SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)

Definition of Accounting Estimates

(Amendments to SFRS(I) 1-8)

The amendments apply for annual reporting periods beginning on or after 1 January 2023.
Earlier application is permitted.

CONTENTS

from page

Amendments to SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 5, 32, 34, 38 and 48 and the heading above paragraph 32 are amended. Paragraphs 32A–32B, 34A and 54I and the headings above paragraphs 34 and 36 are added. The heading above paragraph 39 is amended to be a sub-heading of the heading added above paragraph 34. Deleted text is struck through and new text is underlined.

Definitions

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

…

***Accounting estimates* are monetary amounts in financial statements that are subject to measurement uncertainty.**

~~**A *change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.**~~

…

Accounting ~~Changes in accounting~~ estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. ~~As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated.~~ Developing accounting estimates involves the use of judgements or assumptions ~~Estimation involves judgements~~ based on the latest available, reliable information. Examples of accounting estimates include ~~For example, estimates may be required of~~:

(a) a loss allowance for expected credit losses, applying SFRS(I) 9 *Financial Instruments*~~bad debts~~;

(b) the net realisable value of an item of inventory, applying SFRS(I) 1-2 *Inventories*~~inventory obsolescence~~;

(c) the fair value of an asset or liability, applying SFRS(I) 13 *Fair Value Measurement* ~~financial assets or financial liabilities~~;

(d) the depreciation expense for an item of property, plant and equipment, applying SFRS(I) 1-16~~the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets~~; and

(e) a provision for warranty obligations, applying SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying SFRS(I) 9) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying SFRS(I) 13).

32B The term ‘estimate’ in SFRS(I)s sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

…

Changes in accounting estimates

34 An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting ~~the revision of an~~ estimate does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

…

Applying changes in accounting estimates

…

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of that ~~the~~ change ~~in estimate~~. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. For example, a change in a loss allowance for expected credit losses ~~the estimate of the amount of bad debts~~ affects only the current period’s profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset’s remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

~~Disclosure~~

Disclosure

…

Errors

…

48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing ~~revision~~ as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

…

Effective date and transition

…

54I *Definition of Accounting Estimates*, issued in June 2021, amended paragraphs 5, 32, 34, 38 and 48 and added paragraphs 32A, 32B and 34A. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. An entity shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

Amendments to the Guidance on implementing SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This guidance accompanies, but is not part of, SFRS(I) 1-8.

Example 3 is deleted and Examples 4–5 are added. In Example 3, deleted text is struck through and new text is underlined. In Examples 4–5, for ease of reading, new text has not been underlined.

Example 3 – Prospective application of a change in accounting policy when retrospective application is not practicable

[Deleted]

~~3.1 During 20X2, Delta Co changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.~~

~~3.2 In years before 20X2, Delta's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.~~

~~3.3 Delta's management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Delta's new policy prospectively from the start of 20X2.~~

~~3.4 Additional information:~~

~~Delta's tax rate is 30 per cent.~~

	~~CU~~
~~Property, plant and equipment at the end of 20X1:~~	
~~Cost~~	~~25,000~~
~~Depreciation~~	~~(14,000)~~
~~Net book value~~	~~11,000~~
~~Prospective depreciation expense for 20X2 (old basis)~~	~~1,500~~
~~Some results of the engineering survey:~~	
~~Valuation~~	~~17,000~~
~~Estimated residual value~~	~~3,000~~
~~Average remaining asset life (years)~~	~~7~~

~~Depreciation expense on existing property, plant and equipment for 20X2 (new basis)~~	~~2,000~~

~~Extract from the notes~~

~~1~~ ~~From the start of 20X2, Delta changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; increase the opening deferred tax provision by CU1,800; create a revaluation surplus at the start of the year of CU4,200; increase depreciation expense by CU500; and reduce tax expense by CU150.~~

Example 4 – Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

4.1 Entity A owns an investment property that it accounts for by applying the fair value model in SFRS(I) 1-40 *Investment Property.* Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a valuation technique consistent with the income approach described in SFRS(I) 13 *Fair Value Measurement.*

4.2 However, because of changes in market conditions since the previous reporting period, Entity A changes the valuation technique it uses to a valuation technique consistent with the market approach described in SFRS(I) 13. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that SFRS(I) 13 permits such a change. Entity A has also concluded that the change in the valuation technique is not a correction of a prior period error.

Applying the definition of accounting estimates

4.3 The fair value of the investment property is an accounting estimate because:

(a) the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.

(b) the fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (fair value model).

(c) in developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:

(i) selecting the measurement technique—selecting the valuation technique that is appropriate in the circumstances; and

(ii) applying the measurement technique—developing the inputs that market participants would use in applying the valuation technique, such as information generated by market transactions involving comparable assets.

4.4 In this fact pattern, the change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value—has not changed.

Example 5 – Applying the definition of accounting estimates—Fair value of a cash-settled share-based payment liability

Fact pattern

5.1 On 1 January 20X0, Entity A grants 100 share appreciation rights (SARs) to each of its employees, provided the employee remains in the entity's employment for the next three years. The SARs entitle the employees to a future cash payment based on the increase in the entity's share price over the three-year vesting period starting on 1 January 20X0.

5.2 Applying SFRS(I) 2 *Share-based Payment,* Entity A accounts for the grant of the SARs as cash-settled share-based payment transactions—in doing so it recognises a liability for the SARs and measures that liability at its fair value (as defined by SFRS(I) 2). Entity A applies the Black–Scholes–Merton formula (an option pricing model) to measure the fair value of the liability for the SARs at 1 January 20X0 and at the end of the reporting period.

5.3 At 31 December 20X1, because of changes in market conditions since the end of the previous reporting period, Entity A changes its estimate of the expected volatility of the share price—an input to the option pricing model—in estimating the fair value of the liability for the SARs at that date. Entity A has concluded that the change in that input is not a correction of a prior period error.

Applying the definition of accounting estimates

5.4 The fair value of the liability is an accounting estimate because:

(a) the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty. That fair value is the amount for which the liability could be settled in a hypothetical transaction—accordingly, it cannot be observed directly and must instead be estimated.

(b) the fair value of the liability is an output of a measurement technique (option pricing model) used in applying the accounting policy (measuring a liability for a cash-settled share-based payment at fair value).

(c) to estimate the fair value of the liability, Entity A uses judgements and assumptions, for example, in:

(i) selecting the measurement technique—selecting the option pricing model; and

(ii) applying the measurement technique—developing the inputs that market participants would use in applying that option pricing model, such as the expected volatility of the share price and dividends expected on the shares.

5.5 In this fact pattern, the change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability for the SARs at 31 December 20X1. The effect of this change is a change in accounting estimate because the accounting policy—to measure the liability at fair value—has not changed.