Changing economic environments

Assessing the financial impact and required disclosures

The government of the United States of America (US) has announced a series of changes in their economic and policy priorities. These include changes to import tariffs targeting major trading partners and the suspension of foreign development assistance. Some of the changes have been temporarily reduced or suspended pending further review. As at the date of this article, the US government is in negotiations with some trade partners on tariff and trade matters. The conclusion of these talks may alter the details of the tariff actions.

This article identifies key financial reporting areas that entities need to consider when determining the impact on their business, and on the results, financial position and disclosures in their financial statements under IFRS Accounting Standards.

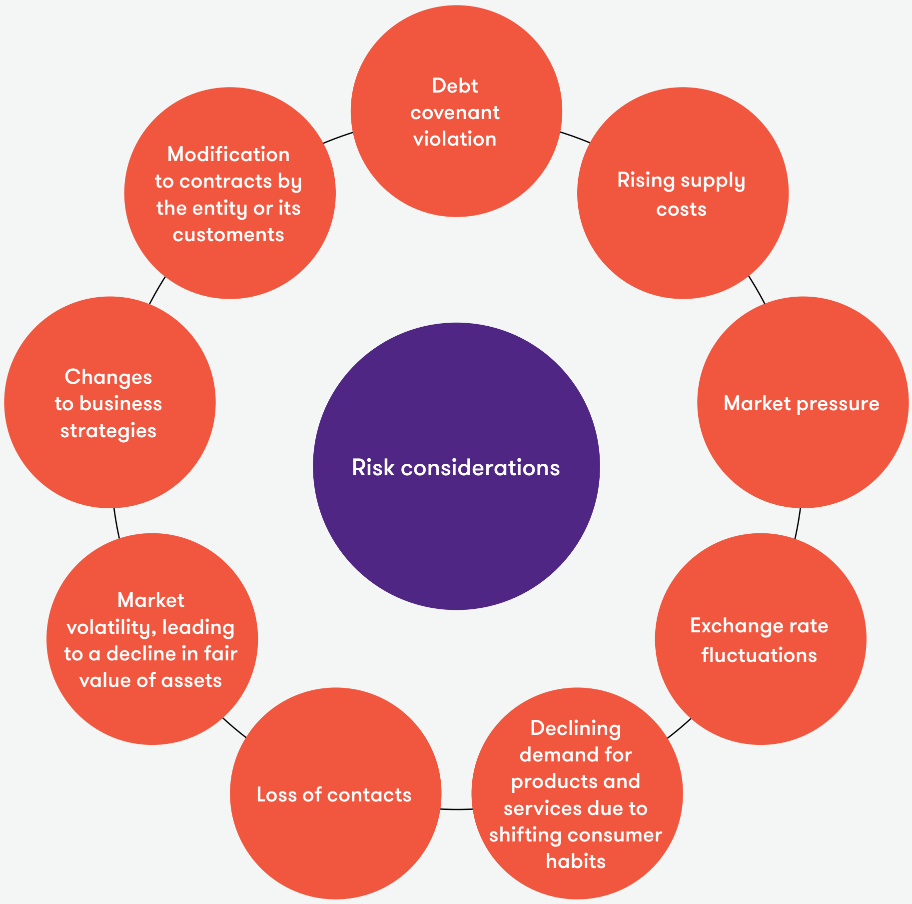
This article considers any IFRS Accounting Standards that were effective as at 1 January 2025. Any Standards effective after this date have not been considered. In addition, the areas identified in this article are not an exhaustive list and there may be other areas not included in this article that entities should consider.

Introduction

These recent evolving geopolitical events, including the potential retaliation from other countries, are having an impact on business confidence, investments and capital flows which may result in risks to the operation of many businesses. Additionally, many entities may be indirectly impacted by changes in the domestic and global economy, including the capital markets.

"This article identifies key financial reporting areas that entities need to consider when determining the impact on their business, and on the results, financial position and disclosures in their financial statements under IFRS Accounting Standards."

