Financial Reporting Standards Council

# *Disclosure of Accounting Policies* (Amendments to PAS 1 and PFRS Practice Statement 2)

## *Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2)*

**Contents**

## FRSC PREFACE TO DISCLOSURE OF ACCOUNTING POLICIES (AMENDMENTS TO PAS 1 AND PFRS PRACTICE STATEMENT 2)

1. The Financial Reporting Standards Council (FRSC) has approved on April 14, 2021 the adoption of amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*, *Disclosure of Accounting Policies*, issued by the International Accounting Standards Board (IASB) in February 2021 as amendments to PAS 1 *Presentation of Financial Statements* and PFRS Practice Statement 2 *Making Materiality Judgements*, *Disclosure of Accounting Policies.*

2. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
   - Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies; and
   - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

3. An entity shall apply these amendments to annual reporting periods beginning on or after January 1, 2023. Earlier application of these amendments is permitted.

* * * * * * *

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## IASB DISCLOSURE OF ACCOUNTING POLICIES
## (AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2)

**CONTENTS**

February 2021

IFRS® Standards

# Disclosure of Accounting Policies

## Amendments to IAS 1 and IFRS Practice Statement 2

# Disclosure of Accounting Policies

Amendments to IAS 1 and IFRS Practice Statement 2

*Disclosure of Accounting Policies*, which amends IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* is issued by the International Accounting Standards Board (Board).



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## CONTENTS

## Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117E and 139V are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

## Definitions

7 **The following terms are used in this Standard with the meanings specified:**

***Accounting policies*** **are defined in paragraph 5 of IAS 8** ***Accounting Policies, Changes in Accounting Estimates and Errors*****, and the term is used in this Standard with the same meaning.**

…

## Financial statements

…

### Complete set of financial statements

10 **A complete set of financial statements comprises:**

…

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

…

## Structure and content

…

### Notes

#### Structure

…

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

…

### Disclosure of accounting policy information ~~policies~~

117 **An entity shall disclose material ~~its significant~~ accounting policy information (see paragraph 7). 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. ~~policies comprising:~~**

~~(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.**~~

117A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by IFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

(c) the accounting policy was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions.

117C Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.

117D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs.

118 [Deleted]~~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.~~

119 [Deleted]~~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. 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.~~

120 [Deleted]

121 [Deleted]~~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.~~

**122 An entity shall disclose, along with material ~~its significant~~ accounting policy information ~~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.**

...

## Transition and effective date

...

139V *Disclosure of Accounting Policies*, issued in February 2021, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117E and deleted paragraphs 118, 119 and 121. It also amended IFRS Practice Statement 2 *Making Materiality Judgements*. An entity shall apply the amendments to IAS 1 for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

## Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

Paragraphs 88A–88G and their heading, and Examples S and T, are added. Paragraphs 117, 117A, 117B, 117C, 117D and 117E of IAS 1 are added to the Appendix. For ease of reading new text is not underlined.

## Specific topics

...

### Information about accounting policies

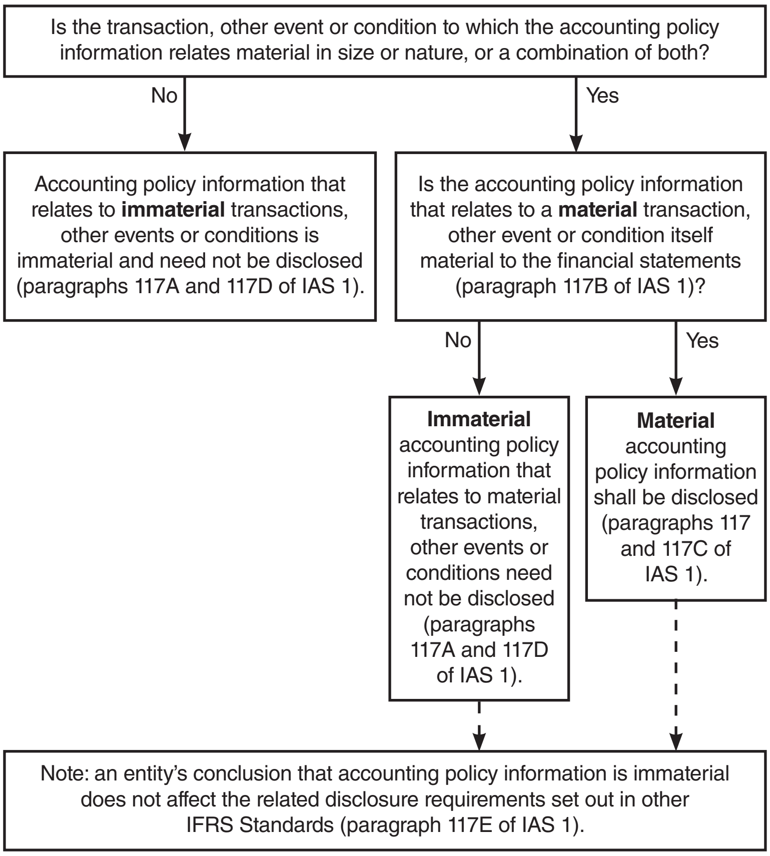
88A Paragraph 117 of IAS 1 requires an entity to disclose material accounting policy information.

