



OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

**ISSUERS' FINANCIAL YEARS ENDING ON OR
AFTER 31 DECEMBER 2012**

MISSION

To support and enhance public confidence in the accountancy profession and in financial reporting through the exercise of effective, independent oversight and the promotion of adherence to high standards

DISCLAIMER

This document does not constitute legal advice or a legal interpretation of the Transparency Directive, the Transparency (Directive 2004/109/EC) Regulations 2007 (as amended), the Companies Acts, the Transparency Rules or any other aspects of the legislation implementing the Directive in Irish law. This document does not detail the requirements of the Directive as transposed into Irish law nor is it intended to be a substitute for a detailed review of the Directive or related requirements, including those relating to financial reporting. Where users of this document are uncertain regarding the effect of any legal provision, consideration should be given to obtaining independent professional advice.

Whilst every effort has been made to ensure the accuracy of the information contained in this document, the Irish Auditing & Accounting Supervisory Authority accepts no responsibility or liability howsoever arising from any errors, inaccuracies, or omissions occurring. The Irish Auditing & Accounting Supervisory Authority reserves the right to take action, or refrain from taking action, which may or may not be in accordance with this document.

CONTENTS

	Page
Introduction	
1. Financial reporting review remit of IAASA	5
2. Purpose of this document	5
3. Other relevant guidance and feedback material	5 – 6
4. Reader feedback	6
Observations on selected financial reporting issues	
1. Continued applicability of matters raised in earlier years' <i>Observations</i> documents	7
2. Impairments	7 – 8
3. Risk reporting under IFRS 7 <i>Financial Instruments: Disclosures</i>	8 – 9
4. Provisions	9 – 10
5. IAS 19 <i>Employee Benefits</i>	10 – 11
6. Cash flow statements	11
7. Off balance sheet items: qualitative disclosures	11 – 12
8. Alternative performance measures	12
9. Presentation of 'exceptional items' in the Income Statement	12 – 13
10. Restatement and reclassification of amounts	13 – 14
11. Reassessment of the reasonableness of significant estimates	14
12. Accounting pronouncement not yet effective	14 – 15
13. IFRS 8 <i>Operating Segments</i> and disclosure of non-current assets by geography	15
14. New and amended accounting pronouncements	16
Glossary of terms	17
Appendix – Matters raised in earlier years' <i>Observations</i> documents	18

INTRODUCTION

1. Financial reporting review remit of IAASA

The financial reporting review remit of the Irish Auditing and Accounting Supervisory Authority ('IAASA') derives from the [Transparency \(Directive 2004/109/EC\) Regulations 2007 \(S.I. No. 277 of 2007\)](#) (as amended) ('the Regulations')¹. Under the Regulations, IAASA examines the annual and half-yearly financial reports of certain equity, debt and fund issuers with securities admitted to trading on a regulated market within the European Union ('EU').

The majority of issuers that publish their annual and half-yearly financial reports in compliance with the Regulations apply either International Financial Reporting Standards ('IFRS') (such issuers being referred to as 'IFRS issuers') or accounting standards issued by the Financial Reporting Council in the UK (such issuers being referred to as 'Irish GAAP² issuers'). Therefore, although IAASA's review activity may extend to periodic financial reports prepared under other codes of accounting standards (e.g. US GAAP), the observations offered in this document are limited to the requirements as they apply to IFRS and Irish GAAP issuers.

The matters raised in the document derive from the outcome of IAASA's examinations and surveys conducted in 2012 together with IAASA's expectations of issuers for 2012 year ends.

As previously stated, IAASA determines which financial reports to select for review and the scope of that review based on risk factors. IAASA believes that smaller issuers face more risks in the current economic climate and have, potentially, more limited resources to manage the financial and reporting challenges facing them. This assessment applies to all three categories of issuer – Equity, Funds and Debt.

2. Purpose of this document

Similar to previously published *Observations* documents³, the purpose of this document is to seek to assist issuers' management and those charged with issuers' governance in the preparation of high quality financial reports by offering observations on selected financial reporting issues to coincide with the preparation of issuers' 2012 financial statements.

