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RÉPUBLIQUE FRANÇAISE

CNOCP
Conseil de normalisation des comptes publics

Note presenting Opinion n° 2012-05 of 18 October 2012 relating to changes in accounting policies, changes in accounting estimates, and corrections of errors

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ET DES FINANCES

1. Objective

The purpose of the opinion is to harmonise and clarify the accounting treatment and disclosures to be provided concerning changes in accounting policies, changes in accounting estimates and correction of errors for public entities.

2. Scope

The opinion applies specifically to:

- the Central Government;

- public establishments, in particular those within the scope of budgetary, financial and accounting instructions M9-1 (public establishments of an administrative nature), M9-2 (chambers of agriculture), M9-3 (public establishments of a scientific, cultural or professional nature), M9-4 (public establishments for the planning of new towns), M9-7 (public establishments for promoting cultural activities abroad), M9-9 (local authorities for teaching and professional training in agriculture) and M9-10 (national public establishments for teaching and professional training in agriculture);

- social security organisations applying the *"Plan comptable unique des organismes de sécurité sociale (PCUOSS)"* or sets of standards adapted from PCUOSS;

- public establishments of health, regional and local authorities excluding public service of an industrial and commercial nature (within the scope of budgetary, financial and accounting instruction M4);

- other public entities (chambers of trade and crafts, etc.).

The opinion relating to changes in accounting policies, changes in accounting estimates and corrections of errors does not modify the substance of standard 14 included in the Central Government Accounting Standards, and the opinions - that it supersedes - on the same subject for the public establishments within the scope of the budgetary, financial and accounting instructions M9-1 and M9-3[1] and for public establishments of health within the scope of budgetary and accounting instruction M21[2]. Requirements of the opinion were still applicable to these entities.

3. Relationship between this opinion and the other sets of standards

The opinion was drafted based on the general principles governing business accounting. However, the provisions from the French General Chart of Accounts and from international sets of standards differ on some points. The reasons that led to favour certain provisions regarding corrections of errors are presented below.

The provisions of this standard do not make explicit reference to the notion of materiality, since the materiality principle underlines all accounting standards[3], both to the public sector[4] and the private sector[5].

[1] Opinion n° 2010-02 of 30 June 2010 of the Public Sector Accounting Standards Council relating to changes in accounting policies, changes in accounting estimates and corrections of errors to public establishments within the scope of budgetary, financial and accounting instructions M9-1 and M9-3.

[2] Opinion n° 2011-04 of 27 May 2011 of the Public Sector Accounting Standards Council relating to changes in accounting policies, changes in accounting estimates and corrections of errors to public establishments of health within the scope of budgetary, financial and accounting instruction M21.

[3] Materiality and significance are not expressly defined in French accounting regulations.

[4] For a definition of materiality, see section III.1 of the conceptual framework for Central Government Accounting Standards. This states that “the relevance of information is influenced by its nature and its materiality. Materiality describes the value of the information contained in the financial statements for decision-makers. A piece of information or a combination of information is deemed to be material if its omission, non-disclosure or misrepresentation can have an influence on the decisions made by users”.

[5] Under IAS1 revised in 2003, « each material class of similar items must be presented separately in financial statements. Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity ».

3.1. Changes in accounting policies

Public entities accounting for changes in accounting policies is based on the standards applicable in the private sector[6].

A change in accounting policy shall be applied retrospectively. This change in accounting policy shall take effect in the period in which the new policy is applied with the adjustment of each affected component of assets, liabilities and equity in the opening balance of this period.

Moreover the comparative amounts[7] disclosed shall be presented as if the new accounting policy had always been applied[8].

3.2. Changes in accounting estimates

Public entities accounting for changes in accounting estimates is based on the standards applicable in the private sector[9]. The concept of "changes in practical

[6] The provisions of Opinion No. 97.06 of 18 June 1997 issued by the French National Accounting Council (CNC) on changes in accounting policies, accounting estimates and tax options, and corrections of errors, were transposed into article 314-1 of the French General Chart of Accounts. This opinion complies with these provisions. The provisions set out in article L.123-17 of the French Commercial Code regarding changes in accounting policies (taken up in article 120-4 of the French General Chart of Accounts) state that "Unless there is an exceptional change in the situation of the business, (...), the presentation of annual financial statements along with the valuation methods used cannot be modified from one year to the next". These provisions are not included in central government accounting Standard 14, where changes in accounting policies should "(...) provide financial statements containing reliable and more relevant information about net assets and financial position (...)" (see paragraph 2.2.1 of the standard) and should therefore be driven by a wish to improve the quality of financial information. The provisions of the French Commercial Code are not taken up in the international accounting standards IFRS and IPSAS, which also present the improved quality of financial information as the reason for changing an accounting policy.
The provisions of the opinion of the council relating to changes in accounting policies, changes in accounting estimates and corrections of errors also comply with IAS 8 and IPSAS 3 "Accounting policies, changes in accounting estimates and errors".

[7] For each (one or more) prior period presented.

[8] This accounting treatment differs from that provided by the international standards because it distinguishes on the one hand the adjustment of accounts that occurs only, and on the other hand the restatement of accounts which is the presentation of prior periods closed.

