

Thematic Review - Significant accounting judgments and sources of estimation uncertainty

The FRC will conduct a thematic review of companies' disclosures of significant accounting judgements and sources of estimation uncertainty. This will better enable readers to assess the quality of management's accounting policy decisions and the likelihood of sources of uncertainty affecting the next year's report and accounts. Paragraphs 122 to 129 of IAS 1, 'Presentation of Financial Statements', require the disclosure of the judgements and estimates made by management that have the most significant effect on the amounts recognised in the financial statements.

The FRC finds too many examples of generic disclosures that do not identify the specific judgements a board has made or that fail to explain the extent to which the changes in value of assets and liabilities could have a material effect on the following year's accounts. The FRC's Lab reported in July 2014 that investors valued judgement and estimate disclosures that enabled them to evaluate a company's financial position and results and their sensitivities to changes in assumptions.

The FRC has identified the following specific areas where improvements can be made. It expects:

- Clear descriptions of the specific, material judgements made by the directors in applying accounting policies, clearly differentiating these from estimates;
- Specific identification of the sources of estimation uncertainty that have the potential to change in the next year, with quantified explanations of the assumptions made about the future, for example, oil prices, and the carrying amounts that are subject to a significant risk of material adjustment within the next financial year; and
- Where material, supplementary disclosures such as information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes and changes made to past assumptions during the year.

Notes:

1. Paragraph 122 of IAS 1 requires companies to disclose the judgements, apart from those involving estimations, that management has made in the process of applying the companies' accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
2. Paragraph 125 of IAS 1 requires companies to disclose information about the assumptions its makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities the notes to the accounts shall include details of their nature, and their carrying amount at the end of the reporting period.

3. The Lab project report “Accounting policies and integration of related financial information” may be found at <https://frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/Accounting-policies-and-integration-of-related-fin.pdf>