

## Financial Reporting Practice Guidance No. 1 of 2012

### Accounting Considerations in an Uncertain Economic Environment

3 January 2012

- The current eurozone debt crisis and the uncertain economic environment in major economies around the world poses a financial reporting challenge for companies with respect to reporting on business outlook and fair values of assets.
- The Accounting and Corporate Regulatory Authority (“ACRA”) administers the Companies Act, Chapter 50 (the “Act”). The Act expressly requires directors of every company incorporated in Singapore to present financial statements that comply with Singapore Financial Reporting Standards (“SFRS”) issued by the Accounting Standards Council<sup>1</sup> and also reflect a true and fair view of the profit and loss, as well as the state of affairs of the company as at the end of the period to which it relates. Non-compliance will be an offence which, upon conviction, is punishable with a fine and/or imprisonment as set out in section 204(1) of the Act. It is thus imperative that directors, being the ones responsible for the presentation of the financial statements at the annual general meetings, ensure that they exercise vigilance when reviewing the financial statements prepared by management.
- There are currently more than 30 SFRS in existence. Directors should be aware of and focus their attention on those SFRS which require significant management judgements and estimations during this period of uncertain economic environment. This practice guidance focuses on some of the pertinent considerations in the following SFRS which directors should pay attention to during such uncertain times:

<b>SFRS</b>	<b>Points for considerations</b>
SFRS 1 <i>Presentation of Financial Statements</i>	<ul style="list-style-type: none"><li>• Ensure compliance with accrual basis of accounting [i.e. recognised as and when incurred instead of as and when paid]</li><li>• Assess if the use of the going concern assumption is appropriate, and ensure adequate disclosures in the financial statements if there are any material uncertainties on the use of the going concern assumption</li><li>• Ensure that critical accounting estimates, assumptions and judgements made by management are reasonable in light of the current uncertain economic environment</li></ul>
SFRS 10 <i>Events after the Reporting Period</i>	<ul style="list-style-type: none"><li>• Ensure that significant events occurring after the financial year-end which relates to conditions existing as of the financial year-end, and affect the amounts recognised in the financial statements are appropriately adjusted for in the financial statements</li><li>• Ensure that there is adequate disclosure for the other significant events that are indicative of conditions that arose after the financial year-end, or relates to conditions existing as of the financial year-end but does not affect the amounts recognised in the financial statements</li></ul>

<sup>1</sup> More information may be found at [www.asc.gov.sg](http://www.asc.gov.sg)

<b>SFRS</b>	<b>Points for considerations</b>
SFRS 36 <i>Impairment of Assets</i>	<ul style="list-style-type: none"> <li>• Assess whether management had appropriately considered the likelihood of impairment</li> <li>• Ensure that management had appropriately computed the recoverable amount of an asset and its impairment loss, if there is an indication of impairment</li> </ul>
SFRS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<ul style="list-style-type: none"> <li>• Ensure that management had appropriately considered the risks and uncertainties surrounding the events and circumstances that impact provisions</li> <li>• Ensure adequate disclosure of contingent liabilities in the financial statements</li> </ul>
SFRS 39 <i>Financial Instruments: Recognition and Measurement</i>	<ul style="list-style-type: none"> <li>• Ensure that the carrying values of financial assets (which are either amortised costs or fair values) as at the financial year-end, are appropriate in the current uncertain economic environment</li> <li>• Assess whether there is any objective evidence of impairment of financial assets at the financial year-end, and if so, consider if impairment loss had been adequately computed as of the financial year end</li> </ul>

## Conclusion

- This practice guidance serves to remind directors of the risks of misstatements and/or non-disclosures in the financial statements during the current uncertain economic environment. Directors should be mindful of the information needs of shareholders in these uncertain times.
- Directors are encouraged to engage in early discussions with the company's financial reporting function and external auditors to ensure that all SFRS requirements are complied with in preparing the financial statements to be presented to shareholders at the annual general meeting.
- This practice guidance is not intended to be a summary of the respective SFRS listed, and directors are expected to look at the full text of all SFRS requirements to ensure that they get a full understanding of the SFRS.

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## Disclaimer:

The contents of the Financial Reporting Practice Guidance are provided for the guidance of directors in their review and approval of the financial statements. They are not rules of the Accounting and Corporate Regulatory Authority and are not intended to serve as a substitute for the relevant financial reporting standards.