AASB 108 *Accounting Policies, Changes in Accounting Estimates* and *Errors* vs. *IFRS for SMEs* Section 10 *Accounting Policies, Estimates and Errors*

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

The main difference of recognition and measurement requirements is in the hierarchy for determining accounting polices when the full IFRSs as adopted in Australia or the *IFRS for SMEs* do not address the transaction or event to be accounted for.

In making an judgement about an accounting policy, under AASB108, and the *IFRS for SMEs,* the hierarchies that management must consider are different.

Under AASB 108, management refers to:

(a) the requirements in Australian Accounting Standards dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

and also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources (a) and (b) above.

Under the *IFRS for SMEs* management refers to:

(a) the requirements and guidance in this IFRS dealing with similar and related issues, and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

and also may consider the requirements and guidance in full IFRSs dealing with similar and related issues.

This different hierarchies for determining accounting policies could lead to different recognition , measurement or presentation policies being applied.

Disclosure proposals

It is proposed to exclude paragraphs 28(b), 28(d), 28(e), 28(f)(i), 28(h), 30, 31 and 40 from the Reduced Disclosure Regime (RDR).

2. Analysis of disclosure requirements

Text in AASB 108 *Accounting Policies, Changes in Accounting Estimates* **and** *Errors*	**Text in** *IFRS for SMEs* **Section 10** *Accounting Policies, Estimates and Errors*	**Comment**
Disclosure 21 In the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.	**Disclosure**	The first sentence of paragraph 21 provides contextual material on the 'hierarchy' of accounting policies under full IFRSs, which is different from the hierarchy under the *IFRs for SMEs*. Since different hierarchies could lead to different accounting policies affecting recognition and measurement, the disclosure in sentence two of paragraph 21 is relevant to the RDR and the whole of paragraph 21 is retained.
28 When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: **(a) the title of the Australian Accounting Standard;** **(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;** **(c) the nature of the change in accounting policy;** **(d) when applicable, a description of the transitional provisions;** **(e) when applicable, the transitional provisions**	10.13 When an amendment to this IFRS has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following: (a) the nature of the change in accounting policy. (b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected. (c) the amount of the adjustment relating to periods before those presented, to the extent practicable. (d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above. Financial statements of subsequent periods need not	Paragraphs 28(a), 28(b), 28(d), 28(e), 28(f)(i) and 28(h) have no equivalent in the in the *IFRS for SMEs*. Based on the reasoning in paragraph IN3 of this Appendix, paragraphs 28(b), 28(d), 28(e), 28(f)(i) and 28(h) should be excluded from the RDR. Since the contexts of the RDR and the *IFRS for SMEs* are different (a set of standards versus one standard), paragraph 28(a) should be retained in the RDR. Since AASB 133 is available under the RDR, paragraph 28(f)(ii) should be retained. Paragraphs 28(c) and 28(g) and paragraphs 10.13(a) and 10.13(c) of the *IFRS for SMEs* correspond. Paragraphs 28(c) and 28(g) should be

	Text in AASB 108 *Accounting Policies, Changes in Accounting Estimates* **and** *Errors*		**Text in** *IFRS for SMEs* **Section 10** *Accounting Policies, Estimates and Errors*	**Comment**
	that might have an effect on future periods; **(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:** **(i) for each financial statement line item affected; and** **(ii) if AASB 133** ***Earnings per Share*** **applies to the entity, for basic and diluted earnings per share;** **(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and** **(h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.** **Financial statements of subsequent periods need not repeat these disclosures.**		repeat these disclosures.	retained in the RDR. Paragraph 10.13(d) requires an explanation to be disclosed if it is impracticable to make the disclosures in paragraphs 10.13(b) or 10.13(c). Consistent with the principle outlined in paragraph IN4, paragraph 10.13(d) should not be included in the RDR.
29	**When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:** **(a) the nature of the change in accounting policy;** **(b) the reasons why applying the new accounting**	10.14	When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following: (a) the nature of the change in accounting policy. (b) the reasons why applying the new accounting policy provides reliable and more relevant information.	Paragraphs 29(a), 29(b), 29(c)(i), 29(d) and 29(e) and paragraphs 10.14(a), 10.14(b), 10.14(c) and 10.14(d) of the *IFRS for SMEs* correspond. Paragraphs 29(a), 29(b), 29(c)(i), 29(d) and 29(e) should be retained in the RDR. Since AASB 133 is available under the RDR, paragraph 29(c)(ii)

