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Accounting policies, changes in accounting estimates and error

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Abstract

Accounting policies are applied consistently so that financial statements can be easily analyzed and compared from one period to another. In general, the standard requires that the entity must apply accounting policies in preparing reports consistently or not change. Application of accounting policies often requires entities to use accounting estimates. The selection of an accounting estimate is based on the information available at the time the estimate was selected. The selection of an incorrect estimate is influenced by changes in the business environment and evolving technology. For that the entity can change the estimate that has been determined.

Changes in this estimate will then cause the measurement basis of an expense or income to be inconsistent between one period and the next. Therefore, it is necessary to have a special standard that regulates the change in the estimate. PSAK 25 Accounting Policies, Changes in Accounting Estimates and Errors, comprehensively regulates the selection of accounting policies, changes in accounting policies, changes in estimates and correction of errors. PSAK 25 is the adoption of all arrangements in IAS & Accounting Policies, Changes in Accounting Estimates and Errors. The difference with IAS is only related to the effective date and regulations of capital market regulators in the additional definition of financial accounting standards standar.

Keywords: Accounting Policies, Changes in Accounting Estimates and Error

1. Introduction

Financial statements are a structured presentation of the financial position and financial performance of an entity. The purpose of the presentation of financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to most users of financial statements in making economic decisions. In producing a financial report that is useful for the majority of users, there are things that must be considered by management such as the principles, principles, regulations and practices implemented in the preparation of financial statements, all of which are included in accounting policies, the accounting policies themselves have been regulated in the Statement of Standards. Financial Accounting According to PSAK No. 25, accounting policies are certain principles, principles, conventions, rules and practices applied by entities in the preparation and presentation of financial statements. The accounting policies used by companies are the result of management decisions that are useful as a liaison between broad accounting theory and specific practices within the company. The management is allowed to choose one of several accounting policies that have been regulated in financial accounting standards. The basis of management in determining which accounting policies will be applied in the company depends on the situation, conditions and characteristics of the company. When management chooses accounting policies that are not in accordance with the situation, conditions, and characteristics within the company, it is feared that the chosen accounting policies can cause problems in the process of providing financial information to users of the financial statement information. The selection of the right accounting policy will accurately describe the economic reality of the company in terms of financial condition and results of operations.

In general, accounting policies are regulated in a standard, namely Statement of Financial Accounting Standards No. 25. This standard regulates the selection and application of accounting policies, changes in accounting estimates and correction of previous period errors. More specific policies related to technical implementation are regulated in the standards of each item in the financial statements. The accounting policies adopted by the company will have an influence on the recognition, measurement, presentation and disclosure of elements of assets, liabilities, equity, income and expenses in the financial statements. Recognition relates to when and under what conditions an item is recognized, measurement relates to how much or the amount should be recognized, presentation relates to how the item is presented in the financial statements and disclosure relates to the delivery of information about the company presented in the annual report.

Accounting Policies IAS 8, Changes in Accounting Estimates and Errors are applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. These standards require compliance with certain IFRSs that apply to transactions, events or conditions, and provide guidance in developing accounting policies for other items that yield relevant and reliable information. Changes in accounting policies and correction of errors are generally accounted for retrospectively whereas changes in accounting estimates are generally accounted for prospectively. The purpose of this Standard is to define criteria for selecting and changing accounting policies, along with accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. This standard is intended to improve the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities. Disclosure of information for accounting policies, except for changes in accounting policies, is set out in IAS 1 Presentation of Financial Statements.

2. Literature review

Accounting Policies

Accounting policies are certain principles, bases, conventions, rules and practices applied by entities in the preparation and presentation of financial statements. When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policy is applied to the item to be determined by applying IFRS and taking into account any relevant Implementation Guidelines issued by the IASB for IFRS. In the absence of an IFRS that specifically applies to a transaction, other event or condition, management must use its judgment in developing and applying accounting policies that produce information that:

1. Relevant

For the needs of economic decision making by users; and

2. Reliable, in financial statements that:

a. Presenting honestly the financial position, financial performance, and cash flow;
b. Reflecting the economic substance of transactions, other events or conditions, and not just their legal form;
c. Neutral, ie free from bias;
d. Sound considerations; and
e. Complete in all material respects.

