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RÉPUBLIQUE FRANÇAISE

CNOCP
Conseil de normalisation des comptes publics

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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MINISTÈRE DE L'ÉCONOMIE
ET DES FINANCES

1. Scope

The opinion applies in selecting the appropriate accounting treatment and disclosures to be provided concerning changes in accounting policies, changes in accounting estimates and corrections of errors for public entities excluded public establishments of an industrial and commercial nature [1].

2. Changes in accounting policies

2.1. 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.

2.1.1. 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.

[1] Are excluded from the scope the public establishments within the scope of budgetary, financial and accounting instructions M9-5 (public establishments of an industrial and commercial nature), M9-51 (public land agencies) and M4 (public services of an industrial and commercial nature).

2.1.2. 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.

2.2. Requirements regarding changes in accounting policies

2.2.1. 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.

2.2.2. Recognition and restatement of comparative financial information

2.2.2.1. 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.

2.2.2.2. Limits to the general principle

When it is impracticable[2] 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.

2.2.2.3. 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.

2.2.3. 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.

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

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

- 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.

3. Changes in accounting estimates

3.1. 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.

3.2. Requirements regarding changes in accounting estimates

3.2.1. 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.

3.2.2. 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[3].

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.

3.2.3. 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 on future periods not indicated for reasons of impracticability.

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

4. Corrections of errors

4.1. 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.

4.2. Requirements regarding corrections of errors

4.2.1. Recognition and restatement of comparative financial information

4.2.1.1. General principle

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.

4.2.1.2. 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[4] 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.

4.2.2. 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.

[4] 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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