

## **Exposure Draft**

### **Definition of Accounting Estimates**

**(Amendments to Ind AS 8, Accounting Policies, *Changes in Accounting Estimates and Errors*)**

(Last date for Comments: July 1, 2021)



Issued by  
Accounting Standards Board  
The Institute of Chartered Accountants of India

## Exposure Draft

### Exposure Draft of Definition of Accounting Estimates Amendments to Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

Following is the Exposure Draft of proposed Amendments to Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, issued by the Accounting Standards Board (the Board) of the Institute of Chartered Accountants of India for comments.

Ind AS 8 includes definitions of ‘*accounting policies*’ and ‘*change in accounting estimates*’. 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 Exposure Draft replaced the definition of ‘*Change in accounting estimates*’ with the definition of ‘*Accounting estimates*’ in paragraph 5 and included other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies.

Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **July 1, 2021**.

1. Electronically: Click on <http://www.icai.org/comments/asb/> to submit comments online.  
(Preferred method)
2. Email: Comments can be sent to [commentsasb@icai.in](mailto:commentsasb@icai.in)
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to [asb@icai.in](mailto:asb@icai.in).

## Exposure Draft of Definition of Accounting Estimates (Amendments to Ind AS 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

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

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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.~~

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### Accounting Changes in accounting estimates

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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 Ind AS 109, Financial Instruments~~bad debts~~;
- (b) the net realisable value of an item of inventory, applying Ind AS 2 Inventories~~inventory obsolescence~~;
- (c) the fair value of an asset or liability, applying Ind AS 113, Fair Value Measurement~~financial assets or financial liabilities~~;
- (d) the depreciation expense for an item of property, plant and equipment, applying Ind AS 16~~the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets~~; and

(e) a provision for warranty obligations, applying Ind AS 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 Ind AS 109) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Ind AS 113).

32B The term 'estimate' in Ind AS 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.

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### 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 ~~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.

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### Applying changes in accounting estimates

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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**

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## **Errors**

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- 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.

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## **Effective date and transition**

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- 54I Definition of Accounting Estimates, 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 April 2023. 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.