Sources of reference for management in making judgments in implementing policies (in order):

1. Requirements and guidelines in PSAK relating to similar and related issues
2. Definition of recognition criteria, measurement concepts for assets, liabilities, income and expenses in the Basic Framework for the Preparation and Presentation of Financial Statements

Management also uses

The latest accounting standards issued by other standard setting bodies that refer to the same KDPPLK

- Accounting literature
- Applicable industry accounting practices
- As long as it does not conflict with the main reference

Changes in Accounting Policies

Changes in accounting policies can be made by an entity by complying with the requirements in the standard PSAK 25 (Revised 2009) which explains that an entity changes an accounting policy only if the change is :

1. Required by a PSAK; or
2. Produce financial reports that provide

Reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
A change in accounting policy occurs when an entity changes its choice of a new accounting policy for the same transaction or event. If an entity applies a new accounting policy for events and transactions that are new and different from the previous one, it is not considered a change in accounting policy.

The following is an example of an event that is a change in accounting policy:

1. Changes in the inventory method from the Average method to the FIFO method
2. Changes in the recognition of construction revenue from the cost recovery method to the percentage of completion method
3. Changes in valuation methods for fixed assets and assetsfrom the cost method to the revaluation method.

According to PSAK 25 (Revised 2009) an entity records changes in accounting policies as a result of the initial adoption of a PSAK in accordance with the transitional provisions in that PSAK. If there are no transitional provisions, the entity applies the changes retrospectively. Provisions are also made retrospectively when an entity changes its accounting policies voluntarily.

When changes in accounting policies are applied retrospectively, an entity shall adjust:

1. Beginning balance of each affected componentfor the earliest serving period; and
2. Other comparative amounts are disclosed for the period presented as if the new accounting policy had been applied previouslyAn entity should change an accounting policyonly if it changes:
   a. required by IFRS; or
   b. produce financial reports that provide reliable informationand more relevant

About the impact of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
Users of financial statements should be able to compare an entity's financial statements over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policy is applied in each period and from one period to the next unless the change in the accounting policy meets one of the criteria in paragraph.
The following are not changes in accounting policies:

a) application of accounting policies for transactions, other events or conditions that differ in substance from those that previously occurred; and
b) application of new accounting policies for transactions, other events or conditions that did not occur previously or are not material

Changes in Accounting Estimates

The use of adequate estimates is an important part of the preparation of financial statements and does not undermine their reliability. A change in an accounting estimate is an adjustment to the carrying amount of an asset or liability, or the amount of periodic consumption of an asset, resulting from an assessment of the present status of, and the expected future benefits and liabilities associated with, the asset and liability. Changes in accounting estimates result from new information or new developments and, accordingly, do not correct errors. The effect of changes in accounting estimates, should be recognized prospectively by including in the income statement in :

a) the period of change, if the change affects the period only; or
b) the period of change and future periods, if the change affects both. To the extent that a change in an accounting estimate gives rise to a change in assets and liabilities, or relates to an item of equity, it should be recognized by adjusting the carrying amount of the related asset, liability or item of equity in the period of the change.

Previous period error

Prior period 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, reliable information that:

a) available when the financial statements for the period have been approved for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of the financial statements.

Such errors include the effects of mathematical errors, errors in applying accounting policies, omissions or misinterpretations of facts, and fraud. Except for transactions it is impracticable to determine either the period-specific effect or the cumulative effect of errors, an entity must correct past, material errors. on a retrospective basis in the first set of financial statements to be published after their discovery with:

a) replicate comparative amounts for the previous period(s) presented in which the error occurred; or
b) if the error occurred prior to the prior period presented, a repeat of the opening balances of assets, liabilities and equity for the prior period presented. When Standards or Special Interpretationsapplicable to transactions, other events or conditions, accounting policies or policies applied to items to be determined by applying the Standards or Interpretations and taking into account any relevant Implementation Guidelines issued by the IASB for Standards or Interpretations. [IAS 8.