The audience for this document is principally intended to be those involved in the preparation, approval and/or review of issuers' financial reports, including, issuers' management, Audit Committees and Boards, providers of audit and other assurance services, legal advisors, listing agents and, where applicable, fund administrators and/or other relevant service providers. In that context, IAASA encourages the widest possible transmission of this document.

¹ The [Transparency \(Directive 2004/109/EC\) Regulations 2007 \(S.I. No. 277 of 2007\)](#) has subsequently been amended by the [Transparency \(Directive 2004/109/EC\) \(Amendment\) Regulations 2010 \(S.I. No. 102 of 2010\)](#), the [Transparency \(Directive 2004/109/EC\) \(Amendment\) Regulations 2012 \(S.I. No. 238 of 2012\)](#), and the [Transparency \(Directive 2004/109/EC\) \(Amendment\) \(No. 2\) Regulations 2012 \(S.I. No. 316 of 2012\)](#). Each of these Statutory Instruments is available at http://www.iaasa.ie/legislation/index.htm#Other_Relevant_Statutory_Instruments

² Generally Accepted Accounting Principles

³ [Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2011](#), [Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2010](#), [Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2009](#), and [Observations on year end financial reporting issues for issuers admitted to trading on a regulated market and whose Home Member State is Ireland](#)

3. Other relevant guidance and feedback material

Readers may also find it helpful to read this document in conjunction with other relevant material available on the [IAASA website](#), including:

Observations documents	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December, 2011
	Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2010
	Observations on materiality in financial reporting
	Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2009
	Observations on year end financial reporting issues for issuers admitted to trading on a regulated market and whose Home Member State is Ireland
Information Notes	Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006
	Information Note: Financial reporting considerations relevant to the making of distributions
Other	Alternative Performance Measures – A Survey of their use together with key recommendations
	Review of the quality of selected debt and fund issuers' fair value and risk disclosures
	Commentary on half-yearly financial reports prepared since the coming into effect of the Transparency (Directive 2004/109/EC) Regulations, 2007
Guides	Guide to the financial reporting requirements of the EU Transparency Directive
Annual Reports	2011 Annual Report
	2010 Annual Report
	2009 Annual Report
	2008 Annual Report
	2007 Annual Report
	2006 Annual Report

In addition, the periodically [published summaries](#) of enforcement decisions taken by EU financial reporting supervisory authorities – of which the [12th Extract](#) was published in October 2012 – and the [annual activity reports](#) published by the European Securities and Markets Authority ('ESMA') on enforcement of IFRS in the EU may be helpful.

4. Reader feedback

This is the fifth *Observations* document for year end reporting published by IAASA.

If readers have views on the usefulness of this document or suggestions as to how it might be enhanced to meet their specific requirements, IAASA would welcome stakeholder feedback, which can be provided to info@iaasa.ie or by telephone at +353 45 983600.

OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

1. Continued applicability of matters raised in earlier years' *Observations* documents

The economic backdrop for issuers reporting in the 2012 season continues to be one of sluggish economic performance and continued uncertainty. This subdued economic backdrop presents ongoing risk and uncertainty in the recognition, measurement and classification of income, expenses, assets and liabilities in financial statements in respect of financial years ending on or after 31 December 2012 as well as to associated risks in the context of presentation and disclosure.

This ongoing risk and uncertainty highlights the critical importance of the estimates and judgements made by issuers' management and Boards and Audit Committees in preparing financial reports and in ensuring appropriate disclosures are provided to users of those financial reports in respect of those estimates and judgements.

As noted earlier in this document, this is the fifth *Observations* document for year end reporting published by IAASA and readers are encouraged to read this document in conjunction with those earlier years' documents which are available on the [IAASA website](#). For ease of reference, the topics addressed in those earlier year's documents are summarised in the Appendix to this document.

Readers will appreciate that, given the on-going economic uncertainty, many of the matters raised in earlier years' *Observations* documents have continued applicability in the current reporting season.

2. Impairments

2.1 *Indications of impairment*

In the current economic climate, the assessment as to whether there is any indication that an asset may be impaired continues to be a significant judgement to be made by directors in preparing financial statements.

