

Accounting Standards Codification 250 – Accounting Changes and Error Corrections



FOREWORD

Welcome to our “**Uniquis’ ASC Insights Series: Guide to Accounting Standards**”, where we combine our collective wisdom to understand various Accounting Standard Codifications (ASCs) comprehensively and in a crisp manner. This series is an invaluable tool for accounting professionals, offering detailed explanations, illustrative examples, and our expert point of view. Designed to support your professional journey, this guide helps you navigate complex accounting scenarios and deepen your knowledge.

Foreword

Purpose

This is the eleventh publication in our “Uniquis’ ASC Insights Series: Guide to Accounting Standards,” focusing on “**ASC 250, Accounting Changes and Error Corrections**”. In this installment, we delve into the specifics of ASC 250, exploring its implications, key considerations, and practical applications. Through clear illustrations and expert commentary, we aim to make the standard accessible and actionable for practitioners.

Background

The primary objective of ASC 250 is to provide accounting and reporting guidance on how companies should handle accounting changes, (i.e. changes in accounting principles, changes in accounting estimates, and changes in reporting entity) and corrections of errors, in the financial statements. Specifically, the goal is to ensure consistency and comparability in financial reporting by establishing clear procedures for when and how these changes and corrections should be accounted for and disclosed.

Summary of ASC 250

1. Scope and Materiality

We hope you enjoy reading this document and find this series valuable!

Thank you.

2. Core Pillars of ASC 250

Yours faithfully

For Uniquis Consultech Inc.

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison



Sandip Khetan
Global Head of Accounting
& Reporting Consulting



Arda Kaya
Partner, Accounting &
Reporting Consulting

PURPOSE

In an ever-evolving financial landscape, entities must continuously adapt to changes that impact their accounting practices. Navigating these changes requires a strong understanding of financial reporting standards to ensure transparency, consistency, and accuracy in financial data.

“ASC 250, Accounting Changes and Error Corrections”, plays a vital role in the accounting framework, ensuring that financial statements remain reliable and comparable. By providing clear guidance on handling the accounting changes, and error corrections, ASC 250 strengthens trust and accountability among stakeholders.

We sincerely hope you find this quick reference informative to understand and apply the accounting and reporting guidance for accounting changes and error corrections. We welcome the opportunity to engage in discussions to clarify our perspectives, which are detailed in the attached publication. We look forward to hearing from you.

BACKGROUND

The Financial Accounting Standards Board (FASB) developed ASC 250 to establish a cohesive, standardized framework that ensures consistent treatment and disclosure of accounting changes and error corrections across industries. By adopting an industry-agnostic approach, ASC 250 enhances the integrity of financial statements and supports well-informed stakeholders.

There is always confusion about how accounting changes occurring during the financial reporting period or errors related to earlier errors identified during the financial reporting period should be accounted for in preparation of financial statements. Whether these should be given a prospective or retrospective treatment. ASC 250 helps in addressing these questions by providing guidance on the accounting for and reporting of accounting changes, including a change in accounting principle, a change in accounting estimate and a change in reporting entity. ASC 250 also applies to changes required by an Accounting Standards Update (ASU) in cases wherein the ASU does not include specific transition provisions.



Foreword

Purpose

Background

Summary of ASC 250

1. Scope and
Materiality

2. Core Pillars of
ASC 250

3. SEC Considerations
for a Voluntary Change
in Accounting Principle

4. Accounting changes
in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

SUMMARY OF ASC 250

01 Scope and Materiality

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

ASC 250 applies to all entities that prepare financial information and includes both business entities, whether public or private, and Not-for-Profit organizations.

The concept of materiality is an integral part of the application of ASC 250. There is no one size that fits all criteria for materiality but should be taken into consideration that it is defined by what influences or makes a difference to an investor or other decision maker. An item can be material by both size (quantitative) and nature (qualitative). A few examples of qualitative factors include changes in a trend, changes in key performance metrics, etc.

While the general concept of materiality is integral to the application of ASC 250, it's important to differentiate materiality in the context of error corrections. The materiality of errors should be evaluated both individually and in the aggregate. The first step is to assess whether the prior-period financial statements are materially misstated. If the error is material to the prior period, the financial statements must be restated and reissued as soon as practicable. However, if the error is not material to the prior period but requires correction, adjustments may be made the next time those statements are presented as comparatives. If the error is immaterial to both current and prior periods, it may be corrected through an 'out-of-period adjustment' in the current-period financials, a voluntary minor restatement of the prior period, or left uncorrected altogether.

Quantitative materiality factors

When assessing the materiality of errors using quantitative factors, the focus is on determining whether the magnitude of the errors—individually or in aggregate—renders them material to the financial statements. As outlined below, evaluating quantitative factors involves comparing the misstatement amount to key benchmarks:

- **Materiality Levels:** The overall materiality threshold for the financial statements serves as a primary benchmark for assessing quantitative materiality. However, a lower materiality threshold may be applied to specific financial statement captions or disclosures that receive greater scrutiny from financial statement users.
- **Specific financial statement captions and disclosures:** Even if an error is below the general materiality threshold, it may still be considered material in the context of a particular financial statement caption or disclosure.
- **Financial statements as a whole:** Errors are assessed relative to the totals and subtotals of primary financial statements, including the balance sheet, income statement, cash flow statement, and statement of changes in equity.

