IAS 8 Accounting Policies, Changes in Accounting Estimates and Accounting Errors & S.1506 Accounting Changes

Objective: Enhance relevance, reliability and comparability (consistency) of FS to minimize earnings management.

Scope:

Accounting Policies

Def: Specific bases, conventions, rules and practices applied by an entity in preparing FS

Selecting and applying policies:

- If there is an IFRS that specifically applies, then use the policies that apply to that IFRS.
- If there is not, then use professional judgment in developing accounting policies that will result in info that is reliable and relevant.
- The accounting policies should be consistent.

Change result from:

- Requirement by IFRS or,
- Will result in more relevant and reliable info (i.e., cost model to FV)
- Exceptions (para 17) – PPE & intangible assets
- ASPE exceptions (para 9)

Applying changes:

- Required → **transitional provisions**
- Voluntarily → **retrospectively**
- If impractical → retrospectively to earliest year practicable

Changes in Accounting Estimates

Def: Monetary amounts in FS that are subject to measurement uncertainty

Changes result from:

- New info, developments, experiences
- i.e., bad debts, inv obsolescence, depr, useful lives, FV of A/L, warranties

Applying changes:

- **Prospectively** in P&L (in period of change)

Prior Period Errors

Def: Omissions from, and misstatements in, FS for one or more prior periods arising from failure to use/misuse of reliable info that was available or could be taken into account

Changes result from:

- i.e., math mistakes, mistakes in applying accounting policies, oversight and misinterpretation of facts, fraud

Applying changes:

- **Retrospectively** (restate comparative amounts for periods in which error occurred, if error occurred before that date, restate opening bal A/L/E for earliest period presented)
- If impractical → restate opening bal for earliest period practicable
- ASPE does not have an impracticability in respect of retrospective application for prior period errors

IAS 38 – Intangible Assets & ASPE 3064 – Goodwill and Intangible Assets

Intangible Asset: An indefinable non-monetary asset without physical substance (but can have physical elements) – if intangible is required for tangible to operate → entire asset is deemed to be PPE

Asset: Resource that (i) controlled by an entity as a result of past events, (ii) future economic benefits expected to flow to entity

Identifiable: if either (i) capable of being separated and sold, licensed, transferred, exchanged or rented separately, (ii) arise from contractual rights

Recognition and Measurement
- Only recognized if meets definition of intangible asset and recognition criteria

Criteria (all):
(i) Probable that expected future economic benefits
(ii) Cost can be measured reliably
- Measured initially at cost

Separate Acq:
(i) Probable that expected future economic benefits
(ii) Cost can be measured reliably
- Measured initially at cost

Acquired in Business Combination:
(i) Probable – always met if FV can be determined
(ii) Cost – FV at acquisition date
- Acquirer recognizes separately from goodwill
- Irrespective of whether the acquiree had recognized it before acquisition

Internally Generated Assets:
- Cost = all directly attributable costs to create, produce, prepare asset
- ***Not part of costs:*** SG&A, inefficiencies/ op losses incurred before asset used, training staff

Exchange of Assets:
- Measure acquired asset at FV – if not possible, at BV of asset given up

Internally Generated Goodwill:
- NEVER recognized because not an identifiable resource that can be measured reliably

Costs Incurred Unevenly:
- Initially recognized at either:
(i) FV
(ii) Nominal value + direct expenses to prepare for use

Research Phase:
- Shall be recognized as ***expense*** when incurred
- i.e., activities to obtain new knowledge, search for research findings, alternative materials/ devices/ products, design, search for alternatives for improvement

Development Phase: (all)
- Should be included in cost of asset (capitalized)
- ASPE – can choose to expense or capitalize
1) Technical feasibility
2) Intention to complete to use or sell asset
3) Ability to use or sell asset
4) Future economic benefits
5) Adequate technical, financial etc. to complete
6) Reliable measured

Subsequent Measurement

Cost Model:
- Determine useful life
- Residual value assumed 0 unless active market
- Determine amortization method
- ***Rebuttable presumption*** → revenue based amort is **inappropriate**
- Amortization reflects pattern of future economic benefits
- Amortization begins when available for use

Revaluation Model:
- FV at revaluation date
- FV determined by active market, if no active market → cost model
- Revaluation done regularly
- Net CA adjusted to revalued amount (see IAS 16)
- Gain → revaluation surplus (OCI); Loss → P&L after wiping out revaluation surplus
- Transfer to RE on realization

IAS 28 – Investments in Associates and Joint Ventures, IAS 27 – Separate FS & ASPE 3051 – Investments

Associate: Entity over which the investor has significant influence

Equity Method: Method of accounting whereby investment is initially recognized at cost and adjusted thereafter for post-acquisition change in the investor's share of the investee's net assets. The investor's profit/loss includes share of investee's profit/loss and same with OCI

Significant influence: Power to participate in financial and operating policy decisions of the investee but is not control or joint control

Acquisition Differential: Difference between purchase price and book value of associate at date of purchase.

- Composed of: (i) Difference in FV and BV of net identifiable assets, and (ii) goodwill that represents the expected value of future financial performance and equals purchase price less FV of net identifiable assets

Significant Influence:

- Quantitative threshold > 20% of voting power
- Qualitative factors:
  - Representation on BoD
  - Participation in policy making processes
  - Material transactions between entity and investee
  - Interchange of managerial personnel
  - Provision of essential technical information

If significant influence met → "investment in associate"

Associates and entities under joint control are accounted for using the equity method.

Initially recognized at cost → Subsequent measurement:
- Add: equity income for the period
- Deduct: dividends received from associate during the period

Amount of equity income =

	Associate's net income
×	Ownership %
=	Share of associate's income
+/–	FV differential amortization, net of tax
+	Realized intercompany *profits/gains (or – losses)* from *prior year, net of tax*
–	Unrealized intercompany *profits/gains (or + losses)* in *current year, net of tax*
	Equity income

The unrealized profit in inventory that must be eliminated at end of any period is:

Sales in ending inventory × Gross profit % × Investor % ownership

Equity Method:

- Required accounting method for investment in associates and joint ventures

Step 1: Investment initially recognized at cost

Dr. Investment in associate

Cr. Cash

Step 2: Subsequent measurement:

- Add: share of equity income for the period
  - **Dr. Investment in Associate**
  - **Cr. Equity Income**
- Deduct: dividends received from associate
  - **Dr. Cash**
  - **Cr. Investment in associate**

Step 3: Adjust Income for amortization of FV differentials

- i.e., FV of equipment is $2,500,000 greater than CV and has a useful life of 15 years. The adjusting entry to equity income is required to book amortization of $166,667:
  - **Dr. Equity Income $166,667**
  - **Cr. Investment in associate $166,667**
- Need to also think about related deferred tax assets

Impairment Losses

- Goodwill that forms part of the carrying amount of an investment in an investee is NOT separately recognized and therefore not tested separately for impairment.
- Instead, the entire investment is tested as "one"

IAS 27 – Separate FS

- Separate FS are those presented by an entity in which the entity could elect to account for its investment in subs, JV and associates either at cost or using the equity method

ASPE 3051:

- When there is significant influence, ASPE 3051 allows choice to use equity method or cost method
- If the shares of an investee are publicly traded with quoted prices, the choice is to record using the equity method or at FV