

ISA 540 – Accounting Estimates

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IAASB Meeting

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Summary of Board Discussion

- Supportive of definitions – some suggestions
- Risk assessment requirements generally supported
 - Recognize need for a hook to ISA 315
 - How to bring the components of internal control to life for accounting estimates?
- Support for paragraph 9A on specialized skills or knowledge in the risk assessment
- Debate about the reference to inherent and control risk in paragraph 10
- Support for increasing scalability in ISA 540 but criterion (“lower risk”) in paragraph 10A was not seen to be clear

Summary of Board Discussion

- Work effort should explain how to apply ISA 330
- Paragraph 13
 - Lead-in needs further revision
 - Mixed views about table
 - Too rule based?
 - Not clear what the tick marks indicate
- Stand-back provision could be made applicable to all estimates?
- Several comments on how the documentation requirement could be improved

Task Force Initial Responses

- Not all comments made have been addressed
- Task Force is seeking comments on the direction and emphasis placed, particularly in paragraph 13-13D
 - Further discussion needed on the level of granularity
- Further refinements of wording/removal of duplication will follow

Task Force Initial Responses

- The Task Force made the following changes to paragraph 10:
 - Moved reference to inherent and control risk to AM (A44L)
 - Re-ordering of wording for additional clarity
- Deleted paragraph 10A
- Task Force will consider comments received on paragraph 11A, 12, 15A, 16, 16A in upcoming TF meetings

Work Effort

- Still need to think about considerations for models and controls
- “Low” rather than “Lower”
- Paragraph 13: New principle based requirement to respond to risks where estimation uncertainty, complexity, judgment or other relevant risk factor is other than low
 - Application material addresses overall responses that may address more than one risk (such as subsequent events testing, developing an estimate or range)
- Deleted table with procedures

Work Effort – Paragraph 13A/B/C

- New paragraph 13A/B/C: Work effort, for accounting estimates that have a risk of material misstatement related to est. uncertainty, complexity, judgment
 - Aligned with risk factors in paragraph 10
 - Includes high level procedures
 - Application material will demonstrate scalability
 - Task Force will consider combining A/B/C
- New paragraph 13D provides auditor with option to perform other procedures when those procedures are more responsive to the assessed risk

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