The diagram below contains examples of potential new risk factors that entities should consider. The changes may have a wide-ranging impact across several aspects of an entity's business, which could trigger the need for responses in accounting and financial reporting, including disclosures.



Changes to business strategies, include:

- changing suppliers
- layoff or suspension of hiring
- deferral of expansion of investment projects
- development of new markets or abandonment of existing markets
- increase in sales prices
- reorganisation of activities.

What disclosures need to be made in the financial statements?

Entities need to consider the financial impact on the entity and the areas of the financial statements that will be affected to determine the disclosures required. As well as the specific financial reporting areas, IAS 1 'Presentation of Financial Statements' requires disclosures of sources of estimation uncertainty and areas of significant judgement.

This section focuses on the impact of the current economic uncertainties on the methods selected by management and the assumptions used in determining accounting estimates. Accounting estimates rely on an entity's judgemental assumptions, which are based on a reasonable interpretation of conditions or events that are either known or knowable as of the requisite measurement date. In other words, the assumptions used by an entity in its estimates must be both reasonable and supportable.

To meet this criterion, estimates are expected to include consideration of reasonably possible future events, even though occurrence and impact may be uncertain. For instance, while the extent and duration of tariffs imposed by the US government may not be precisely predicted, an economic forecast in the current environment that excluded the impacts of tariffs (including the potential for retaliatory tariffs) would likely not be considered reasonable and supportable. Accordingly, entities will need to consider whether economic scenarios used as inputs to their current accounting estimates appropriately take into consideration the direct and indirect impact of tariffs based on reasonably known or knowable information as of the estimation date. Factors such as rising inflation, supply chain issues, significant or an exclusive reduction in customers or discontinued purchases from the entity, among others, need to be reflected in an entity's forward-looking estimates and projections. Since these estimates and projections can include highly unpredictable variables, entities may need to apply significant judgement on a wider range of outcomes and revisit facts and circumstances on a more frequent basis. The diagram below contains an example of the steps to be taken in the estimation process.

Steps in estimation process

Determining what constitutes a 'reasonable and supportable' assumption during times of economic uncertainty requires an entity to exercise professional judgement grounded in a well-controlled and supported estimation process. A well-controlled and supported estimation process will generally include the steps outlined in the following diagram:

Step 1
Identify information relevant to the estimate that is reasonably known or knowable as of the measurement date. Information discovered after the measurement date, but before the financial statements are issued, may confirm such information.

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Step 2
Use the relevant information identified in Step 1 to develop a reasonable and supportable forecast of future conditions.

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Step 3
Use the reasonable and supportable forecast from Step 2 in the estimation approach to arrive at a quantitive estimate. The estimation approach used needs to be consistent with the relevant accounting framework.

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Step 4
Produce transparent and robust disclosures describing the key inputs and assumptions used in the entity's estimation approach.

Impairment

In accordance with IAS 36 'Impairment of Assets', an entity is required to test its assets for impairment when indicators of impairment are present. An impairment test must be performed in response to indicators of impairment in addition to a mandatory impairment test for goodwill and intangible assets with indefinite useful lives at least annually. The impact of economic uncertainty faced by entities could manifest in a variety of ways including:

- tariff escalations that increase costs related to raw materials, labour or other costs
- trade restrictions that disrupt supply chains and reduce market access
- suspension to federal spending including foreign aid assistance, and
- regulatory shifts that alter the legal landscape for cross border operations.

These factors could result in a significant deterioration in the financial performance of entities. A decline in financial performance, such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior period, could affect significant inputs used to determine the value of certain assets or an asset group.

The geopolitical events can therefore be interpreted as potential impairment triggers in accordance with IAS 36. These could be indicators of asset impairment even over a relatively short duration, which entities need to consider in preparing their financial statements.