Qualitative materiality factors

When evaluating errors, several qualitative factors should be considered to determine their significance beyond just quantitative measures. Below are key factors and illustrative examples:

- **Nature of the Error – Factual vs. Judgmental:** Errors involving estimates may have greater variability. For instance, estimating a loss contingency following a warehouse fire affecting many employees can be challenging, and a higher degree of estimation uncertainty may be expected.
- **Management's Motivations:** Errors may indicate potential bias in management's accounting estimates or reluctance to correct financial reporting weaknesses. A recurring pattern of such errors could signal intentional misrepresentation.
- **Cost of Correction:** If correcting an error requires substantial investment in new systems, the cost-benefit aspect must be weighed. However, if management has developed a method to produce an immaterial misstatement rather than a correct figure, it could reflect ulterior motives.
- **Impact on Earnings Trends:** An error that shifts revenue trends—such as changing a decline into an increase—can significantly affect financial statement users' perceptions.
- **Analysts' Expectations:** If an error causes an entity's operating income to meet or exceed analysts' earnings expectations, it may be viewed as material.
- **Impact on Reported Profitability:** A misstatement in selling, general, and administrative (SG&A) expenses that turns a reported loss into a profit (or vice versa) can be highly significant.
- **Relevance to Key Business Segments:** Errors involving segments identified as critical to the entity's operations—such as a newly acquired business—may materially affect reported profitability.

02 Core Pillars of ASC 250

ASC 250 is a cornerstone of financial reporting, guiding organizations in managing accounting changes and error corrections transparently and consistently. By embracing the principles of ASC 250, companies can enhance the quality of their financial reporting, strengthen stakeholder relationships, and navigate the complexities of the evolving accounting landscape. As businesses continue to face new challenges and opportunities, a robust understanding of ASC 250 will be indispensable for maintaining financial integrity and supporting strategic growth.

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Fundamentals of ASC 250 accounting and reporting guidance:



Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

Understanding ASC 250 requires debunking common misconceptions and acknowledging the realities of the given situation:

- 3. SEC Considerations for a Voluntary Change in Accounting Principle
- 4. Accounting changes in Interim Periods
- 5. Recently Issued ASUs
- 6. IFRS Comparison

	Myth ✕	Reality ✓
1.	Retrospective applications for change in accounting principles are always mandatory.	While retrospective application is preferred for changes in accounting principles, ASC 250 allows exceptions when it is impractical to apply changes retrospectively.
2.	All accounting changes require complex adjustments	Changes in accounting estimates are handled prospectively and often involve simpler adjustments compared to changes in principle.
3.	Error corrections are just minor adjustments	Errors can have significant financial impact and may require extensive retrospective restatements to ensure accurate historical financial reporting.
4.	Disclosure requirements are optional	ASC 250 mandates detailed disclosures to ensure stakeholders are fully informed about the nature and impact of changes and corrections.

1. Accounting Changes

There can be three types of accounting changes which affects the preparation of financial statement:

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and
Materiality

2. Core Pillars of ASC 250

3. SEC Considerations
for a Voluntary Change
in Accounting Principle

4. Accounting changes
in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

01 Change in Accounting Principles

02 Change in Accounting estimate

03 Change in reporting entity



01 Change in Accounting Principles

As a primary rule, the accounting principle (including the method of applying that principle) once adopted should be applied consistently in accounting for events or transactions of a similar type. ASC 250 permits the Changes in accounting principle only if:

- The change is required by a recently issued Codification update. or
- The entity can justify the use of an allowable alternative accounting principle on the basis that it is preferable (*Voluntary change*).

This requirement is not limited to newly issued Codification updates. Updates can occur when there are two or more generally accepted accounting principles that apply or when the accounting principle formerly used is no longer generally accepted.

Foreword

Purpose

Background

Summary of ASC 250

Key considerations related to Change in Accounting Principles-

Key Considerations	Implementation matters
• In all cases of changes in accounting principle (including changes made in an interim period), changes must be applied retrospectively to ensure comparability, unless doing so is impracticable. • Key Accounting considerations related to retrospective application of change in accounting principles: • The cumulative effect of the accounting change on periods before those presented must be reflected in the carrying amounts of the assets and liabilities at the beginning of the first period presented. • Any necessary offsetting adjustment must be recorded in the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period. • Financial statements for each prior period presented must be adjusted to reflect the period-specific effects of the new accounting principle.	• As per ASC 250, neither of the following is considered to be a change in accounting principle: a. Initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that previously were immaterial in their effect b. Adoption or modification of a accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring. • When periods reported in the financial statements have been adjusted to reflect the retroactive application of an accounting principle (e.g., a voluntary change in accounting principle), it is recommended that the prior period column headings should be labeled "As Adjusted" to facilitate as much transparency as possible.

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Key Considerations	Implementation matters
Foreword Purpose Background Summary of ASC 250 1. Scope and Materiality 2. Core Pillars of ASC 250 3. SEC Considerations for a Voluntary Change in Accounting Principle 4. Accounting changes in Interim Periods 5. Recently Issued ASUs 6. IFRS Comparison	• Impracticability exception to the retrospective application requirement- It's important to note that applying the effects of a change in accounting principle retrospectively is considered impracticable if any of the following conditions are met: • Despite making all reasonable efforts, the entity is unable to apply the requirement. • Retrospective application would require assumptions about management's intent in a prior period that cannot be independently verified. • Retrospective application necessitates significant estimates, and it is not possible to objectively distinguish information that would have been available when the financial statements for that designated prior period were originally issued. • Accounting considerations related to the exception to the retrospective application requirement of the accounting change to prior periods- • If cumulative effect of applying a change in accounting principle to all prior periods can be determined, but it is impracticable to determine the period-specific effects of that change on all prior periods presented. In such case the cumulative effect of the change shall be applied to the carrying amounts of assets and liabilities as of the beginning of the earliest period with corresponding adjustment to the opening balance of retained earnings. • If it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period. In such case the new accounting principle be applied as if the change was made prospectively as of the earliest date practicable.

