

# What are Accounting Policies and Required Disclosures?

## Worksheet

Accounting policies are the specific rules an entity uses to prepare its financial statements (e.g. FIFO vs weighted-average inventory costing), and required disclosures are the notes explaining which policies were used, why, and how any changes were applied.

## Questions

1. Which standard governs the selection and disclosure of accounting policies?
  - A) IAS 1
  - B) IAS 8
  - C) IAS 16
  - D) IAS 37
2. A company changes the useful life of a machine based on new information. This is a...
  - A) Change in accounting policy
  - B) Change in accounting estimate
  - C) Prior period error
  - D) Change in presentation
3. How is a voluntary change in accounting policy usually applied?
  - A) Prospectively only
  - B) Never applied
  - C) Retrospectively, restating prior periods
  - D) Ignored until next audit
4. What must accounting policy disclosures allow users to do?
  - A) Predict future stock prices
  - B) Compare financial statements across periods and entities
  - C) Avoid paying taxes
  - D) Skip the audit
5. A company switches its inventory costing method from FIFO to weighted-average because it better reflects the pattern of consumption of economic benefits. What must it disclose?
6. A company starts holding cryptocurrency for investment but no IFRS standard directly addresses it. How does it select an accounting policy?
7. A company revises the useful life of its equipment from 10 years to 7 years based on new usage data. Is this a policy change or something else, and what is disclosed?
8. Define: What is an accounting policy?
9. Define: When can a company change an accounting policy?
10. Define: Is a change in useful life a policy change?

## Answer Key

1. B) IAS 8 - IAS 8 covers accounting policies, changes in estimates, and errors.
2. B) Change in accounting estimate - Revising an estimate like useful life is a change in accounting estimate, applied prospectively.
3. C) Retrospectively, restating prior periods - IAS 8 requires retrospective application for voluntary policy changes, unless impracticable.
4. B) Compare financial statements across periods and entities - Clear, consistent policy disclosure supports comparability, a core qualitative characteristic.
5. Identify this as a voluntary change in accounting policy under IAS 8 Disclose the nature of the change and the reason it provides more reliable, relevant information Disclose the amount of the adjustment for the current and each prior period presented Apply the new policy retrospectively, restating prior periods where practicable
6. Confirm no standard specifically applies (IAS 8.10) Refer to the IASB Conceptual Framework and requirements for similar/related issues Consider recent pronouncements from other standard-setters with a similar framework Develop and disclose a policy that gives relevant, faithfully represented information
7. Classify this as a change in accounting estimate, not a change in accounting policy Apply the change prospectively - no restatement of prior periods Disclose the nature and amount of the change, and its effect on current and future periods
8. The specific principles, bases, conventions, rules and practices a company applies to prepare its financial statements.
9. Only if required by a standard, or if the change results in more relevant and reliable information.
10. No - it's a change in accounting estimate, applied prospectively, not retrospectively.

### **Bounlu**

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