IAS 36 *Impairment of Assets*⁴ sets out a list of factors an entity shall consider, as a minimum, in making this assessment [IAS 36.12⁵]. IAASA reminds issuers that this list of indicators:

- (a) is not exhaustive and represents the minimum indicators to be considered in assessing whether there is an indication of impairment; and
- (b) includes an indicator that an asset may be impaired where the carrying amount of the net assets of an entity is more than its market capitalisation [IAS 36.12(d)].

IAS 36.12 – 14 provide some indicators that an asset or CGU may be impaired and that may trigger the requirement for a formal calculation of the estimated recoverable amount of an asset or a Cash Generating Unit ('CGU').

2.2 *Impairment measurement – methodologies and key assumptions*

Where an assessment has been made that there are indications of possible impairment of assets or CGUs, Boards and Audit Committees should scrutinise both the methodology used to determine the recoverable amount and the key assumptions upon which that recoverable amount is based.

At a minimum, regard should be had to ensure that:

- (a) a critical assessment of the methodology used to calculate the recoverable amount of assets/CGUs is conducted;
- (b) a re-examination of the reasonableness of the key assumptions on which the detailed cash flow projections are based (including uncertainties as to the amounts or timing of those future cash flows) is undertaken. It may be that circumstances have changed such that the budgeted/forecast cash flows upon which recoverable amount is based is now in doubt.

⁴ FRS 11 *Impairment of assets and goodwill* is the applicable Irish GAAP pronouncement

⁵ Paragraphs 8 to 13 of FRS 11 refer

Consider, for example, the assumptions of earnings growth, gross margin, discount rate (overall rate or CGU specific rates), and working capital requirements; and

- (c) the impact of terminal value on the discounted cash flow analysis has been carefully determined given the very significant impact that this variable can have on the present value calculation.

Directors should also be mindful that the use of models in valuations or impairment assessments which are based on historic experience need to be critically evaluated in the current environment where the use of historic patterns may no longer be appropriate [IAS 36.38 refers].

It is IAASA's expectation that the disclosures required by IAS 36 will be provided in full and, in particular, the disclosures required by IAS 36.134(d). In situations where the CGU's (group of CGUs') recoverable amount is based on value in use, the following disclosures shall be provided:

- (a) a description of each key assumption;
- (b) a description of management's approach to determining the value(s) assigned to each key assumption;
- (c) the period over which management has projected cash flows based on financial budgets/forecasts approved by management;
- (d) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts; and
- (e) the discount rate(s) applied to the cash flow projections).

IAASA has identified instances where the required disclosures have not been provided in full.

3. Risk reporting under IFRS 7 *Financial Instruments: Disclosures*

3.1 *Disclosure of the nature and extent of risks*

With limited exceptions, IFRS 7⁶ shall be applied by all entities to all types of financial instruments [IFRS 7.3]. IFRS 7.31 requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed [IFRS 7.31]. The disclosures required include qualitative disclosures [IFRS 7.33] and quantitative disclosures [IFRS 7.34]. IFRS 7.36 – 38 set out the disclosures required regarding credit risk.

IFRS 7.B3 states that it is necessary to strike a balance between overburdening financial statements with excessive detail and obscuring important information as a result of too much aggregation. For example, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks. Boards and Audit Committees are reminded that IFRS 7.6 requires that, where disclosure is required by class of financial instrument, an entity should group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments.

Boards and Audit Committees are reminded that, in the current economic climate, the disclosures provided in this regard may warrant close scrutiny to ensure that users are in a position to evaluate the nature and extent of risks arising from all types of financial instruments.

3.2 *Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets*⁷

Attention is drawn to the additional disclosure requirements arising from the October 2010 amendments to IFRS 7. The amendments are intended to enable users of financial statements to:

⁶ IFRS 29 *Financial instruments: Disclosures* is the applicable Irish GAAP pronouncement

⁷ *Amendments to IFRS 7 (IFRS 7) Disclosures – Transfers of financial assets* is the applicable Irish GAAP pronouncement

- (a) understand the relationship between transferred financial assets that are not de-recognised in their entirety and the associated liabilities; and
- (b) evaluate the nature of, and risks associated with, the entity's continuing involvement in de-recognised financial assets;

and require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

An entity shall apply those amendments for annual periods beginning on or after 1 July 2011.

