

# THE IMPORTANCE OF DISCLOSING INFORMATION ON SIGNIFICANT JUDGEMENTS AND UNCERTAINTIES

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# 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.***

# Significant judgements – what are they?

- Judgement

*Preparers, applying ... their **professional judgement**, are responsible for ensuring that information that meets the objectives of financial reporting and achieves the qualitative characteristics is provided in the GFRs that they prepare.*  
[Conceptual Framework 8.30]



The need for management to apply judgement is pervasive in the CF and Standards

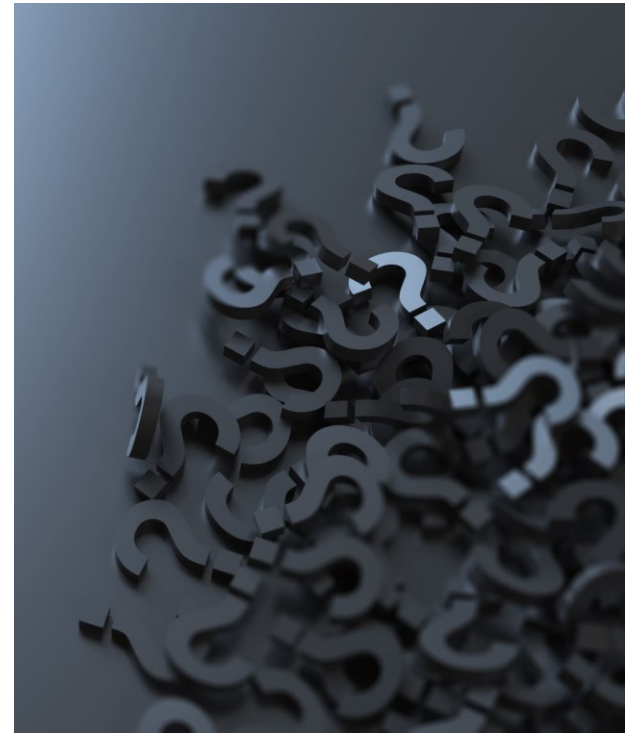
# Uncertainties – what are they?

- **Uncertainties**

## QC – Faithful representation

*The economic and other phenomena represented in GPFs generally occur under conditions of uncertainty. Information included in GPFs will therefore often include estimates that incorporate management's judgement... Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena. [Conceptual Framework 3.20]*

*The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. [GRAP 3.35]*



# Examples

- **Areas of uncertainty** requires **estimation**, which involves **judgements** based on the latest available, reliable information.
- For example, estimates may be required of:

tax revenue  
due to  
government

bad debts from  
uncollected  
revenue

inventory  
obsolescence

fair value of  
financial assets  
and liabilities

useful lives of  
depreciable  
assets



# Examples

- Other areas of **judgements** include:

Materiality

Going concern  
assessment

Presentation of  
information



# The importance of disclosure...

- Preparers often express difficulty in applying judgements and making estimates under conditions of uncertainty.
- This is why disclosure is so important! It allows management to explain to users the considerations, assumptions, etc. applied in preparing the financial statements.





# The importance of disclosure...

- **Judgements**

*GRAP 1.132: An entity shall disclose ... the judgements ... management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.*

- **Significant uncertainties**

*GRAP 1.135: An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year...*





# Key takeaway...

**Disclose sufficient information about management's significant judgements and uncertainties to enable users to understand the information in the financial statements**



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