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

- In our view the impracticability exceptions are truly exceptions and, therefore, entities should exercise the exceptions only in rare circumstances. The conclusion that applying change in accounting principle retrospectively is impracticable should be supported by a thoroughly documented analysis as per the principles of ASC 250 providing for the impracticability exception.
- Entity exercising retrospective application exception would be required to disclose in its financial statements the reasons for concluding that it is impracticable to report a change in accounting principle via retrospective application to prior periods.
- The SEC staff is understood to view impracticability as a significantly high threshold, exceeding mere difficulty. In most cases, retrospective application is expected to be feasible. Registrants applying for this exception are encouraged to consult with the SEC staff.
- There should exist effective internal control to mitigate the financial statement risks related to changes in accounting principle including voluntary changes in accounting principle as well as changes required by newly issued ASUs.
- The impact change in accounting principles is pervasive (i.e., not limited to a single account or process) and both entity-level and transaction-level controls will often be necessary to mitigate the risks of material misstatement related to changes in accounting principle.

Illustrative list of examples which shall/ shall not be considered as “Change in Accounting Principles”

Examples of scenarios that would constitute change in accounting principles:	Examples of scenarios that would constitute change in accounting principles:
• Change in Inventory Valuation Method – Changing from FIFO (First-In, First-Out) to LIFO (Last-In, First Out) or weighted-average cost method, or vice versa. • Change in Revenue Recognition Method – Switching from completed contract to percentage-of-completion when it provides a more accurate representation of revenue over time. • Change in Depreciation Method – Changing from straight-line to accelerated depreciation to better match expenses with asset usage patterns. • Change in measurement date for conducting the annual goodwill impairment test.	• Selection of a date for the annual goodwill impairment test after completing a business combination transaction that resulted in recording goodwill for the first time. • Changes in the contractual relationship result in a conclusion that the reporting entity is no longer the principal in a revenue transaction and should present that revenue on a net basis. • Functional currency determination is a matter of fact and change in functional currency does not amount to a change in accounting principles. • Change in financial statement presentation from one acceptable alternative to another does not constitute a change in accounting principle.

Key considerations related to Change in Accounting estimate-

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and
Materiality2. Core Pillars of
ASC 2503. SEC Considerations
for a Voluntary Change
in Accounting Principle4. Accounting changes
in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Key Considerations	Implementation matters
- Changes in accounting estimates are adjustments arising from new information or developments. These are inherent changes, identified as entities gain more accurate and updated information. - Accounting estimates should result from applying an accounting principle or method using the best information available at the measurement date. - Change in accounting estimate is applied prospectively and must be recognized in: - The period of change if it only impacts that period, or - Both the period of change and future periods if it has an ongoing effect. Therefore, a change in accounting estimate should not be applied retrospectively, restated for prior periods, or presented using pro forma amounts for previous periods.	- Since estimates are subject to management discretion, they inherently carry a degree of uncertainty. A change to an accounting estimate should be based on events, facts, or circumstances that occurred during the period in which the estimate was changed. - Distinguishing between a change in accounting principle and a change in accounting estimate can be challenging. In some cases, a change in an estimate may be driven by a shift in an accounting principle. For example, modifying the method of depreciation, amortization, or depletion for long-lived, nonfinancial assets often reflects a reassessment of the asset's future benefits, consumption pattern, or newly available information. When the effects of an accounting principle change are inseparable from an estimate change, the adjustment is treated as a change in estimate under the relevant guidance, as part of an ongoing process of refining estimates based on updated information. - When a change in estimate impacts multiple future periods, the entity must disclose its effect on income from continuing operations, net income (or other relevant financial statement captions), and any associated per-share amounts for the current period. However, disclosures are not required for routine estimates made in the normal course of accounting, such as provisions for uncollectible accounts or inventory obsolescence, unless the change is material, in which case disclosure is necessary.



- To mitigate the financial statement risk associated with changes in accounting estimate, there should exist appropriate internal controls over financial reporting related to changes in accounting estimate process. The key consideration to ensure effectiveness in design of control over an estimation process is timely performance to ensure that a necessary change in estimate is identified as new information becomes available.
- Management should understand the significant assumptions, methods, data and controls related to estimates and the process of how necessary changes in those assumptions, methods and data are timely identified by controls.

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Illustrative list of examples which shall/ shall not be considered as "Change in Accounting estimate"

Nature of change in accounting estimate	Example
• Allowance for Doubtful Accounts – Adjusting the percentage of expected uncollectible accounts based on changes in economic conditions or customer payment trends.	A company increases its bad debt reserve due to a downturn in the economy affecting customer solvency.
• Warranty Liabilities – Modifying warranty cost estimates based on historical claim trends or product defect rates.	A car manufacturer revises its warranty liability upward after noticing an increase in repair claims.
• Litigation or Contingency Reserves – Updating estimates for potential legal settlements based on new case developments or judicial rulings.	An entity increases its litigation reserve after new evidence suggests a higher probability of an unfavorable outcome.
• Income Tax Estimates – Revising tax estimates based on new tax laws, regulatory guidance, or updated profit forecasts.	A company re-evaluates the realizability of deferred tax assets due to projected changes in future taxable income.

03 Change in reporting entity

A change that effectively results in financial statements representing a different reporting entity is considered a change in the reporting entity. Such changes are primarily limited to the following scenarios:

- Replacing individual entity financial statements with consolidated or combined financial statements.
- Modifying the composition of subsidiaries included in consolidated financial statements.
- Adjusting the entities included in combined financial statements.

