AMENDMENTS TO IAS – 01

PRESENTATION OF

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International Financial Reporting Standards


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IAS 1

February 2021

IFRS® Standards

Disclosure of Accounting Policies

Amendments to IAS 1 and IFRS Practice Statement 2

IASB AMENDMENT WEBLINK

- HTTPS://WWW.IFRS.ORG/NEWS-AND-EVENTS/2021/02/IASB-AMENDS-IFRS-STANDARDS-ACCOUNTING-POLICY-DISCLOSURES-ACCOUNTING-POLICIES-ACCOUNTING-ESTIMATES/

CHANGES - 01

An entity is now required to disclose its **material** accounting policy information instead of its **significant** accounting policies

several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;

the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial.

CHANGES - 02

the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and

the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

REPLACEMENT OF THE TERM 'SIGNIFICANT' WITH 'MATERIAL'

In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material'

'Material' is a defined term in IFRS and is widely understood by the users of financial statements

Material accounting policy information is defined in paragraph 117 of IAS 1 "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

APPLICATION OF THE MATERIALITY DEFINITION

The Board has added guidance to help entities determine when accounting policy information is material and, therefore, needs to be disclosed.

The Board explained that, although a transaction, other event or condition to which the accounting policy information relates may be material, it does not necessarily mean that the corresponding accounting policy information is material to the entity's financial statements.

the amended IAS 1 highlights that other disclosures required by IFRS may be material despite the corresponding accounting policy information being immaterial.

For example, if an entity determines that accounting policy information for income taxes is immaterial to its financial statements, other disclosures required by IAS 12 Income Taxes may be material.

MATERIAL POLICY EXAMPLES

A change of accounting policy results in a material change to the information in the financial statements

A choice of accounting policy is permitted by IFRS

An entity develops an accounting policy in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in the absence of an IFRS that specifically applies

Application of accounting policy requires significant judgements or assumptions

It is difficult to understand material transactions, other events or conditions because they require complex accounting, e.g., when more than one IFRS is applied

REMOVAL OF REFERENCE TO ‘MEASUREMENT BASIS’

In the amended standard, references to ‘measurement basis’ are removed; they were deemed redundant following the introduction of the guidance on the materiality of accounting policy information.

DISCLOSURE OF STANDARDISED INFORMATION

Entities often need to disclose information to describe how they have applied the requirements of a specific standard

The Board acknowledged that, generally, such information is less useful to users than entity-specific accounting policy information.

Board also agreed that, in some circumstances, standardised accounting policy information may be needed for users to understand other material information in the financial statements.

The amended standard highlights that it is generally more useful to provide information that reflects an entity's own specific circumstances, rather than just repeating what the applicable IFRS generally requires.


AMENDED

PARA - 7

Accounting policies is defined in paragraph 5 of IAS 8 Accounting policies, Changes in accounting estimates and Errors and is used in this standard with the same meaning.

PARA - 10

Complete set of financial statements

10 A complete set of financial statements comprises:

...

(e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;

...

PARA - 114

114 Examples of systematic ordering or grouping of the notes include:

...

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

(ii) ~~significant~~ material accounting policies applied (see paragraph 117);

PARA – 117 (MATERIALITY DEFINED)

Disclosure of accounting policies

117 An entity shall disclose its ~~significant~~ material accounting policies ~~comprising:~~. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.

~~(a) the measurement basis (or bases) used in preparing the financial statements; and~~

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

PARA - 122

An entity shall disclose, along with its significant material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.


New

PARA – 117A

Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

PARA – 117B

- An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements.
- For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;

was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;

was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;

relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

PARA – 117C

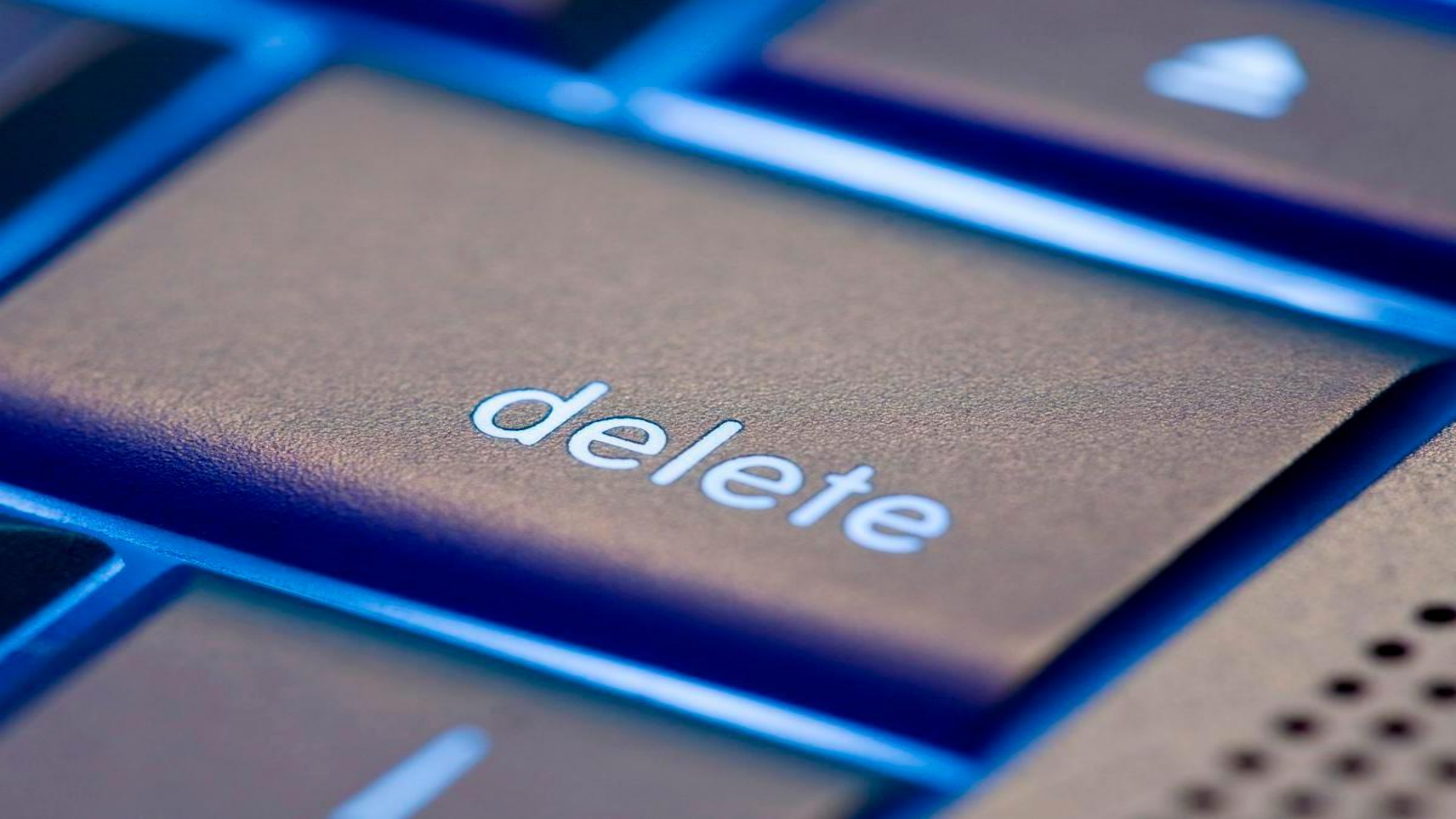
Information about accounting policies that focuses on how an entity has applied the requirements in IFRS standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS standards.

PARA – 117D

If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS standards if that information is material.

PARA – 139U

- Disclosure of accounting policies, which amends IAS 1 and IFRS practice statement 2, and was issued in [date to be decided after exposure], amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117D and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure].
- Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. The amendments shall be applied prospectively.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PARA - 118

It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

PARA - 119

- In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.
- Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity.
- Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs.

PARA - 119

- An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 investment property).
- Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

PARA - 121

An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

IFRS Materiality Practice Statement

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New

PARA – 88A

Paragraph 117 of IAS 1 requires an entity to disclose its material accounting policies.

