Audits of Less Complex Entities
Supplemental Guidance – Authority of the [draft] ISA for LCE

Note to IAASB Members

This Agenda Item is a work-in-progress draft to support considerations for legislative authorities or relevant local bodies, and where relevant firms and practitioners, in describing audits of Less Complex Entities (LCEs) for the purpose of adopting and implementing the [draft] ISA for LCE. This Appendix aims to illustrate how the [non-authoritative guidance] material, which will be released as a supplement to the [draft] ISA for LCE, might be used to assist legislative authorities or relevant local bodies gain better insight into not only the Board’s approach and rationale in developing a standard that is proportionate to the nature and circumstances of an LCE, but also how they may be able to develop a basis to refine the Authority for which type of audits the [draft] ISA for LCE may be used.

Purpose

1. This publication provides additional explanation and information for the adoption and implementation of the IAASB’s proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE). It has been developed to provide guidance to legislative authorities or relevant local bodies (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others responsible for setting auditing standards) for making decisions about the required or permitted use of the [draft] ISA for LCE. This publication also includes explanations on how it may be appropriate to refine the categories and criteria for use of the standard for the individual jurisdiction (i.e., further restricting the use of the standard or permitting it’s use for certain types of entities).

2. Firms or practitioner(s) may also find this publication helpful in understanding when the standard would be appropriate to be used for the purpose of developing policies or procedures, and for decisions at the engagement level.

3. This staff-prepared publication does not amend or override the [draft] ISA for LCE, the text of which alone is authoritative. Reading this publication is not a substitute for reading the [draft] ISA for LCE. This guide is not meant to be exhaustive and reference to the [draft] ISA for LCE itself should always be made.

Introduction

4. The [draft] ISA for LCE has been developed for use in an audit of the financial statements of a less complex entity (LCE), whether in the private or public sector, and it’s requirements do not address complex matters or circumstances.

5. The description of the authority of the [draft] ISA for LCE is set out in Part A of the standard, and explains the limitations on use of the standard, including listing specific types of entities that are not permitted to use the standard. This [document] further explains how to use Part A of the standard to determine for which entities the standard is appropriate (i.e., when the [draft] ISA for LCE is expected to be appropriately proportionate given the nature and circumstances of the entity) and the responsibilities of legislative authorities or relevant local bodies, as well as firms or practitioners.
The Role of Legislative Authorities or Relevant Local Bodies

6. Decisions about the required or permitted use of the IAASB’s auditing standards in individual jurisdictions rest with legislative authorities or relevant local bodies. This applies to the International Standards on Auditing (ISAs) (i.e., the full set of ISAs from ISA 200 to ISA 810) and the [draft] ISA for LCE.

7. The restrictions set out in Part A of the standard explain the intended scope of the [draft] ISA for LCE and are aimed at informing legislative authorities or relevant local bodies regarding the types of entities for which the ISA for LCE would be appropriate when making decisions to adopt or use the standard. The [IAASB] recognizes that the restrictions and related characteristics of entities set out in Part A of the [draft] standard are broadly defined and no recognition is given to criteria that can be relevant in a specific jurisdiction.

8. In making decisions about the permitted use of the ISA for LCE, legislative authorities or relevant local bodies will need to consider the design and content of the standard to determine its appropriate use for audits of less complex entities for the individual jurisdiction. This supplement describes the characteristics of complexity and circumstances for when it is appropriate to use the standard (i.e., it broadly explains what is not addressed within the [draft] ISA for LCE). The descriptions and examples provided could be used by legislative authorities or relevant local bodies to assist in setting criteria for adoption or use of the standard in that jurisdiction.

9. Part A of the standard allows legislative authorities or relevant local bodies to further restrict use of the [draft] ISA for LCE by, for example, setting size criteria appropriate for the jurisdictions and its circumstances, or adding other types of entities to the list of restricted entities (e.g., legislative authorities or relevant local bodies may determine additional situations for which the audit would or would not be regarded as an audit of an LCE). As it would not be practicable to define size thresholds or other matters relevant to a jurisdiction about what may constitute an audit of an LCE that would be capable of global application, any decisions about additional criteria or restrictions are left to legislative authorities or relevant local bodies.

10. Legislative authorities or relevant local bodies may also permit the use of the [draft] ISA for LCE for some of the entities that are specifically excluded (see Part A, paragraph A.9. (c)(i)-(v)) (subject to the other characteristics of complexity and circumstances that the [draft] ISA for LCE would be appropriate for).