Boards and Audit Committees should carefully consider the nature and extent of disclosures regarding the impact that application of the amendments has on the financial statements in the period of initial application.

3.3 Fund and Debt Issuers

With regard to Fund and Debt issuers, IFRS 7 disclosures should encompass disclosures relating to the valuation of financial instruments and the concentration of, and exposure to, various risks. In that context, readers' attention is drawn to IAASA's publication of March 2012 titled [Review of the quality of selected debt and fund issuers' fair value and risk disclosures](#).

4. Provisions

4.1 Provisions for liabilities and charges

In the current economic climate restructuring provisions may constitute a significant component in financial statements.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*⁸ requires a number of disclosures in relation to provisions including, for each class of provision, the following:

- (a) carrying amounts, increases in and reversal of provisions in the period, utilisation and discounting impact [IAS 37.84];
- (b) a description of the nature of the provision and the expected timing of any resulting outflows [IAS 37.85(a)];
- (c) an indication of the uncertainties about the amount or timing of those outflows including, where necessary, the major assumptions made [IAS 37.85(b)]; and
- (d) the amount of any expected reimbursement [IAS 37.85(c)].

IAS 37.87 states that, in determining which provisions may be aggregated to form a class, '*it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the [disclosure] requirements*'.

Boards and Audit Committees are advised to carefully consider the level of aggregation of provisions into classes so as to meet the requirements of IAS 37.

4.2 Discounting of provisions

IAS 37 requires that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation [IAS 37.45] and that the discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability [IAS 37.47].

In the current economic climate issuers may recognise significant provisions in respect of restructurings and onerous contracts. These provisions may unwind over an extended period of time.

⁸ FRS 12 *Provisions, contingent liabilities and contingent assets* is the applicable Irish GAAP pronouncement

Consequently, it is IAASA's expectation that Boards and Audit Committees will carefully consider the aforementioned requirements of IAS 37 and will discount provisions where the effect is material.

5. IAS 19 *Employee Benefits*⁹

5.1 *Discount rates*

Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Such actuarial assumptions include demographic assumptions and financial assumptions.

One actuarial assumption that has a material effect on the ultimate cost of providing post employment benefits is the discount rate. The discount rate used reflects the estimated timing of benefit payments [IAS 19.80¹⁰].

Any change to the discount rate, which reflects the time value of money but not the actuarial or investment risk, has a disproportionate impact on the carrying amount of a pension liability. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions [IAS 19.79¹¹].

IAS 19.78¹² states:

'The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.'

IAS 19.120A (n)(i) requires disclosure of the discount rates used.

IAS 19 recognises that, in some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve [IAS 19.81¹³].

It is IAASA's expectation that, in instances where an issuer uses the argument that no deep market in high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments exists, the issuer would provide detailed disclosures as to the judgements made in this regard and provide additional detail as to how discount rates using government bonds have been estimated [IAS 19.120A and IAS 1.112(c)].

5.2 *IAS 19 (revised)*

IAS 19 (revised) (see item 14 below) is effective from 1 January 2013. Consequently, it is anticipated that 2012 financial statements will include quantitative information on the effects of the adoption of IAS 19 (revised).

Changes introduced by IAS 19 (revised) relate principally to:

- (a) the recognition of changes in the defined benefit obligation and in plan assets when these changes occur (thereby eliminating the "corridor approach"); and
- (b) the calculation of net interest on the basis of the high-quality corporate bond yield (rather than using the expected return on plan assets).

⁹ FRS 17 *Retirement benefits* is the applicable Irish GAAP pronouncement

¹⁰ Paragraph 85 of IAS 19 (revised)

¹¹ Paragraph 84 of IAS 19 (revised)

¹² Paragraph 83 of IAS 19 (revised)

¹³ Paragraph 86 of IAS 19 (revised)

Consequently, Boards and Audit Committees should carefully consider the nature and extent of disclosures in 2012 financial statements regarding the impact that application of the revised Standard will have on the entity's financial statements in the period of initial application [IAS 8.30].