[9] The provisions of Opinion No. 97.06 of 18 June 1997 issued by the French National Accounting Council (CNC) on changes in accounting policies, accounting estimates and tax options, and corrections of errors, were transposed into article 314-1 of the French General Chart of Accounts. This opinion complies with these provisions.

procedures" (similar in nature to changes in accounting estimates), as defined on the Opinion N° 97-06 issued by the French National Accounting Council (CNC) is included in this opinion.

3.3. Corrections of errors

Changes on the provisions relating to corrections of errors are the main changes of the opinion for entities within its scope off the Central Government, the public establishment within the scope of the budgetary, financial and accounting instructions M9-1 and M9-3, and the public establishments of health within the scope of the budgetary and accounting instruction M21.

The overriding concern is the relevance of the information provided in the surplus/deficit statement. Surplus/deficit for the period should not be affected by correcting errors made in prior periods. One of the particularities of the public entities within the scope of the opinion is that budget surplus/deficit and accounting surplus/deficit must be consistent. This consistency differs among the different public entities:

- for the Central government it is based on a linkage between the budget accounting system and the general purpose accounting system, seeking to create simple relations between these two systems (see conceptual framework, II-3);

- for the regional and local authorities both budgetary and accounting approaches largely overlap so that operations impacting the accounting surplus/deficit necessarily implies a budgetary transaction.

Consequently, the opinion requires errors to be corrected in the period in which they are discovered and the opening balance of the affected components of assets, liabilities and equity for this period to be adjusted to reflect the impact of correcting the error in prior periods.

The opinion requires the comparative amounts disclosed for each prior period presented to be corrected for this error, by adjusting the affected components of

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The provisions of the opinion of the council relating to changes in accounting policies, changes in accounting estimates and corrections of errors also comply with IAS 8 and IPSAS 3 "Accounting policies, changes in accounting estimates and errors".

assets, liabilities, equity and/or surplus/deficit. This treatment complies with international accounting standards and in particular IPSAS 3 “Accounting policies, changes in accounting estimates and errors”.

4. Requirements

4.1. Changes in accounting policies

4.1.1. Definition of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. They result in financial statements containing relevant and reliable information about the transactions and events to which they apply.

4.1.1.1. Absence of accounting policies

In the absence of an accounting policy that specifically applies to a transaction or event, judgment shall be used in developing and applying an accounting policy that results in accounting information compliant with generally accepted accounting principles.

In making the aforementioned judgment, the entity shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements applicable to the entity dealing with similar and related issues;

- the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other applicable accounting standards, laws and regulations and, if necessary, the sets of standards used as guidance.

4.1.1.2. Consistency of accounting policies

If an accounting standard specifically permits categorisation of items for which different policies may be appropriate, the most appropriate accounting policy shall be selected and applied consistently to each category.

4.1.2. Requirements regarding changes in accounting policies

4.1.2.1. Applying change in accounting policies

In accordance with the consistency principle, users of financial statements need to be able to compare the financial statements of an entity over time. Consequently, the same accounting policies shall be applied within each period, and from one period to the next. An accounting policy shall be changed only if the change:

- is required by a text applicable to the entity;
- results in the financial statements providing reliable and more relevant information about the entity's net assets and financial position.

However, the following are not changes in accounting policies:

- the application of an accounting policy to transactions or other events that differ in substance from those previously occurring;
- the application of a new accounting policy to transactions or other events that did not occur previously or that were not material.

4.1.2.2. Recognition and restatement of comparative financial information

General principle

A change in accounting policy shall be applied retrospectively, as if it had always been applied.

A change in accounting policy shall take effect in the period in which the new policy is applied. The opening balance of each affected component of assets, liabilities and equity for this period shall therefore be adjusted to reflect the impact of the new accounting policy as if it had always been applied.

The comparative amounts disclosed for each prior period presented shall be presented as if the new accounting policy had always been applied, by adjusting the affected components of assets, liabilities, equity and/or surplus/deficit.

Limits to the general principle

When it is impracticable[10] to determine the effects of applying the new accounting policy on the affected components of assets, liabilities, equity and/or surplus/deficit in one or more periods presented, the new policy shall be applied at the beginning of the earliest period for which retrospective application is practicable, which may be the current period.

When it is impracticable to determine the effects of applying the new accounting policy on the affected components of assets, liabilities, equity and/or surplus/deficit in all prior periods, the new accounting policy shall be applied prospectively as from the earliest date practicable. The cumulative adjustment to assets, liabilities and equity resulting from transactions or events prior to that date shall therefore be disregarded.

Specific requirements

When the change in accounting policy results from the first-time application of a standard and specific requirements are provided in this respect, the change in accounting policy shall be accounted for in accordance with these specific requirements. These may be transitional provisions, for example.

4.1.2.3. Disclosure

When there is a change in accounting policy, the following information shall be disclosed:

- the nature of the change in accounting policy;
- 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;
- the amount of the adjustment relating to periods before those presented, to the extent practicable.

If a change in accounting policy is required by a text applicable to the entity, the following disclosures shall be provided:

[10] The concept of “impracticable” is defined in the Appendix.

