Distinguishing changes in accounting policies and prior period errors

Based on Standards of GRAP effective 1 April 2025

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Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

What will you learn?

- ✓ Understand definitions in terms of GRAP 3
- ✓ Differentiate between changes in accounting policies and prior period errors
- ✓ Apply correct treatment and disclosure requirements

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Defining and distinguishing changes in accounting policies and prior period errors

No	Change in accounting policy	Prior period error
What is the definition	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.	Omissions or misstatements in prior financial statements due to failure to use, or misuse of, reliable information available when those statements were authorised, are reasonably expected to be obtained.
When does it occur	✓ Required by a new or amended Standard of GRAP. ✓ Voluntary if it results in more reliable and relevant information.	✓ Mathematical mistakes ✓ Misapplication of accounting policies ✓ Oversights ✓ Misinterpretations ✓ fraud

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Defining and distinguishing changes in accounting policies and prior period errors

No	Change in accounting policy	Prior period error
Treatment	Apply **retrospectively** (or as otherwise determined by the transitional provisions, if applicable) unless impracticable.	Correct **retrospectively** by restating prior periods unless impracticable.
Example	✓ Previous policy was correct under GRAP; the change reflects a new requirement or amendment. ✓ Moving from cost model to revaluation model for PPE when GRAP permits.	✓ Previous accounting was incorrect given the information available at the time. ✓ An asset recorded in the asset register, but the carrying amount is not included in the PPE balance at year end.

Defining and distinguishing changes in accounting policies and prior period errors

Are the following changes in accounting policies or errors?

- ✓ Applying an existing policy to transactions or events that are substantively different from those seen before.
- ✓ Using a new policy for transactions or conditions that did not previously occur.
- ✓ Applying a policy to transactions or conditions that were previously immaterial.
- ✓ Switching between cost and fair value models only because a reliable fair value measure is unavailable for an asset that GRAP otherwise requires or permits to be measured at fair value

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What are the disclosure requirements?

Changes in accounting policies

Disclose the nature, reason, and amount of adjustment for each prior period.

Prior period error

Disclose the nature, amount of correction per line item, and circumstances if retrospective restatement is impracticable.

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