Goodwill and intangible assets with indefinite useful lives

As mentioned above, IAS 36 requires goodwill and intangible assets with indefinite useful lives to be tested annually for impairment. The geopolitical events could impact the value of these assets through:

- a significant adverse change in legal factors or in the business climate (eg an entity expects a decrease in its exports to a particular foreign market)
- the testing for write-down or impairment of a significant asset group
- the recognition of a goodwill impairment loss in an investee's separate financial statements, and
- a significant decline in the entity's share price which could result in the carrying amount of the entity's net assets exceeding its market capitalisation.

Inventory

The current economic uncertainty may also affect the value of an entity's inventory. For example, an increase in the acquisition costs of materials due to tariffs would increase the cost of inventory or impact an entity's assessment of recoverability, as customer demand and purchasing power decreases. Entities would need to assess whether, on their reporting date, an adjustment is required to the carrying value of their inventory to bring them to their net realisable value in accordance with the principles of IAS 2 'Inventories'. Additional judgement may be required to determine an entity's ability to implement price increases to offset the impact of increased tariffs when evaluating the net realisable value.

Practical insight: Assessing an entity's ability to increase prices in response to tariffs
An entity's ability to increase prices to recover costs incurred associated with tariffs must be evaluated in connection with the assessment of inventory net realisable value. Entities need to consider their current market's tolerance for price increases as well as their historic ability to recapture costs through price increases. Such assessments may include judgements, specifically for newly introduced products, which may not have historical data to support the entity's assessment.

Financial instruments and the measurement of expected credit loss

Under IFRS 9 'Financial Instruments', expected credit losses (ECLs) must be recognised for debt-type financial assets not measured at fair value through profit or loss (FVTPL) based on information about past events, current conditions and forecasts of future economic conditions. In other words, even possible future outcomes that may or may not come to pass should be factored into an entity's ECLs on a probability-weighted basis. The negative economic outlook and cash flow difficulties experienced by customers as a result of the geopolitical events must be factored into an entity's forecasts of future conditions, which may result in an increase in its provision for ECLs to reflect (a) a greater probability of default across many borrowers, even those that currently do not exhibit significant increases in credit risk but may in the future, and (b) a higher magnitude of loss if the customer defaults, due to possible decreases in the value of collateral and other assets. ECLs apply to trade receivables, loans, debt securities, contract assets and assets arising from costs to obtain or fulfil a sales contract, as well as the losses recognised in measuring loan commitments and financial guarantee contracts. Regardless of whether the simplified approach or the three-stage model set out in IFRS 9 is being applied to assess ECLs, the impact on the ECLs calculation as a result of the economic changes needs to be very carefully assessed.

To the extent that any information about the impact of the geopolitical events that becomes available after the reporting date provides more evidence about conditions at the reporting date, entities will need to revisit their estimates of ECLs at the reporting date. For example, if a customer files for bankruptcy subsequent to the period end:

- an entity must consider whether the new information reflects credit conditions that already existed at the reporting date and, if so, review the loss percentage in its provision matrix for all other receivables
- an entity must consider whether the bankruptcy is simply confirming conditions that already existed for the customer at the reporting date.

Even if estimates do not require revision, full disclosure of circumstances taken into consideration is recommended.

Revenue recognition

Existence of a contract

In addition to evaluating credit losses, entities also need to reassess whether, due to changes in collectability, an accounting contract continues to exist for the remaining goods or services to be provided under the contract. The probability of collection is part of Step 1 of the five-step process for determining whether a contract exists for accounting purposes as set out in IFRS 15 'Revenue from Contracts with Customers'. Once a contract meets the Step 1 criteria, an entity is precluded from reassessing whether it continues to pass Step 1, unless there is an indication of significant changes in facts and circumstances. When those significant changes occur, an entity should reassess collectability within the context of future consideration for the remaining goods or services under the contract. If it is no longer probable that the entity will collect substantially all of this future consideration, IFRS 15 generally requires the entity to stop recognising further revenue. The Standard then provides guidance on how to continue to assess Step 1 until either the criteria in Step 1 are subsequently met or the contract is terminated.

