
The importance of professional judgement applied in the context of the International Financial Reporting Standards

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Abstract

Guidance has always been welcome in terms of applying professional judgement in the context of the principles-based accounting standards – International Financial Reporting Standards. This fact is the result of the complexity and diversity of some situations, which might give rise to difficulties in terms of choosing the appropriate accounting policies and methods (depreciation, inventory valuation on hand at the end of an accounting period, the recognition of revenues and expenses from a construction contract, accounting for lease contracts by the proper determination of the type of lease: financing or operating), and respectively the need to verify if the criteria set by the principles-based accounting standards are met. This “freedom” of choice and disclosure might create problems in terms of accounting information quality. The possibility to select accounting methods based on the Standards’ provisions is meant to generate a true and fair view of the company’s financial position and financial performance.

In these cases it is recommended to use professional judgement in order to reach a conclusion which is in accordance with the accounting principles and is not enforced by any accounting rules, since the exercise of individual professional judgement is preferred against the “pure” compliance with prescriptive legal requirements.

Keywords: Professional judgement, principle-based accounting, true and fair view, disclosures, financial reporting, lease accounting.

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