Accounting in times of uncertainty

The effects of volatile 2025 tariffs

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Background

Throughout 2025, various governments have stated an intention to increase tariff rates on a wide variety of imported goods and/or services. Certain jurisdictions have begun levying tariffs on these imports, with significant uncertainty about the timing of levies and how long these policies will endure. Due to this uncertainty, and the complex nature of international supply chains, the operational and financial effects of tariffs on entities are challenging to predict.

This uncertainty results in numerous accounting implications such as impairment of financial and non-financial assets; going concern; significant judgements, estimates and estimation uncertainty and others. This IFR Bulletin (IFRB) discusses some of these implications and considerations for entities when preparing annual and interim financial statements in accordance with IFRS® Accounting Standards in 2025.

EXECUTIVE SUMMARY

Increasing tariffs and global trade uncertainty may have significant financial reporting effects for entities.

There are numerous accounting implications across multiple areas such as going concern assessments, judgements and estimates, impairment of non-financial assets, etc. This IFRB discusses many of these implications for entities both directly and indirectly affected.

ACCOUNTING IN TIMES OF UNCERTAINTY

The following are key issues that entities should consider when preparing their financial statements in the current times of uncertainty. Specific considerations relating to uncertainty arising from tariffs are included in several sections.

All examples provided in the publication are intended to be illustrative in nature, do not reflect real world trade policies between jurisdictions and should not be relied upon as templates. Entities must carefully consider their own facts and circumstances. In some cases, this publication refers to the views and expectations of regulators and enforcers. Unless otherwise specified, BDO does not express an opinion on these views.

Impairment of non-financial assets

Tariffs may increase the costs of production, reduce the demand for goods and services and have other indirect effects, which may increase the risk of impairment of non-financial assets, including property, plant and equipment, right-of-use assets, intangible assets and goodwill.

For example, an entity that exports a significant amount of goods to one or more foreign jurisdictions that have increased tariff rates for entities importing those goods may see demand for its goods and services decrease. Additionally, entities may face increased input costs if imported manufacturing inputs attract higher tariff rates.

IAS 36 *Impairment of Assets* requires that an impairment test be performed on goodwill at least annually, with an impairment test of other assets being performed when indicators of impairment are present. The existence of threats of increased tariffs affecting an entity's operations may result in impairment indicators being identified, triggering impairment tests.

Entities should exercise greater caution with respect to impairment if the entity is significantly affected by factors such as:

- Significant amounts of revenue derived from one or more jurisdictions where tariffs have been imposed on the entity's goods and services;
- Significant uncertainty concerning whether tariffs will be imposed and/or increased on the entity's goods and services;
- Significant exposure to supply chain stresses, such as increased input costs from imported goods;
- Significant increases in costs on account of inflationary factors as a consequence of tariffs; and
- An inability to pass-on increases in costs to customers.

FAQ #1 – If an entity does not export a significant amount of goods or services subject to tariffs, and is also minimally affected by rising import costs, could impairment indicators still be present?

Answer: Yes. Tariffs may significantly affect the global economy and may result in downturns in the economy more broadly. For example, an entity may not be **directly** affected by tariffs, however, entities may still experience reduced demands for its products as a result of higher unemployment, lower discretionary spending by businesses and consumers, etc. An entity may also not directly be subject to tariffs, but may supply goods or services to entities that are directly affected by tariffs, which may reduce demand for those goods or services (e.g. because the directly affected entity has experienced a sharp decline in demand for its own goods).

Some important considerations when performing an assessment of impairment of non-financial assets are:

- Determination of an appropriate discount rate;
- Inputs used for value-in-use calculations should reflect the entity's expectations about the future cash flows the entity expects to derive from the asset(s), which may include lower revenues and/or higher costs as a result of tariffs;
- High-quality disclosures:
  - Disclosures of key assumptions regarding external conditions and the company's strategy, including the effects on the assumptions of potential reduced customer demand, increased costs and other factors that affect the business in the current environment.
  - Disclosure of key assumptions extends beyond the major numerical inputs (e.g. revenue growth percentage and discount rate) and should include assumptions made by management in forming numerical assumptions (e.g. assumptions concerning the performance of current and new products, access to new markets, the assumed price of key inputs such as electricity, etc.).
  - Explanation of sensitivity of recoverable amounts to changes in assumptions. This is particularly important where the range of possible outcomes has widened due to heightened uncertainties.
  - Explanation of composition of cash-generating units (CGUs) and the basis for allocation of goodwill to CGUs or groups of CGUs.

BDO Comment - assumptions about tariffs in impairment calculations

Tariff policies instituted by governments worldwide have evolved rapidly in 2025. It is crucial that entities carefully consider the precise facts and circumstances that existed as at the reporting date, as well as expectations about the future.

IAS 36 requires the carrying amount of assets and CGUs to be compared with the recoverable amount, with the recoverable amount being the higher of value in use (VIU) and fair value lest costs of disposal (FVLCD).

