

### 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' (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions).

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

### Response

We agree with the Board's reasons for amending the definition of accounting policies. The intention is not to change the meaning of the definition but to make it more precise. Removing unnecessary words and introducing more precise words bring greater clarity to the definition.

However, there are still a few undefined terms such as 'practices' and 'measurement basis.' It would be helpful to clarify them by use of, say, Illustrated Examples.

### 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 (see paragraph 5 and paragraphs BC9–BC16 of the Basis for Conclusions).

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

### Response

We agree with the proposed amendments.

(a) The clarification should help entities in understanding the relationship of accounting policies and accounting estimates. As noted in BC 9, accounting policies are the objectives and accounting estimates are inputs in achieving that objective.

There are chances that the terms 'accounting policy' and 'accounting estimate' could be used one for the other. The subject clarification will surely help in distinguishing accounting policy from accounting estimate and vice versa.

(b) Addition of definition of accounting estimate and removing the definition of change in accounting estimate is a step in the right direction. At present there is a definition of (1) 'accounting policy' and (2) only 'change in accounting estimate', which may give the impression that the two terms ie accounting policy and accounting estimate have the same meaning. With the proposed change, there would be no scope for such confusion.

### 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 (see paragraph 32A and paragraph BC18 of the Basis for Conclusions).*

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

#### **Response**

The clarification is in line with the principle that accounting policy is the objective while accounting estimate is used for applying the policy. Valuation involves substantial judgments. For change in valuation technique or otherwise, if parameters of valuation changes, question often arises as to whether such change is in accounting policy or in accounting estimate. The proposed amendment should resolve such issues.

#### **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 (see paragraph 32B and paragraphs BC19–BC20 of the Basis for Conclusions).*

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

#### **Response**

We believe that the said clarification is very much required. But for this clarification in para 32B and BC19, it could have been argued that the accounting policy for inventory is to state it at 'cost' and selection of cost formula is accounting estimate.

As stated in BC 19, "if specific identification of costs were to be permitted for such items, the method of selecting items that remain in inventories could be used to obtain predetermined effects on profit or loss. Because specific identification of costs is inappropriate for ordinarily interchangeable inventories and because specific identification for such items would involve determining their actual flow, the Board concluded in developing this Exposure Draft that selecting one of these two cost formulas is not an attempt to estimate the actual flow of those inventories."

However, we observe that the detailed discussion of changes in cost formulas is more appropriate for IAS 2 *Inventories* rather than IAS 8. The reason why cost formula is an accounting policy should find a place in IAS 2 and IAS 8 can contain a cross reference to the same. Now that the discussions have found its place in IAS 8, we suggest incorporation of similar clarification in IAS 2 also.