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policy provides reliable and more relevant information; **(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:** **(i) for each financial statement line item affected; and** **(ii) if AASB 133 applies to the entity, for basic and diluted earnings per share;** **(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and** **(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.** **Financial statements of subsequent periods need not repeat these disclosures.**	(c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately: (i) for the current period; (ii) for each prior period presented; and (iii) in the aggregate for periods before those presented. (d) an explanation if it is impracticable to determine the amounts to be disclosed in (c) above. Financial statements of subsequent periods need not repeat these disclosures.	should also be retained in the RDR.
30 When an entity has not applied a new Australian Accounting Standard that has been issued but is not yet effective, the entity shall disclose: **(a) this fact; and** **(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Australian Accounting Standard will have on the entity's financial**		Paragraph 30 has no equivalent in the in the *IFRS for SMEs*. Based on the reasoning in paragraph IN3 of this Appendix, paragraph 30 should be excluded from the RDR.

Text in AASB 108 ***Accounting Policies, Changes in Accounting Estimates*** **and** ***Errors***	**Text in** ***IFRS for SMEs*** **Section 10** ***Accounting Policies, Estimates and Errors***	**Comment**
statements in the period of initial application.		
31 In complying with paragraph 30, an entity considers disclosing: **(a) the title of the new Australian Accounting Standard;** **(b) the nature of the impending change or changes in accounting policy;** **(c) the date by which application of the Australian Accounting Standard is required;** **(d) the date as at which it plans to apply the Australian Accounting Standard initially; and** **(e) either:** **(i) a discussion of the impact that initial application of the Australian Accounting Standard is expected to have on the entity's financial statements; or** **(ii) if that impact is not known or reasonably estimable, a statement to that effect.**		Paragraph 31 has no equivalent in the in the *IFRS for SMEs*. Paragraph 31 explains paragraph 30, which is not retained in the RDR and should also be excluded from the RDR.
39 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.	10.18 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.	Paragraph 39 and paragraph 10.18 of the *IFRS for SMEs* correspond. Paragraph 39 should be retained in the RDR.
40 If the amount of the effect in future periods is not		Paragraph 40 has no equivalent in the

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disclosed because estimating it is impracticable, an entity shall disclose that fact.		in the *IFRS for SMEs*. Based on the reasoning in paragraph IN3 of this Appendix, paragraph 40 should be excluded from the RDR.
49 In applying paragraph 42, an entity shall disclose the following: **(a) the nature of the prior period error;** **(b) for each prior period presented, to the extent practicable, the amount of the correction:** **(i) for each financial statement line item affected; and** **(ii) if AASB 133 applies to the entity, for basic and diluted earnings per share;** **(c) the amount of the correction at the beginning of the earliest prior period presented; and** **(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.** **Financial statements of subsequent periods need not repeat these disclosures.**	10.23 An entity shall disclose the following about prior period errors: (a) the nature of the prior period error. (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected. (c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented. (d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above. Financial statements of subsequent periods need not repeat these disclosures.	Paragraphs 49(a), 49(b)(i), 49(c) and 49(d) and paragraph 10.23 of the *IFRS for SMEs* correspond. Although the expression in paragraph 49(d) is more detailed than that used in paragraph 10.23(d), the likely disclosures would not be more onerous. Paragraphs 49(a), 49(b)(i), 49(c) and 49(d) should be retained in the RDR. Since AASB 133 is available under the RDR, paragraph 49(b)(ii) should also be retained in the RDR.

3. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors:* Text of Proposed Disclosures

The following are the disclosure requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

21 In the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

28 When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the title of the Australian Accounting Standard;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if AASB 133 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if AASB 133 applies to the entity, for basic and diluted earnings per share;

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30 When an entity has not applied a new Australian Accounting Standard that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Australian Accounting Standard will have on the entity's financial statements in the period of initial application.

31 In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new Australian Accounting Standard;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Australian Accounting Standard is required;

(d) the date as at which it plans to apply the Australian Accounting Standard initially; and

(e) either:

(i) a discussion of the impact that initial application of the Australian Accounting Standard is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

39 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

40 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

49 In applying paragraph 42, an entity shall disclose the following:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction:

(i) for each financial statement line item affected; and

(ii) if AASB 133 applies to the entity, for basic and diluted earnings per share;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.