



ED/2017/5 Accounting Policies and Accounting Estimates - proposed amendments to IAS 8

ICAEW welcomes the opportunity to comment on *ED/2017/5 Accounting Policies and Accounting Estimates - proposed amendments to IAS 8* published by the IASB in September 2017, a copy of which is available from this [link](#).

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MAJOR POINTS

Support for the proposals

1. While we broadly support the proposed amendments to IAS 8 *Accounting Policies and Accounting Estimates* we suggest that further clarification to the definitions of accounting policies and accounting estimates is needed. This is discussed further in our response to questions 1 and 2 below.

RESPONSES TO SPECIFIC QUESTIONS

Question 1:

The Board proposes clarifying the definition of accounting policies by removing the terms 'conventions' and 'rules' and replacing the term 'bases' with the term 'measurement bases'.

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

2. Yes, we broadly agree with the proposed amendments to change the definition of accounting policies which we believe will improve clarity. As noted in the consultation paper, removing the terms 'conventions' and 'rules' will make the definition clearer and more concise. We agree that the definition will be improved if it is aligned with the later paragraph that refers to measurement basis.
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 Board proposes:

- a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and
- b) adding a definition of accounting estimates and removing 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. Yes, we agree that it would be useful to clarify how accounting policies and accounting estimates relate to each other in the way specified. Additionally, we agree that it would be beneficial to remove the definition of a change in accounting estimate and include a definition of accounting estimates as this will result in more consistent definitions. As noted in the consultation paper, defining one term together with defining changes in another term obscures the distinction between the two terms.
5. However, we 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 Board proposes clarifying 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 this proposed amendment? Why or why not? If not, what do you propose and why?

6. Yes, 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. Furthermore we agree that the terms estimation and valuation technique should be referred to as both are used in IFRSs.

Question 4:

The Board proposes clarifying that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula, or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

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

7. Yes, we agree. 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?

8. No, we do not have any further comments on the proposals at this stage.