

Query No. 17

Subject: *Accounting for change in the measurement technique of Expected Credit Loss on financial assets under Ind AS framework.*¹

A. Facts of the Case

1. A company (hereinafter referred as ‘the Company’) is providing engineering consultancy services and is also engaged in small constructions projects. The Company had migrated to Indian Accounting Standards (Ind AS) in 2017, prior to which it was maintaining books of account and preparing financial statements in accordance with Accounting Standards (Indian GAAP). Prior to Ind AS transition, the Company was making 100 % provision in respect of doubtful trade receivables of age more than 5 years. However, subsequent to migration to Ind AS, the Company is providing expected credit loss (ECL) on financial assets through a grid matrix as indicated below:

Years	Grid Matrix Rate
Less than 1 Year	5%
1 – 2 Year	7%
2 – 3 Year	10%
3 – 4 Year	30%
4 – 5 Year	40%
5 – 6 Year	55%
6 – 7 Year	70%
7 – 8 Year	85%
8 – 9 Year	90%
9 – 10 Year	100%

2. Now, the Company proposes to adopt a scientific approach in the form of actuarial valuation from an independent actuary for providing ECL on financial assets as per the requirements of Ind AS 109, ‘Financial Instruments’. The key differences in the Grid matrix approach and actuarial valuation are as under:

Sl. No.	Grid Matrix	Actuarial Valuation
1.	Grid matrix rates are based on ad hoc estimates	Scientific approach providing an unbiased and probability weighted amount.
2.	No time value of money factored	Time value of money is factored.
3.		Forward looking information & scenario based on risk free rate of 1 year, inflation rate and real GDP growth rate are considered.
4.		Application of roll rates and loss rate method for the purpose of computing the expected credit loss.
5.		Application of multi variate regression analysis.
		More reliable and relevant financial information.

¹ Opinion finalised by the Committee on 16.10.2025.

3. The Company submits that the transition from the internal-grid matrix to an actuarial valuation framework represents a *change in the measurement basis and accordingly* qualifies as a change in accounting policy, as defined under paragraph 35 of Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, which states as follows:

“A change in the measurement basis applied is a change in an accounting policy, and not a change in an accounting estimate...”

According to the querist, the internal-grid matrix relies primarily on backward-looking data, whereas the actuarial approach proposed to be adopted incorporates advanced techniques such as roll rate and loss rate methodologies, which evaluate the receivables’ aging trends and loss behavior based on statistical modelling. This represents a fundamental shift in the measurement model — not merely a change in estimation parameters within an existing framework. As per Ind AS 8, definition of *retrospective restatement* is *correcting the recognition, measurement* and disclosure of amounts of elements of financial statements as if a prior period error had never occurred. (Emphasis supplied by the querist.)

4. The querist has stated that the following provisions of Ind AS 8 support this classification:

Paragraph 13 of Ind AS 8: Requires consistent application of accounting policy for similar transactions.

Paragraph 14(b) of Ind AS 8: Permits change in accounting policy if it results in more reliable and relevant financial information.

Paragraph 15 of Ind AS 8 states that “Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next...”

Paragraph 19 of the Ind AS 8 also states that change in accounting policy shall be applied retrospectively.

Paragraph 22 of Ind AS 8 states that “... **when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied**”.

Paragraph 23 of Ind AS 8 states that “**When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change**”.

Paragraph 26 of Ind AS 8: “When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable...”

B. Query

5. On the basis of the above, the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India is sought as to whether the Company's proposition to treat the transition, from internal grid matrix to scientific actuarial valuation, as change in accounting policy with retrospective application is correct.

C. Points considered by the Committee

6. The Committee notes that the basic issue raised by the querist relates to the accounting for transition or change from internal grid matrix to scientific actuarial valuation, used for measurement or calculation of expected credit loss (ECL) on financial assets/trade receivables of the Company. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, transition to Ind AS in 2017, the appropriateness of calculations of ECL under internal grid matrix or under actuarial valuation, detailed application of requirements of Ind AS 109, etc. Further, the Committee has expressed its opinion purely from the accounting perspective only under Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time. Furthermore, in the absence of any information to the contrary, the Committee presumes from the facts supplied that trade receivables either do not contain significant financing component or if they contain a significant financing component, the Company, as its accounting policy has chosen to measure the loss allowance at an amount equal to lifetime expected credit losses as per paragraph 5.5.15 of Ind AS 109.

7. At the outset, the Committee notes from the Facts of the Case that the Company proposes to adopt a scientific approach in the form of actuarial valuation from an independent actuary for providing ECL on financial assets as per the requirements of Ind AS 109 'Financial Instruments'. In this regard, the Committee notes that although Ind AS 109 does not prescribe any specific method of measuring ECL, it provides certain requirements to be complied with while measuring ECL (for example, under paragraph 5.5.17). However, since this issue has not been raised by the querist, the Committee has not examined that whether 'actuarial valuation' or earlier 'internal grid matrix' comply with the requirements of Ind AS 109.

8. With regard to accounting for change or transition from 'internal grid matrix' to 'scientific actuarial valuation', the Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and Basis for Conclusions (BC) to International Accounting Standard (IAS) 8 (which is corresponding international standard to Ind AS 8), issued by the International Accounting Standards Board (IASB):

Ind AS 8

“Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.”

“Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.”

“32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be

observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

- (a) a loss allowance for expected credit losses, applying Ind AS 109, *Financial Instruments*;

...

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying Ind AS 109) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Ind AS 113).”

“34 An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.”

