

CHAPTER 4

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (IND AS 8)

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: Can an entity voluntarily change one or more of its accounting policies?

Ans: A change in an accounting policy can be made only if the change is required or permitted by Ind AS 8. As per para 14 of Ind AS 8, an entity shall change an accounting policy only if the change:

- (a) is required by an Ind AS; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Para 15 of the standard states that the users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the above criteria.

Paragraph 14(b) lays down two requirements that must be complied with in order to make a voluntary change in an accounting policy. First, the information resulting from application of the changed (i.e., the new) accounting policy must be reliable. Second, the changed accounting policy must result in "more relevant" information being presented in the financial statements.

Whether a changed accounting policy results in reliable and more relevant financial information is a matter of assessment in the particular facts and circumstances of each case. In order to ensure that such an assessment is made judiciously (such that a voluntary change in an accounting policy does not effectively become a matter of free choice), paragraph 29 of Ind AS 8 requires an entity making a voluntary change in an accounting policy to disclose, inter alia, "the reasons why applying the new accounting policy provides reliable and more relevant information."

Q2: Entity ABC acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2011- 12. During the financial year 2012- 13, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, Entity ABC reclassified it from PPE to investment property in the financial year 2012- 13. Should Entity ABC account for the change as a change in accounting policy? [MTP May 2024; IBS Exam May 24]

Ans: Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period."

As per Ind AS 40, 'investment property' is property (land or a building—or part of a building— or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business."

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity. Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

Q3: Whether change in functional currency of an entity represents a change in accounting policy?

Ans: A change in functional currency of an entity does not represent a change in accounting policy and Ind AS 8, therefore, does not apply to such a change. Ind AS 21 requires that when there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Q4: An entity developed one of its accounting policies by considering a pronouncement of an overseas national standard-setting body in accordance with Ind AS 8. Would it be permissible for the entity to change the said policy to reflect a subsequent amendment in that pronouncement?

Ans: In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy. As such a change is a voluntary change in accounting policy, it can be made only if it results in information that is reliable and more relevant (and does not conflict with the sources in Ind AS 8).

Q5: Whether an entity can change its accounting policy of subsequent measurement of property, plant and equipment (PPE) from revaluation model to cost model?

Ans: Paragraph 29 of Ind AS 16 provides that an entity shall choose either the cost model or the revaluation model as its accounting policy for subsequent measurement of an entire class of PPE.

A change from revaluation model to cost model for a class of PPE can be made only if it meets the condition specified in Ind AS 8 paragraph 14(b) i.e. the change results in the financial statements providing reliable and more relevant information to the users of financial statements. For example, an unlisted entity planning IPO may change its accounting policy from revaluation model to cost model for some or all classes of PPE to align the entity's accounting policy with that of listed markets participants within that industry so as to enhance the comparability of its financial statements with those of other listed market participants within the industry. Such a change – from revaluation model to cost model is not expected to be frequent.

Where the change in accounting policy from revaluation model to cost model is considered permissible in accordance with Ind AS 8 paragraph 14(b), it shall be accounted for retrospectively, in accordance with Ind AS 8.

Q6: Whether an entity is required to disclose the impact of any new Ind AS which is issued but not yet effective in its financial statements as prepared as per Ind AS?

Ans: Paragraph 30 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors, states as follows:

“When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.”

Accordingly, it may be noted that an entity is required to disclose the impact of Ind AS which has been issued but is not yet effective.

Q7: Whether a change in inventory cost formula is a change in accounting policy or a change in accounting estimate?

Ans: As per Ind AS 8, accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Further, paragraph 36(a) of Ind AS 2, 'Inventories', specifically requires disclosure of 'cost formula used' as a part of disclosure of accounting policies adopted in measurement of inventories.

Accordingly, a change in cost formula is a change in accounting policy.

Q8: An entity has presented certain material liabilities as non-current in its financial statements for periods upto 31st March, 2011. While preparing annual financial statements for the year ended 31st March, 2012, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period

presented (i.e., as at 31st March, 2011). Would this reclassification of liabilities from non-current to current in the comparative amounts be considered to be correction of an error under Ind AS 8? Would the entity need to present a third balance sheet?

