

# Accounting policy or estimate?

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**“Helping companies to distinguish accounting policies from accounting estimates would be welcomed; and the addition of a definition of an accounting estimate plugs a gap. However, the definition of accounting policies remains ambiguous. Therefore, the proposals may not be sufficient to enable companies to consistently identify changes in accounting policies.”**

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## Proposed clarifications aim to reduce diversity in practice

### Highlights

- What’s the issue?
- A focus on accounting estimates
- Additional changes to IAS 8 are anticipated
- Find out more

### What’s the issue?

Distinguishing between accounting policies and accounting estimates is important because changes in accounting policies are normally applied retrospectively while changes in accounting estimates are applied prospectively. The approach taken can therefore affect both the reported results and trends between periods.

The IASB has noted some diversity in practice in applying the current definitions so is seeking to clarify them without any intention to narrow or widen them.

### A focus on accounting estimates

The proposals establish a new definition for accounting estimates: clarifying that they are judgements or assumptions used in applying an accounting policy when, because of estimation uncertainty, an item in the financial statements cannot be measured with precision.

Making an estimate might include either or both of:

- Selecting an estimation or valuation technique – e.g. making a best estimate based on the single most likely outcome vs one based on probability-weighted outcomes;
- Choosing the inputs / assumptions to be used when applying the chosen technique – e.g. the probability of each outcome.

Conversely, only limited changes to the definition of accounting policies have been proposed. Without narrowing the definition, accounting policies no longer include “conventions” or “rules”. Accounting policies are now defined as “specific principles, measurement bases and practices”, though these are not clearly defined or used. The proposals do specify that a change in the chosen inventory cost formula – e.g. from FIFO to weighted average – is a change in accounting policy.

### **Additional changes to IAS 8 are anticipated**

Concurrently, the IASB has initiated another project to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to ease the burden on retrospectively applying IFRIC agenda decisions.

An exposure draft is currently expected in the first half of 2018.

### **Find out more**

The IASB's comment deadline on the proposals closed on 15 January 2018. Read our **comment letter** (PDF 332 KB) to learn more about KPMG's position.

For more information on the proposals, speak to your KPMG contact.