VIU is an entity specific measure, being the present value of the future cash flows expected to be derived from an asset or CGU based on the entity's specific plans and intentions. FVLCD is a fair value measurement considering how a market participant would price an asset or groups of assets – see Fair value measurement section below for further information on fair value considerations.

IAS 36 requires VIU to be determined based on an estimate of the future cash flows the entity expects to derive from the asset. Under conditions of significant uncertainty, a single estimate may not be appropriate. Entities should consider whether multiple scenarios should be considered and appropriately weighted to arrive at a weighted average best estimate. Entities must also consider whether the discount rate appropriately reflects the uncertainties in the estimated cash flows. The greater the uncertainty in the estimated cash flows, the higher the discount rate will be. However, the discount rate used to measure an asset's value in use does not reflect risks for which the future cash flow estimates have been adjusted, otherwise the effect of some assumptions will be double-counted (IAS 36.56).

FAQ #2 – If tariffs have **not** been enacted by the reporting date, can they be ignored in the VIU calculation? For example, at 31 March 2025, no tariffs have been levied by jurisdictions that would significantly affect Entity A's exports, however, there is significant uncertainty about whether tariffs will be imposed in April and May 2025.

Answer: No, it is not appropriate for an entity to base its estimate of VIU solely on the tariffs in force as at the report date. That is because IAS 36.30(a) requires VIU to be estimated based on the future cash flows **the entity expects to derive from the asset**, which may be affected by changes to tariff policies. Additionally, IAS 36.33(a) requires that the cash flow projections be based on 'reasonable and supportable assumptions **that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset**. Greater weight shall be given to external evidence'.

'Management's best estimate' needs to consider expectations of the future including, as at the reporting date, whether tariffs will be introduced and the related broader economic conditions occur, and whether the tariffs and related economic conditions will endure over time or change.

FAQ #3 – If tariffs **have** been enacted by the reporting date, do entities need to assume they will endure for the remaining useful life of assets? For example, at 30 June 2025, significant tariffs have been levied by jurisdictions that significantly affect Entity B's operations, however, there is uncertainty about how long those tariffs will remain in place.

Answer: Not necessarily. As noted in FAQ #2, IAS 36.30(a) and 33(a) require the cash flows in a VIU calculation to be based on the entity's expectations. When considering the effects of tariffs being imposed (or the risk that they may be imposed in the future), entities need to consider expectations of how long increased tariffs will be in place and how long the effects will last.

However, IAS 36.33(a) requires estimates to be made based on 'reasonable and supportable assumptions', management must be able to justify assumptions made. The longer tariffs stay in place, the more challenging it will be for entities to justify assumptions that they may be removed in the near term.

FAQ #4 – Can entities make assumptions about changes to their operations in response to tariff policies? These may include:

a. Changes to the entity's customer base (e.g. selling more to jurisdictions with lower tariff rates);
b. Changes to the entity's vendors (e.g. buying from jurisdictions where tariffs on imports are lower);
c. Changes to the entity's production plans (e.g. 'onshoring' production to the entity's own jurisdiction rather than having production outsourced to a jurisdiction that attracts high tariffs).

Answer: It depends. IAS 36.33(a) requires cash flow projections to be based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

Changes to customers and vendors (examples (a) and (b) above) may in certain circumstances occur with minimal changes to systems and processes, meaning that management may realistically adjust its strategy and planning. In other cases, changing customers and vendors may involve significant changes to supply chains, systems and processes, and involve the creation of physical infrastructure that does not exist. For example, for an exporter of ore and other minerals, exporting to Jurisdiction X instead of Jurisdiction Y may involve the development of infrastructure to transport the ore and minerals to new ports to be shipped.

IAS 36.33(b) prohibits VIU from considering any 'estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance.' Restructurings and significant changes to infrastructure and capital investments cannot be considered in VIU calculations.

Concerning item (c) (changes to the entity's production plans), the prohibition in IAS 36.33(b) above needs to be considered, as it is prohibited for an entity to consider the effects of restructurings and improvements to assets in measuring VIU.

In general, as the significance of changes to processes planned by management increases, so will the need for reasonable and supportable evidence to be provided by management.

Fair value measurement

Tariffs and general macroeconomic uncertainties may lead to an increased level of uncertainty with respect to inputs used for the determination of fair values. Entities need to consider the effect of current macroeconomic conditions on fair value measurements, particularly with respect to Level 3 inputs and on the disclosures provided.

FAQ #5 – The fair values of assets measured at fair value using Level 1 (unadjusted quoted prices) declined significantly at the reporting date, but subsequently recovered. Should the lower fair value as at the report date be used?

Answer: Yes. If an asset such as a publicly traded financial asset is measured at fair value using Level 1 inputs, the fair value must be **unadjusted** as at the measurement date. No adjustments can be made to the measurement for subsequent changes in fair value, because these changes do not reflect conditions that existed as at the reporting date.