11. Legislative authorities or relevant local bodies may also set quantitative size limits in designating for which audits within that jurisdiction the standard can be used (e.g., revenue, number of employees, net assets). In doing so, legislative authorities or relevant local bodies would also have regard to the overarching limitations regarding complexity, the specific restrictions, and the qualitative characteristics explaining complexity in an audit, as set out in Part A of standard, so that any quantitative size limits would contemplate the types of entities that the standard was developed for.

12. It is in the public interest to ensure that the use of the [draft] ISA for LCE in individual jurisdictions or regions are clarified as far as possible through local laws or regulations, or through further refining the categories or criteria to be used, as appropriate. If there is uncertainty about whether, based on the consideration of typical characteristics associated with complexity, an audit is or is not an audit of an LCE, it is appropriate to conclude it not to be an audit of an LCE and so be excluded from the
scope of the [draft] ISA for LCE. Accordingly, application of the full ISAs, or other applicable auditing standards, would be appropriate.

13. In conjunction with the issuance of the [draft] ISA for LCE in a jurisdiction, legislative authorities or relevant local bodies are expected to issue provisions and accompanying guidance, as appropriate. This would include a description of which audits may be permitted to be conducted using the [draft] ISA for LCE, taking into account, among other matters, the purpose of and information in this supplement as appropriate. Legislative authorities or relevant local bodies would also include additional information for firms and auditors that may be relevant arising from local law, regulation or government authority.

### Example of Jurisdictional Determinations

The following are examples of factors a legislative authority or relevant local body may consider when evaluating the adoption and use of the [draft] ISA for LCE in that jurisdiction:

- **The local regulatory environment** e.g., certain industries or entity types may be deemed complex based on regulations they are subject to in that jurisdiction and so it may be appropriate to add to the list of audits of entities restricted from using the [draft] ISA for LCE.

- **The nature of local entity structures or business models** e.g., paragraph A.3(c) of Part A determines that entities that meet certain criteria are excluded from the scope of the [draft] ISA for LCE, however, certain entities within a restricted category may be deemed to be LCEs in a jurisdiction. An example may be an entity that provides post-employment benefits for a defined contribution plan but is otherwise non-complex (e.g., holds actively traded "level 1" investments only, has few transactions of which are regular and simple, is not subject to additional regulatory oversight). Oppositely, other types of entities may be added to the list of audits of entities restricted from using the [draft] ISA for LCE.

- **The nature of local industries and what may be deemed complex in that jurisdiction.** It may be appropriate to add to the list of audits of entities restricted from using the [draft] ISA for LCE audits of entities in certain sectors (e.g., cryptocurrency, exploratory mining) that may be deemed of higher risk in a particular market.

- **Setting a quantitative threshold over which to exclude the audits of entities to be conducted using the [draft] ISA for LCE, based on key metrics of the entity (e.g., revenue, net assets) or average the number of employees during the period under audit.**

### The Role of Firms and Practitioners

14. Determinations by a firm in its relevant policies or procedures relating to the use of the [draft] ISA for LCE should not conflict with or override the restrictions within the standard or any determinations made by legislative authorities or relevant local bodies as to the scope and applicability of the [draft] ISA for LCE in the relevant jurisdiction or region. Matters set out in this supplemental guide could assist firms in determining whether the use of the [draft] ISA for LCE is appropriate for the purposes of developing firm policies or procedures.

15. If the jurisdiction allows use of the standard, and the firms policies or procedures allow use of the standard, the auditor is still required to evaluate whether the use of the standard is appropriate for a particular engagement (i.e., at the engagement level). The descriptions and examples in this supplement may assist auditors in making that determination. The standard also requires the auditor
to stay alert throughout the audit for further information that could come to the auditor’s attention that may change the judgment made in this regard, and there is a stand-back to reinforce the auditor’s determination at an appropriate point.

16. The auditor is not permitted to use the [draft] ISA for LCE for audits which are not considered audits of LCEs or when specifically prohibited from using the [draft] ISA for LCE. This is because the [draft] ISA for LCE has been designed for audits of LCEs and does not address complex matters or circumstances. If the [draft] ISA for LCE is used for audit engagements other than those contemplated in its design, the auditor may not obtain sufficient appropriate audit evidence to support the audit opinion. In such instance, the auditor should also not represent compliance with the [draft] ISA for LCE in the auditor’s report.