Ans: As per paragraph 41 of Ind AS, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

In accordance with the above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 2012, the comparative amounts as at 31st

March, 2011 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

Q9: An entity charged off certain expenses as finance costs in its financial statements for the year ended 31st March, 2011. While preparing annual financial statements for the year ended 31st March, 2012, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 2011). Would this reclassification of expenses from finance costs to other expenses in the comparative amounts be considered to be correction of an error under Ind AS 8? Would the entity need to present a third balance sheet?

Ans: As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

In accordance with the above, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 2012, the comparative amounts for the year ended 31st March, 2011 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has

no effect on the information in the balance sheet at the beginning of the preceding period (1st April, 2010). Therefore, the entity is not required to present a third balance sheet.

Q10: A carpet retail outlet sells and fits carpets to the general public. It recognizes revenue when the carpet is fitted, which on an average is six weeks after the purchase of the carpet.

It then decides to sub-contract the fitting of carpets to self-employed fitters. It now recognizes revenue at the point-of-sale of the carpet.

Whether this change in recognising the revenue is a change in accounting policy as per the provision of Ind AS 8?

Ans: This is not a change in accounting policy as the carpet retailer has changed the way that the carpets are fitted.

Therefore, there would be no need to retrospectively change prior period figures for revenue recognized.

Q11: During the year ended 31st March, 20X2, Blue Ocean group changed its accounting policy for depreciating property, plant and equipment, so as to apply components approach fully, whilst at the same time adopting the revaluation model.

In years before 20X1-20X2, Blue Ocean group's asset records were not sufficiently detailed to apply components approach fully. At the end of 31st March, 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 20X1-20X2.

The results are shown as under:

Property, plant and equipment at the end of 31st March, 20X1	₹
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Depreciation expense for 20X1-20X2 (on old basis)	1,500
Some results of the engineering survey:	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7

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.

The board of directors 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 20X1-20X2.

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 Blue Ocean group's new policy prospectively from the start of 20X1-20X2.

Blue Ocean group's tax rate is 30 per cent.

Compute the impact of change in accounting policy related to change in carrying amount of Property, Plant & Equipment under revaluation method and impact on taxes based on the basis of information provided. Show the impact of each item affected on financial statements by the analysis of stated issue. [MTP May 2020]

Ans: As per Ind AS 8 'Accounting Policies, Accounting Estimates and Errors, prospective application of a change in accounting policy has to be done since retrospective application is not practicable.

Property, plant and equipment at the end of 31st March, 20X2:

As per the engineering survey:

	₹
Valuation of PPE	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20 X 1 – 20 X 2 (new basis) $(17,000 - 3,000)/7$	2,000

From the start of 20X1-20X2, Blue Ocean group changed its accounting policy for depreciating property, plant and equipment, so as to apply 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 the year 20X1-20X2 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 impact on the financial statements for 20X1-20X2 would be as under:

Particulars	₹
Increase the carrying amount of property, plant and equipment at the start of the year $(17,000 - 11,000)$	6,000
Increase the opening deferred tax provision $(6,000 \times 30\%)$	1,800
Create a revaluation surplus at the start of the year $(6,000 - 1,800)$	4,200

Increase depreciation expense by (₹2,000 – ₹1,500)	500
Reduce tax expense on depreciation (30%)	150

Q12: Is change in the depreciation method for an item of property, plant and equipment a change in accounting policy or a change in accounting estimate?

Ans: As Paragraphs 60 and 61 of Ind AS 16, Property, Plant and Equipment, the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate in accordance with Ind AS 8.

As per the above, depreciation method for a depreciable asset has to reflect the expected pattern of consumption of future economic benefits embodied in the asset. Determination of depreciation method involves an accounting estimate and thus depreciation method is not a matter of an accounting policy.

Accordingly, Ind AS 16 requires a change in depreciation method to be accounted for as a change in an accounting estimate, i.e., prospectively.

Q13: While preparing the annual financial statements for the year ended 31st March, 2013, an entity discovers that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 2011 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2012 and was recognised as an expense in the annual financial statements for the said year. Would this situation require retrospective restatement of comparatives considering that the error was material?
[Exam Nov 22 (5 Marks); IBS CS 17]

Ans: As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2011 and liabilities as at 31st March, 2011 were understated because of non-recognition of bonus expense and related provision.

Expenses for the year ended 31st March, 2012, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for the year ended 31st March, 2013, the entity should:

- (a) restate the comparative amounts (i.e., those for the year ended 31st March, 2012) in the statement of profit and loss; and
- (b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2011) wherein it should recognise the provision for bonus and restate the retained earnings.