Variable consideration

If the entity's contract with a customer includes variable components (eg discounts, rebates, refunds or price concessions), the entity must consider whether its previous estimates made for these variable components continue to be appropriate. IFRS 15 provides extensive guidance around variable consideration and the related constraint. It may be necessary for an entity to begin constraining its variable revenue even if this was not considered necessary prior to the geopolitical events.

Entities that enter into contracts with variable consideration must update their estimates of variable consideration over the life of the contract based on facts and circumstances that are known or knowable at each reporting date. As a result, an entity needs to consider the impact of the geopolitical events on its estimate of variable consideration.

Over-time revenue recognition using cost-to-cost percentage completion

An entity that recognises revenue over time and concludes that a cost-based input method best depicts the entity's progress toward satisfaction of its performance obligation must assess whether geopolitical events necessitate updates to its cost estimates. Geopolitical events such as tariffs may result in increases to estimated costs to complete a contract. As a result, the total estimated costs may increase while the costs incurred to date may not have changed, resulting in an entity's percentage of completion decreasing significantly. If an entity has not negotiated a corresponding increase in the transaction price, this situation may lead to a reversal of cumulative revenue recognised to date for a contract. Entities should closely monitor estimated costs to ensure their assumptions reflect the most up-to-date information at period-end.

Other areas

Financial statement area	Impact
Fair value measurement	The fair value of an item (such as certain financial instruments, investment properties and items of property, plant and equipment) must reflect market participant views and market data at the measurement date under current market conditions. There may be an increase in the amount of subjectivity involved in fair value measurements, especially those based on unobservable inputs. In some cases, greater use of unobservable inputs will be required because relevant observable inputs are no longer available.
Future operating losses	Entities may anticipate losses on account of reduction in demand, supply chain disruptions or losses due to an overall decline in economic output. However, future operating losses on existing contracts do not meet the definition of a liability unless they fall in the category of onerous contracts, and hence, should not be provided for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.
Onerous contracts	Certain contracts may become less profitable, or even loss-making. For example, an entity might face penalties as a result of delays or incur increased costs that cannot be recovered due to finding alternative suppliers. Management needs to consider whether any contracts are in an 'onerous' position and whether a liability needs to be recognised.
Share-based payment	If an entity is negatively impacted by the tariffs, the probability that it will meet the performance vesting conditions outlined in its share-based compensation arrangements may change. Furthermore, the entity may choose to modify or cancel its share-based compensation arrangements. Management should consider whether the accounting for such plans needs to be revised based on the guidance in IFRS 2 'Share-based payment'.
Hedge accounting	Hedge effectiveness assessment is required to be performed at the inception and on an ongoing basis at each reporting date or, in case of a significant change in circumstances, whichever occurs first. The expected volatility in markets may result in an entity requiring to either rebalance the hedge, where applicable, or discontinuing hedge accounting if an economic relationship no longer exists or the relationship is dominated by credit risk. Also, if it is no longer highly probable that a hedged forecast transaction (eg inventory purchases or sales) will occur, hedge accounting will cease prospectively.
Accounting for income taxes	Deferred tax asset (DTA) – An entity that has historically recognised a deferred tax asset on its statement of financial position may need to revisit its assumptions about the likelihood that it will be realised in the future. Management may determine that it is no longer appropriate under IAS 12 'Income taxes' for the entity to recognise the deferred tax asset on the entity's statement of financial position because it is no longer recoverable in the future. Deferred tax liability on outside basis differences (DTL) – An entity may assert that earnings in foreign jurisdictions are indefinitely reinvested and, thus, does not recognise a deferred tax liability for these accumulated earnings and other taxable outside-basis differences. Such assertions may need to be revisited to determine if they remain appropriate given the entity's current cash flow projections.