FAQ #6 – If tariffs **have** been enacted by the reporting date, do entities need to assume they will endure when estimating fair value? For example, at 30 June 2025, significant tariffs have been levied by jurisdictions that significantly affect Entity B's operations, however, there is uncertainty about how long those tariffs will remain in place. How should the effect be considered when estimating FVLCD of the affected CGUs in accordance with IAS 36?

Answer: IFRS 13 defines fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability.

Market participants would not necessarily assume that tariffs will endure for the entire economic life of assets. Estimates of fair value must consider the assumptions market participants would make, and the associated uncertainties in those estimates. However, speaking practically, the longer tariffs remain in place, the more likely it is that market participants will assume that their effects will be long lasting.

FAQ #7 – When measuring the fair value of assets, do the same restrictions exist as VIU (see FAQ #4)? For example, when measuring the FVLCD of a CGU, can fair value include consideration of future restructurings and changes to operations that are prohibited by IAS 36.33(b)?

Fair value measurement contains fewer restrictions than VIU because fair value is based on the price that market participants would pay on the measurement date. Market participants may make different assumptions about how assets will be used in comparison with those permitted by the requirements of IAS 36 for VIU calculations.

For example, a VIU calculation for a CGU cannot include consideration of future restructurings or improvements to assets (IAS 36.33(b)). In estimating the fair value of the CGU, a market participant may assume that the highest and best use of the non-financial assets is to restructure operations and make significant changes to operations in response to tariffs. These assumptions (including the associated costs) are to be included in estimating fair value if they reflect the assumptions that market participants would make.

Recoverable amount in IAS 36 is the higher of FVLCD and VIU. In some cases, FVLCD may be higher than VIU.

Discount rates

A number of IFRS Accounting Standards require discount rates to be determined. In the current economic environment with tariff uncertainty, the potential for high inflation and a general economic downturn, the determination of discount rates is critical and discount rates determined in the past may no longer be appropriate. In many cases, discount rates may need to increase compared to prior reporting periods (e.g. discount rates used to estimate the recoverable amount in an impairment test).

Different IFRS Accounting Standards provide different requirements for the determination of discount rates, several of which are as below:

IFRS ACCOUNTING STANDARD	DISCOUNT RATE
IAS 36 *Impairment of Assets*	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset for which cash flow estimates have not been adjusted.
IAS 19 *Employee Benefits*	Market yields on high quality corporate bonds. For currencies for which there is no deep market in high quality corporate bonds, the market yields on government bonds denominated in that currency shall be used.
IFRS 16 *Leases*	Incremental borrowing rate (when the interest rate implicit in the lease cannot be readily determined).
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability for which cash flow estimates have not been adjusted.
IFRS 2 *Share-based Payments*	Risk-free rate used in option pricing models such as Black-Scholes (following the principles in IFRS 13 *Fair Value Measurement*).

Some of the factors that need to be considered when determining the discount rate are:

- **Avoiding double-counting of risks or omitting the effects of some risk factors when estimating fair value or value in use**

  As required by IFRS 13.B14(c), to avoid double counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. If the cash flow estimates are adjusted for certain risks, the discount rate should not reflect that risk. Similarly, IAS 36.55(b) requires the discount rate to include '...risks specific to the asset for which the future cash flow estimates have not been adjusted'.

  The following table summarises the above principle:

	CASH FLOW ESTIMATED ADJUSTED FOR THE RISK	CASH FLOW ESTIMATED NOT ADJUSTED FOR THE RISK
Discount rate reflects the risk	Double counting of risk factor	Appropriate discount rate
Discount rate does not reflect the risk	Appropriate discount rate	Risk factor omitted

- **Pre-tax vs post-tax discount rate**

  IAS 36.55 and IAS 37.47 require use of a pre-tax discount rate.

  Entities often use weighted average cost of capital (WACC) as a starting point for determining the discount rate to be used for IAS 36 and IAS 37. WACC is usually a post-tax rate which needs to be converted to a pre-tax rate to comply with the requirements of IAS 36 and IAS 37. In simple scenarios, the pre-tax rate may be arrived at by grossing up the post-tax discount rate by the standard rate of tax. However, as noted in IAS 36.BCZ85, this may not always give the correct result. In complex scenarios or where multiple tax rates are involved, entities may need to apply an iterative process to arrive at the appropriate pre-tax rate.

- **Internally consistent assumptions**

  Assumptions about the discount rate and cash flow estimates should be internally consistent. Cash flows are discounted using the discount rate applicable for the currency in which the cash flows are denominated. The discount rate is determined considering the underlying economic factors of the currency in which the cash flows are determined.

- **Real vs nominal discount rate**

  Nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation.

  In a high inflationary environment, it is essential to ensure this consistency. An error here may give a result that is materially incorrect.

- **Specialist involvement**

  Entities may need to involve a specialist to determine the discount rate if the choice of discount rate is expected to have a material effect on the measurement of assets and liabilities. This may be appropriate in a high inflation and high interest rate environment, and as a result of uncertainty caused by the introduction, or changes in the rates, of tariffs.

