

Over recent years an area of focus for the accounting and audit professions has been accounting estimates - this focus arises as there are opportunities for businesses to massage their results through estimates, especially where they are significant, subjective and/or complex.

Examples of accounting estimates include:

- Depreciation.
- Accruals.
- Provisions for bad debts.
- Provisions for obsolete or slow-moving stock.
- Long term contract accounting.
- Warranty provisions.
- Share options.

For accounting periods commencing after 15 December 2019, so typically for 31 December 2020 year ends, the level of audit evidence and therefore accounting and audit work, over accounting estimates will increase as the expanded audit requirements are introduced.

There is a proportionality to the level of audit work required, so simple estimates that are not subjective, complex or significant will require considerably less attention than those that are the reverse.

In order to help us manage the additional work that we may need to perform, and therefore the additional costs that need to be reflected in our audit fee, we are asking clients to undertake a number of steps to identify, assess and account for accounting estimates.

The steps are as follows:

1. Prepare a schedule of accounting estimates, together with an initial assessment of their size/ value, subjectivity and complexity.
2. Prepare details of how each estimate is normally calculated.
3. Collate documentation to support each accounting estimate.
4. Discuss with us the extent of any supporting evidence available and/or required to ensure we have sufficient audit evidence.

We enclose a pro-forma schedule to assist with this review [CLICK HERE](#).

As this is a new requirement, we anticipate that there will be areas where clients identify gaps, especially with supporting evidence. We will therefore work closely with you, initially to ensure that you understand what is needed and then over time to identify systems improvements that can help capture this information.

It is expected that the size, nature and complexity of accounting estimates will vary over time as new information comes to light so this is a process that should ultimately be built into your day-to-day accounting function.

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