Financial instrument risk disclosures	Due to the rapidly changing economic environment, an entity may find that it is subject to new or increasing risk (eg credit, liquidity or market risk) or concentrations of risk. In addition, an entity may find that its risks have changed from the prior period. Management should evaluate whether additional risk disclosures are required. IFRS Accounting Standards require an entity to disclose a sensitivity analysis (including quantitative disclosures) pertaining to changes in the relevant risk variable that are 'reasonably possible' at the reporting date. Management may need to perform sensitivity calculations using a larger range for the risk variables or consider a direction of change that reflects expectations resulting from the geopolitical events.
Guarantees	An entity that has guaranteed an amount owing by another entity/individual should consider how the other entity/individual is impacted by the current global situation. Depending on the circumstances, the entity may need recognise an additional liability related to the guarantee which would be the higher of the ECL and the amount initially recognised less amortisation.
Debt repayment and classification	Entities that expect to be significantly impacted by the geopolitical events may need to consider whether such changes result in debt covenant violations (for instance, many lending agreements include 'material adverse change' provisions that render debt immediately callable by the lender). Entities need to evaluate whether any debt covenant violations could have occurred as of the financial reporting date and whether any identified covenant violations impact the classification of the debt as a current or noncurrent liability on the borrower's statement of financial position. Additionally, that analysis will inform the entity's consideration of its ability to continue as a going concern.
Economic dependence	An entity that is otherwise not economically dependent on another entity or individual may find that circumstances change during this period of crisis. Management should consider whether disclosure regarding economic dependence should be added to the financial statements.

Example disclosure: Use of estimates and measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities to the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Balances requiring significant estimates include [accounts receivable and the collectability thereof, the useful lives of capital assets, accrued liabilities, deferred revenue, recognition of a future income tax asset and employee future benefits (Note: this list would be unique to each entity and its circumstances)]. Actual results could differ from these estimates.

The threat, and subsequent introduction, of [US/Canadian or both] tariffs has impacted the organisation's estimates as follows: [insert details concerning impacts on estimates (eg cash flow estimates for impairment calculations)].

Practical insight: Changes in existing estimates

If the geopolitical events affect an existing estimate, an entity will need to consider the disclosure requirements for changes in accounting estimates in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

An entity is required to disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity must disclose that fact.

Going concern

Assessing an entity's ability to continue as a going concern

IAS 1 contains guidance related to the going concern assumption and outlines when financial statements are prepared on the assumption the entity will continue as a going concern. IAS 1 explicitly states that at each reporting date, management is required to assess the entity's ability to continue as a going concern and consider all available information about the future, which is at least, but is not limited to, twelve months from the annual reporting date. Management should consider a wide range of factors, such as current and expected profitability, debt repayment schedules and potential sources of replacement financing and the ability to continue providing services. If management concludes that the entity may be liquidated (either by choice or because it has no realistic alternative but to do so), the going concern assumption would not be appropriate and the financial statements may have to be prepared on another basis, such as a liquidation basis. If there is material uncertainty about the entity's ability to continue as a going concern, the entity should include going concern disclosure in the notes to its financial statements.

Because the assessment regarding an entity's ability to continue as a going concern covers the period no less than twelve months from the annual reporting date, all events that occur during an entity's subsequent events period should be considered when evaluating whether there is significant doubt about the entity's ability to continue as a going concern. In other words, even if events during the subsequent events period are not considered adjusting subsequent events, they should still be incorporated into the going concern assessment. Furthermore, events or conditions that cast significant doubt on an entity's ability to continue as a going concern should be disclosed if there are material uncertainties or if a significant amount of judgement is involved in reaching the conclusion about whether the going concern assumption is appropriate.

Entities need to exercise judgement when weighting different scenarios in the current environment—for example, less weight may be assigned to scenarios based on actions that have been proposed but not yet enacted through executive order or legislation, such as proposed tariffs or changes in government grants and other economic programs, than to scenarios based on changes that have already been enacted.

Practical insight: Evaluating ability to continue as a going concern after freeze of US foreign aid

Entity A, a not-for-profit entity with a calendar year-end reporting date, receives a significant portion of its annual funding through a grant from USAID. In January 2025, subsequent to Entity A's 2024 year-end but prior to the date when its financial statements were made available to be issued, the grant program facilitated by USAID was indefinitely suspended. This suspension is the subject of various ongoing legal challenges.

