



*Near-final Draft*

# **Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia**

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*※ The views expressed in this report are those of the author and do not represent the views of the KASB or AASB.*

## Questions to constituents

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The KASB and AASB invite comments on all matters in this joint research project “Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia”, particularly in relation to the questions set out below. Please send us your comments by 27 May 2016.

### Question 1 – Recommendations to the IASB

1. In this research, we identified at least 35 terms of likelihood in IFRS which may add another layer of challenges in coming to consistent application of IFRS across jurisdictions. The key recommendations to the IASB include:

- (a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;
- (b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;
- (c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;
- (d) the IASB’s re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of ‘conservatism’ when applying IFRS; and
- (e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

Do you agree? Why or why not?

### Question 2 – Other comments

2. Are there any comments you would like to make in regard to (a) terms of likelihood or other key terms in IFRS and (b) use of language in IFRS generally?

## How to comment

Please send your comment to: [ymseo@kasb.or.kr](mailto:ymseo@kasb.or.kr)

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## Executive Summary

- 1 The Korea Accounting Standards Board (KASB) and the Australian Accounting Standards Board (AASB) conducted a joint research project on accounting judgments on terms of likelihood used in IFRS<sup>1</sup>.
- 2 This research project is:
  - (a) to inform standard setters and other IFRS stakeholders on interpretation and translation issues of terms of likelihood; and
  - (b) to make recommendations to the International Accounting Standards Board (IASB) on ways in which terms of likelihood used in IFRS might be improved.
- 3 The primary objective of International Financial Reporting Standards (IFRS) is to enhance international comparability of financial statements. Lack of uniformity on interpreting and applying the standards can impair quality of financial statements between countries<sup>2</sup>.
- 4 Terms of likelihood, such as ‘remote’, ‘likely’, ‘virtually certain’ and ‘probable, are expressions often used in IFRS to denote levels of probability in prescribing recognition, measurement or disclosure of events and transactions in financial reports. Prior research in the accounting literature provides evidence that there is lack of consensus among stakeholders of standards on interpreting terms of likelihood. Further, translation of IFRS to a different language also may add another layer of challenges in coming to an agreement on interpretation of terms of likelihood.
- 5 Korea and Australia adopted IFRS in 2011 and 2005 respectively. Given that IFRS were adopted in Korea in 2011 and Australia in 2005, it is reasonable to expect that auditors and preparers in both countries are familiar with IFRS. To date, there is little research on interpretation of terms of likelihood used in IFRS in the post-implementation IFRS era. Therefore, it is timely and relevant:
  - (a) to investigate whether there are differences in interpreting terms of likelihood by preparers and auditors; and
  - (b) to investigate whether translation of terms of likelihood are consistent with the intended expressions.
- 6 A survey questionnaire was developed by KASB and AASB staff and sent out to auditors and preparers in Korea and Australia. In Australia, the survey instrument was only available in English, whereas in Korea, one survey instrument was made available in English and another in Korean<sup>3</sup>.

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<sup>1</sup> We appreciate participants at the 2015 AOSSG Annual Meeting, ASAF Meeting December 2015, and April 2016 ASAF Meeting for helpful comments and suggestions.

<sup>2</sup> <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

<sup>3</sup> This is to explore whether there exists any differences between the interpretation of original English terms and Korean translation of these terms by Korean accounting professionals.

- 7 The survey addressed 13 terms of likelihood used in IFRS which relate to a level of probability of a transaction or event occurring<sup>4</sup>. Respondents were required to give their professional opinions on how the terms of likelihood should be interpreted by indicating the range of probability that each term of likelihood represents in percentage (%) terms on a scale of 0% to 100%<sup>5</sup>.
- 8 The survey consists of a section that requires respondents to give their opinions on terms of likelihood in isolation and another section requires respondents to give their opinion on terms of likelihood by reference to a specific accounting context from IFRS. The survey also collects data on the background of respondents.
- 9 504 Korean accounting professionals (183 auditors and 86 preparers for Korean version; 144 auditors and 91 preparers for English version) responded to the survey in Korean and 208 Australian accounting professionals (88 auditors and 120 preparers) responded to the survey instrument in English.
- 10 The key findings of this research are:
- (a) there are differences in interpretation of terms of likelihood between Korean and Australian accounting professionals when used in context and not in context. Some terms of likelihood are assigned with different rankings as well as different probabilities by accounting professionals in Korea and Australia;
  - (b) some terms of likelihood could be interpreted differently in different contexts. For example, accounting professionals in both countries interpret the term “probable” asymmetrically in the context of an asset recognition and a liability recognition;
  - (c) some terms of likelihood are not interpreted differently from each other, for example “probable” and “likely”<sup>6</sup>, indicating that terms which are seen to have similar meanings could be grouped together;
  - (d) some terms of likelihood tend to have different levels of communication efficiency which is defined as a degree of consensus in the interpretation of each term among individuals. For example, “virtually certain” appears to have the highest communication efficiency while “possible” seems to be with the lowest communication efficiency in both countries;
  - (e) some terms of likelihood are interpreted differently in different languages by Korean accounting professionals indicating that there may be a translation issue that should be addressed; and
  - (f) some terms of likelihood cannot be translated into Korean. For example, “probable” and “likely” are translated into a single Korean expression “가능성이 높다”, and the terms “virtually certain” and “reasonably certain” are both translated into a single Korean term “가능성이 거의 확실한”.