- **High quality disclosures**

  Determination of discount rate may involve significant judgement or be a source of significant estimation uncertainty. In such cases, entities need to provide clear, entity-specific disclosures of how the discount rate was determined, including the assumptions used.

Going concern

Due to deteriorating economic conditions, many entities have experienced (or may expect to experience) a significant downturn in revenue, rising costs or both. Certain industries may experience significant reductions in revenue as a result of reduced demand for their goods and services globally due to the effects of tariffs. Rising debts may be difficult for some highly leveraged entities. Entities may not be able to pass on the rising operating costs to customers in all cases. Factors such as these require greater attention to be paid to an entity's assessment of going concern.

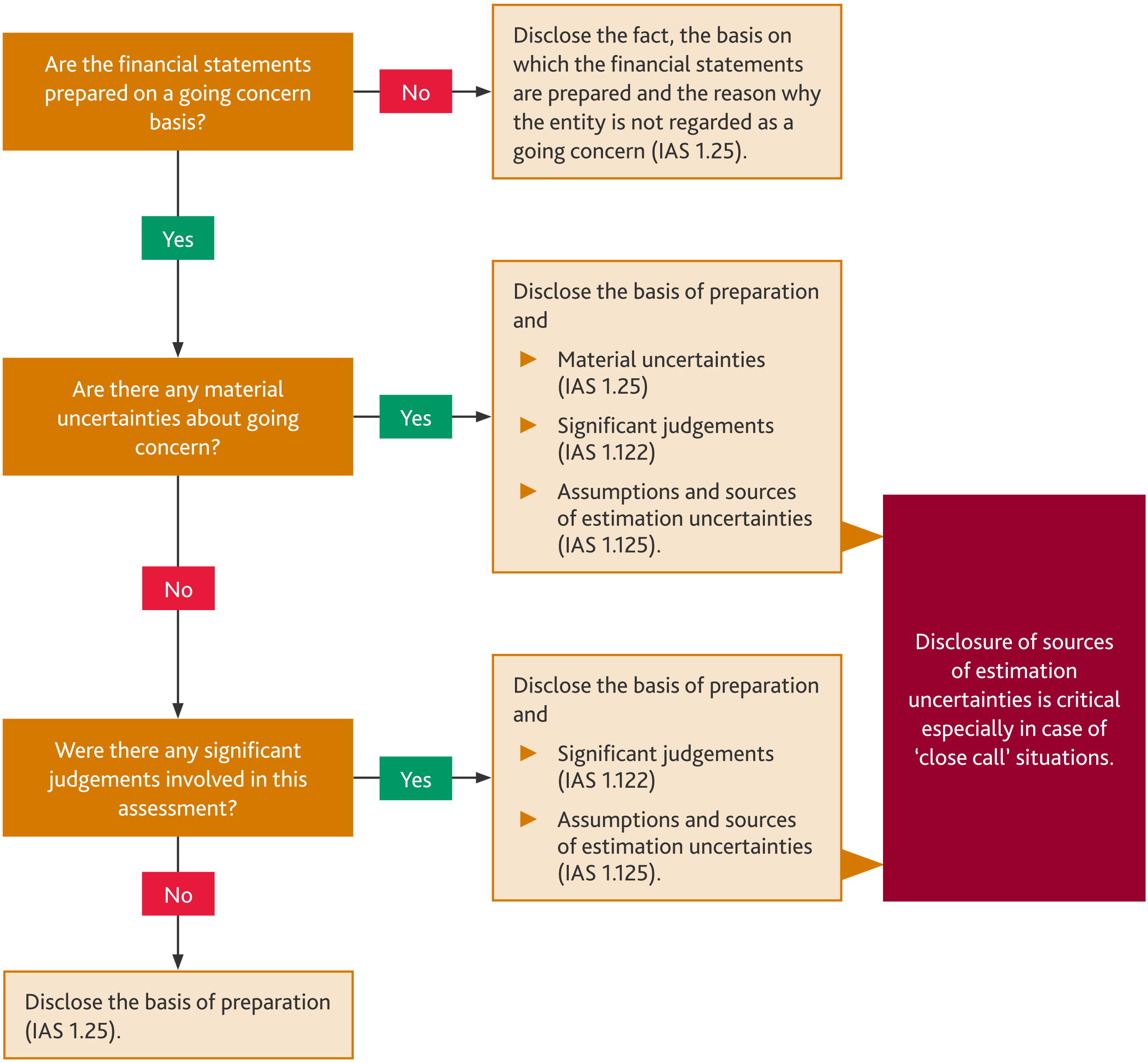
Entities need to consider the following points when performing a going concern assessment:

- Detailed scenario analysis should be performed when the entity is significantly affected by the factors such as those discussed above (e.g. considering multiple uncertain future events).
- As required by IAS 1 *Presentation of Financial Statements*, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period (IAS 1.26). In some jurisdictions, regulators or auditing standards may require this period to be twelve months from the date on which the financial statements are authorised for issue.
- As required by IAS 10 *Events after the Reporting Period*, if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, an entity shall not prepare its financial statements on a going concern basis (IAS 10.14). Said another way, an event or events after reporting period that results in the entity no longer being a going concern is always an adjusting event. In a rapidly evolving economic environment, it is critical to consider all information available until the date on which the financial statements are authorised for issue.