In performing the evaluation of its ability to continue as a going concern, Entity A evaluates whether and how to incorporate these developments into its forecast. Considering the guidance in IAS 1, Entity A determines that it must include the expected effects of the grant program suspension in its forecast. Entity A also decides that it cannot rely upon the success of any of the ongoing legal challenges to this suspension since it cannot predict the ultimate outcome.

Based upon its specific facts and circumstances, Entity A concludes that substantial doubt exists about its ability to continue as a going concern. Entity A also concludes that, in its specific facts and circumstances, its plans to secure replacement funding do not alleviate the substantial doubt about its ability to continue as a going concern.

As a result, Entity A provides the disclosures required by IAS 1.

Example disclosures (significant doubt about an entity's ability to continue as going concern)

Below are example disclosures for an entity that concludes that there is significant doubt about its ability to continue as a going concern. These disclosures must be tailored for an entity's specific circumstances.

Example disclosure: Decline in foreign aid assistance

In 2025, the US government announced an indefinite suspension to foreign aid assistance. The funding from [insert funding eg USAID, CDC] represented approximately [X]% of the Organisation's total revenue for the year ended 31 December 2024.

Management has assessed the implications of this development and determined that it represents a material uncertainty that may cast significant doubt on the Organisation's ability to continue as a going concern. In response, the Organisation has initiated several mitigation strategies, including:

- Actively pursuing alternative funding sources, including new grants and donor campaigns
- Implementing cost containment measures and reviewing program delivery models, and
- Engaging with stakeholders to explore partnership and restructuring opportunities.

Despite these efforts, there is no assurance that sufficient funding will be secured in time to support ongoing operations. Accordingly, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Example disclosure: Disruption in supply chain

The recent evolving changes in economic and policy priorities of the US government are expected to materially and adversely affected the supply and demand for the Company's primary products and therefore, its operating results will be negatively impacted.

If the tariffs are enacted, management forecasts that the Company's entire supply chain will be severely disrupted within the next twelve months. This includes anticipated delays in the procurement of critical raw materials, increased logistics costs and potential loss of key manufacturing partners. The Company forecasts operating losses, negative cash flows from operations and working capital deficiencies for the period from 31 December 2025 onwards.

These developments represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. The disruption is expected to significantly impair the Company's ability to fulfil customer orders, generate revenue and meet its financial obligations as they fall due.

In response, management has initiated the following mitigation strategies:

- Identifying and qualifying alternative suppliers in less affected regions
- Engaging with lenders to secure additional working capital facilities, and
- Reassessing production schedules and inventory management to preserve liquidity.

Despite these efforts, there is no assurance that the Company will be able to fully mitigate the impact of the forecasted supply chain disruption. Accordingly, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Example disclosure: Expected customer defaults

The recent evolving changes in economic and policy priorities of the US government are expected to materially and adversely affect the credit risk of key customers and therefore, the Company's operating results will be negatively impacted.

Based on updated economic forecasts and customer-specific financial data, management has determined that there is a high probability that the Company's major customers will default on their outstanding obligations within the next twelve months. The Company forecasts operating losses, negative cash flows from operations and working capital deficiencies for the period from 31 December 2025 onwards.

This assessment represents a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. The potential defaults would significantly impair the Company's cash flows, liquidity position and ability to meet its own financial obligations as they fall due.

In response, management has initiated the following actions:

- Engaging with legal and restructuring advisors to explore recovery options and contingency planning
- Entering discussions with lenders and investors to secure bridge financing or covenant waivers, and
- Evaluating the potential for asset sales, cost reductions and operational restructuring.

Despite these efforts, there is no assurance that the Company will be able to mitigate the impact of the anticipated defaults. Accordingly, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Subsequent events

In accordance with IAS 10 'Events after the Reporting Period', entities are required to distinguish between subsequent events that are adjusting (ie those that provide further evidence of conditions that existed at the end of the reporting period) and non-adjusting (ie those that are indicative of conditions that arose after the end of the reporting period). Entities are required to adjust the amounts recognised in their financial statements to reflect any adjusting events that occur during the subsequent events period.

