Disclosing accounting policies

Accounting policies consist of principles, bases, conventions, rules and practices that an entity applies to prepare and present its financial statements. These policies must be disclosed. The disclosure requirements were amended in 2021. This article discusses the changes.

Accounting policies comprise of the specific principles, bases, conventions, rules and practices that an entity applies to prepare and present its financial statements. Entities must disclose their accounting policies in their financial statements. The format and style of this disclosure often vary significantly in practice. It ranges from boilerplate template disclosures to highly tailored disclosures, the latter arguably being what the standards intend and require.

The accounting policy disclosure requirements were amended in 2021. This article discusses this amendment.

Disclosing accounting policies

Prior to the amendment

IAS 1 *Presentation* prescribes the disclosure of accounting policies. It required an entity to present information about the specific *significant* accounting policies used, including the measurement bases used in the financial statements and other policies relevant to understanding the financial statements.

The standard required management to consider whether disclosure of an accounting policy would assist users in understanding transactions, other events and conditions reported in the financial statements. This assessment depended, amongst others, on the nature of the entity's operations. Preparers had to disclose policies that reflect those most relevant for the type of entity. The standard further indicated that disclosure of accounting policies was especially useful where standards allow an entity to choose between alternative accounting treatments.

Amendment

The amendment replaces the requirement to disclose *significant* accounting policies with one to disclose *material* accounting policies, a term already defined in IFRS. The existing definition of material requires an entity to consider the magnitude (size) but also the nature of an item or a transaction to assess whether it may affect the decisions of users of the financial statements.

The guiding principle is now that accounting policy information is material and must, therefore, be disclosed if it can reasonably be expected to influence decisions that the primary users of general purpose financial statements. The assessment must consider the influence of the accounting policy together with other information included in an entity's overall financial statements. The standard provides guidance on assessing the materiality of a policy.

The revised standard further indicates that information as to how an entity applied a policy to its own circumstances than one that duplicates or summarises IFRSs' requirements is more useful. However, the revisions to IFRS Practice Statement 2 suggest that standardised information may sometimes be appropriate.

Effective date

Entities need to revise their accounting policy disclosure for financial years beginning on or after 1 January 2023. Generally, this would be December 2023 year-ends and onwards. Assessing whether an accounting policy is material in the context of the entity's business and its overall financial statements will likely require management's judgment.

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