Q14A: While preparing interim financial statements for the half-year ended 30th September, 2011, an entity notes that there has been an under-accrual of certain expenses in the interim financial statements for the first quarter ended 30th June, 2011. The amount of under accrual is assessed to be material in the context of interim financial statements. However, it is expected that the amount would be immaterial in the context of the annual financial statements. The management is of the view that there is no need to correct the error in the interim financial statements considering that the amount is expected to be immaterial from the point of view of the annual financial statements. Whether the management's view is acceptable?

Ans: Paragraph 41 of Ind AS 8, inter alia, states that financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

As regards the assessment of materiality of an item in preparing interim financial statements, paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:

"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from nondisclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period."

As per the above, while materiality judgements always involve a degree of subjectivity, the overriding goal is to ensure that an interim financial report includes all the information that is relevant to an understanding of the financial position and performance of the entity during the interim period. It is therefore not appropriate to base quantitative assessments of materiality on projected annual figures when evaluating errors in interim financial statements.

Accordingly, the management is required to correct the error in the interim financial statements since it is assessed to be material in relation to interim period data.

Q14B: While preparing interim financial statements for the half-year ended 30th September 20X2, an entity discovers a material error (an improper expense accrual) in the interim financial statements for the period ended 30th September 20X1 and the annual financial statements for the year ended 31st March 20X2. The entity does not intend to restate the comparative amounts

for the prior period presented in the interim financial statements as it believes it would be sufficient to correct the error by restating the comparatives in the annual financial statements for the year ended 31st March 20X3.

Is this acceptable? Discuss in accordance with relevant Ind AS.

Ans: Paragraph 42 of Ind AS 8, inter alia, states that an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Paragraph 28 of Ind AS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements (except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements).

Paragraph 15B of Ind AS 34 cites 'corrections of prior period errors' as an example of events or transactions which need to be explained in an entity's interim financial report if they are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:

"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period."

In view of the above, the entity is required to correct the error and restate the comparative amounts in interim financial statements for the half-year ended 30th September 20X2.

Q15: ABC Ltd has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2011. How should the error be corrected in the financial statements for the year ended 31st March, 2014, assuming the impact of the same is considered material? The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil. For simplicity, ignore tax effects.

Ans: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

Q16: ABC changed its accounting policy for inventory in 2016-2017. Prior to the change, inventory had been valued using the first in first out method (FIFO) . However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable a weighted average valuation model should be used.

The effect of the change on the valuation of inventory was as follows:

- 31st March, 2015 - Increase of ₹ 10 million
- 31st March, 2016 - Increase of ₹ 15 million
- 31st March, 2017- Increase of ₹ 20 million

Profit or loss under the FIFO valuation model are as follows: ₹ in million

	2016-2017	2015-2016
Revenue	324	296
Cost of sales	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	68	58

Retained earnings at 31st March, 2015 were ₹ 423 million.

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8. [RTP May 2019]

Ans: Profit or loss under weighted average valuation are as follows:

₹ in million

	2017	2016 (Restated)
Revenue	324	296
Cost of sales	(168)	(159)
Gross profit	156	137
Expenses	(83)	(74)
Profit	73	63

Statement of changes in equity (extract) ₹ in million

	Retained earnings	Retained earnings (Original)
At 1st April, 2015	423	423
Change in inventory valuation policy	10	-
At 1st April, 2015 (Restated)	433	-
Profit for 2015-2016	63	58
At 31st March, 2016	496	481
Profit for 2016-2017	73	68

At 31st March, 2017

569

549

Q17. During 20X4-X5, Cheery Limited discovered that some products that had been sold during 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500.

Cheery Limited's accounting records for 20X4-X5 show sales of ₹ 104,000, cost of goods sold of ₹ 86,500 (including ₹ 6,500 for the error in opening inventory), and income taxes of ₹ 5,250.

In 20X3-X4, Cheery Limited reported:

	₹
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000
Basic and diluted EPS	2.8

The 20X3-X4 opening retained earnings was ₹ 20,000 and closing retained earnings was ₹ 34,000. Cheery Limited's income tax rate was 30% for 20X4-X5 and 20X3-X4. It had no other income or expenses.

Cheery Limited had ₹ 50,000 (5,000 shares of ₹ 10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS.