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<sup>4</sup> KASB and AASB staff identified approximately 35 different terms of likelihood used in IFRS

<sup>5</sup> <http://tillion.co.kr/survey/?pid=S99284256&grpId=TO&resId=0&vcIdx=1>

<sup>6</sup> “Probable” and “likely” are translated into a single Korean expression “가능성이 높다”, indicating that these two terms are already being interpreted as having the same probability level in the process of translation.

11 The key recommendations to the IASB are:

- (a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;
- (b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;
- (c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;
- (d) the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and
- (e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.



# 1. Introduction

- 1 Due to globalization, there is a growing consensus that international accounting convergence is imperative to enhance comparability of financial statement across countries. To date, 119 jurisdictions adopt or otherwise use International Financial Reporting Standards (IFRS) for all or most publicly accountable entities<sup>7</sup>.
- 2 The primary goal of IFRS is to provide a single set of accounting standards that enables the comparability and quality of the financial reporting among companies globally will be enhanced. Application of IFRS is expected to be consistent across jurisdictions and financial reports should be comparable across countries.
- 3 However, having a common set of financial reporting rules such as IFRS across jurisdictions may be a necessary, but not sufficient condition to ensure the global financial reporting comparability. Interpreting and applying accounting standards are key challenges in having IFRS implemented consistently across countries. International comparability of financial statements under IFRS can only be achieved if standards are interpreted and applied consistently across countries.
- 4 Accounting standards are required in an attempt to ensure similar transactions are reported in financial statements in similar way. However, the different accounting environments of various countries suggest that application of IFRS which contain broad principles may differ across jurisdictions.
- 5 Prior research also shows that the interpretation and application of professional judgment in accounting is a function of various factors including cultural values, legal systems, professional training and education (e.g. Oliver, 1974; Chesley, 1986; Houghton, 1987, 1988; Harrison and Tomassini, 1989; Amer et al., 1995; Gray and Vint, 1995; Zarzeski, 1996; Wingate, 1997; Schultz and Lopez, 2001; Doupnik and Richter, 2003, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007).
- 6 One of the difficulties in interpreting accounting standards is the lack of consensus on the meaning of terms of likelihood<sup>8</sup> used in IFRS which require considerable judgment. Terms of likelihood, such as “remote”, “likely”, “virtually certain” and “probable”, are important to be included in IFRS because they allow auditors and preparers to denote levels of probability in prescribing recognition, measurement or disclosure of events and transactions in financial reports (Laswad and Mak, 1997).
- 7 As the emphasis on judgment increases, consistent interpretation of terms of likelihood may be a core element which will lead to enhance the comparability of financial statements across jurisdictions. Moreover, inconsistent interpretation of such terms could also lead to conflicts in decision making by potential users of financial statements such as investors, creditors, government, policy makers and etc. Therefore, it potentially has significant implications to investigate whether terms of likelihood in IFRS are interpreted consistently across jurisdictions.

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<sup>7</sup> <http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx>

<sup>8</sup> There are approximately at least 35 terms of likelihood used in IFRS.