- In case of a group of entities, the going concern assumption is assessed at the group level. If the going concern assumption is appropriate at group level, consolidated financial statements are prepared on a going concern basis even if there is a significant doubt about a subsidiary's ability to continue as a going concern.

IAS 1.25 requires an entity to disclose material uncertainties related to its ability to continue as a going concern. However, IAS 1.122 and IAS 1.125 contain overarching requirements to disclose significant judgements, assumptions and sources of estimation uncertainty. It should be noted that these overarching requirements also apply to the going concern assessment. Therefore, entities are required to disclose significant judgements, assumptions and sources of estimation uncertainty involved in their going concern assessment.

The following diagram summarises the requirements of IAS 1 with respect to going concern assessment:



In January 2021, to support consistent application of IAS 1 with respect to specific going concern requirements and the overarching disclosure principles, the IFRS Foundation issued educational material *Going Concern – a focus on disclosure*. The educational material was issued in the context of the COVID-19 pandemic. However, the guidance in the educational material is also relevant in the current economic environment.

BDO issued *IFRB 2021/03 Going Concern – IFRS Foundation Publishes Guidance on Disclosures* that summarises the guidance provided by the educational material.

Other expectations set out by regulators or preferred disclosure practices that entities may consider following with respect to going concern assessment include:

- Disclosure of the period of the going concern assessment and explaining the reasons for selecting that period.
- Disclosure of entity-specific granular information to enable users to understand how the entity will meet its liabilities over the going concern assessment period. This may include disclosure of covenants the entity is subject to, the 'headroom' in any impairment calculations, information on waivers sought, any expected breach of covenants.
- Discussion of effect of any post balance sheet liquidity event or events.
- In case of reliance on government support, disclosure of the nature, timing and extent of government support assumed when assessing going concern.
- Disclosure of clear and quantified assumptions with explanations as to how the assumptions have been determined. In case of multiple scenarios, disclosure of quantified assumptions for each.
- Disclosure of information on techniques used in making the going concern assessment such as stress testing.

Overall, the disclosures should be company specific, sufficiently granular and both quantitative and qualitative in nature. Boilerplate disclosures should be avoided.

Following are some examples of disclosures of the going concern assessment:

Going concern assessment - Disclosure of assessment period

The Group has experienced significant increases in operating costs due to rising input costs as a result of tariffs introduced by Jurisdiction Y. The Group has also experienced a 45% decline in demand for its goods in the last six months. Therefore, the Group has performed a going concern assessment.

The Group has considered the period up to 31 December 2027 for the going concern assessment (the assessment period). The Group has considered this assessment period because approximately 80% of its long-term revenue contracts entered before 31 December 2025 are expected to conclude by 31 December 2027.

Going concern – Disclosure of stress testing

The Company has carried out stress tests against the base case scenario that would result in the Company not being able to meet its debt servicing obligations. The stress testing considers the effect of sustained decreases in revenue and increased production costs.

The Company will not be able to service its debt obligations in case of a revenue reduction of 50% over the period from January 2026 to December 2026 at the current operating margins. The Company does not consider this scenario to be likely. In view of subsidies declared by the Government for the solar energy sector at the end of November 2025, the Company expects an increase in customer demand for its solar panels in 2026.

The Company has also planned several mitigating actions including a reduction in discretionary capital expenditure, the termination of some leases of premises and rationalising variable pay to employees, which will aid in increasing the available headroom against the Company's borrowing facilities.

Going concern assessment - Disclosure of material uncertainties

The borrowing owed to the consortium of banks led by Bank A includes a covenant that requires the Company to maintain a current ratio above 1.2 (refer note xx). The covenant is tested every 31 March, 30 June, 30 September and 31 December based on the quarterly/annual financial statements. A breach of the covenant results in the loan becoming repayable on demand. The loan is otherwise payable in instalments after 31 December 2027.

International tariffs imposed on the import of the Company's products in jurisdictions that represent key markets (in particular the United States) have resulted in a reduced customer demand, which has affected the Company's short-term liquidity.

The Company, therefore, was not able to meet the current ratio covenant as on 30 September 2025 and 31 December 2025. The borrowing, amounting to CU 3.6 million, is classified as a current liability as on 31 December 2025. The Company is negotiating a waiver of the breach for a period of one year with the consortium of banks. The negotiation is in advanced stages and the management expects to receive the waiver by the end of February 2026.

The Company undertook a going concern assessment based on the information available, including cash flow projections, up until the date these financial statements were authorised for issue. The base case and stress case scenarios in the going concern assessment assume that the waiver for breach is received. Assuming that the waiver is received, the Company believes that the going concern assumption is appropriate under both the base and stress case scenarios(refer below for the details of the base case and the stress case scenarios). The receipt of the waiver of the breach represents a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. However, the Company is confident that the waiver will be obtained, and the Company will have adequate resources to meet its obligations and continue its operations for a period of twelve months from the end of the reporting period. Accordingly, these financial statements are prepared on a going concern basis.