[MTP May

22]

Ans:

Cheery Limited**Extract from the Statement of profit and loss**

	20X4-X5 ₹	(Restated) 20X3-X4 ₹
Sales	1,04,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450
Basic and diluted EPS	3.36	1.89

Cheery Limited Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at 31 st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31 st March, 20X4 as restated	50,000	9,450	9,450
Balance at 31 st March, 20X4		29,450	79,450
Profit for the year ended 31 st March, 20X5		16,800	16,800
Balance at 31 st March, 20X5	50,000	46,250	96,250

Extract from the Notes

Some products that had been sold in 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500. The financial statements of 20X3-X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	Effect on 20X3-X4
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expenses	1,950
(Decrease) in profit	(4,550)
(Decrease) in basic and diluted EPS	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

Q18: In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred ₹100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional ₹20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost ₹ 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at ₹18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Analyse the above situation in accordance with relevant Ind AS.

[RTP May 2021; May 2023]

Ans: Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

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. This change in accounting estimate is an

outcome of 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.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision ₹ 1,00,000 and overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates.

In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.

Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.

Working Note: Inventory is measured at the lower of cost (ie ₹ 15,000) and fair value less costs to complete and sell (ie ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect) = ₹ 13,000.

Q19: A company owns several hotels and provides significant ancillary services to occupants of rooms. These hotels are, therefore, treated as owner-occupied properties and classified as property, plant and equipment in accordance with Ind AS 16. The company acquires a new hotel but outsources entire management of the same to an outside agency and remains as a passive investor. The selection and application of an accounting policy for this new hotel in line with Ind AS 40. Is this a change in accounting policy.

Ans: It is not a change in accounting policy simply because the new hotel rooms are also let out for rent. This is because the way in which the new hotel is managed differs in substance from the way other existing hotels have been managed so far.

Q20: An entity has classified as investment property, an owner occupied property previously classified as part of property, plant and equipment where it was measured after initial recognition applying the revaluation model. Ind AS 40 on investment property permits only cost model. The entity now measures this investment property using the cost model. Is this a change in accounting policy.

Ans: This is not a change in accounting policy.

Q21: An entity starts a business in July 2005. The business was small in nature and therefore the entity did not follow any specific accounting standards for valuation of inventory. Over the decade the entity flourishes, becomes a big company and decided to apply Ind AS 2 on inventories from the financial year 2016-2017. It decided to follow the weighted average method for valuation of inventory. Now following questions will arise.

- i. Shall entity do such valuation retrospectively or prospectively?
- ii. What is meant by retrospective application?
- iii. If it is to be applied as if it was applied from July 2005, then what about the accounts already presented? Does entity need to change all the accounts?
- iv. How would the effect be given?

- Ans:**
- (i) It will depend upon whether the company is following the standard as per the new guidelines of Institute or is it applying voluntarily? In the above case, the entity itself is taking the decision to apply the standard and therefore it will be treated as voluntary application. If it falls under voluntary application then, the Ind AS 8 states that the policy should be applied retrospectively.
 - (ii) As per definition, retrospective application assumes that the policy had always been applied. It does not state any specific period. 'Had always been applied' indicates that policy was applied right from the day 1, i.e. from July 2005.
 - (iii) The entity is not supposed to change the accounts which are already presented. However, it needs to give the effect of the change in policy while presenting the accounts for the year in which new policy is adopted. In the current case, the new policy is adopted from the F.Y. 2016-2017. Therefore, the effect will be given to the concerned items, in the financial statements of F.Y. 2016-2017.
 - (iv) Ind AS 8 states that the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented.

Q22: Continuing the above question, assume that company might be following the weighted average method of valuation of stock right from July 2X05. In reality, company might have applied other methods like specific identification, LIFO or FIFO etc. Company might have changed also the method during the period as it was not following any specific standard at that time. However, now, in F.Y. 2X16-2X17, the company decided to follow Ind AS and accordingly decides the weighted average method of valuation. Analyse

Ans: The company needs to calculate the closing inventory of every year since 2X05-2X06 assuming that it was following the said method from day 1.

This will change the figure of gross profit and net profit as inventory valuation will make direct impact on the profits of the company. Net profits will affect the equity as well. Similarly, the closing balances of inventory from year to year will also change. Thus, company will make the calculations from the year 2X05-2X06 to 2X15-2X16.

The provisions further state that company will adjust the opening balances of equity and other related amounts for the earliest prior period presented. It means, if company is presenting the accounts for F.Y. 2X16-2X17, it need to give comparative figures for F.Y. 2X15-2X16 also.