Key considerations related to Change in reporting entity-

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Key Considerations	Implementation matter
• Change in the reporting entity which results in financial statements effectively representing a different entity must be applied retrospectively. • This requires adjusting the financial statements for all prior periods presented to reflect the financial information of the new reporting entity. Additionally, previously issued interim financial information must also be revised on a retrospective basis.	• Business combinations accounted for by the acquisition method and consolidation of variable interest entities pursuant to Topic 810, Consolidation, are not considered changes in a reporting entity. • In case of change in the reporting entity, the financial statements of the period of the change shall disclose: • Nature and reason for change. • Effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts shall be disclosed for all periods presented.



- To mitigate the financial statement risk associated with changes in reporting entity, there should exist appropriate internal controls over financial reporting related to changes in reporting entity. The key consideration to ensure effectiveness in design of control is timely identifying the change in reporting entity.
- In the event of change in reporting entity, management should reconsider the controls associated with consolidation and intercompany transactions.

Illustrative list of examples which shall/ shall not be considered as “Change in reporting entity”

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Examples of scenarios that would constitute change in reporting entity:

- **Switching from Standalone to Consolidated Financial Statements** – A parent company who previously presented its own standalone financial statements but now issues consolidated financial statements including its subsidiaries.
- **Changing the Composition of Consolidated Subsidiaries** – Modifying the group of subsidiaries included in the consolidated financial statements due to internal restructuring, mergers, or reorganization.
- **Merging or Restructuring Legal Entities** – A reorganization resulting in a new reporting structure (changing entities included in financial reporting).
- **Reclassification Between Segments and Business Units** – Moving operations between reporting entities such that historical financial results need restatement.
- **Common control transactions** – Transfers of net assets or exchanges of equity interests between entities under common control resulting from reorganizations, spin-offs and IPOs.

Examples of scenarios that would not constitute a change in reporting entity:

- Business combination accounted for under ASC 805.
- Consolidation of a variable interest entity (VIE) as per the principles of ASC 810.
- Deconsolidation of a variable interest entity (VIE) as per the principles of ASC 810.



2. Error Corrections

Errors in prior financial statements, whether due to mathematical mistakes, misuse of accounting principles, or oversight must be corrected. A reporting entity should evaluate the materiality of errors, individually and in the aggregate, relative to the period of origination and correction to determine whether a restatement or revision of the previously issued annual or interim financial statements is required. The reporting entity should follow the following framework for evaluating errors in previously issued financial statements:

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

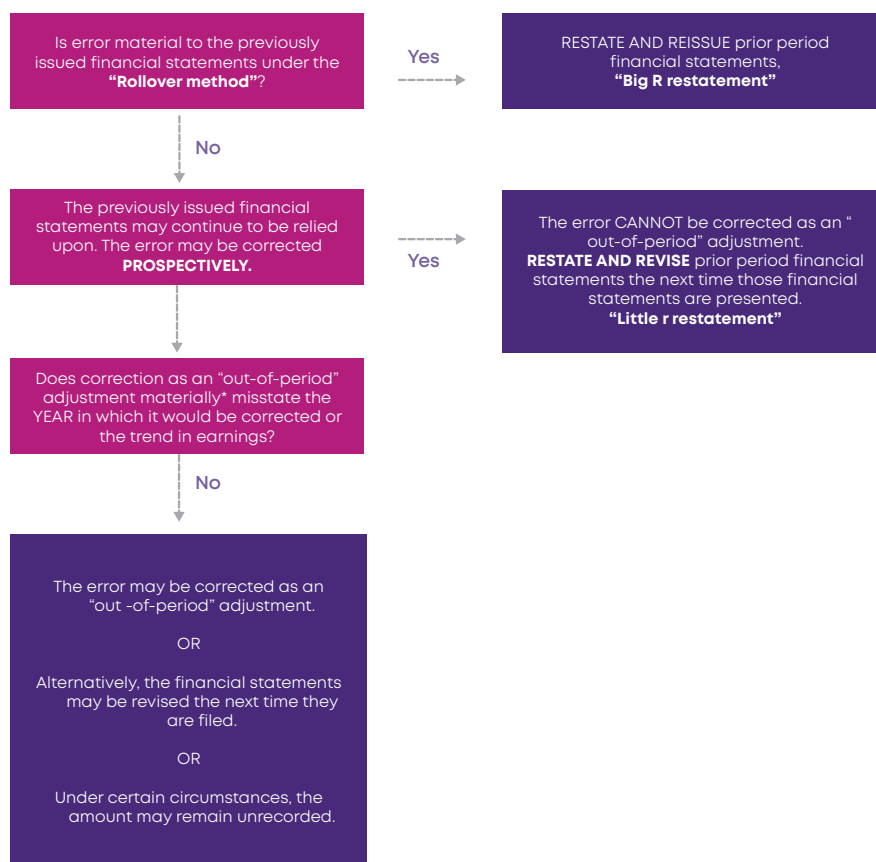
2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison



Key considerations related to correction of an error in previously issued financial statements-

	Key Considerations	Implementation matter
	Primary considerations upon discovery of potential errors in previously issued financial statements-	
Foreword		
Purpose		
Background		
Summary of ASC 250		
1. Scope and Materiality		
2. Core Pillars of ASC 250		
3. SEC Considerations for a Voluntary Change in Accounting Principle		
4. Accounting changes in Interim Periods		
5. Recently Issued ASUs		
6. IFRS Comparison		

(a) Determining if error exists

- Error may relate to recognition or measurement, or presentation or disclosure related to a transaction or event. As a primary consideration, entity should determine whether an adjustment is an error versus a change in estimate, acceptable reclassification or change in accounting principle.
- Examples of corrections of errors in previously issued financial statements include, but are not limited to, the following:
 - **Mathematical Errors:** Mistakes in calculation that led to incorrect financial reporting.
 - **Misapplication of GAAP:** Applied an incorrect accounting principle in previous periods.
 - **Incorrect Classification of Transactions:** Errors in classifying financial statement items that impact presentation.
 - **Errors in Foreign Currency Translation:** Misapplying the exchange rate for a transaction.
- Distinguishing between an error correction and a change in accounting estimate is very important for correct adjustment. While change in accounting estimate has a prospective implication to the carrying amount of an existing asset or liability, correction of identified errors is encouraged to be adjusted to prior period financial statements if material.
- Change in accounting principle and correction of error should also be adjusted separately. For errors identified identified in the period of change in accounting principle, the entity should separately assess the materiality of the error and account for the correction of the error in accordance with ASC 250 and other related guidance.