Interim financial reporting

Entities that prepare interim financial statements in accordance with IAS 34 *Interim Financial Reporting* must consider all of the recognition and measurement matters discussed in this publication. However, specific additional considerations also apply to interim financial statements.

IAS 34.15 requires entities to include 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report'.

If the effect of tariffs and general macroeconomic conditions have changed since the end of the entity's last annual reporting period, entities may need to provide substantial disclosures in interim financial statements.

As noted in the impairment of non-financial assets section of this publication, the effects of tariffs may result in indicators of impairment, triggering impairment tests and potential impairment losses in interim periods.

FAQ #8 – If an entity recognises an impairment of goodwill in an interim financial statement (e.g. 30 June 2025), and economic conditions improve in the second half of the year by 31 December 2025, can that impairment be reversed in the 31 December 2025 annual financial statements?

Answer: No.

IAS 36.24 states that impairment losses on goodwill shall not be reversed in subsequent periods. IAS 34.28 requires entities to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, and the frequency of an entity's reporting shall not affect the measurement of its annual results.

IFRIC 10 *Interim Financial Reporting* and Impairment states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

Therefore, volatility in assumptions may result in the impairment of goodwill in an interim reporting period that cannot be reversed in a subsequent period, even if the recovery in value of goodwill occurs in the same annual reporting period.

Judgements, estimates and estimation uncertainties

Significant judgements and estimates are involved in a number of areas of financial statement such as impairment assessment, fair value measurements, accounting for deferred taxes, employee benefits, inventory valuation, assessment of control/joint control/significant influence, contingent consideration, and expected credit loss (ECL) measurements.

In times of uncertainty, judgements, estimates and estimation uncertainties have an even more critical role in accounting. Given the rapidly evolving circumstances, significant judgements and estimates need to be assessed, updated and monitored continuously to ensure that they reflect current circumstances. Entities may need to revise their assumptions and valuation models to consider multiple scenarios and possible outcomes. For example, due to reductions in demand for goods and services and increased costs, entities may need to revise their assumptions used to determine the recoverable amounts of non-financial assets. Entities in sectors that are particularly affected by increased tariffs may need to consider multiple scenarios with varying assumptions in their cash flow projections to estimate the recoverable amount in impairment analysis of non-financial assets.

IAS 1.122 and IAS 1.125 provide requirements for disclosure of significant judgements and significant estimates.

IAS 1.122 (emphasis added)

An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

IAS 1.125 (emphasis added)

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a ***significant risk*** *of resulting in a* ***material adjustment*** *to the carrying amounts of assets and liabilities* ***within the next financial year****…*

What is the difference between significant estimates and other estimates?

Significant estimates within the scope of IAS 1.125 are those estimates that have a **significant risk** of resulting in a **material adjustment to the carrying amount of assets and liabilities** within **the next financial year**. IAS 1.125 explicitly requires a disclosure of significant estimates and major sources of estimation uncertainty.

IAS 1.112(c) requires disclosure of information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. Therefore, entities should disclose other estimates where these estimates provide material and relevant information to users. However, these should be clearly distinguished from significant estimates.

How should these disclosures be made?

IAS 1.129 requires an entity to present the disclosures required by IAS 1.125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. Following are some examples of the type of disclosures that an entity makes:

a. the nature of the assumption or other estimation uncertainty;

b. the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

c. the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected;

d. an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Entities may consider it appropriate to include disclosure of this information in the related note rather than in a separate note for all significant estimates. For example, information about significant estimates made related to the impairment of a loan portfolio in the associated note. Entities may aggregate a list of significant estimates made and cross-reference to the applicable note containing the information.

Following are some expectations set out by certain regulators for significant judgements and estimates:

Significant judgements
► Separately identify the judgements that do not relate to a source of estimation uncertainty and those that do.
► Give detailed descriptions of the specific, material judgements made by the directors in applying their accounting policies.

Significant estimates
► Clearly specify which estimates have a significant risk of material adjustment to the carrying amount of assets and liabilities in the next financial year.
► Quantify the specific amount at risk of material adjustment.
► Provide sufficient granularity in the descriptions of assumptions and/or uncertainties to enable users to understand management's most difficult, subjective or complex judgements.
► Clearly distinguish the disclosure of other estimates, and associated sensitivities, from significant estimates and explain their relevance.
► Provide meaningful sensitivities and/or ranges of reasonably possible outcomes for significant estimates. For example, sensitise the most relevant assumptions, choose alternate assumptions that are considered reasonably possible.
► Quantify the assumptions underlying significant estimates when investors need this information to fully understand their effect.
► Explain any changes to past assumptions if the uncertainty remains unresolved.
► Sources of estimation uncertainty and the related disclosures should be updated at the balance sheet date.

The following are examples of disclosures of significant estimates and judgements:

Disclosure of significant estimates

The preparation of the Group's consolidated financial statements includes the use of estimates and assumptions.