Therefore, the earliest prior period presented will be F.Y. 2X15-2X16 in the above mentioned case. Thus the net effect on profit of last 11 years (from F.Y. 2X05-2X06 to F.Y. 2X15-2X16) will be adjusted through the equity and inventory balances of the year 2X15-2X16.

Thereafter the new policy will be continued and every year the valuation of inventory will be done using weighted average method.

Q23: When is an entity required to present a third balance sheet as at the beginning of the preceding period?

Ans: As per paragraph 40A of Ind AS 1, Presentation of Financial Statements, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required by paragraph 38A of the standard if:

1. it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
2. the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period

QUESTIONS FROM RTP/MTP/EXAMS

Q24: Given the decreased revenue in financial year 20X1-20X2, management of PQR Ltd is keen to identify ways to reduce the overall impact on profit and loss. A consultant has suggested that they could explore changing the basis of depreciation from SLM to hours-in-use but not entirely sure if this is permitted. Annual depreciation charge for financial year 20X1-20X2 would be ₹ 25 lacs using SLM and ₹ 7 lacs using new method. This difference is significant for PQR Ltd.'s financial statements. What are the considerations in determining whether a change in depreciation methodology is appropriate, and how should this change be accounted for? Given the risk of charging lower depreciation per annum and the possibility that the asset will be depreciated over a period longer than it would otherwise be (under SLM basis), what other safeguards do you suggest, in order to ensure compliance with relevant standards in Ind AS and its framework?

[MTP Nov 2021]

Ans: As illustrated in per para 32 of Ind AS 8, Change in method of depreciation is a change in accounting estimates.

Considerations in determining whether the change in depreciation methodology is appropriate:

Paragraphs 60 and 61 of Ind AS 16, Property, Plant and Equipment, state that the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

Accounting procedure:

Such a change is accounted for as a change in an accounting estimate in accordance with Ind AS 8.

Depreciation is a function of several factors, with extent of usage and efflux of time being its primary determinants. The hours-in-use method relates the amount of periodic depreciation charge only to one of the above two factors, namely, the extent of usage as reflected by the number of hours. This method may therefore be said to be appropriate as per para 62 of Ind AS 16.

Determination of depreciation method involves an accounting estimate; depreciation method is not a matter of an accounting policy. Accordingly, as per Ind AS 8 and Ind AS 16, a change in depreciation method shall be accounted for as a change in accounting estimate, i.e; prospectively.

However, given the possibility that the asset will be depreciated over a period longer than it would be under SLM basis, the company will need to assess if there are any impairment triggers and carry out impairment testing as required under Ind AS 36.

Q25. In its financial statements for the year ended 31st March, 20X2, Y Ltd. Reported ₹ 73,500 revenue (sales), ₹ 53,500 cost of sales, ₹ 6,000 income tax expense, ₹ 20,000 retained earnings at 1st April, 20X1 and ₹ 34,000 retained earnings at 31st March, 20X2.

In 20X2-20X3, after the 20X1-20X2 financial statements were approved for issue, Y Ltd. discovered that some products sold in 20X1-20X2 were incorrectly included in inventories at 31st March, 20X2 at their cost of ₹ 6,500.

In 20X2-20X3, Y Ltd. changed its accounting policy for the measurement of investments in associates after initial recognition from cost model to the fair value model as per Ind AS 109. It acquired its only investment in an associate for ₹ 3,000 many years ago. The associate's equity is not traded on a securities exchange (that is, a published price quotation is not available). The fair value of the investment was determined reliably using an appropriate equity valuation model on 31 st March, 20X3 at ₹ 25,000 (20X1-20X2: ₹ 20,000 and 20X0-20X1: ₹ 18,000).

At 31st March, 20X3, as a result of usage of improved lubricants, Y Ltd. reassessed the useful life of Machine A from four years to seven years. Machine A is depreciated on the straight-line method to a Nil residual value. It was acquired for ₹ 6,000 on 1st April, 20X0.

Inventories of the type manufactured by Machine A were immaterial at the end of each reporting period.

Y Ltd.'s accounting records for the year ended 31st March, 20X3, before accounting for change in accounting policy and change in accounting estimate, record ₹ 1,04,000 revenue (sales), ₹ 86,500 cost of sales (including ₹ 6,500 for the error in opening inventory and ₹ 1,500 depreciation for Machine A) and ₹ 5,250 income tax expense.