	Key Considerations	Implementation matter
	Primary considerations upon discovery of potential errors in previously issued financial statements-	
Foreword	(b) Assessment of materiality of an error - Assessment of materiality of an identified error is a key consideration to determine the period in which the error should be corrected. - As per guidance in considering materiality for the purpose of reporting the correction of an error, amounts shall be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings.	- Materiality assessment require significant judgment. It must consider all relevant qualitative and quantitative factors (including company and industry specific factors). - Entity may apply either of the following techniques to accumulate and quantify errors: - Rollover method- This method quantifies an error based on the effects of correcting the error existing in the current period income statement. - Iron curtain method- this method quantifies an error based on the effects of correcting the error existing in the balance sheet at the end of the reporting period being analyzed, regardless of the error's period(s) of origin. For example: At the end of 2025, an entity determines that accumulated depreciation of a fixed asset is understated by \$750. Upon further analysis, the entity determines that the error relates to multiple years i.e. 2023 — \$250, 2024 — \$250, 2025 — \$250. If the company performed the materiality analysis on the uncorrected error at the end of 2025: - The rollover method would quantify the error to the current year income statement as an understatement of depreciation expense of \$250. - The iron curtain method would quantify the error as a \$750 understatement of accumulated depreciation with a corresponding increase in depreciation expense.
Purpose		
Background		
Summary of ASC 250		
1. Scope and Materiality		
2. Core Pillars of ASC 250		
3. SEC Considerations for a Voluntary Change in Accounting Principle		
4. Accounting changes in Interim Periods		
5. Recently Issued ASUs		
6. IFRS Comparison		

	Key Considerations	Implementation matter
	Primary considerations upon discovery of potential errors in previously issued financial statements-	
Foreword	(c) Reporting an error Depending upon materiality assessment of identified errors, the entity is required to make the adjustment to prior period financial statements presented (as adjusted) or adjustment to current period financial statements. • Big R Restatement: Occurs when an error is material to the prior-period financial statements that are presented. The entity must restate and reissue its financial statements for those prior periods, correcting the error and providing the necessary disclosures. Entities should label the prior period column headings of applicable financial statements and related footnote disclosures "As restated." • Little r Restatement: Occurs when an error is not material to prior-period financial statements but would be material if left uncorrected in the current period. Instead of reissuing prior financial statements, the entity corrects the error in the current-period financial statements by adjusting the prior-period information.	• Key principles related to restatement of prior period financial statements: a. The cumulative effect of the error on periods prior to those presented shall be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented. b. An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period. c. Financial statements for each individual prior period presented shall be adjusted to reflect correction of the period-specific effects of the error.
Purpose		
Background		
Summary of ASC 250		
1. Scope and Materiality		
2. Core Pillars of ASC 250		
3. SEC Considerations for a Voluntary Change in Accounting Principle		
4. Accounting changes in Interim Periods		
5. Recently Issued ASUs		
6. IFRS Comparison		



- Making an accounting estimate is critical part of accounting and financial reporting. The fact that the accounting treatment involves an estimation process does not mean that all changes related to an estimation process are changes in estimates. Determining whether an adjustment is a change in accounting estimate or an error requires the use of judgment. Circumstances wherein the actual results do not support the assumptions used to develop the accounting estimate, an entity should evaluate whether an error (rather than a change in accounting estimate) has occurred.

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

	Myth ✕	Reality ✓
		Adjustment resulting from new information can be either change in accounting estimate or correction of error depending upon • When the information was reasonably available, • when the estimate was updated for the information, • How the information was interpreted, For example, failure to make changes to an estimates underlying assumption in a timely manner as new information is available could result in an error.
	1. Adjustment resulting from new information is a change in accounting estimate.	
	2. Correction of errors identified in the period of change in accounting principle, can be encompassed in the accounting for a change in accounting principle.	Change in accounting principle and correction of error should be adjusted separately. For errors identified in the period of change in accounting principle, the entity should separately assess the materiality of the error and account for the correction of the error in accordance with ASC 250 and other related guidance.

3. Disclosure Requirements

As organizations adapt to evolving business conditions and accounting advancements, they must navigate complexities of disclosing changes in accounting principles, accounting estimates, and reporting entities as applicable. Transparency is a crucial component of ASC 250 and requires detailed disclosures about the nature of changes, justifications, and the impact on the financial statements to inform stakeholders effectively. The following summarizes key considerations related to disclosure requirements for accounting changes:



Foreword

Purpose

Background

Summary of ASC 2501. Scope and
Materiality**2. Core Pillars of
ASC 250**3. SEC Considerations
for a Voluntary Change
in Accounting Principle4. Accounting changes
in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Category	Disclosure
Description	- Which information has changed - Nature of the change including reason
Financial Statement Impact	- Cumulative effect of change on prior periods either directly on face of the financials or within the footnotes (includes adjustments to opening balance of assets, liabilities, and equity) - Indirect effects (if applicable) attributable to prior periods presented
Impracticability	If retrospective application was impracticable, explain why and how the change has been accounted for
Comparative Information	Ensure comparative financials are also adjusted or restated to reflect impact of change in accounting principle

Illustrative Example- Disclosure for Change in Accounting Principles:**Change in Inventory valuation method**

ABC Company decides at the beginning of 2017 to adopt the FIFO method of inventory valuation. ABC Company had used the LIFO method for financial and tax reporting since its inception on 1 January 2015 and had maintained records that are adequate to apply the FIFO method retrospectively. ABC Company concluded that the FIFO method is the preferable inventory valuation method for its inventory.