3. Research Method

This study uses a literature study, which is research that has the same structure as other studies, but the sources and methods of data collection are taking data from the library, reading, taking notes, and processing research materials. The variables in the literature study research are not standardized. The data obtained were analyzed in depth by the author. The purpose of this paper is to find out the general description of PSAK 25 Accounting Policies, Changes in Accounting Estimates and Errors, comprehensively regulates the selection of accounting policies, changes in accounting policies, changes in estimates and corrections of errors. The previous literature that was researched to complete this paper were published journals.

4. ResultandDiscussionResult

Disclosure of Changes in Accounting Policies

Initial application of a standard or interpretation. When a new standard or interpretation is applied, the entity shall disclose the change if it has an effect on the current or prior periods or has an effect on future periods, but it is not practicable to determine the amount of adjustment required in the current or prior period or required in future periods. Entity must disclose:

- Standard title or interpretation;

Where applicable, that the changes made are in accordance with the
transition requirements;

- The nature of changes in accounting policies;
- Where applicable, a description of the transitional requirements;Where applicable, transitional requirements should have an impact onfuture period; .
- For the current period and for each previous period presented to the extent practicable, the amount of adjustment for each line item of the financial statements; Where applicable, basic and diluted earnings per share for the current period and any prior periods are presented to the extent

practicable; and Where retrospective application is not practicable, the circumstances that rendered the application impracticable and the date from which the accounting policy was applied

Voluntary Changes in Accounting Policies

In the case of voluntary changes in accounting policies, when the previous changes have an impact on the current period or the previous period or have an impact on future periods, but it is not practicable to determine the amount of adjustment required in the current period or prior period or required in the current period. future periods, the entity must make disclosures:

- The nature of the change in accounting policies;
- The rationale for the new policy that provides reliable and more relevant information;
- For the current period and each previous period is presented, to the extent practicable, the amount of adjustment for each line item of the financial statements;
- Where applicable, basic and diluted earnings per share for the current period and any prior periods are presented to the extent practicable practiced; and
- Amounts of adjustments relating to the period before they are presented, to the extent practicable; and If the retroactive application is not practicable, then the circumstances that make the application impracticable and the date from which the accounting policy has been applied

Disclosure of Changes in Accounting Estimates

An entity shall disclose the amount and nature of changes in accounting estimates, which have an effect in the current period. Similarly, the entity shall disclose the expected effect of the changes in future periods, if it is impracticable to do so. In such cases, an entity shall disclose the fact that it is

impracticable to estimate the effects of changes in accounting estimates in future periods. Prospective recognition of the effects of changes in accounting estimates means that the changes are applied to transactions, other events and conditions from the date of the changes in estimates. A change in an accounting estimate may only result in the current period's profit or loss, or the current and future period's profit or loss. For example, a change in the accounting estimate for bad debts only affects the current period's profit or loss and is therefore recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of future economic benefits on, a depreciable asset has an impact on depreciation expense for the current period and any future periods over the remaining useful life. In both cases, the effect of changes related to the current period is recognized as income or expense in the current period. The impact, if any, in future periods is recognized as income or expense in those future periods

Disclosure of Past Period Errors

An entity must disclose the following:

a) the nature of the prior period error
b) for each prior period presented, as far as practicable, the amount of the correction: for each affected financial statement line item; and if IAS 33 applies to entities, to basic and diluted earnings per share;
c) the amount of the correction at the beginning of the earliest initial period presented; and
d) if a retrospective restatement cannot be made for a certain prior period, the circumstances that gave rise to that condition and a description of how and from when the error was corrected. Subsequent period financial statements need not repeat this disclosure..