88B Accounting policy information relating to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. An entity is required to disclose accounting policy information relating to material transactions, other events or conditions if that information is material to the financial statements.

88C In assessing whether accounting policy information is material to its financial statements, an entity considers whether users of the entity's financial statements would need that information to understand other material information in the financial statements. An entity makes this assessment in the same way it assesses other information: by considering qualitative and quantitative factors, as described in paragraphs 44–55. Diagram 2 illustrates how an entity assesses whether accounting policy information is material and, therefore, shall be disclosed.

*Diagram 2 — determining whether accounting policy information is material*




88D Paragraph 117B of IAS 1 includes examples of circumstances in which an entity is likely to consider accounting policy information to be material to its financial statements. The list is not exhaustive, but provides guidance on when an entity would normally consider accounting policy information to be material.

88E Paragraph 117C of IAS 1 describes the type of material accounting policy information that users of financial statements find most useful. Users generally find information about the characteristics of an entity's transactions, other events or conditions—entity-specific information—more useful than disclosures that only include standardised information, or information that duplicates or summarises the requirements of the IFRS Standards. Entity-specific accounting policy information is particularly useful when that information relates to an area for which an entity has exercised judgement—for example, when an entity applies an IFRS Standard differently from similar entities in the same industry.

88F Although entity-specific accounting policy information is generally more useful, material accounting policy information could sometimes include information that is standardised, or that duplicates or summarises the requirements of the IFRS Standards. Such information may be material if, for example:

(a) users of the entity's financial statements need that information to understand other material information provided in the financial statements. Such a scenario might arise when an entity applying IFRS 9 *Financial Instruments* has no choice regarding the classification of its financial instruments. In such scenarios, users of that entity's financial statements may only be able to understand how the entity has accounted for its material financial instruments if users also understand how the entity has applied the requirements of IFRS 9 to its financial instruments.

(b) an entity reports in a jurisdiction in which entities also report applying local accounting standards.

(c) the accounting required by the IFRS Standards is complex, and users of financial statements need to understand the required accounting. Such a scenario might arise when an entity accounts for a material class of transactions, other events or conditions by applying more than one IFRS Standard.

88G Paragraph 117D of IAS 1 states that if an entity discloses immaterial accounting policy information, such information shall not obscure material information. Paragraphs 56–59 provide guidance about how to communicate information clearly and concisely in the financial statements.

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

**Background**

An entity operates within the telecommunications industry. It has entered into contracts with retail customers to deliver mobile phone handsets and data services. In a typical contract, the entity provides a customer with a handset and data services over three years. The entity applies IFRS 15 *Revenue from Contracts with Customers* and recognises revenue when, or as, the entity satisfies its performance obligations in line with the terms of the contract.

The entity has identified two performance obligations and related considerations:

(a) the 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 monthly amount of data over three years.

*continued...*

*...continued*

For the handset, the entity concludes that it should recognise revenue when it satisfies the performance obligation (when it provides the handset to the customer). For the provision of data, the entity concludes that it should recognise revenue as it satisfies the performance obligation (as the entity provides data services to the customer over the three-year life of the contract).

The entity notes that, in accounting for revenue it has made judgements about:

(a) the allocation of the transaction price to the performance obligations; and

(b) the timing of satisfaction of the performance obligations.