Is the impact of the change in policies an adjusting event for reporting periods ended 31 December 2024?

The imposition of significant and widespread tariffs was a major economic policy position emphasised by the current US government during the 2024 presidential election campaign (and those positions have, in fact, been subsequently manifested in the imposition of significant tariffs). Accordingly, entities may need to consider whether the way in which economic scenarios incorporate the direct and indirect impact of US-imposed tariffs (including the potential for retaliatory tariffs) is reasonable and supportable as of any post-election estimation dates.

Entities may become aware of events resulting from the geopolitical events after the end of the reporting period, but before the financial statements are either issued or made available to be issued. Such events may include government actions, such as:

- sanctions levied against various countries
- disruptions to the entity's supply chains or the supply chains of their customers, or
- the bankruptcy of customers.

The guidance in IAS 10 requires an entity to evaluate whether those events provide evidence about conditions that existed at the end of the reporting period and to consider all information that becomes available before the financial statements are either issued or made available to be issued.

To the extent that the identified events provide evidence about conditions that existed as at the end of the reporting period, an entity needs to adjust its financial statements to reflect the impact of such events. On the other hand, to the extent that events do not provide evidence about conditions that existed at the end of the reporting period, entities should consider whether it is necessary to disclose the nature of the event and an estimate of its impact in the financial statements (or a statement indicating that such estimate cannot be made) to prevent the financial statements from being misleading.

However, entities will need to determine whether they should make additional disclosures to describe the impacts of the change in policies in the subsequent event period. Generally, disclosure should be made of those events during the subsequent events period that do not relate to conditions that existed at the date of the financial statements but cause significant changes to assets or liabilities in the subsequent period and either will, or may, have a significant effect on the future operations of the entity. For material non-adjusting events, an entity must disclose

- a description of the nature of the event, and
- an estimate of the financial effect, or a statement that such an estimate cannot be made.

Furthermore, the entity should be taking into account their assessment of going concern and adjust the financial statements as appropriate.

Examples of non-adjusting subsequent events that may warrant disclosure include:

- management's plans to deal with the effects of the changes in the policies and whether there is material uncertainty over the entity's ability to continue as a going concern
- breaches of covenants, waivers or modifications of contractual terms in lending arrangements covenant breaches
- supply chain disruptions
- the gain or loss of a significant customer or contract
- the assessment of certain purchase or sale agreements as onerous contracts
- changes in the fair value of investments after the reporting period (eg pension plan investments)
- the announcement of a plan to discontinue or suspend an operation or dispose of an asset (eg suspension of production at an automobile parts manufacturer)
- the announcement of and/or execution of a plan to revise existing operations (temporarily or permanently)
- the announcement or commencement of a major restructuring or downsizing (temporarily or permanently)
- abnormally large changes in asset prices or foreign exchange rates
- new commitments, borrowings or guarantees (either with arm's-length parties or related parties)
- lease modifications (either with arm's-length parties or related parties)
- the modification, extinguishment or forgiveness of debt (either with arm's-length parties or related parties)
- the receipt of funding under government aid programs
- the cessation of government aid programs
- the acquisition of a significant asset, basket of assets or a business
- any events that are relevant to the measurement of estimates or contingencies/provisions made in the financial statements, or
- any events that bring into question the appropriateness of the use of the going concern assumption in the financial statements.

Practical insight: Formal enactment of tariffs

Entities need to carefully consider whether to provide disclosures about the impact of the economic uncertainties on their business in the financial statements given the widespread impact on the global and US economies. As tariffs were a major platform policy during the election, it is expected that entities will include the potential impact of tariffs when developing their accounting estimates as at the end of the first post-election reporting period as discussed in previous sections of this publication.