- 8 This paper provides findings from a joint research project conducted by the KASB and AASB on whether terms of likelihood used in IFRS are interpreted by auditors and preparers of financial reports differently between Korea and Australia. Given that Korea and Australia adopted IFRS and both have distinct cultural and legal systems, Korea and Australia should be an ideal setting for the purpose of this research.
- 9 The objectives of this research are:
- (a) to investigate whether there are differences in interpreting terms of likelihood by auditors and preparers between Korea and Australia;
  - (b) to identify findings that highlight possible improvements that could be made to the standard-setting process to help achieve the objective of global standards; and
  - (c) to investigate whether translation of terms of likelihood from English to Korean are consistent with the intended expressions.
- 10 This report proceeds as follows. Section 2 describes relevant prior studies and background of IFRS adoption in Korea and Australia. Section 3 describes the research design of this research project including samples and demographics of respondents to the survey. Section 4 presents results from analysis of survey data. Section 5 outlines the conclusions and key recommendations to the IASB.

## 2. Background

### 2.1 Prior Studies

- 11 Psychology literature shows that in a general population there is a lack of symmetry in assigning probabilities on terms of likelihood (Budescu and Wallsten, 1985). For example, research concludes that probabilities assigned to mirror-image pairs such as “probable” and “improbable” do not sum to 100% (Lichstein and Newman, 1967).
- 12 A considerable number of studies provide evidence that there are disagreements regarding the interpretation of probability expressions, i.e. terms of likelihood. For example, Laswad and Mak (1997) find that there is a lack of consensus among standard setters in New Zealand about the interpretation of terms of likelihood. Similar results also concluded in studies using groups from different countries such as accountants, auditors and students (Davidson 1991; Amer et al, 1994).
- 13 Academic research also reports that the application of professional judgment in accounting is a function of cultural values (Doupnik and Richter, 2003; Doupnik and Richter, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007). Cultural values are subject to the shared experience of the individuals in a community or nation. Research suggests that cultural values can influence the cognitive processes involved in probability assessment (Phillips and Wright, 1977), thus terms of likelihood could not be consistently interpreted and applied across nations as there are cultural differences between them.
- 14 Gray (1988) suggests that there are relationships between cultural characteristics and the development of accounting systems, the regulation of the accounting profession and attitudes towards financial management and disclosure. Based on the cross-cultural work of Hofstede (1980), the framework proposed by Gray implies that cultural differences could cause accountants from different countries to interpret and apply a same set of accounting standards differently, and thus impair the comparability of financial statements across jurisdictions.
- 15 Following Gray’s theoretical framework, extensive research has examined the relation between cultural values and disclosures provided in corporate financial reports (Gray and Vint, 1995; Zarzeski, 1996; Wingate, 1997; Jaggi and Low, 2000; Hope, 2003). Several studies examine the association between culture and measurement of assets and profits at the country level (Eddie, 1990; Salter and Niswander, 1995; Sudarwan and Fogarty, 1996). Prior research also finds that a country’s legal system, major source of financing, level of uncertainty avoidance and a nation’s culture play a significant part in influencing the interpretation and application of accounting standards (Schultz and Lopez 2001; Doupnik and Richter 2004).

## 2.2 Australia and Korea

### 2.2.1 Australia

- 16 At the Tenth International Congress of Accountants in Sydney in 1972, reducing the degree of variation in international accounting practices was considered to be an issue in urgent need of attention. It was decided in the Congress that the development of a set of International Accounting Standards (IAS) were critical. In the following year, on 29 June 1973, the IASC was formed. The IASC was a private organization and its members included accounting bodies from 14 countries, and association of analysts and an association of financial executives. Australia<sup>9</sup> was among the founders of this Committee and has been involved in efforts to harmonize accounting standards globally since that time.
- 17 In 1984, the Ministerial Council of the National Companies and Securities Commission (NCSC) established the Australian Accounting Review Board (ASRB). The ASRB was granted delegated the power over the setting and approval of accounting standards by virtue of the *Companies and Securities Legislation (Miscellaneous Amendments) Act 1983*. In 1991, the ARSB was replaced by the Australian Accounting Standards Board (AASB).
- 18 In 1994, the AASB issued a Policy Discussion Paper “Towards International Comparability of Financial Reporting” which discussed the intent and objectives of harmonizing accounting standards internationally.
- 19 The push for using international standards gained momentum with the Australian Government initiating a comprehensive program of corporate law reform known as the *Corporate Law Economic Reform Program (CLERP 1)* in 1997. As part of *CLERP*, significant reforms were proposed for the accounting standard-setting process in Australia including the recommendation to adopt high quality, internationally accepted accounting standards<sup>10</sup>. It was mentioned in the paper that Australian Accounting Standards were ‘out of step’ with the rest of the world, thereby costing Australian business more in terms of attracting foreign investment funds into Australian debt and equity markets.
- 20 The AASB commenced a program to harmonize Australian standards with international accounting standards issued by the IASC.
- 21 In 2002, the importance of lowering the cost of capital argument was reiterated in the reform proposals of *CLERP 9* as the basis for recommending an adoption of high quality internationally accepted accounting standards.
- 22 In 2002, the Financial Reporting Council (FRC) which was established to assume the role of overseeing the AASB, issued a directive to the AASB about adopting IFRS as issued by the IASB with effect from 1 January 2005, in line with the European