Y Ltd. presents financial statements with one year of comparative information.

For simplicity, the tax effect of all items of income and expenses should be assumed to be 30% of the gross amount.

Draft an extract showing how the correction of the prior period error, change in accounting policy and change in accounting estimate could be presented in the Statement of Profit and Loss and Statement of Changes in Equity (Retained Earnings) and disclosed in the Notes of Y Ltd. for the year ended 31st March, 20X3. [RTP Nov 2023]

Ans. Extract of Y Ltd.'s Statement of Profit and Loss for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	
Revenue	1,04,000		73,500	
Cost of sales (20X1-20X2 previously ₹ 53,500)	(79,100)	1	(60,000)	4
Gross profit	24,900		13,500	
Other income — change in the measurement policy i.e. the value of investment in associate at FVTPL	5,000	2	2,000	5
Profit before tax	29,900		15,500	
Income tax expense	(8,970)	3	(4,650)	6
Profit for the year	20,930		10,850	

Extract of Y Ltd.'s Statement of Changes in Equity (Retained Earnings) for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	

Retained earnings, as restated, at the beginning of the year				
- as previously stated	34,000		20,000	
- effect of the correction of a prior period error	(4,550)	7	-	
- effect of a change in accounting policy	11,900	13	10,500	12
	41,350		30,500	
Profit for the year	20,930		10,850	
Retained earnings at the end of the year	62,280		41,350	

Y Ltd.

Extract of Notes to the Financial Statements for the year ended 31st March, 20X3

Note X : Change in Accounting Estimates

Due to usage of improved lubricants the estimated useful life of the machine used for production was increased from four years to seven years. The effect of the change in the useful life of the machine is to reduce the depreciation allocation by ₹ 900 in 20X2-20X3 and 20X3-20X4. The after-tax effect is an increase in profit for the year of ₹ 630 for each of the two years.

Depreciation expense in 20X4-20X5 to 20X6-20X7 is increased by ₹ 600 because of revision in the useful life of machinery, as under the initial estimate, the asset would have been fully depreciated at the end of 20X3-20X4. The after-tax effect for these three years is a decrease in profit for the year by ₹ 420 per year.

Note Y : Correction of Prior Period Error

In 20X2-20X3 the entity identified that ₹ 6,500 products that had been sold in 20X1-20X2 were included erroneously in inventory at 31st March, 20X2. The financial statements of 20X1-20X2 have been restated to correct this error. The effect of the restatement is ₹ 6,500 increase in the cost of sales and ₹ 4,550 decrease in profit for the year ended 31st March, 20X2 after decreasing income tax expense by ₹ 1,950. This resulted in ₹ 4,550 (decrease) restatement of retained earnings at 31st March, 20X2.

Note Z : Change in Accounting Policy

In 20X2-20X3 the entity changed its accounting policy for the measurement of investments in associates from cost model to fair value model as per Ind AS 109. Management judged that this policy provides reliable and more relevant information because dividend income and changes in fair value are inextricably linked as integral components of the financial performance of an investment in an associate and measurement at fair value is necessary if that financial performance is to be reported in a more meaningful way. This change in accounting policy has

been accounted for retrospectively. The comparative information has been restated. A new line item, 'Other income — change in the fair value of investment in associate', has been added in the Statement of Profit and Loss and Retained Earnings. The effect of the restatement has been to add income of ₹ 2,000 as a result of the increase in value of the associate during the year ended 31st March, 20X2 which resulted in ₹ 1,400 increase in profit for the year (after including a resulting increase in income tax expense of ₹ 600). This, together with ₹ 10,500 (increase) restatement of retained earnings at 31st March, 20X1, resulted in a ₹ 11,900 increase in retained earnings at 31st March, 20X2. Furthermore, profit for the year ended 31st March, 20X3 was ₹ 3,500 higher (after deducting ₹ 1,500 tax effect) as a result of recording a further ₹ 5,000 (W.N.2) increase in the fair value of the investment in an associate.

