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Subject: Comments on Definition of Accounting Estimates

1) I welcome the opportunity provided for sending comments on Definition of Accounting Estimates

2) My view

Existing	Proposed change	Comments	Changes
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.	Para 5 Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.	a) Definition of material uncertainty not given b) Estimates on useful life of fixed assets, actuarial inputs are not monetary items in financial statements	Accounting estimates are judgements or assumptions used in applying an accounting policy when, because of estimation uncertainty, an item in financial statements cannot be measured with precision.
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. Estimation involves judgements based on the latest available, reliable information.	Para 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	a) Future forecast of changes are not covered b) Observation alone will not suffice, accurate ascertainment also required	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, ascertained accurately and must instead be estimated. In such a case, an entity develops an accounting estimate to

	objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information		achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information and consider future anticipated changes
Not there	Para 32 A 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).	What constitutes an accounting estimate is missing	An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques. For this reason, selecting that estimation technique or valuation technique constitutes making an accounting estimate.
Nil	Para 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.	Following is missing - Input refers to selection of accounting policy and it can be only of out of accounting policy to arrive at appropriate estimates	The term 'estimate' in Ind AS sometimes refers to an estimate that is not an accounting estimate as defined in this Standard, it constitutes selecting an accounting policy. For example, it sometimes refers to an input used in developing accounting estimates.
An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.	Para 34 An entity may need to change an accounting estimate 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	Some wordings not required, as it is covered in first sentence itself	Para 34 An entity may need to change an accounting estimate 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 estimate does not relate to prior periods and is not the correction of an error		accounting estimate does not relate to prior periods and is not the correction of an error
Nil	Para 34 A 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.	None	No changes Continue as per exposure draft
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 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 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,	Para 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 change. 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 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	In estimate wordings to be continued as that gives more clarity	Para 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 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 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

if any, on future periods is recognised as income or expense in those future periods	income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.		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.
Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need 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.	Para 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing 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.	None	No changes Continue as per exposure draft

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

Sounder Rajan

M No 237299

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The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)

Comment Form

Exposure Draft of Definition of Accounting Estimates - Amendments to Ind AS 8

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Exposure Draft

Definition of Accounting Estimates

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

Comments by

SIRC of ICAI

Definitions

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

…

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.~~

…

Comments:

The change is on par with IAS 8.

Current definition of ‘a ‘change in accounting estimate’ with the proposed definition of ‘accounting estimates’ would remove some guidance that aims to clarify the distinction between a change in an accounting estimate and the correction of an error. Therefore, additional clarification of this distinction should be developed in conjunction with the related project on accounting policy changes.

Accounting ~~Changes in accounting~~ estimates

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 the use of judgements or judgments 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 16the 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.

Comments: The changes are highlighted in Blue colour:

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 the use of judgements or judgments 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 16the 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

(f) The change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in accounting estimate because the accounting policy has not changed.

(g) The change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability. The effect of this change is a change in accounting estimate because the accounting policy has not changed.

Suggestions:

1. It may clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error and the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

2. The distinction between an accounting policy and an accounting estimate can nonetheless be improved by eliminating what is perceived to be an overlap between the existing definitions and by providing some additional illustrative examples.

3. The para may explain change in the own credit risk calculation viz.,

i) change in the assessment of own credit risk for measurement of financial liabilities at fair value

ii) change in the definition of high quality corporate bond: a change in the basket of high quality corporate bonds used to determine the discount rate for a defined benefit obligation and

iii) change in the method of credit value adjustment (CVA) calculation to determine the probability of default.

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).

Comments:

The ED may clarify whether the 'significant or prolonged' criteria for the impairment available for sale of equity instruments constitute an 'accounting policy' or 'accounting estimate'.

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.

…

Changes in accounting estimates

1. 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.

Comments: it is to be clarified whether a change in the cost formulas that are used, is a change in an accounting policy or a change in an accounting estimate. FIFO or weighted average cost are permitted when the order in which the items flow through a cycle of transactions has no economic consequences. Instead, the selected cost formula is generally a practical expedient to avoid the cost of specifically identifying items. When specifying that selection of a cost formula under relevant Ind AS constitute selection of relevant accounting policy, it may result in misperception between policies and estimates.

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.

…

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.

Comments:

The amendment says changes in accounting estimates result 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. This means that they are accounted for prospectively, i.e. without restating amounts recognised in previous years. However, a change in estimate may require a cumulative catch-up adjustment with respect to amounts recognised in previous interim periods during current financial year. Estimates are an inherent part of financial reporting and they don't undermine the reliability of financial statements. One can infer from the amendment that all changes in valuation technique, provided that the measurement basis remains unchanged (e.g. fair value), are changes in accounting estimates.

~~Disclosure~~

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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Comments:

Ind AS 8 does not include a requirement to explicitly state that an error was made.

There is a need to clarify how accounting estimates differ from error. The need for Accounting Estimate is that they relate to items which cannot be measured writ precision due to uncertainties inherent in business activities. Lack of precision in measurements also depends on the nature of items being accounted for. Therefore, it is to be clarified that a change in estimate due to a misuse or failure to sue available reliable information is the correction of an error. It may add illustrations like-

i) measurement of cash may be less prone to measurement uncertainty than assessment of expected credit losses;

ii) Application of present value techniques and selection of assumption used therein may be refined over time.

It is also highlighted that correcting errors may trigger additional obligations resulting from local law.

The ED may illustrate what is 'material errors' and 'immaterial errors'. Some changes in estimates may be in fact errors. It is important to consider whether and to what extent the previous estimate was impacted by omission or misinterpretation of facts or circumstances that could reasonably be expected to have been obtained and taken into account when the previous estimate was made. If so, the change in estimated amount is a correction of error that requires retrospective restatement and related disclosure. Immaterial errors can be corrected in current year without restating comparative amounts. It is generally accepted that immaterial errors should be corrected via the same financial statement lines through which the error originated. For example, overstated revenue from previous years should decrease current year revenue so that total cumulative revenue is correct. If such a correction in current year would influence users of financial statements analysing current year results, then this error is material for current year results and should be corrected retrospectively.

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.

Comments:

IAS 8 is also effective from 1 April 2023 and hence Ind AS 8 follows the same.