6. Cash flow statements

IAS 1.10 states that a complete set of financial statements comprises:

- (a) a statement of financial position;
- (b) a statement of profit or loss and other comprehensive income;
- (c) a statement of changes in equity;
- (d) a statement of cash flows; and
- (e) accompanying notes, including accounting policies.

IAS 7 *Statement of Cash Flows*¹⁴ states that the statement of cash flows is an integral component of an entity's financial statements [IAS 7.1] and sets out the requirements for the presentation of same.

In its financial statement examination activities, IAASA has observed instances where certain issuers' cash flow statements did not comply with IAS 7 in all respects.

Given its importance as a primary statement, directors are expected to ensure that cash flow statements are free from error.

7. Off balance sheet items: qualitative disclosures

While individual IFRSs specify particular disclosures, IAS 1.112(c) – which states that the notes to the financial statements shall *'provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them'* – may also be relevant in determining the level of disclosure to be provided in financial statements¹⁵.

Boards and Audit Committees should carefully consider whether disclosure of items, including but not limited to those outlined below, would aid users understanding of the financial position and performance of the issuer:

- (a) off balance sheet financing arrangements including, but not limited to, operating lease commitments and sale and repurchase arrangements;
- (b) committed financing arrangements (e.g. commitments to fund a subsidiary or meet a liability of other group entities);
- (c) guarantees, warranties or sales rebates (such as significant terms or conditions or changes therein that can significantly impact the amount or timing of future liabilities);
- (d) the leveraged nature of certain derivative instruments (e.g. those arising from holding and trading in forwards, futures, options and swaps, etc); and
- (e) loan covenants – the sensitivity of key covenant conditions to reasonably possible changes within the next 12 months.

¹⁴ FRS 1 *Cash flow statements* is the applicable Irish GAAP pronouncement

¹⁵ Paragraph 1 of FRS 3 *Reporting financial performance* may be relevant to Irish GAAP issuers

In determining the level of disclosure to be provided in this regard, Boards and Audit Committees need to strike a balance between:

- (a) providing information relevant to users even if such disclosure is not explicitly specified by IFRS [IAS 1.112(c)]; and
- (b) providing disclosure required by IFRS only if the information is material [IAS 1.31].

8. Alternative performance measures

IAASA recently conducted a survey of equity issuers' use of alternative performance measures ('APMs') and published its recommendations in a paper titled [*Alternative Performance Measures – A Survey of their use together with key recommendations*](#). The purpose of that publication was to identify and describe the most common financial APMs presented in equity issuers' annual reports and to identify key recommendations which, if applied, should enhance users' understanding of the performance, financial position and cash flows and enable better comparability across issuers.

Where APMs are presented, Boards and Audit Committees are strongly encouraged to apply the following key recommendations:

- (a) explain the reason for the presentation of each APM;
- (b) provide a clear definition of each APM used;
- (c) provide an explanation of the basis for the calculation of each APM including details as to why selected APMs exclude certain items. The reasons for the adjustments should be clearly explained (i.e. how the underlying residual figure is key to understanding the performance or financial position or cash flows);
- (d) provide a reconciliation of each APM to the relevant IFRS data, where applicable;
- (e) include a comparative measure for all reported APMs;
- (f) disclose all APMs used within a single location in the annual report where possible, making it easier for users to assess the performance measures as a whole;
- (g) avoid the preparation and presentation of APMs in a manner that has the potential to detract from, or conflict with, the information provided in the financial statements; and
- (h) avoid the presentation of APMs in a manner that gives them inappropriate prominence over the IFRS measures.

9. Presentation of 'exceptional items' in the Income Statement

IAS 1 prohibits the presentation of items of income and expense as '*extraordinary items*' in the income statement and the notes¹⁶.

In accordance with IAS 1, no items of income and expense are to be presented as arising from outside an entity's ordinary activities [IAS 1.BC61].