- the text that enforces the change in accounting policy;
- when applicable, that the change in accounting policy is made in accordance with its transitional provisions and a description of those provisions.

In the event of a voluntary change in accounting policy, the entity shall disclose the reasons why applying the new accounting policy provides reliable and more relevant information.

If retrospective application is impracticable for one or more periods presented as comparative information or for periods before those presented, the entity shall disclose the circumstances that led to the existence of that condition and shall describe how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

4.2. Changes in accounting estimates

4.2.1. Definition of accounting estimates

As a result of uncertainties inherent in economic activity and government action, many of the items in the financial statements cannot be measured with precision and can only be estimated. Estimation involves judgment based on the latest available, reliable information.

4.2.2. Requirements regarding changes in accounting estimates

4.2.2.1. Applying change in accounting estimates

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. A change in estimate is an adjustment to the carrying amount of an asset or liability or to the periodic consumption of an asset, resulting from an assessment of the current situation of assets and liabilities and the estimated benefits and obligations expected associated with in the future. Changes in accounting estimates result from new information or new developments, and accordingly, are not corrections of errors.

The application of accounting policies and principles is based on practical procedures selected by the entity. These may change over time for a given policy or principle.

Differences and changes in practical procedures are normal and similar in nature to changes in accounting estimates.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in accounting estimate.

4.2.2.2. Recognition and restatement of comparative financial information

By nature, changes in accounting estimates only affect the current period and future periods and can only be accounted for prospectively. The impact of the change for the current period is recognised in the financial statements for that period[11].

Prospective application of the effect of a change in accounting estimate means that the change is applied to transactions and events from the date of the change in estimate, i.e., the current period and future periods, if these are also affected by the change

4.2.2.3. Disclosure

The entity shall disclose the nature and amount of any change in accounting estimate having an impact on the current period or expected to have an impact in subsequent periods, with the exception of the impact on future periods when it is impracticable to estimate this impact. Mention should be made of any impact an future periods not indicated for reasons of impracticability.

[11] Changes in estimates may affect various lines of the surplus/deficit statement and balance sheet.

4.3. Corrections of errors

4.3.1. Definition of errors

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:

- was available when financial statements for those periods were authorised for issue; and

- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Errors may arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

4.3.2. Requirements regarding corrections of errors

4.3.2.1. Recognition and restatement of comparative financial information

General principle

In accordance with the particularity of the public entities raised in paragraph 3.3 above, prior period errors are corrected retrospectively. Accordingly, the correction of a prior period error is excluded from the surplus or deficit for the period in which the error is discovered.

An error is corrected in the period in which it is discovered. Consequently, the opening balance of the affected components of assets, liabilities and equity for that period shall be adjusted to reflect the impact of correcting the error in prior periods.

The comparative amounts disclosed for each prior period presented shall be corrected for this error, by adjusting the affected components of assets, liabilities, equity and/or surplus/deficit.

Limits to the general principle

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable[12] to determine the effects of an error on the affected components of assets, liabilities, equity and/or surplus/deficit in one or more prior periods presented, the error shall be restated at the beginning of the earliest period for which retrospective restatement is practicable, which may be the current period.

When it is impracticable to determine the effects of an error on the affected components of assets, liabilities, equity and/or surplus/deficit in all prior periods, the error shall be corrected prospectively from the earliest date practicable. The cumulative adjustment to assets, liabilities and equity resulting from transactions or events prior to that date shall therefore be disregarded.

4.3.2.2. Disclosure

When a prior period error is corrected, the following information shall be disclosed:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- the amount of the correction at the beginning of the earliest prior period presented.

If retrospective restatement is impracticable for a particular prior period, the entity shall disclose the circumstances that led to the existence of that condition and describe how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

[12] The concept of “impracticable” is defined in the Appendix.

5. Qualification of the change

Regarding corrections of errors, some public sector entities may use in the past a different method as this endorsed in the opinion, in correcting the error with impact in the surplus/deficit statement. The Council considers that retrospective application is not relevant to the situations concerned and that errors corrected in the past should not be restated. The other provisions of the opinion concern changes in wording made to harmonise and clarify the public sector requirements regarding changes in accounting policies, changes in accounting estimates and corrections of errors.

6. Effective date

The Public Sector Accounting Standards Council is of the opinion that these provisions should be applied as from 2013 (reporting period ending the 31st December 2013), with earlier application permitted.

EXAMPLES – IMPRACTICABILITY IN RESPECT OF RETROSPECTIVE APPLICATION

In some circumstances, it is impracticable to determine either the period-specific effects or the cumulative effect of a retrospective restatement to provide financial information for one or more prior periods comparable with the current period.

For example, certain data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

In other cases, it is necessary to make estimates in applying an accounting policy to elements of financial statements

Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the event concerned.

However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely for the estimate to reflect the circumstances that existed when the transaction or event occurred. Therefore, information that subsequently came to light shall not be used to apply a new accounting policy or correct a prior period error.

Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

- provides evidence of circumstances that existed on the date(s) as at which the transaction or event occurred ;

- would have been available when the financial statements for that prior period were authorised for issue.

When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

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