

## CHAPTER 3

# Financial statements

### 3.3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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#### 3.3.2 Accounting requirements

##### Definitions

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

**3.3.2.2 A change in an accounting estimate** are monetary amounts in financial statements that are subject to measurement uncertainty. 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 correction of errors.

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##### **Changes in an accounting estimates**

**3.3.2.14** As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. 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, a local authority shall develop an accounting estimate to achieve the objective set out by the accounting policy. 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: The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

## Definition of Accounting Estimates, Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- a) a loss allowance for expected credit losses, applying Chapter 7, Financial Instruments
- b) the fair value of an asset or liability, applying Section 2.10, Fair Value Measurement or current value measurement of property, plant and equipment as specified in Section 4.1
- c) the depreciation expense for an item of property, plant and equipment, applying Section 4.1.

33.2.15 An authority 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 Chapter 7 financial instruments and IFRS 9) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Section 2.10 and IFRS 13).

33.2.16 The term 'estimate' in the Code and IFRSs sometimes refers to an estimate that is not an accounting estimate as defined in this section of the Code. For example, it sometimes refers to an input used in developing accounting estimates).

### Changes in accounting estimates

33.2.17 An authority 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, ~~the revision of a~~ a change in accounting estimate does not relate to prior periods and is not the correction of an error. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate.

33.2.18 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

33.2.19 The effect of a change in an accounting estimate (other than a change to which paragraph 3.3.2.1720 applies) shall be recognised prospectively by including it in surplus or deficit in:

- a) the period of the change, if the change affects the period only, or
- b) the period of the change and future periods, if the change affects both.

33.2.1720 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net worth, it shall be recognised by adjusting the carrying amount of the related asset, liability or net worth item in the period of change.