Significant estimates:

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Impairment of non-financial assets: Estimate of future cash flows (refer note xx)
- Fair value of assets acquired and liabilities assumed in business combinations (refer note xx).

Other areas of judgement and accounting estimates:

The recognition and measurement of certain material assets and liabilities are based on assumptions and estimates, apart from the significant estimates discussed above. These assumptions and estimates are:

- Revenue recognition: Provision for customer incentives (refer note xx)
- Recognition of deferred tax assets (refer note xx)
- Determination of useful economic life and residual value of property, plant and equipment (refer note xx).

Significant estimates – description of estimation uncertainty and amount at risk of material adjustment

Provision for inventory obsolescence

The Group adopts a usage-based approach for the recognition and measurement of provisions for inventory obsolescence.

The Group analyses historical trends of usage of old and slow moving raw materials and determines inventory provisioning percentages. These percentages are reassessed annually. The Group also considers forward looking information, including expected reductions in customer demand for products as a result of increased tariffs, and wherever required, recognises a higher inventory provision considering this information. Raw materials in excess of three years of historical usage are fully provided for. Management believes that the period of three years is appropriate as most of the raw materials have a long shelf-life.

As at 31 December 2025, provision for obsolete inventory was CU4.5 million (31 December 2024: CU2.7 million).

Events after the reporting period

IAS 10 *Events after the Reporting Period* defines events after the reporting period as events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Entities need to determine whether the event after the reporting period is adjusting (events that provide evidence of conditions that existed at the end of the reporting period) or non-adjusting (events that are indicative of conditions that arose after the reporting period). This assessment may require significant judgement.

Amounts recognised in financial statements are adjusted to reflect material adjusting events. For material non-adjusting events, the entity should disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Times of uncertainty and rapid change increase the risk that a material event will occur after the reporting period but before the financial statements are authorised for issue, making this assessment a critical one. Entities should monitor and assess on a continuous basis to identify and account for material events after the reporting period.

See FAQ #2 for discussions of tariffs enacted after the report date and how uncertainty about future economic conditions should be considered in performing impairment tests in accordance with IAS 36.

FAQ #9 – What should the entity do if the going concern assumption is determined to be inappropriate after the reporting period?

Answer: In a quickly evolving economic environment, an entity's situation may deteriorate significantly after the end of the reporting period such that the going concern assumption is no longer appropriate. The effect of the going concern assumption not being appropriate is so pervasive that IAS 10.14-16 requires a fundamental change in the basis of preparation and the entity shall not prepare its financial statements on a going concern basis, even if the events resulting in this conclusion take place after the reporting period.

Other financial reporting effects

Economic uncertainty and increased tariffs may have other financial reporting implications, such as:

- IAS 1 *Presentation of Financial Statements*

  Amendments to IAS 1 effective for annual reporting periods on or after 1 January 2024 modified the criteria that must be met in order for loans to be classified as non-current (see BDO's IFRS Accounting Standards In Practice publication).

  Amendments were also introduced relating to disclosures when loans are classified as non-current but may become repayable within the next 12 months because of future covenant tests. IAS 1.76ZA requires entities to disclose (a) information about these future covenants (e.g. the nature of the covenants) and, (b) facts and circumstances, if any that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

  Economic uncertainty as a result of tariffs may result in increased uncertainty about whether entities will comply with covenant tests within the next 12 months. Therefore, entities must carefully consider the requirements of IAS 1.76ZA and provide adequate disclosures.

- IAS 12 *Income Taxes*

  Entities must consider whether previously recognised deferred tax assets are still recoverable given increased economic uncertainty.

- IFRS 2 *Share-based Payments*

  Economic uncertainty may have macro-economic effects such as lower demand for goods and services. This may affect entity's performance and have a corresponding effect on share-based payments with performance conditions (e.g. the entity meeting certain revenue or net income targets).

- IFRS 9 *Financial Instruments*

  - Inflationary clauses in contracts.

    There may be inflationary features embedded in revenue, supply, leasing and other financing contracts. The entities need to evaluate whether these need to be separated and accounted for as a derivative. The entities need to disclose information relevant to the users' understanding related to such inflationary clauses in the financial statements.

  - Rising inflation will have an effect on the measurement of ECL. Increased economic uncertainty may lead to an increase in default risk and the associated measurement of ECL.

  - There may be greater number of instances of debt modifications where borrowers are not able to service the debt on due dates.

- IFRS 15 *Revenue from Contracts with Customers*

  Significant changes to input costs may result in entities entering into negotiations with customers to increase the prices of goods and services. Increased costs as a result of tariffs may also result in the triggering of pre-existing contractual terms which permit entities to increase prices. Entities must carefully consider whether these circumstances give rise to contract modifications.

  Additionally, increases in costs may affect an entity's measure of progress for contracts where revenue is recognised over time.

- IFRS 16 *Leases*

  Modifications to lease contracts require lessees to reassess the discount rate used to measure the lease.