5. Conclusion

Accounting policies in PSAK 25 (Revised 2009) are defined as certain principles, bases, conventions, rules and practices applied by entities in the preparation and presentation of financial statements. Accounting policies will determine when to recognize, measure, present, and disclose elements such as assets, liabilities, equity, income, and expenses in the financial statements.

Significant accounting policies used in preparing the financial statements are disclosed in the notes to the financial statements. Financial statements must explicitly disclose compliance in the preparation of financial statements in accordance with the financial accounting standards used.

In making judgments, management refers to and considers the applicability of the following sources in order according to PSAK 25 (Revised 2009), including:

1. Requirements and guidelines in PSAK relating to similar and related issues; and
2. Definitions, disclosure criteria, measurement concepts for assets, liabilities, income, and expenses in the Basic Framework for the Preparation and Presentation of Financial Statements.

If based on these references, management has not been able to determine the appropriate accounting policies, management also needs to consider the latest accounting standards issued by other standard setting bodies that refer to the same KDPPLK, other accounting literature and applicable industry accounting practices, as long as they do not conflict with the main references.

For entities without public accountability (ETAP), provisions regarding compliance statements with accounting standards and accounting policies are regulated in the pervasive concept chapter in SAK ETAP. However, in general, there is no difference in accounting policy settings between SAK and SAK ETAP.

An entity selects and applies accounting policies consistently for similar transactions, other events and conditions, unless PSAK specifically regulates or permits the grouping of items with different accounting policies is appropriate. If PSAK permits such grouping, the appropriate accounting policies are selected and applied consistently. Changes in accounting policies occur when an entity changes its choice of a new accounting policy for the same transaction or event. If an entity applies a new accounting policy for events and transactions that are new and different from the previous one, it is not considered a change in accounting policy.

The following is an example of an event that is a change in accounting policy

1. Changes in the inventory method from the Average method to the FIFO method
2. Changes in the recognition of construction revenue from the cost recovery method to the percentage of completion method.
3. Changes in the valuation method of property, plant and equipment and tangible assets from the cost method to the revaluation method

When changes in accounting policies are applied retrospectively, an entity shall adjust

1. Beginning balance of each affected component for the earliest serving period; and
2. Other comparative amounts are disclosed for the period presented as if the new accounting policy had been applied previously.

The effects of changes in accounting estimates are recognized prospectively in the income statement on

1. The period of change, if the impact of the change is only for that period; or
2. The period of change and future periods, if the change affects both.

Changes in estimates that result in changes in assets, liabilities or related items in equity are recognized by adjusting the amount of the item in the period of the change. Changes in estimates cause changes in value, so it will affect the comparability of financial statements. For this reason, disclosure in the notes or financial statements is required so that users can consider these changes in analyzing financial statements. In financial statements, the effect of changes in estimates is usually immaterial to the financial statements as a whole.

According to PSAK 25 (Revised 2009) period errorthen is omission and errorrecord in the entity's financial statements for one or more prior periods arising from a failure or error to use information available at the time of completion of the financial statements for that period; and is rationally expected to be obtained and used in the preparation and presentation of financial statements.

An entity shall retrospectively correct prior period material errors in the complete financial statements issued after its

discovery by:
1. Restating the comparative amount of the previous period when the error occurred; or
2. If the error occurred before the earliest presented prior period, the entity shall restate the opening balances of assets, liabilities and equity for the earliest presented prior period.

When correcting errors, an entity must disclose the following:
1. The nature of past period errors
2. Correction amount for each serving period, for each affected item and basic LPS or delusional LPS
3. Amount of correction at the beginning of the earliest serving period
4. If retrospective restatement is impracticable, the circumstances under which the condition existed and an explanation of how and since when the error was corrected.

For readers of financial statements, information on changes in accounting policies, changes in estimates and correction of errors is important information because it will affect the comparability of financial statements between periods. The analysis must be carried out carefully because the information affects the performance of the previous period and or has an impact on future performance.

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