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<sup>9</sup> At the time the IASC was formed, the member accounting bodies representing Australia were the Institute of Chartered Accountants in Australia and the Australian Society of Accountants.

<sup>10</sup> CLERP No. 1 ‘Accounting Standards: Building International Opportunities for Australian Business’ (1997)

Union's (EU) program to mandate IFRS for listed companies within the EU from the same date.

- 23 An unusual feature of Australia's adoption of IFRS was that the AASB continued to apply its transaction-neutral policy to standard-setting post adoption whereby the same transaction would be accounted in the same manner irrespective of the entity's sector orientation, unless there is a compelling reason to have a different requirement for not-for-profit entities. Although IFRSs are prepared by the IASB with only for-profit entities in mind, there are only a few modifications from IFRS relating to not-for-profit entities in Australian standards. The requirements for Australian for-profit entities are IFRS word-for-word and the few modifications for not-for-profit entities are in separate standards or are clearly identified with the prefix 'Aus'.
- 24 As Australian standards incorporate IFRS requirements word for word, Australian accountants using the standards will be familiar with terms of likelihood used in IFRS.

### **2.2.2 Korea**

- 25 Following the East Asian financial crisis in 1997, in October 1998, Korea agreed with the International Bank for Reconstruction and Development (IBRD) to establish an independent private-sector accounting standard setting organization. As a result, the Korea Accounting Institute (KAI), within which the KASB is nested, was established in September 1999, and the Financial Supervisory Commission (currently Financial Services Commission, FSC) delegated the duty of setting and amending accounting standards to the KASB in July 2000<sup>11</sup>.
- 26 In February 2006, the Korean government organized a Task Force to consider IFRS adoption. A report titled "*Roadmap toward IFRS adoption in Korea*" (hereafter called *Roadmap*) was finalized and issued in March 2007. A significant announcement of IFRS adoption was made. According to the *Roadmap*, all listed companies and financial institutions, where the accounting transparency is in high demand in Korea, are required to adopt IFRS as the basis for financial reporting starting from 2011. With the exception of financial institutions, voluntary early adoption was allowed from 2009. Non-listed companies can elect to apply IFRS or Korean GAAP 'Accounting Standards for Non-Public Entities'.
- 27 Korea chose to adopt and implement IFRS fully without going through a phase-in or convergence process ('Big-Bang' approach).
- 28 Prior to the adoption of IFRS, all Korean entities applied a single set of accounting standards (one-tier, Korean GAAP). Unlike Australia which has been using principle based approach for standards, the Korean GAAP before IFRS adoption set out specific and detailed requirements on various transactions and events.
- 29 As English is not used widely in Korea, to ensure a smooth transition in IFRS adoption and to minimize compliance costs, translation is required. The KASB translated the

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<sup>11</sup> Please see "IFRS adoption and Implementation in Korea, and the Lessons Learned" published by Korea Accounting Standards Board, Financial Supervisory Service, 31 December 2012.

entire set of IFRS into Korean word-by-word from English in accordance with the translation processes defined in the copyright agreement with the IFRS Foundation and exposed the translation to the public to receive feedback.

- 30 In November 2007, the translation of IFRS was finalised and named K-IFRS. After being submitted to the FSC for endorsement, K-IFRS was officially published in December 2007.
- 31 As the IASB continuously improves and develops IFRS, the translation of IFRS is an on-going process. The KASB develops or amends the corresponding K-IFRS to be in line with the IFRS developments or amendments.

### 3. Research Design

#### 3.1 Terms of likelihood

32 KASB and AASB staff identified approximately 35 different terms of likelihood used in IFRS<sup>12</sup>; 13 of which were selected and examined in this research<sup>13</sup>. The selected terms of likelihood cover the full range of probability levels presumably from the highest (“virtually certain”) to the lowest (“remote”). The 13 chosen terms are presented in Table 1<sup>14</sup>.