ABC Company determined that its profit-sharing expense would have decreased by \$2 in 2015 and increased by \$6 in 2016 if it had used the FIFO method to compute its inventory cost since inception. The terms of the profit-sharing agreement do not address whether ABC Company is required to adjust its profit-sharing accrual for the incremental amounts. At the time of the accounting change, ABC Company decides to contribute the additional \$6 attributable to 2016 profits and make no adjustment related to 2015 profit. The \$6 payment is made in 2017.

The effects of the change in accounting principle on inventory and cost of sales are presented in the following table:

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and
Materiality

2. Core Pillars of ASC 250

3. SEC Considerations
for a Voluntary Change
in Accounting Principle

4. Accounting changes
in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Date	Inventory determined by		Cost of sales determined by	
	LIFO method	FIFO method	LIFO method	FIFO method
1 January 2015	\$ 0	\$ 0	\$ 0	\$ 0
31 December 2015	100	80	800	820
31 December 2016	200	240	1,000	940
31 December 2017	320	390	1,130	1,100

Disclosure notes in Financial Statements

Note 1: Change in method of accounting for inventory valuation

On 1 January 2017, ABC Company elected to change its method of valuing its inventory to the FIFO method, whereas in all prior years' inventory was valued using the LIFO method. The Company believes that the FIFO method of inventory valuation is preferable because:

1. the costs of the Company's inventories have remained fairly level during the past several years, which has substantially negated the financial reporting benefits of the LIFO method, which provides a better matching of current costs with current revenues in periods of rising costs,
2. the FIFO method results in the valuation of inventories at more current costs on the consolidated balance sheet, which proves a more meaningful presentation for investors,
3. the change conforms to a single method of accounting for all of the Company's inventories and
4. FIFO is prevalent in the industry in which ABC Company operates.

Comparative financial statements of prior years have been adjusted to apply the new method retrospectively. The following financial statement line items (see note below) for fiscal years 2017 and 2016 were affected by the change in accounting principle.

Income Statements

Year ended December 31, 2017:

Particulars	As reported under FIFO	As computed under LIFO	Effect of change
Sales	\$ 3,000	\$ 3,000	\$ 0
Cost of goods sold	1,100	1,130	(30)
Selling, general, and administrative expenses	1,000	1,000	0
Income before profit sharing and income taxes	900	870	30
Profit sharing	96*	87	9
Income before income taxes	804	783	21
Income taxes	322	313	9
Net income	\$ 482	\$ 470	\$ 12

* This amount includes a \$90 profit-sharing payment attributable to 2017 profits and \$6 profit-sharing payment attributable to adjusted 2016 profits, which is an indirect effect of the change in accounting principle. The incremental payment attributable to 2016 would have been recognized in 2016 if ABC Company's inventory had originally been accounted for using the FIFO method.



Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Year ended December 31, 2016:

	Particulars	As adjusted	As originally reported	Effect of change
Foreword	Sales	\$ 3,000	\$ 3,000	\$ 0
	Cost of goods sold	940	1,000	(60)
Purpose	Selling, general, and administrative expenses	1,000	1,000	0
Background	Income before profit sharing and income taxes	1,060	1,000	60
Summary of ASC 250	Profit sharing	100	100	0
1. Scope and Materiality	Income before income taxes	960	900	60
2. Core Pillars of ASC 250	Income taxes	384	360	24
3. SEC Considerations for a Voluntary Change in Accounting Principle	Net income	\$ 576	\$ 540	\$ 36



Balance Sheet

December 31, 2017:

Particulars	As reported under FIFO	As computed under LIFO	Effect of change
Cash	\$ 2,732	\$ 2,738	\$ (6)
Inventory	390	320	70
Total assets	3,122	3,058	64
Accrued profit sharing	90	87	3
Income tax liability	338	313	25
Total Liability	428	400	28
Paid-in capital	1,000	1,000	0
Retained earnings	1,694	1,658	36
Total stockholders' equity	2,694	2,658	36
Total liabilities and stockholders' equity	\$ 3,122	\$ 3,058	\$ 64

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Balance Sheet

December 31, 2016:

Particulars	As adjusted	As originally reported	Effect of change
Cash	\$ 2,448	\$ 2,448	\$ 0
Inventory	240	200	40
Total assets	2,688	2,648	40
Accrued profit sharing	100	100	0
Income tax liability	376	360	16
Total Liability	476	460	16
Paid-in capital	1,000	1,000	0
Retained earnings	1,212	1,188	24
Total stockholders' equity	2,212	2,188	24
Total liabilities and stockholders' equity	\$ 2,688	\$ 2,648	\$ 40

As a result of the accounting change, retained earnings as of January 1, 2016, decreased from \$648, as originally reported using the LIFO method, to \$636 using the FIFO method.