- IAS 2 *Inventories*

  Inflation may lead to increases in estimated costs necessary to make a sale. If the estimated selling prices do not increase correspondingly, for example in case of long-term fixed rate contracts, this may lead to a reduction in the net realisable value and possibly higher inventory write-downs.

FAQ #10 – Are tariffs paid to import goods included in the cost of inventories? For example, import tariffs paid on steel to be used in the manufacturing of the entity's goods.

Answer: Generally yes. IAS 2.11 states that the cost of purchase of inventories includes 'import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authority'. Therefore, tariffs paid upon importing goods should be included in the cost of inventories unless they are recoverable from a taxing authority.

Import tariffs would also be included in the cost of imported property, plant and equipment (IAS 16) and leased assets (IFRS 16).

Increasing the cost of inventories may result in inventory writedowns if cost exceeds net realisable value.

Additionally, because import tariffs are included in the cost of inventories, they would be included in the 'cost of sales' (or similar line item) for entities that present such a line item in the statement of profit or loss. That is because tariffs are a component of the amount of inventories expensed in the period.

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

  Governments may provide loans at below market rate of interest to some entities, which need to be accounted for in accordance with IAS 20. It should be noted that for existing loans, reassessment of whether the loan is below-market rate of interest is not required or permitted under IAS 20.

- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

  Contracts may become onerous due to increase in costs without a corresponding increase in revenue. For example, if rising input costs mean that the costs of constructing a building for a customer have increased such that the contract is no longer profitable, that contract may be onerous. Onerous contracts are required to be recognised as a provision with the loss being recognised 'up front'.

FAQ #11 – In measuring an onerous contract, how does an entity consider tariffs that are not yet in place as at the report date? For example, tariffs have not yet been placed on a number of inputs that would significantly increase the cost of construction for Entity F, however, those tariffs are widely expected to be put in place in the near future.

Answer: It depends. IAS 37.36 requires that a provision 'shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period'.

Concerning future events, IAS 37.50 states (**emphasis added**):

The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

The imposition of tariffs may require legislation (or legislative acts), therefore, unless future tariffs are virtually certain to be enacted, IAS 37.50 does not permit an entity to consider the effects of anticipated future tariffs in measuring provisions, including onerous contracts. This differs from the requirements of IAS 36 (see FAQ #2).

Financial instruments

The following are factors related to financial instruments that entities should be mindful of:

- Expected Credit Loss (ECL) models

  Entities, especially financial institutions, may face significant challenges in developing ECL models for the current macroeconomic environment due to lack of experience in modelling for such circumstances. Therefore, it is critical to provide sufficiently transparent disclosures of the effect of the changing economic environment on the ECL calculation. This would enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

  Different groups of borrowers may be affected differently by the current macroeconomic developments. For example, the effects of rising tariffs may affect particular industries and jurisdictions more than others. Therefore, entities should consider providing enhanced disclosures of sector-specific drivers in ECL measurement and risk concentrations related to specific sectors and/or jurisdictions.

- Focus on disclosures

  - Adequate disclosures of the nature and extent of risks arising from financial instruments and related risk management should be provided.
  - Entities should disclose the methods used to measure exposure to risks and any changes from the previous period and any hedging arrangements put in place.
  - Where material, detailed sensitivity analyses should be provided for entity's exposure to interest rate risk, commodity price risks and related liquidity risks, including a description of the methodologies and assumptions applied and the changes from the previous period.
  - Accounting policies should be disclosed for all material financing and hedging arrangements and any changes in the arrangements.
  - Disclosures should be provided for banking covenants and changes to any covenants.

FAQ #12 – Is it possible for increased tariffs to have effects on the effectiveness of hedging relationships?

Answer: Yes. Entities may apply hedge accounting relating to various risks, including foreign currency risk. For example, entities that have significant sales in foreign currencies may enter into forward contracts to mitigate their foreign exchange risk, and apply hedge accounting to those relationships.

The effects of tariffs may significantly reduce forecasted sales in foreign currencies. Therefore, entities must consider whether forecasted transactions remain highly likely. Certain hedging relationships may no longer qualify.

Key considerations for disclosures

High-quality disclosures are key in the current environment to enable users to evaluate the nature and extent of risks the entity is exposed to. Regulators have consistently emphasised the importance of high-quality disclosures.

Following are some key considerations to be kept in mind for disclosures:

Disclosures should be clear, concise and understandable and not include immaterial information.

Clear disclosures should be provided of significant management judgements and key assumptions underlying major sources of estimation uncertainty, including information about the sensitivity of reported amounts to changes in assumptions.

Disclosures should be entity-specific and should meet the disclosure objectives of the relevant IFRS Accounting Standards and not just the specific disclosure requirements of the standards. Entities should provide additional disclosures necessary to enable users to understand the impact of particular transactions, events and other conditions on the entity's financial performance and financial performance.

Boilerplate disclosures should be avoided.

FOR MORE INFORMATION:

BDO's IFRS Policy Committee

BDO's IFRS Country Leaders