**TABLE 1 Terms of Likelihood**

In English	In Korean
Virtually certain	가능성이 거의 확실한
Substantially all	대부분
Highly probable	가능성이 매우 높은
Reasonably certain	가능성이 거의 확실한
Reasonably assured	합리적인 확신
Probable	가능성이 높은
Likely	가능성이 높은
Reasonably possible	합리적으로 발생 가능한
Possible	가능성이 잠재적인
Unlikely	가능성이 낮은
Highly unlikely	가능성이 매우 낮은
Extremely unlikely	가능성이 매우 낮은
Remote	가능성이 아주 낮은, 희박한

Notes: The terms of likelihood are presented in the survey questionnaire in random order to remove any order effects.

<sup>12</sup> The list of identified 35 terms of likelihood in IFRS is provided in Appendix A.

<sup>13</sup> The terms examined in this study are selected based on general and comprehensive criteria including, but not limited to, the frequency of appearance in IFRS, coverage of probability levels, and etc. Apart from the criteria, few cases where a multiple terms translate into a single expression were selected to examine potential translation issues.

<sup>14</sup> Terms of likelihood in IFRS are used to establish the threshold for recognition or disclosure of various accounting elements. Meanwhile, the selected terms in this study also encompass some expressions which are used in contexts where they refer to the proportion of something, for example, “substantially all”.

- 33 Table 1 also indicates that there exist difficulties in translating certain English expressions into Korean<sup>15</sup>. For example, both “probable” and “likely” are translated into a single Korean term “가능성이 높은”. This absence of direct equivalence of expressions between the two languages suggests that there may be a lack of equivalence between the underlying concepts of the two languages. There is also a case of a level of probability that is represented by one term in the original English that can be represented by multiple Korean expressions. For instance, the term “remote” is translated as both “가능성이 아주 낮다” and “희박하다” in Korean.
- 34 The translation issues noted above suggest that the process of translating English into another language may distort the underlying meanings that the IASB intended to convey in the original IFRS in English.

### 3.2 Survey instrument

- 35 We employ a survey instrument to obtain Korean and Australian accounting professionals’ interpretations of terms of likelihood in IFRS. The questionnaire was piloted on KASB and AASB staff as well as accounting professionals, none of which participated in the actual survey, and adjustments are made prior to its being available online to enhance understandability and readability<sup>16</sup>.
- 36 A survey instrument that consists of four sections are developed:
- (a) Section 1 explores respondents’ interpretation of terms of likelihood in isolation. 13 terms of likelihood used in IFRS are addressed. Respondents are required, in their professional opinion, to indicate the range of probability that best corresponds to each term of likelihood in percentage (%) terms on a scale of 0% to 100%;
  - (b) Section 2 seeks to capture demographic information about the respondents such as age group, gender, position in firms, years of experience, risk perception and familiarity with IFRS;
  - (c) Section 3 explores respondents’ interpretation of 13 terms of likelihood within particular context. 16 paragraphs of IFRS that contain terms of likelihood are presented<sup>17</sup>. Respondents are required to indicate the point of probability that best corresponds to each term of likelihood used in paragraphs presented in percentage (%) terms on a scale of 0% to 100%; and,

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<sup>15</sup> Each of the following pairs of terms in original English translate into a single Korean term:

- (a) ‘Virtually certain’ and ‘reasonably certain’ translate into “가능성이 거의 확실한”;
- (b) ‘Probable’ and ‘likely’ translate into “가능성이 높은”; and
- (c) ‘Highly unlikely’ and ‘extremely unlikely’ translate into “가능성이 매우 낮은”

<sup>16</sup> We try to ensure that the tasks use no more than 15 minutes of their time.

<sup>17</sup> In addition to 13 relevant passages containing each selected term of likelihood, one extra paragraph for “probable” and “remote” respectively, and one paragraph for “no longer probable” were selected for our test. Priority in selecting relevant passages to the terms is given to paragraphs in bold type.



