
Investor view

Insight from the investment community

Spotlight on accounting policies

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How clearly do your financial statements communicate the reality of your accounting policies to users? This ‘Investor view’ highlights some opportunities for improvement in these disclosures suggested by a number of senior investment professionals.

Breaking the mould

Investors believe that management commonly provides boilerplate accounting policies in annual reports. This can leave investors struggling to understand how the key transactions of the firm are treated.

Rather than simply confirming the entity’s compliance with standards, investors would welcome critical accounting policies being put in the context of the business.

Connecting the dots: navigation and cross-referencing

Information on specific topics is often scattered in a number of places in an annual report. A report drawn at random by our team, for example, found the company’s risk disclosures in 15 different places.

Investors would like to see related information presented in one place in the report. Where this is not possible, clear links to where additional information is located would be helpful. This question of ‘geography’ applies equally to accounting policies. Rather than providing all accounting policies at the beginning of the notes, management might include each policy in the related note so the reader can consider them together.

Focus on change and choices

Where IFRS allows a choice of policies, management has the opportunity to help investors understand not simply which path it has chosen to take, but why.

Many policies will be applied and disclosed consistently from one year to the next. While the accounting

“I need to know how the revenue policy relates to the different products and services offered by the entity.”

“Unearthing changes in accounting policies can be like trying to find a needle in a haystack.”

“Wouldn’t it make sense to have the accounting policy next to the relevant note?”

standards require disclosure of the policies that have changed or are new in the year, the investment professionals we talked to suggest that management:

- Explain why the policy has changed.
- Discuss more fully the impact of that change on the numbers reported.
- Give due prominence to those policies that have changed.

Keep what’s important; link to what’s not

In general, investors would appreciate the notes being prioritised in order of importance. Investors also find it helpful if the information provided within the notes is prioritised, with the key messages at the beginning of the note followed by the detail and further disaggregation.

Given this, management may consider it useful to include the accounting policies – if they remain consistent from one annual report to the next – at the end of the notes or within the related note as described above.

Contact your local PricewaterhouseCoopers office to discuss these issues. To discover more about the reporting issues that the investment community is talking about, visit: www.corporatereporting.com. To read other editions in this ‘Investor views’ series, visit: www.pwc.com/ifrs and click on ‘Investor views’ in the left-hand navigator. To subscribe to future editions, email corporatereporting@uk.pwc.com