

# IMPROVING THE QUALITY OF FINANCIAL STATEMENTS



ACCOUNTING STANDARDS BOARD





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





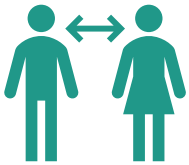
# Disclose judgements, assumptions, estimates and uncertainties



Transactions, events, facts and circumstances may differ.



So may the judgements that are applied.



The answers of two accountants may not be the same.



Therefore, important to explain...

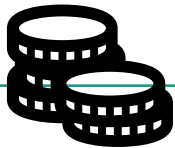


# Disclose judgements, assumptions, estimates and uncertainties

Key areas of judgement:



Application of accounting policies



Measurement of assets and liabilities



# Disclose judgements, assumptions, estimates and uncertainties



What to disclose?

- Key assumptions concerning the future
- Key sources of estimation uncertainty
  - Where there is a significant risk of material adjustment to assets and liabilities in the next reporting period as a result of uncertainty in valuation at this reporting date







# Review and amend accounting policies



The Standards describe the broad principles used to prepare financial statements.



Users should have an understanding of these principles, but what is more important is how they are applied.



It is important to tailor accounting policies to your circumstances.



# Review and amend accounting policies

This is **not** a good accounting policy....

*Property, plant and equipment are tangible non-current assets that are used in the production or supply of goods or services, rental to others, or for administrative purposes and are expected to be used during more than one reporting period. The cost of an item of property, plant and equipment is recognised as an asset when it is probable that the future economic benefits or service potential will flow to the entity and the cost or fair value can be measured reliably. Classes of property, plant and equipment are measured subsequently using the cost or the revaluation model.*

# Review and amend accounting policies

The accounting policy **should**:

- Explain what items are PPE and classes used



- Whether cost or fair value is applied initially, and subsequent measurement model



- If revalued, on what basis and how frequency





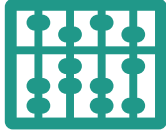
# Review and amend accounting policies

Some basic questions to ask...

- Are there policies for material transactions and events?
- Do the policies deal with transactions and events that occur at your entity?
- Do the policies simply repeat the principles in the Standards?
- Do the policies explain how the principles in the Standards have been applied? ...

# Review and amend estimates

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- Standards of GRAP prescribe periodic review of accounting estimates 
- **For example:**
  - Review useful lives of PPE using indicators in GRAP 17
  - Review fully depreciated assets still in use [ASB FAQ on *What is the treatment of fully depreciated assets still in use?*]



# Disclose effect of not yet effective Standards

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Financial statements enable users to make decisions using predictive information

Future changes in accounting policies could affect these decisions

Need to disclose information about Standards that are not yet effective + their potential impact

- E.g. information on recognition of new or different items, changes in values of items, etc.
- Review Directive 5 for list.
- Only those Standards that are relevant to the entity

# Apply materiality





# Apply materiality

- The Standards of GRAP only apply to material items.
- Applies to recognition, measurement, presentation and disclosure.
- Applying materiality  $\neq$  leave out of the financial statements!
  - It means alternative accounting treatment

# Apply materiality



Identify users

Identify their information needs

Identify what is material

➤ Set thresholds (**quantitative**) and criteria (**qualitative**)

❖ **Discuss** with management, oversight structures and auditors

ASB Guideline on The Application to Materiality in Financial statements

# Examples of applying materiality

Applying materiality to...	What it means...
Recognition	<ul style="list-style-type: none"> <li>• Expensing low-value assets.</li> <li>• Capitalising servitudes as part of the cost of an asset rather than recognition as an intangible asset.</li> </ul>
Measurement	<ul style="list-style-type: none"> <li>• Expensing transaction costs when measuring financial instruments.</li> <li>• Using contractual interest rate instead of effective interest rate when transaction costs immaterial (assume market related).</li> </ul>

# Examples of applying materiality

Applying materiality to...	What it means...
Presentation	Not separately presenting a line item that is immaterial on the statement of financial performance or position, even if required by GRAP 1.
Disclosure	Not providing detailed credit risk disclosures if an entity only has a bank account and immaterial receivables.

# Resources available to prepare quality financial statements

# Resources

Topic	Issued by	Access
Frequently Asked Questions	Secretariat of the ASB	<a href="#">ASB website</a>
Fact Sheets	Secretariat of the ASB	<a href="#">ASB website</a>
Review Reports and Research Papers	Board	<a href="#">ASB website</a>
Presentations and Recordings	Secretariat of the ASB	<a href="#">ASB YouTube</a> and <a href="#">ASB website</a>
Guideline on <i>The Application of Materiality to Financial statements</i>	Secretariat of the ASB	<a href="#">ASB website</a>
GRAP Accounting Guidelines	Office of the Accountant-General	<a href="#">OAG website</a>
GRAP Disclosure Checklist	Office of the Accountant-General	<a href="#">OAG website</a>

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