This accounting policy paper is based on IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors, as adopted by the Treasury of the Republic of Cyprus.

Accounting Policies, Changes in Accounting Estimates and Errors

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1. INTRODUCTION

1.1 ISSUES ADDRESSED

This accounting policy addresses the following:

- Selection and changes in accounting policies
- Changes in accounting estimates
- Correction of errors

1.2 OBJECTIVES

The objective of this accounting policy is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

This accounting policy shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and correction of prior period errors.

1.4 DEFINITIONS

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the entity in preparing and presenting financial statements.

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 correction of errors.

Impracticable - Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

a) The effects of the retrospective application or retrospective restatement are not determinable;
b) The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
    i. Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured, or disclosed; and
    ii. Would have been available when the financial statements for that prior period were authorised for issue;

from other information.

Material - Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. The concept of materiality shall be applied as described in paragraph 2.4 of the accounting policy for Presentation of Financial Statements.

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

a) Was available when financial statements for those periods were authorised 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.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively are:

a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
b) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. ACCOUNTING POLICIES

2.1 SELECTION AND APPLICATION OF ACCOUNTING POLICIES

When an IPSAS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.

In the absence of an IPSAS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

a) Relevant to the decision-making needs of users; and

b) Reliable, in that the financial statements:

   i. Represent faithfully the financial position, financial performance and cashflows of the entity;
   ii. Reflect the economic substance of transactions, other events and conditions and not merely their legal form;
   iii. Are neutral, i.e. free from bias;
   iv. Are prudent; and
   v. Are complete in all material respects.

In making the above judgement, management shall consider the requirements in IPSASs dealing with similar and related issues, the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSASs, the most recent pronouncements of other standard setting bodies, such as IFRSs, and the accepted public or private sector practices.

The entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions. The entity shall also apply its accounting policies consistently from year to year.

2.2 Changes in Accounting Policies

The entity shall change an accounting policy only if the change is required by an IPSAS or if it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.

For example, a change from one basis of accounting to another basis of accounting is a change in accounting policy. Similarly, a change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

On the other hand, the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial is not regarded as a change in accounting policy.

2.2.1 Applying Changes in Accounting Policies

The entity shall account for a change in accounting policy resulting from the initial application of an IPSAS in accordance with the specific transitional provisions in the respective Standard. In the absence of specific transitional provisions, or in the event of a voluntary change in accounting policy, the change shall be applied retrospectively.

2.2.2 Retrospective Application of Changes in Accounting Policies

When a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of net assets/ equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine either:

a) the period-specific effects of the change; in this case the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which the retrospective application is practicable and shall make a corresponding adjustment to the opening balance of each affected component of net assets/ equity for that period; or

b) the cumulative effect of the change; in this case, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

3. CHANGES IN ACCOUNTING ESTIMATES

The need for estimation is a result of uncertainties inherent in conducting the entity's operations, due to which items in the financial statements can only be estimated. Estimation involves judgements based on the latest available, reliable information.

The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

For example, estimates may be required of:

a) Tax revenue due to government;
b) Bad debts arising from uncollected taxes;
c) Inventory obsolescence;
d) The fair value of financial assets or financial liabilities;

e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage of completion of road construction; and
f) Warranty obligations.

Where a change in accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/ equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or net assets/ equity item in the period of the change.

In any other case, a change in accounting estimate shall be recognised prospectively by including it in surplus or deficit in:

i. The period of change, if the change affects the period only; or
ii. The period of the change and future periods, if the change affects both.

4. ERRORS

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of the financial statements.

4.1 RETROSPECTIVE CORRECTION OF ERRORS

The entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

a) Restating the comparative amounts for prior periods presented in which the error occurred; or
b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/ equity for the earliest period presented.

A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either:

a) the period-specific effects of an error on comparative information; in this case the entity shall restate the opening balances of assets, liabilities and the net assets/ equity for the earliest period for which the retrospective restatement is practicable (which may be the current period); or

b) the cumulative effect of an error on all prior periods; in this case the entity shall restate the comparative information to correct the error prospectively from the earlier date practicable.

5. DISCLOSURE

5.1 DISCLOSURE FOR CHANGES IN ACCOUNTING POLICIES

5.1.1 INITIAL APPLICATION OF AN IPSAS

When an initial application of an IPSAS:

a) Has an effect on the current period or any prior period,
b) Would have such an effect, except that it is impracticable to determine the amount of the adjustment, or
c) Might have an effect on future periods,

the entity shall disclose:

a) The title of the Standard;
b) That the change in accounting policy is made in accordance with its transitional provisions, when applicable;
c) The nature of the change in accounting policy;
d) A description of the transitional provisions, when applicable;
e) The transitional provisions that might have an effect on future periods, when applicable;
f) For the current period, and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
g) The amount of the adjustment relating to periods before those presented, to the extent practicable;
h) If retrospective application required is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods shall not repeat these disclosures.

5.1.2 VOLUNTARY CHANGE IN ACCOUNTING POLICY

When a voluntary change in accounting policy:

a) Has an effect on the current period or any prior period,

b) Would have such an effect, except that it is impracticable to determine the amount of the adjustment, or
c) Might have an effect on future periods,

the entity shall disclose:

a) The nature of the change in accounting policy;
b) The reasons why applying the new accounting policy provides reliable and more relevant information;
c) For the current period and each period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
d) The amount of the adjustment relating to periods before those presented, to the extent practicable; and
e) If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods shall not repeat these disclosures.

5.1.3 Non-Application of an IPSAS Issued but not yet Effective

When an entity has not applied a new IPSAS 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 Standard will have on the entity's financial statements in the period of initial application. Specifically, the entity shall disclose:
    i. The nature of the impending change or changes in accounting policy;
    ii. The date by which application of the Standard is required;
    iii. The date as at which it plans to apply the Standard initially; and
    iv. A discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

5.2 Disclosure for Changes in Accounting Estimates

The entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect, in which case the entity shall disclose that fact.

5.3 Disclosure for Errors

The entity shall disclose the following:

a) The nature of the prior period error;
b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
c) The amount of the correction at the beginning of the earliest prior period presented; and
d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods shall not repeat these disclosures.

6. TRANSITIONAL PROVISIONS

No transitional exemptions are provided on the adoption of IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors".

Estimates made by the entity on the first time of adoption of IPSASs shall be consistent with estimates made in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were inconsistent with the requirements of IPSASs.

Information received by the entity after the date of adoption of IPSASs about estimates that it had made under its previous basis of accounting shall be treated in the same way as non-adjusting events after the reporting date, in accordance with IPSAS 14 Events after the Reporting Date and the respective accounting policy adopted.

7. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2023.

8. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

The Applicability of IPSASs