ASPE AT A GLANCE

Section 1506 - Accounting Changes

January 2021

Section 1506 – *Accounting Changes*

Effective Date
Fiscal years beginning on or after January 1, 2011[1]

SCOPE

- This Section provides guidance on accounting for and disclosing:
  - Changes in accounting policies;
  - Changes in accounting estimates; and
  - Corrections of prior period errors.

CHANGES IN ACCOUNTING POLICIES

- **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
  - Accounting policies are presumed to be consistently applied within each accounting period and between one period and the next, unless a change in accounting policy meets one of the criteria outlined below.
- An entity can <u>only</u> change an accounting policy when:
  - A primary source of GAAP requires the change;
  - The entity's financial statements will provide reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows as a result of the change; or
  - The change is to one of the following accounting policies specified in paragraph 1506.09:
    - To consolidate subsidiaries, to account for them using the cost or equity method;
    - To account for investments subject to significant influence using the cost or equity method;
    - To account for interests in jointly controlled enterprises using the cost or equity method or by accounting for rights to the individual assets and obligations for the individual liabilities, in accordance with Section 3056, *Interests in Joint Arrangements*;
    - To capitalize or expense expenditures on internally generated intangible assets during the development phase;
    - To measure a defined benefit obligation for defined benefit plans in which an actuarial valuation for funding purposes (funding valuation) is required to be prepared to comply with legislative, regulatory or contractual requirements using an actuarial valuation prepared for accounting purposes (accounting valuation) or the most recently completed funding valuation;
    - To account for income taxes using the taxes payable method or the future income taxes method;
    - To initially measure the equity component of a financial instrument that contains both a liability and an equity component at zero; and
    - To determine the cost of agricultural inventories using full cost or only input costs.
- The following are <u>not</u> considered changes in accounting policies:
  - The application of an accounting policy for transactions / events / conditions that are different in substance than those that previously occurred; and
  - The application of a new accounting policy for transactions / events / conditions that did not previously occur or were previously immaterial.
- **Applying changes in accounting policies**
  - Subject to the requirements of paragraph 1506.14, a change in accounting policy resulting from the initial application of a primary source of GAAP must be accounted for in accordance with the specific transitional provisions included in that primary source of GAAP. However, if no specific transitional provisions are included in the primary source of GAAP or the entity is changing an accounting policy voluntarily, the change must be applied retrospectively, except as permitted by paragraph .23 in Section 3041, *Agriculture*.
    - **Retrospective application**
      - When an entity applies a change in accounting policy retrospectively, the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented must be adjusted as if the new accounting policy had always been applied.
    - **Limitations on retrospective application**
      - Paragraph 1506.15 states that when it is impracticable to determine the period-specific effects on comparative information for one or more prior periods presented, the entity:
        - Must apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable; and
        - Must make a corresponding adjustment to the opening balance of each affected component of equity for that period.
      - When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a change in accounting policy to all prior periods, the entity must adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.
      - Refer to paragraphs 1506.30-33 for guidance on determining when it is impracticable to apply a new accounting policy retrospectively.

[1] Except for as specified in paragraph 1506.38.

DISCLOSURE

- The following must be disclosed for the initial application of a primary source of GAAP that has an effect on the current period or any prior period, or would have an effect except that it is impracticable to determine the amount of any adjustment:
  - Title of the primary source of GAAP;
  - Nature of the change in accounting policy;
  - When applicable, that the change in accounting policy was made in accordance with its transitional provisions and a description of the transitional provisions;
  - For each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
  - Amount of the adjustment relating to periods before those presented, to the extent practicable; and
  - If retrospective application is impracticable for a particular period or for periods before those presented, explain what lead to that condition and describe how and from when the change in accounting policy has been applied.
- The following must be disclosed for a voluntary change in accounting policy that has an effect on the current period or any prior period, or would have an effect except that it is impracticable to determine the amount of any adjustment:
  - Nature of the change in accounting policy;
  - Reason why reliable and more relevant information results from the application of the new accounting policy or if the entity chose to apply one of the accounting policy choices listed in paragraph 1506.09, the reason why the entity chose that accounting policy.
  - For each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
  - Amount of the adjustment relating to periods before those presented, to the extent practicable; and
  - If retrospective application is impracticable for a particular period or for periods before those presented, explain what lead to that condition and describe how and from when the change in accounting policy has been applied.

CHANGES IN ACCOUNTING ESTIMATES

- A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, therefore, are not corrections of errors.
- The effect of a change in accounting estimate, except for a change to which paragraph 1506.24 applies, must be accounted for prospectively by including it in net income in:
  - The period of the change, if the change affects the results of that period only; or
  - The period of the change and future periods, if the change affects both.
- Paragraph 1506.24 states that when a change in accounting estimate results in changes in assets or liabilities, or relates to an item of equity, the change must be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

DISCLOSURE

- The entity must disclose the nature and amount of a change in an accounting estimate that has an effect on the current period.

ERRORS

- **Prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
  - Was available when financial statements for those periods were completed; and
  - Could reasonably be expected to have been obtained and taken into accounting in the preparation and presentation of those financial statements.

  Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
- Material prior period errors must be corrected retrospectively in the first set of financial statements completed after their discovery by:
  - Restating the comparative amounts for the prior period(s) in which the error occurred; or
  - If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

DISCLOSURE

- In the period the error is corrected, the following must be disclosed:
  - The nature of the prior period error;
  - For each prior period presented, the amount of the correction for each financial statement line item affected; and
  - The amount of the correction at the beginning of the earliest prior period presented.

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