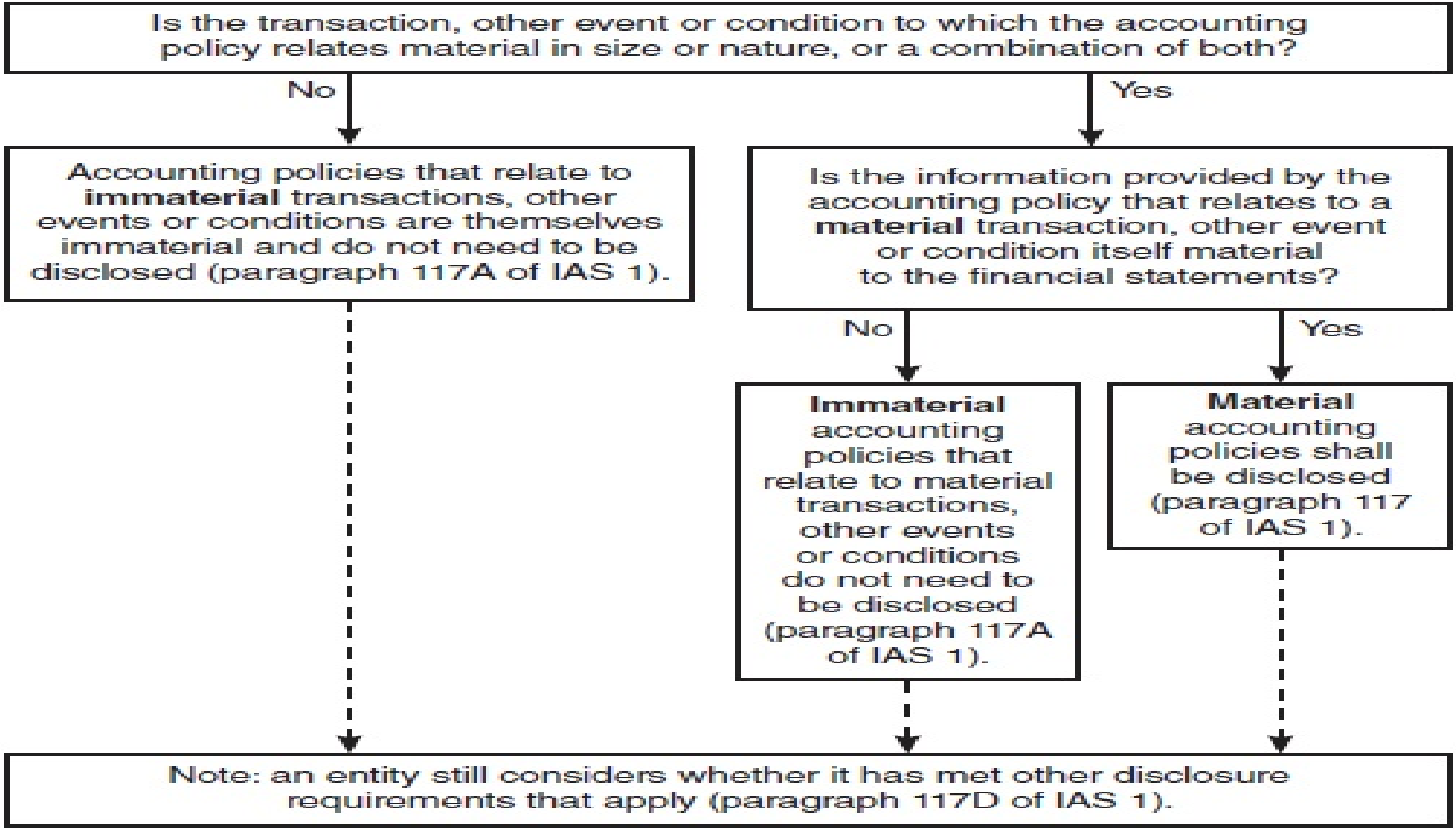
PARA – 88B

Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Accounting policies relating to material transactions, other events or conditions are disclosed if information provided by the accounting policies is material to the financial statements.

PARA – 88C

An entity assesses whether information about its accounting policies is material to its financial statements by considering whether that information, together with other information in the financial statements, could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. This assessment is made in the same way as for other information—by considering qualitative and quantitative factors as described in paragraphs 44–55. The diagram below illustrates how an entity assesses whether an accounting policy is material and therefore should be disclosed.