17. The different decision points relevant when evaluating the use of the [draft] ISA for LCE are illustrated in the diagram below:

Understanding the Scope of the [Draft] ISA for LCE

18. The requirements in the [draft] ISA for LCE are written in the context of an audit of the financial statements of an LCE. The requirements are based on the principles in the International Standards on Auditing (ISAs) as appropriate to the nature and circumstances of an LCE, and do not include requirements that address complex matters or circumstances. Using the [draft] ISA for LCE in circumstances that are not appropriate to the scope of the standard could likely result in not obtaining sufficient appropriate audit evidence to support the audit opinion.

19. The *Basis for the Limitations* in Part A of the standard set out the overarching principles considered in making decisions about the requirements included within the standard to help users of the standard understand its content.
Restrictions on Use of the Standard and Other Relevant Matters for Consideration

20. As specified in paragraph A.9. of Part A, the [draft] ISA for LCE is not to be used in the following circumstances:

(a) If law or regulation:
   (i) Restrict or prohibit the use of the [draft] ISA for LCE, or
   (ii) Specify that auditing standards other than the [draft] ISA for LCE for audits of financial statements in that jurisdiction.

(b) The entity is a listed entity.

(c) An entity meets one of the following criteria:¹
   (i) An entity whose main functions is to take deposits from the public;
   (ii) An entity whose main functions is to provide insurance to the public;
   (iii) An entity whose function is to provide post-employment benefits;
   (iv) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
   (v) An entity is specified as a public interest entity by law or regulation.

(d) The audit is an audit of group financial statements.

21. Paragraphs A.11 and A.12 of Part A also set out other characteristics of an entity which could make the standard inappropriate to use:

(a) Where there are complex organizational, ownership or oversight structures.

(b) Where the entity is subject to a high degree of complex regulation or to significant regulatory oversight.

(c) Where transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex.

(d) Where the entity’s IT environment or IT systems are complex.

(e) Where the entity’s accounting estimates are complex.

This list is not exhaustive and there may be other relevant matters that also need to be considered. Section I of this supplemental guide further explains each of these characteristics.

¹ Jurisdictions may vary in approach to which entities shall be treated as public interest entities. The International Ethics Standards Board for Accountants’ (IESBA) has issued an exposure draft on Proposed Revisions to the Definition of Listed Entities and Public Interest Entities. The list of IAASB entities in the [draft] ISA for LCE aligns with the IESBA’s exposure draft (with the exception of listed entities which is specifically addressed in the IAASB’s standards). Further consideration of changes to this list may be required in light of the IAASB’s consideration of the impact of the IESBA changes, as well as any further changes made by the IESBA in finalizing its proposals.
22. These characteristics are based on the following overarching principles:
   (a) Entities that have public interest characteristics have been excluded. Such entities could embody an intrinsic level of complexity in fact or appearance.
   (b) Ownership or corporate governance arrangements (or related structures), or entity-level policies or procedures that could be directly related to, or could indicate the presence of, or give rise to, matters or circumstances that increase complexity.
   (c) The nature and extent of the entity’s business activities, operations and related transactions and events could give rise to complexity relevant to the preparation of the financial statements that is not commensurate with the intended scope of the [draft] ISA for LCE.

23. The overarching principles and characteristics set out in paragraphs 21 and 22 aim to explain what has been contemplated in the design of the standard and are indicators of or proxies for circumstances which the standard has or has not been designed to address (as appropriate). Each of the matters on its own may not be sufficient to determine whether the standard is appropriate or not in the circumstances, and is intended to be considered individually and in combination.

24. As set out in this supplemental guide, the standard does not contain requirements for matters or circumstances that were not contemplated in the development of a standard for auditing an LCE. This includes requirements relating specifically to restricted entities, as well as for the other characteristics related to complexity. Accordingly, for example, the standard does not include any requirements:
   (a) Specific to listed entities, including procedures related to reporting on segment information or key audit matters.
   (b) Where the auditor intends to rely on the work of internal auditors.
   (c) Broad requirements to address any of the complexities within paragraph A.12. in Part A of the standard and described in this [document].

25. The [draft] ISA for LCE does not address additional responsibilities of auditors arising from local law, regulation or governmental authority, which may encompass a broader scope than an audit of financial statements in accordance with the [draft] ISA for LCE and so are addressed within the relevant jurisdiction.
Section I: Characteristics of an Audit of an LCE

Characteristics that may be relevant in considering whether the audit of financial statements of an entity falls within the applicability of the [draft] ISA for LCE

26. General matters in considering the qualitative characteristics set out in this section include:

(a) The characteristics are not exhaustive, they are not exclusive to LCEs, and LCEs do not necessarily exhibit or not exhibit, as appropriate, all of these characteristics.