However, entities should carefully evaluate whether events occurring after the end of the reporting period, but before the financial statements are issued or made available to be issued, provide evidence about conditions that existed as at the end of the reporting period. While entities should consider the potential impact of tariffs on their accounting estimates at the end of post-election reporting dates, we believe specific tariffs should be recognised in the period they become effective (that is, when they are enacted) and should be considered a non-adjusting subsequent event for any reporting periods prior to the effective date.

In our view, the impact of the geopolitical events is generally a non-adjusting subsequent event for reporting periods ended on or before 31 December 2024. Consequently, there would be no impact on the recognition and measurement of assets and liabilities in an entity's financial statements.

For example, the current administration announced widespread and significant tariffs on 2 April 2025. While entities should consider the potential direct and indirect impacts of tariffs as at the 31 March 2025 estimation date, the extent of the 2 April 2025 tariffs would not have been known or knowable as at 31 March 2025 and would constitute a non-adjusting subsequent event as at that date.

Example disclosures for non-adjusting events

All disclosures should be entity-specific and include information relevant to their circumstances. The following are some examples for some potential non-adjusting events for 31 December 2024 financial statements:

Example disclosure: Non-adjusting events

The introduction of [X Country] tariffs [and changes in the economic environment (if applicable)] in early 2025 has affected the Company's operations in the following significant ways:

- [insert details, including a description of the non-adjusting material events (examples are listed below)]
  - A reduction in the supply of [XX] from [region] has affected our ability to continue production of [YY]
  - Cancellation of [$XX] of contracts with [US supplier]
  - Cancellation of [$XX] of sales contracts with [US customers]
  - As at the date that these financial statements were approved, the fair value of the Company's investments had declined significantly to the following amounts: [insert figures here].

As the events described above are considered non-adjusting subsequent events, the financial position, and results of operations as of and for the year ended 31 December 2024, were not adjusted to reflect their impact. It is not possible to reliably estimate the duration and severity of consequences from the introduction of [X Country] tariffs, as well as the impact on the financial position and results of the Company for future periods.

Conclusion

It is important to remember that this situation is constantly moving. Assessments need to be kept up to date, for example, those carried out two weeks before the financial statements are due to be signed will likely be out of date two weeks later. So, it is crucial to ensure all judgements made are current and based on the information available at the latest date possible (ie the date the financial statements are authorised and approved). Appendix I contains a table that shows where the key financial reporting areas discussed in this article would be disclosed in the financial statements.

Appendix I
Illustration of areas in the financial statements affected

IFRS Accounting Standard	Suggested disclosure area in financial statements					
	Note disclosure related to underlying amount[1]	Accounting policies – Estimates note	Going concern note (if effect is pervasive)	Subsequent event note (if effect is pervasive)	Financial management note	Fair value measurement note
IFRS 2 'Share-based Payment'	✓	✓				
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	✓	✓				✓
Financial Instruments[2]		✓			✓	✓
IFRS 13 'Fair Value Measurement'						✓
IFRS 15 'Revenue from contracts with Customers'	✓	✓	✓	✓		
IAS 1 'Presentation of Financial Statements'		✓	✓	✓		
IAS 2 'Inventories'	✓	✓	✓			
IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	✓					
IAS 10 'Events after the Reporting Period'			✓	✓		
IAS 12 'Income Taxes'	✓	✓				
IAS 36 'Impairment of Assets'	✓	✓				
IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	✓	✓				
IAS 39 'Financial Instruments: Recognition and Measurement'[3]	✓	✓			✓	✓

Notes:

1 Disclosure related to underlying amount assumes that there is a material amount recognised on at least one of the faces of the financial statements and as such is required by IFRS Accounting Standards to have an accompanying note.

2 'Financial instruments' includes the requirements of the following Standards:
- IFRS 7 'Financial Instruments: Disclosures'
- IFRS 9 'Financial Instruments

3 IAS 39 relates to hedge accounting

How we can help

We hope you find the information in this article helpful in giving you some insight into current economic uncertainties. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.