceptual Framework* as the ‘uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated’.

2 The term ‘monetary amount’ does not have the same meaning as the term ‘monetary item’ as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Changes in accounting estimates

- BC45 The previous definition of a change in accounting estimate specified that changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The Board concluded that it would be helpful to retain this aspect of the previous definition and specify that a change in accounting estimate may result from new information or new developments and is not the correction of an error.
- BC46 The Board also concluded that, if accounting estimates are outputs of measurement techniques, it follows that changes in the inputs used, or in the measurement techniques applied to determine those outputs, result in a change in the related accounting estimate and are not the result of a change in accounting policy.
- BC47 In the light of its observations summarised in paragraphs BC45–BC46, the Board specified that:
- (a) a change in accounting estimate may result from new information or new developments and is not the correction of an error; and
 - (b) the effects of a change in an input or in a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.
- BC48 Feedback on the draft amendments expressed a concern that measurement techniques might meet the definition of accounting policies—for example, a valuation technique is a measurement technique but could also be seen as a practice and, therefore, meet the definition of an accounting policy. Accordingly, there is a risk that the effects of a change in a measurement technique could be seen as both a change in accounting estimate and a change in accounting policy. To avoid this risk, the Board specified in paragraph 34A that the effects of a change in measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.
- BC49 The Board also specified that measurement techniques an entity uses to develop accounting estimates include estimation techniques and valuation techniques. Specifying this avoids ambiguity about whether the effect of a change in an estimation technique or a valuation technique is a change in accounting estimate. The terms ‘estimation techniques’ and ‘valuation techniques’ appear in IFRS Standards—for example, IFRS 7 *Financial Instruments: Disclosures* uses the term ‘estimation techniques’ and IFRS 13 *Fair Value Measurement* uses the term ‘valuation techniques’.
- BC50 The Board observed that the term ‘estimate’ in IFRS Standards sometimes refers not only to accounting estimates, but also to other estimates. For example, it sometimes refers to inputs used in developing accounting estimates. As discussed in paragraph BC47(b), the Board specified that the effects on an accounting estimate of a change in an input are changes in accounting estimates. Therefore, the Board concluded it was unnecessary to also amend references to the term ‘estimate’ when that term refers to an input used in developing accounting estimates.

Definition of ‘accounting policies’

Clarifying the definition

- BC51 When it exposed the draft amendments for comment, the Board also proposed to clarify the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’, and referring to ‘measurement bases’ instead of ‘bases’. The Board expected that those changes would not change the scope of the definition. However, feedback suggested those proposed changes:
- (a) might not improve the definition, because the remaining terms in the definition would remain undefined and could be open to diverse interpretations; and
 - (b) might unintentionally narrow the scope of the definition.

- BC52 After considering this feedback, the Board concluded that it would not be feasible to define the remaining terms in the definition of accounting policies within a narrow-scope project, and that the proposed changes to the definition could have unintended consequences. Because the amendments clarify what a change in accounting estimate is, the Board concluded that changing the definition of accounting policies was unnecessary to achieve the objective of the amendments and accordingly did not change that definition.

Selecting inventory cost formulas

- BC53 When it exposed the draft amendments for comment, the Board proposed clarifying that, for ordinarily interchangeable inventories, selecting a cost formula (that is, first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 *Inventories* constitutes selecting an accounting policy. However, some respondents to the draft amendments said selecting a cost formula could also be viewed as making an accounting estimate. The Board observed that paragraph 36(a) of IAS 2 already states that selecting a cost formula constitutes selecting an accounting policy. The Board did not revisit this conclusion in the light of the 2021 amendments because it observed that entities rarely change the cost formula used to measure inventories and, accordingly, there would be little benefit in the Board’s doing so.

Illustrative Examples

Deletion of Example 3

- BC54 The Board was informed that Example 3 from *Guidance on implementing IAS 8* could cause confusion because of the way it illustrated the accounting for particular changes in the accounting for property, plant and equipment. The Board concluded that addressing this matter would require a substantial rewrite of the example, for little or no benefit. Therefore, the Board deleted Example 3.

Addition of Examples 4–5

- BC55 The draft amendments included no examples illustrating the application of the amendments. Respondents to the draft amendments and feedback from subsequent outreach suggested that providing illustrative examples would help entities understand and apply the amendments. In response to this feedback, the Board added two illustrative examples (Examples 4–5). The examples are simple and their aim is limited to helping stakeholders understand how to apply the definition of accounting estimates, rather than aiming to address specific application questions.

Effect analysis

- BC56 The Board concluded that the expected benefits of the 2021 amendments outweigh the costs. In particular, the 2021 amendments made the requirements in IAS 8 clearer, and feedback on the draft proposals suggested that the amendments would help entities distinguish changes in accounting policies from changes in accounting estimates.
- BC57 Nonetheless, the 2021 amendments might not solve all application questions identified by stakeholders. For example, they may not clarify in all situations whether a change results from:
- (a) a change in an underlying measurement objective (which would be a change in accounting policy); or
 - (b) a change of the measurement technique applied to achieve the same underlying measurement objective (which would be a change in accounting estimate).

- BC58 However, the Board concluded that when any uncertainty remains, it could be helpful for an entity to consider the requirement in paragraph 35. That requirement states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the entity treats the change as a change in an accounting estimate.

Transition

- BC59 The Board concluded that requiring an entity to apply prospectively the 2021 amendments appropriately balances expected benefits and costs. In particular, the Board assessed that the benefits of requiring an entity to apply the amendments to changes that occurred in a prior period would be minimal. Such changes would generally be non-recurring and restatement of comparative information would often not provide more useful trend information for users of financial statements.



International Financial Reporting Standards®

IFRS Foundation®

IFRS®

IAS®

IFRIC®

SIC®

IASB®

Contact the IFRS Foundation for details of countries where its trade marks are in use or have been registered.

The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

Columbus Building | 7 Westferry Circus | Canary Wharf

London E14 4HD | United Kingdom

Telephone: +44 (0)20 7246 6410

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730

Email: publications@ifrs.org