The term 'exceptional item' is not defined in IFRSs. However, it is widely used by issuers to describe items which appear fall within the scope of IAS 1.97 which states:

'When items of income or expense are material, an entity shall disclose their nature and amount separately' [IAS 1.97].

¹⁶ FRS 1.19 – 20 and FRS 1.22 set out the Irish GAAP requirements regarding 'exceptional' and 'extraordinary' items

IAS 1.98 states:

'Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;*
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;*
- (c) disposals of items of property, plant and equipment;*
- (d) disposals of investments;*
- (e) discontinued operations;*
- (f) litigation settlements; and*
- (g) other reversals of provisions.'*

It is IAASA's expectation that, in applying the requirements of IAS 1.97, issuers will carefully consider their financial reporting treatment at each reporting date including:

- (a) whether the presentation and disclosure of 'exceptional items' is best achieved by:
 - (i) adopting a columnar format for the Income Statement;
 - (ii) presenting 'exceptional items' as a line item on the face of the Income Statement; or
 - (iii) by disclosure of the 'exceptional items' in a note to the financial statements with accompanying narrative.
- (b) the disclosure of an accounting policy in respect of 'exceptional items' setting out the basis on which 'exceptional items' are identified and presented; and
- (c) the treatment in subsequent reporting periods of items which were presented as 'exceptional' in earlier periods but which, based on materiality of the item in the current period, is considered no longer material. The requirements of IAS 1.45 to retain the presentation and classification of items in the financial statements from one period to the next should also be borne in mind.

In addition, it would appear that issuers treat costs as 'exceptional' in nature with few treating income items as 'exceptional'. In determining which items are 'exceptional', it is IAASA's expectation that issuers will examine both income and costs as to whether they constitute 'exceptional items' and apply their 'exceptional item' accounting policy consistently to both of these elements of the Income Statement.

10. Restatement and reclassification of amounts

IAS 1.41 states:

'When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

- (a) the nature of the reclassification;*
- (b) the amount of each item or class of items that is reclassified; and*

(c) *the reason for the reclassification.*'

Notwithstanding earlier commentary¹⁷ in this regard, IAASA continues to identify instances where issuers have changed the presentation or classification of items in their financial statements without providing each of the three disclosures mandated by IAS 1.41.

It is IAASA's expectation that in instances where issuers judge that a change to presentation or classification of items in its financial statements is warranted, the required disclosures will be provided.

Likewise, in instances where mathematical and presentational errors are corrected in subsequent reporting periods, a number of issuers appear to fail to provide the disclosures required by IAS 8.49¹⁸. IAASA's expectation is that where prior period errors are corrected, the complete disclosures required by IAS 8 will be provided.

11. Reassessment of the reasonableness of significant judgements

Determining the amount of certain assets, liabilities, income and expenses may require an issuer to make estimates of the effects of uncertain future events on those assets, liabilities, income and expenses. Directors are often called upon to make subjective judgements on complex matters in an uncertain environment. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability [IAS 8.33].

Examples of judgements made by directors include:

- (a) IFRS 3¹⁹ which requires the exercise of judgement in determining contingent consideration;
- (b) IFRS 7²⁰ which requires significant judgement in determining fair values;
- (c) the determination of pension assets or liabilities under IAS 19 is based on key assumptions;
- (d) IAS 36²¹ which requires the exercise of judgement in the determination of value-in-use cash flows and forecasts for cash generating units; and
- (e) IAS 37²² and IAS 38²³ require the exercise of judgement in the determination of the carrying amount of provisions and intangible assets respectively.

However, the issuer's expected outcomes may not have not been achieved due to sustained weakened demand, reduced cash flows, falling asset values, limited availability of finance and higher credit-spreads. In this environment, directors are expected to re-examine whether past forecasts have been achieved and whether current forecasts and assumptions remain reasonable and achievable. This may have an impact on the assumptions underpinning significant judgements and forecasts of the directors and thereby impact the carrying amount of selected assets and liabilities.

12. Accounting pronouncements not yet effective

Disclosures are required by IAS 8.30 regarding new IFRSs that have been issued but not yet applied by an issuer preparing its financial statements in accordance with IFRS as endorsed by the EU ('IFRS-EU').