- (d) Section 4 seeks to capture information on: (i) whether respondents are confident with the judgments they made on the terms of likelihood in the survey; and (ii) qualitative comments from respondents.
- 37 We require respondents to provide point estimates of terms of likelihood when not in context and range estimates of terms of likelihood when in context of IFRS<sup>18</sup>. To assess terms of likelihood without a context is inevitably in artificial task, as in practice a context will always exist.
- 38 The excerpts from IFRS cover wide variety of accounting contexts in which terms of likelihood are used to:
- (a) recognize (or derecognize) assets, liabilities and increases in income (revenues) or decreases in income (expenses), and
  - (b) disclose accounting information.
- 39 In Australia, the survey instrument was only available in English, whereas in Korea, one survey instrument was made available in English and another in Korean<sup>19</sup>. Both survey instruments in English and Korea contain the same content. The survey instrument was made available online<sup>20</sup>.

### ***3.3 Sample selection***

- 40 Auditors and preparers of financial statements in Korea and Australia were invited to respond to the survey instrument<sup>21</sup>. Korean auditors and preparers were offered to choose to respond to either the English version or the Korean translation of the survey instrument<sup>22</sup>.
- 41 In Australia, we asked each of the Big-4 AASB members and contacts among the mid-tier firms to encourage their colleagues to complete the survey for auditor group; and we had the Australian Securities Exchange contact each listed entity and ask that someone complete the survey for preparer group.
- 42 In Korea, we basically posted the web-based survey link to our website and invited auditors and preparers who subscribe e-KASB to participate in this survey. In addition, we requested the Korean Institute of Certified Public Accountant for auditor group, Korea Listed Companies Association and KOSDAQ Listed Companies Association for preparer group to send out the survey link to their members and encourage them to

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<sup>18</sup> While point estimates are useful indicators of a respondent's typical interpretation of terms, a number of prior studies require respondents to provide range estimates as well (Laswad and Mak, 1997; Amer et al., 1994).

<sup>19</sup> Survey responses to the questionnaire in English by Korean accounting professionals are obtained to examine whether they make differences in the interpretation of terms of likelihood in English and Korean.

<sup>20</sup> <http://tillion.co.kr/survey/?pid=S99284256&grpId=TO&resid=0&vcidx=1>

<sup>21</sup> In Korea, target population of preparers group includes all listed companies and financial institutions as they are required to apply IFRS.

<sup>22</sup> Korean auditors and preparers who chose to respond to the English version were expected to be proficient in English.

participate in the survey respectively. We also asked participants in the KASB education sessions to take part in the survey.

- 43 The survey was to be conducted from 1 September 2015 to 31 December 2015 on web-based survey.

### 3.4 Demographics of sample

- 44 We obtained total 712 survey data<sup>23</sup> from accounting professionals in Korea and Australia that is comprised of:
- (a) 327 Korean auditors (including 144 Korean auditors who responded to the English version) and 177 Korean preparers (including 91 Korean preparers who responded to English version); and
  - (b) 88 Australian auditors and 120 Australian preparers
- 45 In Table 2, a brief summary of the demographic details of the 712 respondents are presented<sup>24</sup>. We report age, gender, professional experience and professional position of respondents in each country. Most of respondents respond that they refer to IFRS in their professional practice and are familiar with IFRS. Accounting professionals in Korea and Australia also consider the understanding of terms of likelihood is important for the application of IFRS while some of them experience difficulties in making judgment on the terms of likelihood.

**TABLE 2 Sample Demographics**

Item	Australia		Korea	
	Auditor	Preparer	Auditor	Preparer
<b>Number of responses</b>	88	120	327	177
<b>Age</b>				
20-29	14 (15.9%)	3 (2.5%)	9 (2.8%)	24 (13.6%)
30-39	42 (47.7%)	48 (40.0%)	157 (48.0%)	105 (59.3%)
40-49	18 (20.5%)	38 (31.7%)	121 (37.0%)	44 (24.9%)
50-59	10 (11.4%)	26 (21.7%)	30 (9.2%)	4 (2.2%)
60 or over	4 (4.5%)	5 (4.1%)	10 (3.0%)	0 (0.0%)
<b>Gender</b>				
Male	50 (56.8%)	85 (70.8%)	271 (82.9%)	132 (74.6%)
Female	38 (43.2%)	35 (29.2%)	56 (17.1%)	45 (25.4%)

<sup>23</sup> The invalid responses with an apparent lack of understanding or attention by respondents were removed from the data set and statistical tests were conducted on the reduced sample. In addition, the potential outliers do not seem to generally change the results from the full reduced sample.

<sup>24</sup> We do not report any significant sample selection bias effects on the findings; and respondent demographics do not appear to have significantly affected the responses.