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

**Application**

The entity notes that for contracts of this type it applies separate accounting policies for two sources of revenue, namely revenue from:

(a) the sale of handsets; and

(b) the provision of data services.

Having identified revenue from contracts of this type as material to the financial statements, the entity assesses whether accounting policy information for revenue from these contracts is, in fact, material.

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

(a) were unchanged during the reporting period;

(b) were not chosen from accounting policy options available in the IFRS Standards;

(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; and

(d) are not so complex that primary users will be unable to understand the related revenue transactions without standardised descriptions of the requirements of IFRS 15.

However, some of the entity's revenue recognition accounting policies relate to an area for which the entity has made significant judgements in applying its accounting policies—for example, in deciding how to allocate the transaction price to the performance obligations, and the timing of revenue recognition.

*continued...*

*...continued*

The entity considers that, in addition to disclosing the information required by paragraphs 123–126 of IFRS 15 about the significant judgements made in applying IFRS 15, primary users of its financial statements are likely to need to understand related accounting policy information. Consequently, the entity concludes that such accounting policy information could reasonably be expected to influence the decisions of the primary users of its financial statements. For example, understanding:

(a) how the entity allocates the transaction price to its performance obligations is likely to help users understand how each component of the transaction contributes to the entity's revenue and cash flows; and

(b) 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 also notes that the judgements it made are specific to the entity. Consequently, material accounting policy information would include information about how the entity has applied the requirements of IFRS 15 to its specific circumstances.

The entity, therefore, assesses that accounting policy information about revenue recognition is material and should be disclosed. Such disclosure would include information about how the entity allocates the transaction price to its performance obligations and when the entity recognises revenue.

**Example T—making materiality judgements on accounting policy information that only duplicates requirements in the IFRS Standards**

**Background**

Property, plant and equipment are material to an entity's financial statements.

The entity has no intangible assets or goodwill and has not recognised an impairment loss on its property, plant or equipment in either the current or comparative reporting periods.

In previous reporting periods, the entity disclosed accounting policy information relating to impairment of non-current assets which duplicates the requirements of IAS 36 *Impairment of Assets* and provides no entity-specific information. The entity disclosed that:

*continued...*

*...continued*

> The carrying amounts of the group's intangible assets and its 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 with an indefinite useful 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 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 cash-generating unit to which the asset belongs.
>
> Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash-generating unit 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.

**Application**

Having identified assets subject to impairment testing as being material to the financial statements, the entity assesses whether the accounting policy information for impairment is, in fact, material.

As part of its assessment, the entity considers that an impairment or a reversal of an impairment had not occurred in the current or comparative reporting periods. Consequently, accounting policy information about how the entity recognises and allocates impairment losses is unlikely to be material to its primary users. Similarly, because the entity has no intangible assets or goodwill, information about its accounting policy for impairments of intangible assets and goodwill is unlikely to provide its primary users with material information.

*continued...*

*...continued*

However, 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. Given the entity's specific circumstances, it concludes that information about its significant judgements and assumptions related to its impairment assessments could reasonably be expected to influence the decisions of the primary users of the entity's financial statements. The entity notes that its disclosures about significant judgements and assumptions already include information about the significant judgements and assumptions used in its impairment assessments.

The entity decides that the primary users of its financial statements would be unlikely to need to understand the recognition and measurement requirements of IAS 36 to understand related information in the financial statements.

Consequently, the entity concludes that disclosing a summary of the requirements in IAS 36 in a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of its financial statements. Instead, the entity discloses material accounting policy information related to the significant judgements and assumptions the entity has applied in its impairment assessments elsewhere in the financial statements.

Although the entity assesses some accounting policy information for impairments of assets as immaterial, the entity still assesses whether other disclosure requirements of IAS 36 provide material information that should be disclosed.

...

## 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 material accounting policy information (see paragraph 7). 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.**

**Paragraph 117A**

Referred to in paragraph 88C of the Practice Statement

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

**Paragraph 117B**

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

Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by IFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

(c) the accounting policy was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions.

**Paragraph 117C**

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

Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.

**Paragraph 117D**

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

If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

**Paragraph 117E**

Referred to in paragraph 88C of the Practice Statement

An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs.

...

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