“36 The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

- (a) **the period of the change, if the change affects that period only; or**
- (b) **the period of the change and future periods, if the change affects both.”**

“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 of, reliable information that:

- (a) **was available when financial statements for those periods were approved for issue; and**
- (b) **could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

“41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not

comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”**

Basis for Conclusions

“BC44 Before the 2021 amendments, IAS 8 included definitions of ‘accounting policies’ and ‘change in accounting estimate’. The combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscured the distinction between accounting policies and accounting estimates. To make that distinction clearer, the Board replaced the definition of a change in accounting estimate with a definition of accounting estimates. The main matters the Board considered in developing the definition and related requirements included:

- (a) *the relationship between accounting policies and accounting estimates*—the amendments clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. The Board’s view was that this clarification would help entities distinguish changes in accounting estimates from changes in accounting policies.

...”

“BC46 The Board also concluded that, if accounting estimates are outputs of measurement techniques, it follows that changes in the inputs used, or in the measurement techniques applied to determine those outputs, result in a change in the related accounting estimate and are not the result of a change in accounting policy.

BC47 In the light of its observations summarised in paragraphs BC45–BC46, the Board specified that:

- (a) a change in accounting estimate may result from new information or new developments and is not the correction of an error; and
- (b) the effects of a change in an input or in a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.

BC48 Feedback on the draft amendments expressed a concern that measurement techniques might meet the definition of accounting policies—for example, a valuation technique is a measurement technique but could also be seen as a practice and, therefore, meet the definition of an accounting policy. Accordingly, there is a risk that the effects of a change in a measurement technique could be seen as both a change in accounting estimate and a change in accounting policy. To avoid this risk, the Board specified in paragraph 34A that the effects of a change in measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

BC49 The Board also specified that measurement techniques an entity uses to develop accounting estimates include estimation techniques and valuation techniques. Specifying this avoids ambiguity about whether the effect of a change in an estimation technique or a valuation technique is a change in accounting estimate. The terms ‘estimation techniques’ and ‘valuation techniques’ appear in IFRS Standards—for example, IFRS 7 *Financial Instruments: Disclosures* uses the term ‘estimation techniques’ and IFRS 13 *Fair Value Measurement* uses the term ‘valuation techniques’.”

From the above, the Committee notes that accounting policies are the specific principles, bases, conventions, rules and practices that an entity follows when preparing financial statements. Accounting policy may require certain items to be measured at monetary amounts (subject to measurement uncertainty) that cannot be observed directly and thus are required to be estimated. Developing accounting estimates involves use of judgements or assumptions based on latest available, reliable information and a change in accounting estimate may be required from new information or development. So, accounting estimates are the values derived to implement an accounting policy, especially in situations involving measurement uncertainty, using measurement techniques. The Committee further notes that paragraph 32 specifically includes ‘a loss allowance for expected credit losses, applying Ind AS 109, *Financial Instruments*’ as an example of accounting estimates. Similarly, paragraph 32A also states, ‘the techniques used to measure a loss allowance for ECL applying Ind AS 109’ as an example of estimation technique which is part of measurement technique used to develop an accounting estimate. Furthermore, paragraph 34A states that the effects of change in measurement technique are change in accounting estimates (unless they result from the correction of prior period errors). The Basis for Conclusion (BC) 46 also clarifies that if accounting estimates are output of measurement techniques, then changes in the measurement technique applied to determine those outputs, result in a change in the related accounting estimate and are not the result of a change in accounting policy. Accordingly, in the extant case, change in the method or technique of measuring or estimating the amount of loss allowance for ECL (which is a change in measurement technique), cannot be considered as change in accounting policy; rather it is a change in accounting estimate unless it results from correction of prior period errors.

In this regard, the Committee further notes that paragraph 41 of Ind AS 8 inter alia states that errors can arise in respect of the recognition, measurement, presentation or disclosure of

elements of financial statements and financial statements do not comply with Ind ASs if they contain material errors. In other words, if there is non-compliance with any of the Ind ASs, it will result in an error. Accordingly, in the extant case, if the earlier method (viz., Grid Matrix) adopted by the Company to measure/estimate ECL did not comply with the requirements of Ind AS 109, as discussed in paragraph 7 above, the change in the method to another method (provided the same complies with the requirements of Ind AS 109) would result in correction of prior period errors rather than change in accounting estimates.

Further, the Committee is of the view that as per the requirements of Ind AS 8, any change in estimates should be accounted for prospectively in accordance with paragraph 36 of Ind AS 8 and any material prior period errors should be corrected retrospectively in the current reporting period, by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Furthermore, necessary disclosures as per the requirements of Ind AS 8 (paragraph 49) and Ind AS 1, 'Presentation of Financial Statements' (including presentation of a third balance sheet at the beginning of the preceding period) should be made.

9. Incidentally, with regard to the Company's submission that transition from internal grid matrix to an actuarial valuation represents a change in the measurement basis, the Committee wishes to clarify that the measurement bases as per the requirements of Ind AS are in regard to the basis of measurements used for various types of assets and liabilities, such as cost or revaluation model, net realisable value, recoverable amount, fair value, etc.

D. Opinion

10. On the basis of above and subject to paragraph 6 above, the Committee is of the opinion that change in the method or technique of measuring or estimating the amount of loss allowance for ECL (which is a change in measurement technique and not a change in measurement basis), cannot be considered as change in accounting policy; rather it is a change in accounting estimate unless it results from correction of prior period errors, as discussed in paragraph 8 above.
