On 12 February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates. Accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

**Background**

On 12 February 2021, the International Accounting Standards Board (the IASB or the Board) issued amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors, in which it introduces a new definition of ‘accounting estimates’. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

**Definition of an accounting estimate**

The current version of IAS 8 does not provide a definition of accounting estimates. Accounting policies, however, are defined. Furthermore, the standard defines the concept of a “change in accounting estimates”. A mixture of a definition of one item with a definition of changes in another has resulted in difficulty in drawing the distinction between accounting policies and accounting estimates in many instances. In the amended standard, accounting estimates are now defined as, “monetary amounts in financial statements that are subject to measurement uncertainty”.

To clarify the interaction between an accounting policy and an accounting estimate, paragraph 32 of IAS 8 has been amended to state that: “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 cases, an entity develops an accounting estimate to achieve the objective set out by the accounting policy”. Accounting estimates typically involve the use of judgements or assumptions based on the latest available reliable information.
The amended standard explains how entities use measurement techniques and inputs to develop accounting estimates and states that these can include estimation and valuation techniques.

The term “estimate” is widely used in accounting and may sometimes refer to estimates other than accounting estimates. Therefore, the amended standard clarifies that not all estimates will meet the definition of an accounting estimate, but rather may refer to inputs used in developing accounting estimates.

**Changes in accounting estimates**

Distinguishing between a change in accounting policy and a change in accounting estimate is, in some cases, quite challenging. To provide additional guidance, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The Board noted that the previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. The Board concluded that this aspect of the definition is helpful and should be retained. For example, if the applicable standard permits a change between two equally acceptable measurement techniques, that change may result from new information or new developments and is not necessarily the correction of an error.

**Illustrative examples**

The amendments add two illustrative examples which are included to help stakeholders understand how to apply the new definition of accounting estimates. These examples are designated as Examples 4 and 5, respectively. Both are reproduced below as they are helpful in demonstrating the requirements of the amended standard.

### Example 4 – Fair value of an investment property

Example 4 refers to an entity which applies the fair value model in IAS 40 *Investment Property* and has elected to change its valuation technique consistent with the income approach to one consistent with the market approach due to a change in market conditions as permitted by IFRS 13 *Fair Value Measurement*. The example states that the fair value of the investment property is an accounting estimate because:

- the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty;
- the fair value of the investment property is an output of a measurement technique used in applying the accounting policy; and
- in developing its estimate of the fair value of the investment property, the entity uses judgements and assumptions.

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 (i.e. to fair value investment property) has not changed.
Example 5 - Cash-settled share-based payment liability

Example 5 refers to an entity that changes the estimate of the expected share price volatility in its option pricing model for its previously issued share appreciation rights, as a result of changes in the market conditions. The example states that the fair value of the liability is an accounting estimate because:

- the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty;
- the fair value of the liability is an output of a measurement technique used in applying the accounting policy; and
- to estimate the fair value of the liability, the entity uses judgements and assumptions.

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 (i.e. to measure the liability at fair value) has not changed.

Effective date and transition

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The Board believes that the benefits of requiring entities to apply the amendments to prior period changes in estimates would be minimal, and retrospective application is, therefore, not required.

How we see it

These amendments should provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the differentiation between accounting estimates and accounting policies. We would not expect the amendments to have a material impact on entities’ financial statements. However, we expect that the amendments will represent helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.