¹⁷ Item 9 on page 17 of [Observations on selected financial reporting issues – issuers' financial years ending on or after 31 December, 2010](#) refers

¹⁸ IAS 8.49 sets out the disclosures required by an entity in correcting a material prior period error as being the nature of the error and the amount of the correction for each financial statement line item affected

¹⁹ FRS 7 *Fair values in acquisition accounting* is the applicable Irish GAAP pronouncement

²⁰ FRS 29 *Financial instruments: Disclosures* is the applicable Irish GAAP pronouncement

²¹ FRS 11 *Impairment of assets and goodwill* is the applicable Irish GAAP pronouncement

²² FRS 12 *Provisions, contingent liabilities and contingent assets* is the applicable Irish GAAP pronouncement

²³ FRS 10 *Goodwill and intangible assets* are the applicable Irish GAAP pronouncements

IAS 8.30 requires that:

'When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and*
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.'*

IAS 8.31 states:

'In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new IFRS;*
- (b) the nature of the impending change or changes in accounting policy;*
- (c) the date by which application of the IFRS is required;*
- (d) the date as at which it plans to apply the IFRS initially; and*
- (e) either:*
 - (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or*
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.'*

There is a divergence in issuer practices in this regard with some issuers providing disclosures regarding IFRS-EU and others providing disclosures regarding IFRS whether or not they have been endorsed by the EU.

It is IAASA's expectation that issuers will provide the disclosures required by IAS 8.30 – 31 in respect of IFRSs issued irrespective as to whether or not the relevant IFRSs have been endorsed by the EU.

13. IFRS 8 *Operating Segments*²⁴ and disclosure of non-current assets by geography

IFRS 8.33(b) requires disclosure of non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and right arising under insurance contracts located in:

- (i) an entity's country of domicile; and
- (ii) all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

Issuers are reminded that this disclosure is not limited to tangible assets and should include intangible assets and goodwill. In this regard, IAS 21.47 states that any goodwill arising on an acquisition of a foreign operation shall be treated as an asset of that foreign operation. Furthermore, it should be noted that the individual countries disclosed in this analysis of non-current assets may not be the same as those disclosed in respect of revenues from external customers under IFRS 33(a) because a separate analysis of materiality by foreign country is required for revenue and for non-current assets.

²⁴ SSAP 25 *Segmental reporting* is the applicable Irish GAAP pronouncement

14. New and amended accounting pronouncements

The following table summarises the EU endorsement status of recent IASB²⁵ pronouncements.

	Date pronouncement issued	IASB effective date	EU endorsed
Standards			
Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	16 Jun 2011	1 Jul 2012	Yes
Amendments to IAS 19 <i>Employee Benefits</i>	16 Jun 2011	1 Jan 2013	Yes
Amendments to IFRS 7 <i>Financial instruments: Disclosures – Transfers of Financial Assets</i>	7 Oct 2010	1 Jul 2011	Yes
Improvements to IFRSs (2010)	6 May 2010	Varies	
IFRS 9 <i>Financial Instruments</i>	12 Nov 2009	1 Jan 2015	No ²⁶
Subsequent amendments (<i>Amendments to IFRS 9 and IFRS 7 issued 16 December 2011</i>)	16 Dec 2011		
IFRS 10 <i>Consolidated Financial Statements</i>	12 May 2011	1 Jan 2013	No ²⁷
IFRS 11 <i>Joint Arrangements</i>	12 May 2011	1 Jan 2013	No
IFRS 12 <i>Disclosures of Interests in Other Entities</i>	12 May 2011	1 Jan 2013	No
IFRS 13 <i>Fair Value Measurement</i>	12 May 2011	1 Jan 2013	No
IAS 27 <i>Separate Financial Statements</i>	12 May 2011	1 Jan 2013	No
IAS 28 <i>Investments in Associates and Joint Ventures</i>	12 May 2011	1 Jan 2013	No
Amendments to extant Standards			
Deferred tax: Recovery of Underlying Assets (<i>Amendments to IAS 12</i>)	20 Dec 2010	1 Jan 2012	No
Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (<i>Amendments to IFRS 1</i>)	20 Dec 2010	1 Jul 2011	No
Disclosures – Offsetting Financial Assets and Financial Liabilities (<i>Amendments to IFRS 7</i>)	16 Dec 2011	1 Jan 2013	No
Offsetting Financial Assets and Financial Liabilities (<i>Amendments to IAS 32</i>)	16 Dec 2011	1 Jan 2014	No
Government Loans (<i>Amendments to IFRS 1</i>)	13 Mar 2012	1 Jan 2013	No
Improvements to IFRSs (2009 – 2011)	17 May 2012	1 Jan 2013	No
Transition Guidance (<i>Amendments to IFRS 10, IFRS 11 and IFRS 12</i>)	28 Jun 2012	1 Jan 2013	No
<i>Investment Entities</i> (<i>Amendments to IFRS 10, IFRS 12 and IAS 27</i>)	31 Oct 2012	1 Jan 2014	No
Interpretations of extant Standards			
IFRIC ²⁸ Interpretation 20: <i>Stripping Costs in the Production Phase of a Surface Mine</i>	19 Oct 2011	1 Jan 2013	No