Statement of cash flows

Year ended December 31, 2017

Particulars	As reported under FIFO	As computed under LIFO	Effect of change
Net income	\$ 482	\$ 470	\$ 12
Adjustments to reconcile net income to net cash provided by operating activities			
Increase in inventory	(150)	(120)	(30)
Decrease in accrued profit sharing	(10)	(13)	3
Decrease in income tax liability	(38)	(47)	9
Net cash provided by operating activities	284	290	(6)
Net increase in cash	284	290	(6)
Cash, January 1, 2017	2,448	2,448	0
Cash, December 31, 2017	\$ 2,732	\$ 2,738	\$ (6)

Year ended December 31, 2016

Particulars	As adjusted	As originally reported	Effect of change
Net income	\$ 576	\$ 540	\$ 36
Adjustments to reconcile net income to net cash provided by operating activities			
Increase in inventory	(160)	(100)	(60)
Decrease in accrued profit sharing	(20)	(20)	0
Decrease in income tax liability	(48)	(72)	24

Statement of cash flows

Year ended December 31, 2016

Particulars	As adjusted	As originally reported	Effect of change
Net cash provided by operating activities	348	348	0
Net increase in cash	348	348	0
Cash, January 1, 2016	2,100	2,100	0
Cash, December 31, 2016	\$ 2,448	\$ 2,448	\$ 0

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

02

Changes in Accounting Estimate

Category	Disclosure
Nature and Reason	Explain reason for change if it is significant for financial statement users
Changes Affecting Future Periods	Disclose the effect on the current period's income from continuing operations, net income, related per-share amounts
Changes in Estimates That Are Inseparable from Change in Accounting Principle	If a change in estimate is linked to a change in an accounting principle (e.g., a change in depreciation method), provide additional disclosures required for a change in accounting principle, including the justification and financial effects.
Not-for-Profit Entities	Disclosure should reference the applicable net assets or performance indicators impacted by change

Illustrative Example- Disclosure for Change in Accounting estimate:

Change in estimated useful life of machinery and equipment

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Effective January 1, 2024, ABC Inc. changed its estimates of the useful lives of certain machinery and equipment in its processing plant. Example disclosure of this change, in accordance with the provisions of ASC 250, that ABC Inc. would include in its 2024 financial statements.

Note-: If ABC Inc. was a publicly traded enterprise, a similar disclosure would be made in each of its interim financial statements throughout 2024.

Disclosure notes in Financial Statements

Note 1: Change in depreciable lives of machinery and equipment

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of certain machinery and equipment at its processing plant were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective January 1, 2024, the Company changed its estimates of the useful lives of its machinery and equipment to better reflect the estimated periods during which these assets will remain in service.

The estimated useful lives of the machinery and equipment that previously averaged ten years were increased to an average of 15 years, while those that previously averaged six to eight years were increased to an average of ten years. The effect of this change in estimate was to reduce 2024 depreciation expense by \$1,000,000, increase 2024 net income by \$600,000, and increase 2024 basic and diluted earnings per share by \$0.03.

03

Change in Reporting Entity

Category	Disclosure
Nature and Reason	- Clearly describe nature of change in reporting entity - Explain reason for the change including the business or financial rationale behind it
Financial Statement Impact	- Disclose the impact of the change on key financial statement line items, including: - Revenue, expenses, assets, liabilities, and equity - Net income and earnings per share, if applicable

Rule 10-01(b)(6) mandates that registrants disclose material accounting changes in interim financial statements. This requirement aligns with ASC 250, ensuring that investors and regulators are fully informed about significant accounting shifts that could impact financial comparability.

The SEC expects companies to provide clear, comprehensive disclosures that include the following:

- Nature of the Change – A detailed explanation of the accounting principle being changed and the reason for the change.
- Justification of preferability – A rationale demonstrating why the newly adopted accounting method provides more relevant and reliable financial information.
- Impact on Financial Statements – Quantitative and qualitative disclosures regarding the financial effect of the change, including any retrospective adjustments when applicable.

3.1 Key SEC Considerations for Voluntary Accounting Changes

Justifying Preferability

Under ASC 250, a voluntary accounting change is permissible if the new principle is deemed preferable. The SEC closely scrutinizes whether a change improves financial reporting for investors. Companies must be prepared to substantiate their rationale, often by providing industry benchmarking, external auditor concurrence, or alignment with evolving financial reporting standards.

Transparency in Disclosures

Regulators emphasize the importance of transparent, investor-focused disclosures. When a voluntary change in accounting principle occurs, an entity must clearly communicate the following in their interim and annual filings:

- The date of adoption and the affected financial statement line items
- The cumulative effect of the change on prior periods
- Any necessary reconciliations between the old and new accounting principles
- Potential impacts on key financial metrics and performance indicators

Consistency with Other SEC Reporting Requirements

To align with Rule 10-01(b)(6) and mitigate regulatory scrutiny, an entity should obtain external auditor support for preferability assessment and seek input from legal and financial reporting advisors to anticipate potential SEC comments.

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

04 Accounting changes in Interim Periods

a. Change in Accounting Principles

Foreword

In accordance with ASC 250, changes in accounting principles made during interim periods must be applied retrospectively to both prior years and interim periods within the fiscal year in which the accounting change is adopted. However, the impracticability exception outlined in ASC 250-10-45-9 does not apply to interim periods within the same fiscal year in which the accounting change occurs.

Purpose

Background

If retrospective application to pre-change interim periods of the fiscal year of the change is determined as impracticable by the entity, the change can only be implemented at the beginning of the subsequent fiscal year.

Summary of ASC 250

Note that the issuance of a new ASU may have its own transition guidance and those requirements would take precedent over general requirements in ASC 250.

1. Scope and Materiality

Illustrative example

2. Core Pillars of ASC 250

In 2024 ABC Inc., a calendar year-end company makes a voluntary change in accounting principle in its third quarter. The effect of the change must be applied retrospectively to the first and second quarters of 2024 and to the prior fiscal years presented for comparative purposes in its third quarter interim report.