Diagram—determining whether an accounting policy is material



PARA – 88D

Paragraph 117B of IAS 1 includes examples of circumstances in which an entity is likely to consider an accounting policy to be material for example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

- was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
- was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
- was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;

relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

EXAMPLE

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised ('boilerplate') accounting policy disclosures

Background

An entity operates within the telecommunications industry. It has entered into a number of contracts with retail customers to deliver both a mobile phone handset and data services. A typical contract is one in which the entity will provide a customer with a handset and data services over a three-year period. The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when, or as, it satisfies its performance obligations in line with the terms of the contract.

The entity has identified the following performance obligations and related considerations:

(a) handset—the customer makes monthly payments for the handset over three years; and

(b) data – the customer pays a fixed monthly charge to use a specified amount of data each month for a period of three years.

For the handset, the entity recognises revenue when it has satisfied the performance obligation (ie when it provides the handset to the customer). For the provision of data, the entity recognises revenue as it satisfies the performance obligation (ie as the entity provides data services to the customer over the three-year life of the contract).

The entity has concluded that revenue generated from these contracts is material to the reporting period.

continued...

...continued

Application

The entity notes that for this type of contract there are two separate accounting policies for two distinct sources of revenue:

(a) revenue for the sale of handsets; and

(b) revenue for the provision of data services.

Having identified that revenue from contracts of this type is material to the financial statements, the entity assesses whether its accounting policies for revenue from these contracts are, in fact, material.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

(a) were not changed during the reporting period;

(b) were not chosen from alternatives in IFRS Standards; and

(c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

However, the entity's revenue recognition accounting policies relate to an area for which the entity:

(a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and

(b) has had to consider how the requirements of the Standard apply to its own circumstances.

Consequently, the entity concluded that disclosing the accounting policies for revenue recognition is likely to be necessary for the primary users of its financial statements to understand information in the financial statements and could reasonably be expected to influence those users' decisions. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue. The entity therefore assessed information about the accounting policies for revenue recognition, including information about the timing of revenue recognition, as material.

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards

Background

Intangible assets and property, plant and equipment are material to an entity's financial statements. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets:

> The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.
>
> An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.
>
> The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

continued...

...continued

Application

Having identified that assets that are subject to impairment testing are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

However, the entity noted that it also makes disclosures about its impairment assessments and its significant judgements and assumptions (for example, the discount rate used to measure value in use) in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1. The entity therefore concluded that there is no material information to include in a description of its impairment accounting policy that is not disclosed elsewhere in the financial statements.

The entity concluded that disclosing a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of the entity's financial statements based on those financial statements. This is because the accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards. However, the entity is still required to comply with the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1, and provide information about how it has applied IAS 36 and those paragraphs of IAS 1 during the period, if that information is material.

APPENDIX

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS Standards

...

Extracts from IAS 1 *Presentation of Financial Statements*

...

Paragraph 117

Referred to in paragraphs 88A and 88C of the Practice Statement

> An entity shall disclose its material accounting policies. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.

Paragraph 117A

Referred to in paragraph 88C of the Practice Statement

> Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

Paragraph 117D

Referred to in paragraph 88C of the Practice Statement

> If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

IFRS PRACTICE STATEMENT 2 HAS BEEN AMENDED BY ADDING GUIDANCE AND EXAMPLES TO EXPLAIN AND DEMONSTRATE THE APPLICATION OF THE ‘FOUR-STEP MATERIALITY PROCESS’ TO ACCOUNTING POLICY INFORMATION IN ORDER TO SUPPORT THE AMENDMENTS TO IAS 1.

EFFECTIVE DATE

ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023. EARLIER APPLICATION IS PERMITTED. ONCE THE ENTITY APPLIES THE AMENDMENTS TO IAS 1, IT IS ALSO PERMITTED TO APPLY THE AMENDMENTS TO IFRS PRACTICE STATEMENT 2.

GC Consultants

THANK YOU FOR WATCHING THE VEDIO.

ANY SUGGESTIONS/CRITICISMS CAN BE SENT TO :

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