(b) The individual characteristics listed are not mutually exclusive and there may be some overlap between characteristics mentioned within a sub-section or across sub-sections.

(c) The characteristics would be considered individually and in combination (i.e., the characteristics, individually or in combination may persuade or dissuade a suitably experienced auditor in determining whether the audit is an audit of an LCE).

Where there is a complex organizational, ownership or oversight structure

27. Organizational structure

Characteristics that may be associated with an entity that is an LCE

(a) Straightforward or simple organizational structure, for example, commensurate with the entity’s business activities comprising a few lines of business and few products within business lines, and requiring few employees involved in roles related to financial reporting.

Characteristics that may be associated with an entity that is not an LCE

(b) Complex organizational structure involving multiple levels and reporting lines to accommodate the entity’s business activities which may be varied or include multiple lines of business or multiple products within business lines.

(c) An organizational structure that may be complex owing to complex ownership arrangements (e.g., relating to determining controlling interest or joint ownership arrangements) or operations that necessitate a distinction based on geographic dispersion or industry segmentation.

(d) An organizational structure that involves complex or unusual entities or arrangements, for example, the use of special-purpose entities, off-balance sheet finance or other complex financing arrangements.

(e) The involvement of related parties is complex, such as when related parties operate through an extensive and complex range of relationships and structures, resulting in complexity of related party transactions.

28. Owners, those charged with governance and management

The structures in place for appropriate oversight will vary depending on the nature and circumstances of the entity. Oversight includes those charged with governance, who may, or may not be, the same as those managing the entity. Where governance structures are multifaceted, for example there are executive and non-executive directors’ groups, audit committees, or similar groups, consideration may also be given to if
that structure is typical for the type of the entity in that jurisdiction (e.g., a charity or public sector entity) and if the entity would otherwise be considered an LCE based on its other characteristics.

Characteristics that may be associated with an entity that is an LCE

(a) An owner-managed entity, including a single owner-manager or when there is a concentration of ownership and management in a small number of individuals.

(b) All of those charged with governance are involved in managing the entity. For example, when the owner(s) manages the entity and no one else has a governance role (i.e., the role of governance is undertaken directly by the owner(s)), or when those charged with governance include individuals other than the owner(s), but all are involved in managing the entity (i.e., those with a governance role do not include an independent or outside member(s)).

Where the entity is subject to a high degree of complex regulation or to significant regulatory oversight

29. Industry and regulatory factors

Characteristics that may be associated with an entity that is not an LCE

(a) The entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations, including instances where the entity’s performance or financial position is measured against regulatory requirements such as prudential requirements, or regulatory ratio or exposure requirements.

(b) The entity has operations that are subject to a high degree of complex regulation.

Where transactions are complex or the information system and related processes relevant to the entity's financial statements are complex

30. Business Activities

The entity’s objectives, strategy and business model may result in risks that are pervasive to the entity, which in some form may have financial consequences and therefore an effect on the financial statements.

Characteristics that may be associated with an entity that is not an LCE

(a) High risk products and services, that may result in legal liability or reputational risk.

(b) Utilizes complex, non-common tax planning strategies.

Transaction and Information Processing

31. Transactions and information processing

Characteristics that may be associated with an entity that is an LCE

(a) Straightforward or uncomplicated transactions resulting from few lines of business and few products within business lines, requiring simple record-keeping and few internal controls.

(b) Few levels of management with responsibility for a broad range of controls, including that many controls may be directly applied by management.
(c) The entity has few personnel, many having a wide range of duties and few employees involved in roles related to financial reporting.

(d) If the entity uses a service organization relevant to its financial reporting, the services provided relate to the processing of transactions which by their nature are straightforward or uncomplicated, and it is anticipated that the auditor would be able to obtain the necessary audit evidence fairly easily from records held at the entity or having access to relevant records at the service organization.

Characteristics that may be associated with an entity that is not an LCE

(e) There is complexity in data collection and processing, including complicated transactions or accounting entries that may involve complex calculations. For example, complexity may arise when transaction processing has to account for different commercial terms with many different suppliers or customers or other parties, or there are many interrelated commercial terms, or the processing of data involves many inter-related steps and the data is more difficult to identify, capture, access, understand or process.