Working Notes:

1. ₹ 86,500 (given) minus ₹ 6,500 correction of error (now recognised as an expense in 20X1-20X2) minus ₹ 900 (W.N.9) effect of the change in accounting estimate.
2. ₹ 25,000 fair value (20X2-20X3) minus ₹ 20,000 fair value (20X1-20X2) = ₹ 5,000 (the effect of applying the new accounting policy (fair value model) in 20X2-20X3).
3. ₹ 5,250 + ₹ 1,950 (W.N.8) + 30% (₹ 900 (W.N.9) reduction in depreciation resulting from the change in accounting estimate) + 30% (₹ 5,000 increase in the fair value of investment property — change in accounting policy) = ₹ 8,970.
4. ₹ 53,500 as previously stated + ₹ 6,500 (products sold and incorrectly included in closing inventory in 20X1-20X2) = ₹ 60,000 (that is, the prior period error is corrected retrospectively by restating the comparative amounts).
5. ₹ 20,000 fair value (20X1-20X2) minus ₹ 18,000 fair value (20X0-20X1) = ₹ 2,000 (the effect in 20X1-20X2 of the change in accounting policy for investments in associates from the cost model to the fair value model).
6. ₹ 6,000 as previously stated minus ₹ 1,950 (W.N.8) correction of prior period error + 30% (₹ 2,000 change in accounting policy) = ₹ 4,650.
7. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1 -20X2) – ₹ 1,950 (W.N.8) (tax overstated in 20X1-20X2) = ₹ 4,550.
8. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1 -20X2) x 30% (income tax rate) = ₹ 1,950.
9. ₹ 1,500 depreciation (using old estimate, that is, ₹ 6,000 cost ÷ 4 years) minus ₹ 600 (W.N.10) (using new estimate of useful life) = ₹ 900.
10. ₹ 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = ₹ 600 depreciation per year.
11. [₹ 6,000 cost minus (₹ 1,500 depreciation x 2 years)] = ₹ 3,000 carrying amount at 31st March, 20X2.
12. (₹ 18,000 fair value of investment in associates at 31 st March, 20X1 minus ₹ 3,000 carrying amount based on the cost model at the same date) x 0.7 (to reflect 30% income

tax rate) = ₹ 10,500 (effect of a change in accounting policy (from cost model to fair value model)).

13. ₹ 10,500 (W.N.12) + [₹ 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = ₹ 11,900.

Q26: HG Incredibles Limited had in the recent past made a right issue. In its offer document to its members, it had projected a surplus of ₹ 50 crores during the year ending 31.03.2023. The draft result for the year ended 31.03.2023, prepared on the hitherto followed accounting policies and presented for perusal of the Board of Directors showed a surplus of ₹ 5 Crores. The Board in consultation with the Managing Director, decided on the following:

- Value year-end Inventory at Works Cost (₹ 40 Crores) instead of hitherto method of valuation of inventory at Prime Cost (₹ 20 Crores);
- Not to provide for "After Sales Expenses" during the warranty period. Till the last year, provision for 1% of Sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against provision. The Board now decided to account for expenses as and when actually they are incurred. Sales during the year was ₹ 800 Crores;
- Provide depreciation for the year on Straight Line Method on account of substantial additions in Gross Block during the year, instead of on Reducing Balance Method, which was hitherto adopted. As a consequence, ₹ 21 Crores depreciation is now less charged than it would have been provided under the old method. (₹ 67 Crores on Reducing Balance method and ₹ 46 Crores in Straight Line Method).
- Provide for other than temporary fall in the value of investments, which fall took place in last 6 years, amounting to ₹ 12 Crores.

Discuss the above situations as per applicable Ind AS, particularly Ind AS 8. Whether the above are changes in accounting policies or changes in estimates? **[Exam Nov 23 (5 Marks)]**

Ans: (i) Paragraph 36(a) of Ind AS 2, 'Inventories', specifically requires disclosure of 'cost formula used' as a part of disclosure of accounting policies adopted in measurement of inventories.

Accordingly, a change in cost formula is a change in accounting policy. The entity should apply the change in the accounting policy retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

(ii) Here, since the question talks about making of provision, it is assumed that assurance warranty has been provided by the entity. Further, providing for 1% against after sales expenses is an accounting policy decision. Now since, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred, there is a change in accounting policy decision.

