

November 21, 2017

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Comments on the “Exposure Draft Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)”**

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the continued efforts of the International Accounting Standards Board and welcomes the opportunity to comment on the “**Exposure Draft Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)**”.

Attached are our comments on the question regarding the ED.

Please feel free to contact the undersigned for any clarification or further information.

Thanking you.

Yours truly



Dr. Ahmad Almeghames  
Secretary General

## **ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (PROPOSED AMENDMENTS TO IAS 8)**

**Issue Date – September 2017**

**Comments deadline – 15 January 2018**

### **Question 1**

The Board proposes clarifying the definition of accounting policies by removing the terms ‘conventions’ and ‘rules’ and replacing the term ‘bases’ with the term ‘measurement bases’ (see paragraph 5 and paragraphs BC5–BC8 of the Basis for Conclusions).

**Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

Answer – Yes as this would clarify the definition of accounting policies.

### **Question 2**

The Board proposes:

(a) clarifying how accounting policies and accounting estimates relate to each other, by explaining that accounting estimates are used in applying accounting policies; and

(b) adding a definition of accounting estimates and removing the definition of a change in accounting estimate (see paragraph 5 and paragraphs BC9–BC16 of the Basis for Conclusions).

**Do you agree with these proposed amendments? Why or why not? If not, what do you propose and why?**

Answer – Yes for the addition of the accounting estimate. However, we suggest keeping the definition of "change in accounting estimates". We believe that such definition is important, as it is the official reference for distinguishing such changes from errors.

### **Question 3**

The Board proposes clarifying that when an item in the financial statements cannot be measured with precision, selecting an estimation technique or valuation technique

**constitutes making an accounting estimate to use in applying an accounting policy for that item (see paragraph 32A and paragraph BC18 of the Basis for Conclusions).**

**Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

Answer – Yes. We agree that the use of an estimation technique or valuation technique involves considerable amount of judgement to the degree that warrant such use to be among the estimates that the management ought to do.

#### **Question 4**

**The Board proposes clarifying that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitute selecting an accounting policy (see paragraph 32B and paragraphs BC19–BC20 of the Basis for Conclusions).**

**Do you agree with this proposed amendment? Why or why not? If not, what do you propose and why?**

Answer – No. While Paragraph 32A consider that the selection of an estimation technique or valuation technique constitutes making an accounting estimate to measure an item that involves the use of judgement or assumptions in applying the accounting policy for that item, paragraph 32B, however, consider that the selection of the two cost formulas for ordinarily interchangeable inventories constitutes a selection of an accounting policy without giving a clear reasoning why the board see no involvement of the use of judgment and assumption. We, however, believe that selection of inventories valuation formula involves the use of judgment and assumption.

Further, and according to the amended definition of "Accounting policy" which remove "conventions" and "rules" and confirm "measurement bases" as the only attribute of "accounting policy, we see that a change in inventory formula does not relate to a change in "measurement basis" which is still the cost. It is rather for a better reflection of the remaining historical cost of the asset or a better reflection of the pattern of the consumption of the benefit, exactly as the case with the change in depreciation policy. Taking in consideration the cost/benefit and practicality of retrospective application of such change in inventory methods, we do not see any difference between changes of inventory valuation techniques and changes in other accounting estimates, especially the change in depreciation methods. Although items of inventory that are ordinarily interchangeable can be, theoretically, measured with precision, the cost/benefit criterion derives the use of valuation technique to estimate the cost of inventory. According to the proposed amendment to paragraph 32, we see that the use of inventory cost formula is necessitated by the need to apply the accounting policy (applying cost as the measurement basis for inventory).

### Question 5

#### Do you have any other comments on the proposals?

We agree to remove the Example from the IG. It was a source of confusion at the stage of transition to the IFRS in Saudi Arabia. However, further example may be added specially for first time adopters.