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IFRS Practice Statement 'Management Commentary'

By Steven Firer

Objective

The objective of this Practice Statement is to assist management in presenting useful management commentary that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Practice Statement is not an IFRS. Consequently, entities applying IFRSs are not required to comply with the Practice Statement, unless specifically required by their jurisdiction. Furthermore, non-compliance with the Practice Statement will not prevent an entity's financial statements from complying with IFRSs, if they otherwise do so.

Management commentary is defined as:

A narrative report that relates to financial statements that have been prepared in accordance with IFRSs. Management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity's financial position, financial performance and cash flows. It also provides commentary on an entity's prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives.

Framework

Management commentary should provide users of financial statements (existing and potential investors, lenders and other creditors) with integrated information providing a context for the related financial statements, including the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.

Management commentary should be consistent with the following principles:

- Provide management's view of the entity's performance, position and progress (including forward looking information)
- Supplement and complement information presented in the financial statements (and possess the qualitative characteristics described in the Conceptual Framework for Financial Reporting)

Presentation

Management commentary should be clear and straightforward and be presented with a focus on the most important information in a manner intended to address the principles described in the Practice Statement, specifically:

- being consistent with its related financial statements avoiding duplicating disclosures made in the notes to the financial statements where practicable avoiding generic and immaterial disclosures.



Registered Auditors | Accountants | Advisors



Elements of management commentary

Although the particular focus of management commentary will depend on the facts and circumstances of the entity, management commentary should include information that is essential to an understanding of the five elements discussed in the table below. The table links these elements with the International Accounting Standards Board's (IASB's) assessment of the needs of the primary users of management commentary:

| Element | User needs |
|--|--|
| The nature of the business | The knowledge of the business in which an entity is engaged and the external environment in which it operates |
| Management's objectives and its strategies for meeting those objectives | To assess the strategies adopted by the entity and the likelihood that those strategies will be successful in meeting management's stated objectives |
| The entity's most significant resources, risks and relationships | A basis for determining the resources available to the entity as well as obligations to transfer resources to others; the ability of the entity to generate long-term, sustainable net inflows of resources; and the risks to which those resource-generating activities are exposed, both in the near term and in the long term |
| The results of operations and prospects | The ability to understand whether an entity has delivered results in line with expectations and, implicitly, how well management has understood the entity's market, executed its strategy and managed the entity's resources, risks and relationships |
| The critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives | The ability to focus on the critical performance measures and indicators that management uses to assess and manage the entity's performance against stated objectives and strategies |

Contact us

For more information on IFRS Practice Statement 'Management Commentary'

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