3. SEC Considerations for a Voluntary Change in Accounting Principle

If the company determines that it is impracticable to apply the new principle to its 2023 and prior financial statements, the cumulative effect of the change would be recognized as a component of opening retained earnings in 2024 and the appropriate disclosure surrounding the adoption would be included in its financial statements reported in 2024.

4. Accounting changes in Interim Periods

Alternatively, if the company determined that it was impracticable to apply the new accounting principle retrospectively to the first and second quarters of 2024, it would be precluded from making the accounting change in the third quarter.

5. Recently Issued ASUs

If the company still elected to pursue the change in accounting principle, it could only be made (at the earliest) as of 1 January 2025 (the beginning of the subsequent fiscal year) by recognizing the cumulative effect of the change in opening retained earnings as of 1 January 2025.

6. IFRS Comparison

b. Accounting Estimate

When an entity changes an estimate during an interim period, the adjustment is applied prospectively from the date of the change. As a result, the year-to-date financial results will incorporate the previous estimate up to the change date and the revised estimate from that point forward.

c. Reporting Entity

When an accounting change leads to financial statements that effectively represent those of a different reporting entity, any previously issued interim financial information must be presented retrospectively.

05 Recently Issued ASUs

When a new accounting standard is issued but not yet adopted, entities should disclose the following key elements to help financial statement users understand the potential impact:

Foreword

- **Background:** A brief description of the Accounting Standards Update (ASU)
- **Timing:** The required adoption date and the entity's planned adoption date if earlier

Purpose

- **Method of Adoption:** The allowable adoption methods and the approach the entity intends to use

Background

- **Effect of the ASU:** The expected impact on financial statements, if known or reasonably estimable
- **Other consequential effects:** Significant matters that may arise from adoption, such as potential technical violation of debt covenant agreements or planned changes in business practices

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison



06 IFRS Comparison

Both US GAAP (ASC 250) and IFRS (IAS 8 – Accounting Policies, Changes in Accounting Estimates, and Errors) provide guidance on accounting changes and error corrections, but there are key differences in how they are applied.

Foreword

Purpose

Background

Summary of ASC 250

1. Scope and Materiality

2. Core Pillars of ASC 250

3. SEC Considerations for a Voluntary Change in Accounting Principle

4. Accounting changes in Interim Periods

5. Recently Issued ASUs

6. IFRS Comparison

Criteria	US GAAP (ASC 250)	IFRS (IAS 8)
Changes in Accounting Principle (Policy)		
Definition	A change from one GAAP-compliant accounting principle to another, typically due to new guidance or a more preferable method.	A change in accounting policy occurs when an entity adopts a new policy that provides more relevant and reliable information.
Application	Generally retrospective, adjusting prior periods as if the new principle had always been applied.	Also retrospective
Balance Sheet Presentation	An entity is not required to present the beginning balance sheet of the preceding period.	An entity must present the beginning balance sheet of the preceding period.
Indirect Effects of Change in Accounting Policy	Indirect effects that are incurred and recognized are recorded in period of change.	No guidance provided on accounting for or disclosing indirect effect of change in accounting policy
Changes in Accounting Estimate		
Definition	Adjustments based on new information or developments that affect the carrying amount of assets or liabilities	Same definition—changes due to new information or experiences that affect an estimate.
Application	Prospective application - only current and future periods are affected.	Also prospective application.

Criteria	US GAAP (ASC 250)	IFRS (IAS 8)
Foreword Purpose Background Changes in Estimate Effected by Change in Accounting Policy	There is specific guidance on a “change in accounting estimate effected by a change in accounting principle.”	IFRS does not include a specific definition around this concept. An entity will need to determine whether a change is a change in accounting policy requiring preferability or a change in accounting estimate. When it is difficult to discern the difference, the accounting should follow the guidance for a change in estimate.
Summary of ASC 250		
Correction of error		
1. Scope and Materiality 2. Core Pillars of ASC 250 3. SEC Considerations for a Voluntary Change in Accounting Principle	Definition Corrections of material errors in previously issued financial statements, including misapplication of GAAP, computational mistakes, and fraud.	Corrections of material prior-period errors, including misapplication of IFRS, computational mistakes, and fraud.
4. Accounting changes in Interim Periods 5. Recently Issued ASUs	Application Retrospective restatement - prior periods must be corrected	Also, retrospective restatement unless impracticable.
6. IFRS Comparison	Impracticability Retrospective restatements for corrections of errors are required and impracticability exceptions are not allowed.	Retrospective restatements for correction of errors is required unless it's impracticable.
	Balance Sheet Presentation Prior-period financials are adjusted retrospectively. An entity is not required to present the beginning balance sheet of the preceding period.	An entity must present the beginning balance sheet of the preceding period

A TEAM THAT YOU CAN TRUST TO DELIVER



Sandip Khetan

Co-Founder, Global Head of ARC
sandip.khetan@uniquis.com



Arda Kaya

Partner, ARC
ardakaya@uniquis.com



Avinash Ramkumar

Partner, ARC
avinash@uniquis.com



Ashish Gupta

Partner, ARC
ashishgupta@uniquis.com



Raghuram K

Partner, ARC
kraghuram@uniquis.com



Sagar Lakhani

Partner, ARC
sagarlakhani@uniquis.com



Sharad Chaudhry

Partner, ARC
schaudhry@uniquis.com



Puneet Chowdhary

Director, ARC
puneetchowdhary@uniquis.com



Harsh Kumar

Manager, ARC
harshkumar@uniquis.com

To know more about us, please visit www.uniquis.com