(f) If the entity uses a service organization relevant to its financial reporting, there is a high level of complexity associated with the underlying transactions or events that have been outsources to the service organization, or it is not anticipated that the auditor would be able to obtain the necessary audit evidence fairly easily from records held at the entity or having access to relevant records at the service organization.

(g) The entity has a shared service center(s), whether as part of the entity itself or as part of the group to which the entity belongs, to centralize activities or processes relevant to its financial reporting, resulting from the need to accommodate the nature and extent of its business activities and related transactions and events.

Where the entity’s IT environment or IT systems are complex

32. The entity’s IT environment and IT system(s)

Characteristics that may be associated with an entity that is an LCE

(a) The management organizational structure regarding IT is straightforward or uncomplicated, for example, the entity may not have dedicated IT resources but may have a person assigned in an administrator role for the purpose of granting employee access or installing vendor-provided updates.

(b) The entity uses commercial software with no or limited modifications, including when the entity does not have access to the source code to make any program changes. An LCE may often use a commercial accounting software package as the single IT application used by the entity for processing financial information.

(c) Where IT applications automatically process information or maintain data and the volume of data is significant, such that the IT applications perform automated information processing controls, these are still expected to relate to transactions which by their nature are straightforward or uncomplicated. Although such transactions may be subject to highly automated processing with little or no manual intervention, their processing would typically
involves the use of commercial software with no or limited modifications that is part of the entity’s accounting software package or that provides for a simple interface with the entity’s accounting software package.

**Characteristics that may be associated with an entity that is not an LCE**

(d) The management organizational structure regarding IT involves a dedicated IT department(s) that have structured IT processes supported by personnel that have software development and IT environment maintenance skills. Alternatively, the entity may use internal or external service providers to manage certain aspects of, or IT processes within, its IT environment to meet its IT needs as indicated by the nature and extent of its business activities and related transactions and events.

(e) The entity’s IT environment includes highly-customized or highly-integrated IT applications, including that financial reporting processes or IT applications may be integrated with other IT applications. For example, IT applications that are used in the entity’s business operations may be integrated with the IT applications relevant to the entity’s flows of transactions and information processing.

(f) Where IT applications automatically process information or maintain data and the volume of data is significant, such that the IT applications perform automated information processing controls, the circumstances are different from what would be expected for an LCE. The transactions, although routine business transactions, may by their nature be more complex (i.e., not straightforward or uncomplicated), or the transactions may be subject to highly automated processing with little or no manual intervention as part of a complex IT environment, including an information system that involves a high degree of integration across IT applications (e.g., using highly-customized or highly-integrated IT applications).

### Where the entity’s accounting estimates are complex

#### 33. The entity’s accounting estimates

**General context**

(a) Not all accounting estimates are subject to a high degree of estimation uncertainty. Even if an accounting estimate(s) is subject to a high degree of estimation uncertainty it does not necessarily exclude the applicability of the [draft] ISA for LCE (i.e., the requirements of the standard may still be appropriately proportionate given the nature and circumstances relating to the entity’s accounting estimates).

(b) Together with other characteristics discussed in this Section, it is appropriate to have regard to the degree to which the selection and application of the method(s), assumptions and data used in making the accounting estimate(s) are affected by complexity. Further, it is appropriate to consider whether one or more affected accounting estimates are material to the financial statements as a whole or represent a substantial proportion of the financial statements.

(c) In preparing the financial statements, management makes accounting estimates in accordance with the requirements of the applicable financial reporting framework, including the recognition criteria, measurement bases, and the related presentation and disclosure requirements related
to accounting estimates. This requires, for each accounting estimate, the selection and application by management of an appropriate method (including designing the model to calculate the estimate) and using appropriate assumptions and data.

Accounting estimates vary widely in nature and are subject to varying degrees of estimation uncertainty, which is the susceptibility to a lack of precision in measurement. Appendix 1 provides a list of the types of basic accounting estimates that could be encountered in the audit of a less complex entity.

Characteristics that may be associated with an entity that is not an LCE:

(d) Inherently the accounting estimate(s) is known to be associated with complicated transactions or accounting entries that involve significant subjectivity in judgments, complex calculations, or complex modelling.

(e) Known approaches that may be used in certain financial reporting frameworks to distinguish accounting estimates based on the degree of complexity inherent in the recognition criteria, measurement bases, and related presentation and disclosure requirements. For example, the IFRS for SMEs distinguishes between basic financial instruments and other financial instruments, where the latter refers to other, more complex financial instruments and transactions.

(f) The measurement basis required by the applicable financial reporting framework results in the need for a complex method that requires multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them, or that use a long forecast period.

