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Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
Email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

9 January 2018

**Re: Exposure Draft ED/2017/5 – Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)**

Dear Mr Hoogervorst

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)* ('the ED').

We welcome the IASB's initiative to address diversity in how entities determine whether a change in applying a Standard is a change in an accounting policy or a change in an estimate, and overall agree with the proposed amendments except for the definition of an accounting estimate.

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board or its staff may have about any of our comments.

Please do not hesitate to contact me at +44 207 601 1080.

Sincerely,



Robert Dohrer  
Global Leader - Quality and Risk  
RSM International

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### **Question 1**

**The Board proposes clarifying the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’ and replacing the term ‘bases’ with the term ‘measurement bases’ (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions).**

**Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

We agree with the proposed amendment to the definition of accounting policies and for the reasons set out in paragraphs BC5-BC8 of the Basis for Conclusions.

Although we agree with retaining the term ‘practices’ in the definition of accounting policies, we believe that it should be made clear what it is intended to capture (e.g. those accounting policies developed under paragraphs 10-12 of IAS 8 in the absence of specific guidance in IFRS, or approximations or practical expedients as in the case of FIFO vs weighted average cost formulas for interchangeable inventories under IAS 2), to avoid an interpretation that is too broad and results in blurring the distinction between accounting policies and accounting estimates.

### **Question 2**

**The Board proposes:**

- (a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and**
- (b) adding a definition of accounting estimates and removing the definition of a change in accounting estimate (see paragraph 5 and paragraphs BC9–BC16 of the Basis for Conclusions).**

**Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?**

For a better distinction between accounting policies and accounting estimates, we agree with the ED’s proposals to clarify the relationship between accounting policies and accounting estimates and to replace the definition of a ‘change in accounting estimate’ with a definition of ‘accounting estimates’.

However, we do not agree with the definition of accounting estimates as proposed, since they are neither ‘judgements’ (considered decisions) nor ‘assumptions’ (things accepted as true without proof). Estimates are amounts that cannot be measured with precision. Thus, it is generally necessary to make judgements and/or assumptions in arriving at an estimate, but neither is an estimate in itself. We propose instead the following definition: ‘*Accounting estimate* is a monetary amount, the measurement of which is subject to an inherent lack of precision (that is, estimation uncertainty), and which is determined through the process of applying accounting policies involving the use of judgements and assumptions’.

### **Question 3**

**The Board proposes clarifying that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique constitutes making an accounting estimate to use in applying an accounting policy for that item (see paragraph 32A and paragraph BC18 of the Basis for Conclusions).**

**Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

We agree with the proposed clarifying amendment, in line with our proposed definition of ‘accounting estimates’. Moreover, this is consistent with the treatment of a change in valuation techniques in accordance with paragraph 66 of IFRS 13 *Fair Value Measurement*.

**Question 4**

**The Board proposes clarifying that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy (see paragraph 32B and paragraphs BC19–BC20 of the Basis for Conclusions). Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

We agree on the need to address the diversity in practice in the application of IAS 2 *Inventories* and acknowledge that some grey areas may persist despite the proposed clarifications to the definitions of accounting policies and accounting estimates. Therefore, we support the IASB's proposal to state explicitly that selecting the cost formula for ordinarily interchangeable inventories (FIFO or weighted average) constitutes selecting an accounting policy and not making an accounting estimate.

However, we believe that the requirement should be included in IAS 2 rather than in IAS 8, consistent in particular with IFRS 13 *Fair Value Measurement* and IAS 16 *Property, Plant and Equipment* both with paragraphs (66, and 51 and 61 respectively) that explain whether a change is an estimate or policy.

**Question 5**

**Do you have any other comments on the proposals?**

We recommend that IAS 8 is retitled 'Accounting Policies, Accounting Estimates and Errors' to reflect the amendments proposed in the ED.

In our view, paragraph 54F of the ED could be drafted more concisely, stating simply that the requirements are to be applied prospectively from the effective date, with early application permitted.

Finally, we recommend that the final changes are published at the same time as the other forthcoming amendments to IAS 8 titled *Accounting Policy Changes* to avoid amending IAS 8 twice within a short period.

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