The up-to-date EU endorsement status of IASB pronouncements is available on the [EFRAG website](#).

Irish Auditing & Accounting Supervisory Authority
13 November 2012

²⁵ International Accounting Standards Board

²⁶ The European Financial Reporting Advisory Group ('EFRAG') has postponed endorsement of IFRS 9

²⁷ On 1 June 2012, the Accounting Regulatory Committee ('ARC'), the vehicle through which the European Commission seeks advice from Member states prior to endorsing IFRS pronouncements, voted on a Regulation that requires IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 to be applied, at the latest, from the commencement date of an entity's first financial year starting on or after 1 January 2014 (i.e. early adoption would be permitted once the Standards have been endorsed)

²⁸ International Financial Reporting Interpretations Committee

GLOSSARY OF TERMS

APM(s)	Alternative Performance Measure(s)
CGU(s)	Cash Generating Unit(s)
ESMA	European Securities and Markets Authority
EU	European Union
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IAASA	Irish Auditing & Accounting Supervisory Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS-EU	IFRS as endorsed by the EU
Regulations, the	Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended by the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2010 (S.I. No. 102 of 2010), the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 (S.I. No. 238 of 2012), and the Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2012 (S.I. No. 316 of 2012)
SIC	Standing Interpretations Committee
SSAP	Statement of Standard Accounting Practice

APPENDIX – MATTERS RAISED IN EARLIER YEARS' OBSERVATIONS DOCUMENTS

This is the fifth *Observations* document published by IAASA and readers may find it helpful to read this document in conjunction with those earlier years' documents which are available on the [IAASA website](#). For ease of reference, the topics addressed in those earlier years' documents are set out below:

	Observations 2011	Observations 2010	Observations 2009	Observations 2008
Risks and uncertainties and risk disclosures	√	√	√	√
New and amended accounting pronouncements	√	√	√	√
Financial instruments		√	√	√
Impairment		√		√
- impairment of goodwill			√	
Materiality	√		√	
IAS 8 and provisions	√	√		
Interim reporting	√	√		
Bank covenants		√	√	
Related party disclosures			√	√
- Disclosure of Key Management Personnel ('KMP') compensation		√		
Hedging			√	√
Operating profit			√	√
Alternative performance measures			√	√
Employee benefits				√
- amendments to employee benefit plans	√			
- discount rates		√		
Recoverable amount of assets / Cash Generating Units ('CGUs')	√			
Tax risks and uncertainties	√			
Sovereign debt	√			
Financial reporting considerations relevant to the making of distributions	√			
Presentation errors	√			
Exceptional items and non-recurring items	√			
Revision to IAS 1 <i>Presentation of Financial Statements</i>		√		
Operating segments		√		
Restatement and reclassification of amounts		√		
Accounting for Government grants and Government assistance			√	
Management reports			√	
Additional disclosures			√	
Reliance on ' <i>industry practice</i> '			√	
Judgements				√
Deferred tax assets				√
Business combinations				√
Earnings per share				√
Prior period errors				√