

LEARNING OUTCOME	LEARNING ACTIVITIES	QUESTION TYPE Read this in conjunction with the Exam guidance June 2016
<p>Analyse case study to identify issues of accounting significance and apply the principles of IAS 8 with judgement to resolve the issues.</p> <p>Explain materiality and evaluate how materiality determines the treatment and disclosure of the following:</p> <ul style="list-style-type: none"> • CGUs (IAS 36) • Consolidations (IFRS 10) • Discontinued operations (IFRS 5) • Operating segments (IFRS 8) • <p>Where does materiality <u>matter in corporate reporting</u>?</p> <p>Use the associated vocabulary effectively.</p>	<p>Discursive</p> <ul style="list-style-type: none"> • Design new accounting policy • Evaluate existing accounting policy • Compare accounting policies <p>Which accounting policies are <u>most</u> examinable? The ones that are:</p> <p>i) Critical in performance measurement (e.g. inventory, revenue, impairment, provisions, depreciation and account receivables)</p> <p>ii) Susceptible to manipulation e.g. classification of “cash and cash equivalent balances”;</p> <p>iii) Significant judgement exercised e.g.: intangibles e.g. R&D, inventory, goodwill;</p> <p>iv) Susceptibility to error due to complexity e.g. effects of movement in exchange rates)</p> <p>v) Critical to disclosure e.g. contingent liability (IAS 37), IFRS 5, IAS 24, IFRS 12 and IFRS 8.</p> <p>Read the text: Accounting policy, changes in accounting estimates and errors</p> <p>In particular read:</p> <ul style="list-style-type: none"> • Selecting a suitable accounting policy • Applying changes in accounting policy 	<p>Q1b Critical evaluation Q1c Ethics</p>

	<ul style="list-style-type: none">• Changes in accounting estimates• Correction of prior period errors	

PRACTICE QUESTIONS Q1a Computational

Change an accounting policy (retrospective)

Change an accounting policy (**prospective**)

Correct errors in accounting estimates (retrospective adjustment)

Change in accounting estimates (prospective)

(e.g. inventory, R&D, depreciation and revenue (IFRS 15))

Example 1

Prospective application of a change in accounting policy when retrospective application is not practicable

During 2014 Entity A changed its accounting policy for depreciating property, plant and equipment so as to apply much more fully a **components approach**, whilst at the same time adopting the **revaluation model**.

Prior to 2014 Entity A's records were not sufficiently detailed to apply a components approach fully.

At the end of 2013 management commissioned an engineering survey which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 2014. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not allow this information to be produced.

Entity A's management considered how each of the changes in accounting practice should be accounted for. They made these observations:

- i) To account **retrospectively** for the change to component depreciation as required by IAS 8 was not practical
- ii) To account **prospectively** for the change to component depreciation earlier than 1 January 2014 was not practical either.
- iii) The change from a **cost model** to a **revaluation model** is required to be accounted for **prospectively** in accordance with IAS 8.

Additional information

Tax rate is 20%

Property, plant and equipment at the end of **2013**:

	\$
Cost	50,000
Depreciation	(28,000)
Net book value	22,000

Relevant results of the engineering survey

	\$
Fair value	28,000
Estimated residual value	3,000

IAS 8 Accounting policies, changes in accounting estimates and errors
June 2016 Mock

Average remaining asset life	5
Depreciable amount	25,000

Required

- a. Discuss the implication of the switch from the **cost model** to the **revaluation model** for accounting for PPE. **Hint:** focus your answer on an explanation of the measurement concepts; discuss the differing impact on earnings of each model; calculate and explain the impact on taxation (current and deferred); state the requirements for the year end carrying amounts.
- b. Draft the accounting policy note addressing all the issues for the attention of users.