The change in accounting policy is accounted for retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

- (iii) Determination of depreciation method involves an accounting estimate and thus depreciation method is not a matter of an accounting policy. Accordingly, as per Ind AS 16, a change in depreciation method should be accounted for as a change in accounting estimate in accordance with Ind AS 8. Change in accounting estimate is accounted for prospectively. However, the effect of the change is recognised as income or expense of the year in which the change is made. The effect, if any, on future periods is recognised as income or expense in those future periods.
- (iv) Accounting for investment made by the entity falls under the purview of Ind AS 109 'Financial Instruments'. As per Ind AS 109, subsequent measurement of financial instruments is done on following basis:
- Measured at Amortised cost
 - Measured at Fair value through Other Comprehensive Income (FVTOCI)
 - Measured at Fair value through Profit or Loss (FVTPL)

In case the entity has subsequently measured its financial asset i.e. investment on the basis of FVTOCI or FVTPL, then change in fair value would have been recorded earlier in previous reporting period too. In such a case, there is no change in accounting policy or accounting estimate. However, if the entity had not accounted for previous changes in its books, then it is an error. If the material error occurred before the earliest prior period presented, an entity shall, unless impracticable, correct the same retrospectively in the first set of financial statements approved for issue after their discovery by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, fair value change is to be accounted for at every reporting date. Hence, restatement of the comparative amounts for the prior period(s) presented in which the error occurred is also required to be done.

Further, if an entity reclassifies any financial asset, it must do so prospectively from reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification of financial asset will be accounted for in accordance with the guidance given in Ind AS 109.

Q27: You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate

- a) As per the judgement of the court an arrear of salaries and wages relating to previous year amounting to ₹ 15,00,000 will be paid in the current year. At the end of the previous year,

the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.

- b) Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight
- c) The amount of provision for doubtful debts as at the end of the previous year was ₹ 10,00,000 of which debts of ₹ 6,00,000 were realized during the current year.
- d) Company had taken a Group Insurance policy. During the previous year due to a mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

[Exam Nov 24 (4 Marks); MTP Jan 2026]

- Ans:** a) In case, it is assumed that the judgement of court has been received after the approval of previous year's financial statements of the reporting entity and the probability for payment of arrears of salaries and wages was remote in the previous year because of which the entity had neither made any provision or disclosure, then the liability for arrears of salary and wages would be considered as a change in accounting estimate in the current year.

Alternatively, if it is assumed that in case the judgement of court has been received before the approval of financial statements of the previous year, then the entity should have adjusted the liability in that year itself. In the absence of said accounting treatment in the previous year, it will be considered a mistake and would be accounted for as a prior period error.

- b) In the given case, since the information regarding expenses of ₹ 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.
- c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, Financial Instruments, is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.
- d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.

Chp Nov 26

Q28: During 20X3, T Ltd. discovered that prepayments of ₹ 680 made during 20X1 had not been recognised in profit or loss as the related expenses were incurred. The prepayments should have

been recognised as an expense of ₹ 170 in 20X1; ₹ 425 in 20X2; and ₹ 85 in 20X3. The misstatement is material.

Extract from draft 20X3 Statement of Profit and Loss before correction of error

	Draft 20X3	20X2
Revenue	10,200	6,800
Less: Expenses	(9,350)	(6,120)
Net profit		850
		680

Extract from Statement of Changes in Equity

	Draft 20X3	20X2
Opening retained earnings	24,480	23,800
Add: Current-year net profit	850	680
Closing retained earnings	25,330	24,480

The opening balance of retained earnings is adjusted and comparatives are restated when practicable to reflect the correction of the error. Assume there are no tax effects.

Required:

Draw the revised Statement of Profit and Loss (extract) and Statement of Changes in Equity (extract) after rectifying the above error. [RTP Jan 2026]

Ans: In restating the comparatives, the adjustment will be included in the appropriate line item. In addition, the financial statements will include full disclosure regarding the error and the adjustments made to correct it as per para 49 of Ind AS 8. The restated comparative financial statements should be accompanied with the heading 'restated' to highlight for users the fact that the comparative financial statements are not the same as the financial statements previously published.

Statement of Profit and Loss after correction of error (Extract)

	20X3	20X2 (Restated)
	₹	₹
Revenue	10,200	6,800
Less: Expenses (9,350 + 85)	(9,435)	(6,545)
Net profit	765	255

Statement of Changes in Equity (Extract)

	20X3 ₹	20X2 (Restated) ₹
Opening retained earnings as reported previously	-	23,800

Correction of an error related to previous years	_____ -	<u>(170)</u>
Opening retained earnings (restated)	23,885	23,630
Current-year net profit	<u>765</u>	<u>255</u>
Closing retained earnings	<u>24,650</u>	<u>23,885</u>