Exposure Draft ED/2017/5: Accounting Policies and Accounting Estimates - Proposed amendments to IAS 8

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft, Accounting Policies and Accounting Estimates - Proposed amendments to IAS 8, issued in September 2017.

We essentially agree with the proposed amendments, but believe that further clarification is needed: in particular concerning the terms “practices” and “measurement basis (bases)” used in the definition of accounting policies (clarifying the terms used in the definition of accounting policies is all the more necessary now that this definition is more concise), as well as regarding the scope of accounting estimates in relation to estimation techniques and valuation techniques (the use of judgement may be required not just to select such techniques, but also apply these techniques in practice).

Our detailed comments to the questions raised in the Exposure Draft are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix

**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, but believe that there is a need for some clarifications on the term “practices” used in the definition. Indeed that term is not defined by IFRSs and its general definition in English dictionaries may lead to a very wide scope of interpretation.

Our understanding regarding the term “practices” (based on the different stages of the drafting process of this amendment) is that it aims at designating the development of an accounting policy by the management in the absence of an IFRS that specifically applies to a transaction, according to paragraphs IAS 8.10-12. We believe that this should be specified in the standard as it would help clarifying the distinction between accounting policies and accounting estimates (as both can include practices).

We also believe that “measurement basis (bases)” as used in §35 and in the new definition of an accounting policy deserves either a definition or a reference to the relevant paragraphs of the Conceptual Framework, in order to make a clearer distinction between valuation techniques and measurement bases.

**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?

We agree with the proposed amendments.
However, regarding the drafting of the definition of accounting estimates, we would suggest to remove the term “estimation uncertainty” from the definition (as it creates a sort of circular reference between the terms “accounting estimates” and “estimation uncertainty”) and replace it by the terms used in paragraph 32: “Accounting estimates are judgements or assumptions used in applying an accounting policy when, because of uncertainties inherent in business activities, an item in financial statements cannot be measured with precision” (deleted text is struck through and added text is underlined).

**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?*

While we agree with the proposed amendment, we believe that it is not complete.

Indeed, applying an estimation technique or a valuation technique (and not just selecting such a technique) often requires judgement in practice in selecting the sources of data, the degree of precision of intermediate measurements and calculations, etc.

Thus we recommend adding to paragraph 32A that the use of judgement in applying an estimation technique or valuation technique also constitutes making an accounting estimate. This is all the more important as judgement is sometimes used in an intermediate calculation of an estimation technique or valuation technique, and this intermediate calculation in itself is not subject to measurement uncertainty: for example, when an entity assesses the stage of completion of service sales under IAS 18 using a cost-to-cost estimation technique, there may be judgement involved in determining which costs are relevant for measuring the stage of completion of this transaction, whereas measuring these costs as they are incurred is not in itself subject to measurement uncertainty (the cost-to-cost estimation of the stage of completion is subject to measurement uncertainty only to the extent that the estimation of the total costs at completion is, but the costs which are incurred to date and are recorded in the entity’s accounting system are usually not subject to measurement uncertainty).
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 with the rationale behind the proposed amendment.

However we believe that the rationale for this amendment is better explained in the Basis for conclusions than in the proposed new paragraph 32B.

Question 5

Do you have any other comments on the proposals?

- Update the title of IAS 8 to: “Accounting Policies, Changes in Accounting Estimates and Errors” (deleted text is struck through) to make it consistent with the definitions.