Chapter 5

IAS 8

Net profit or loss for the period, fundamental errors and changes in accounting policies

- all income and expenses must be included when arriving at profit for the period unless another IAS states differently
- a change in accounting policy should be adjusted in the prior period
- a correction of a fundamental error should be adjusted in the prior period
- transactions involving shareholders (dividends, share issues, redemptions etc) should not be included – these are shown on the statement of changes in equity
- in arriving at profit from ordinary activities, an entity should disclose those matters which are relevant to a fuller understanding of the entity's performance
- **examples in the IAS include:-**
    - write down of inventories
    - impairment of assets to recoverable amount
    - restructuring costs
    - profits (losses) on disposal of non-current assets
    - court case settlements

Changes in accounting estimates

- should be adjusted in the current period
- examples include:-
  - provisions for doubtful debts
  - changes in useful lives of depreciable assets
- any adjustment should be treated consistently by including them in the Statement of Profit or Loss and Other Comprehensive Income classification as previously used
- the nature and amount of any change in accounting estimate having a material impact should be disclosed

Fundamental errors

- fundamental errors are those of such significance that the financial statements of a prior period can no longer be considered to have been reliable as at the date of issue.
- accounting treatment of fundamental errors:
  - adjust the opening balance of retained earnings, and
  - restate comparative information
- **disclosure**
  - nature
  - amount of correction in current and prior periods
  - amount of correction relating to periods before the comparatives
  - the fact that comparatives have been restated

Example 1

Adomas Co Statement of Profit or Loss and Other Comprehensive Income extract and summarised Statement of Financial Position for the year ended 31 December, 2008

	$'000
Revenue	2,500
Cost of sales and expenses	(1,200)
Profit for the year	1,300

Statement of Financial Position at 31 December, 2008

Non-current assets	2,000
Current assets	800
	2,800
Share capital	600
Reserves	2,000
	2,600
Current liabilities	200
	2,800

During 2009 it was discovered that certain non-current assets had been included in the records at 31 December 2008 at $500,000 in excess of their recoverable amount and that this situation was unlikely to change.
Prior to making any adjustment for the above the results and summarised Statement of Financial Position of Adomas Co for 2009 was as follows:

Statement of Profit or Loss and Other Comprehensive Income extract for the year ended 31 December, 2009

	$'000
Revenue	2,600
Costs and expenses	(1,400)
Profit for the year	1,200

Statement of Financial Position at 31 December, 2009

Non-current assets	2,800
Current assets	1,700
	4,500
Share capital	600
Retained earnings	3,500
	4,100
Current liabilities	400
	4,500

During 2009 some other items of property had been revalued by $300,000 (included in the above retained earnings figure)

Prepare extracts from Adomas Co's financial statements for the year ended 31 December, 2009.

Changes in accounting policy

- normally, policies should be applied consistently from one period to the next.
- changes are therefore rare
- **changes should only be made if:**
  - required by statute
  - required by international financial reporting standard
  - change will result in financial statements which are:
    - more relevant and no less reliable or
    - more reliable and no less relevant
- **accounting treatment:**
  - adjust opening balance of retained earnings
  - restate comparative information
- **disclosure**
  - reasons for the change
  - amount of the adjustment for each period presented
  - amount of the adjustment relating to periods before the comparatives
  - the fact that comparatives have been adjusted

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