(g) Management has developed a model internally and has relatively little experience in doing so or uses a model that applies a method that is not established or commonly used in a particular industry or environment.

(h) Complexity in the model as reflected by the degree to which there may be a need to apply probability-based valuation concepts or techniques, option pricing formulae or simulation techniques to predict uncertain future outcomes or hypothetical behaviors.

(i) Difficulty in applying the method due to many valuation attributes with many interrelationships between them, the use of multiple data sets (or data from multiple sources), multiple assumptions with various layers of correlation, multiple iterations of the calculation, or the calculation involves the application of sophisticated mathematical or statistical concepts.

(j) High level of difficulty to obtain the data needed for making the accounting estimate (e.g., owing to restrictions on the availability or observability of, or access to, data).

(k) The data used is inherently difficult to identify, capture, access or understand. For example, in the case of the latter, the data used requires an understanding of technically complex business or legal concepts, or complex contractual terms.

(l) The information system(s) used to obtain and process the data are complex or sophisticated. For example, extensive controls are required in relation to obtaining, transmitting, and processing data and maintaining the integrity of data and assumptions used in the model. Furthermore, there may be diverse systems required to process complex transactions, requiring either automated interfaces or extensive manual intervention (e.g., reconciliations).
Considerations relevant to fair value accounting estimates relating to increasing complexity associated with the inputs used to determine fair value:

(m) Fair value accounting estimates that use quoted prices in active markets for identical assets or liabilities. Such inputs are readily available and observable and contribute to less complex accounting estimates. For example, IFRS refer to such inputs as Level 1 inputs; these provide the most reliable evidence of fair value.

(n) Fair value accounting estimates that use inputs other than quoted prices in active markets for identical assets or liabilities but that are observable for the asset or liability, either directly or indirectly (e.g., prices for similar assets or liabilities, or recent transactions of an identical asset or liability, adjusted for factors such as condition or location, or volume or level of activity in the market). For example, IFRS refer to such inputs as Level 2 inputs. The complexity of such estimates correlates with the prevalence of characteristics such as those discussed above, relating to the method, assumptions and data used.

(o) Fair value accounting estimates that use unobservable inputs to measure the fair value of the asset or liability. For example, IFRS refer to such inputs as Level 3 inputs which an entity develops using the best information available in the circumstances (including the entity’s own data) and that reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Such accounting estimates are more likely to involve complex modelling.

Considerations relevant to accounting estimates of expected credit losses:

(p) Accounting estimates of expected credit losses may require the use of a complex model. For example, the use a complex set of historical data and assumptions about future developments in a variety of entity specific scenarios that may be difficult to predict (i.e., when there is significant subjectivity in judgments based on the consideration of historical experience data and the application of forward-looking assumptions about future events or conditions). Such accounting estimates are likely to be complex.

(q) The financial reporting framework also may allow for a more expedient determination of expected credit losses in certain circumstances or for certain account balances, which may result in less complex accounting estimates.
Appendix 1

BASIC ACCOUNTING ESTIMATES

The following sets out characteristics and typical examples of basic accounting estimates that may be found in an audit of an LCE:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Typical Examples in an LCE²</th>
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<tbody>
<tr>
<td>Processes relevant to accounting estimates may be uncomplicated because the business activities are simple or the required estimates may have a lesser degree of estimation uncertainty.</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Accounting estimate relates to frequently made accounting estimates</td>
<td>Allowance for doubtful debts or warranty provisions</td>
</tr>
<tr>
<td>An accounting estimate that is derived from an active market that generally provides available, reliable information</td>
<td>Impairment calculations where value in use is linked to an observable interest or currency rate Property, plan and equipment held at fair value (including investment property) where the fair value is determined in relation to observable information Valuation of marketable securities. Financial instruments such as interest rate swap, forward currency exchange contract, or a frequently traded equity security, share based payments</td>
</tr>
<tr>
<td>An accounting estimate that does not have a high degree of estimation uncertainty</td>
<td>Allowance for doubtful debts, inventory obsolescence, warranty provision, asset useful life, provisions (e.g., for leave pay), lease assets / liabilities, accounts payable or other liabilities measured using an amortized cost model</td>
</tr>
</tbody>
</table>

² The typical examples provided in this table refer to transactions and balances where the measurement of these items is considered straightforward. For some of these examples there may also be characteristics described in the applicability section that would result in a measurement process that is considered complex – such accounting estimates would not be described as basic accounting estimates.