**Experience**

Less than 6 years	14 (15.9%)	6 (5.0%)	63 (19.3%)	75 (42.4%)
6-10 years	27 (30.7%)	17 (14.2%)	91 (27.8%)	55 (31.1%)
11-15 years	15 (17.0%)	37 (30.8%)	69 (21.1%)	27 (15.3%)
16-20 years	9 (10.2%)	18 (15.0%)	54 (16.5%)	14 (7.9%)
More than 20 years	23 (26.1%)	42 (35.0%)	50 (15.3%)	6 (3.4%)

**Position**

Associate	2 (2.3%)	1 (0.8%)	9 (2.8%)	2 (1.1%)
Senior associate	7 (8.0%)	4 (3.3%)	73 (22.3%)	25 (14.1%)
Manager	14 (15.9%)	19 (15.8%)	84 (25.7%)	53 (29.9%)
Senior manager	17 (19.3%)	21 (17.5%)	75 (22.9%)	52 (29.4%)
Director	21 (23.9%)	5 (4.2%)	46 (14.1%)	32 (18.1%)
Partner	24 (27.3%)	0 (0.0%)	20 (6.0%)	12 (6.8%)
CFO	1 (1.1%)	47 (39.2%)	10 (3.1%)	1 (0.6%)
Other	2 (2.2%)	23 (19.2%)	10 (3.1%)	0 (0.0%)

**Reference to IFRS**

Always	70 (79.5%)	46 (38.3%)	119 (36.4%)	55 (31.1%)
Usually	13 (14.8%)	40 (33.3%)	141 (43.1%)	71 (40.1%)
Sometimes	5 (5.7%)	31 (25.8%)	59 (18.0%)	44 (24.9%)
Seldom	0 (0.0%)	3 (2.6%)	7 (2.1%)	6 (3.4%)
Never	0 (0.0%)	0 (0.0%)	1 (0.4%)	1 (0.5%)

**Familiarity with IFRS**

Extremely familiar	48 (54.5%)	49 (40.8%)	66 (20.2%)	25 (14.1%)
Moderately familiar	33 (37.5%)	50 (41.7%)	134 (41.0%)	60 (33.9%)
Somewhat familiar	6 (6.8%)	19 (15.8%)	92 (28.1%)	59 (33.3%)
Slightly familiar	1 (1.2%)	2 (1.7%)	30 (9.2%)	28 (15.8%)
Not at all familiar	0 (0.0%)	0 (0.0%)	5 (1.5%)	5 (2.9%)

**Importance of the terms**

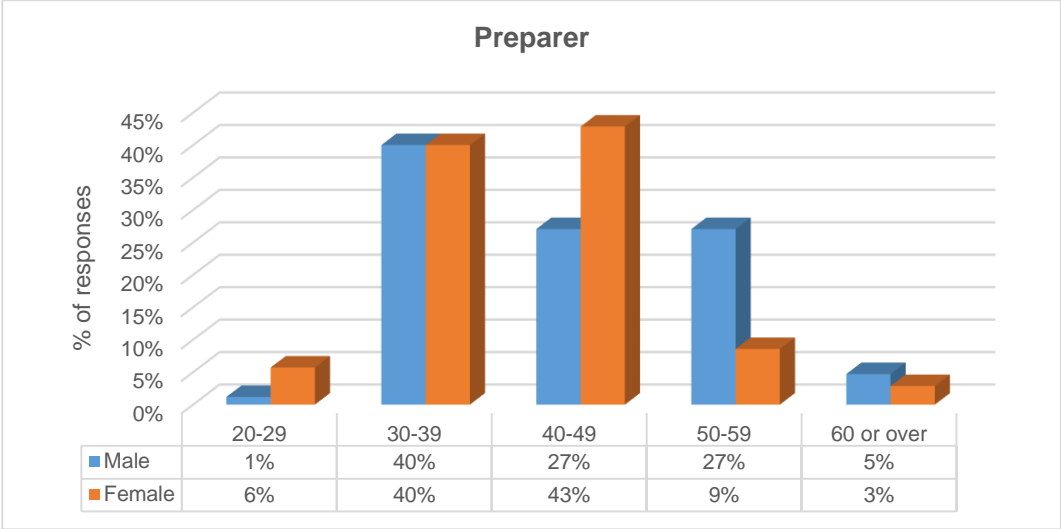
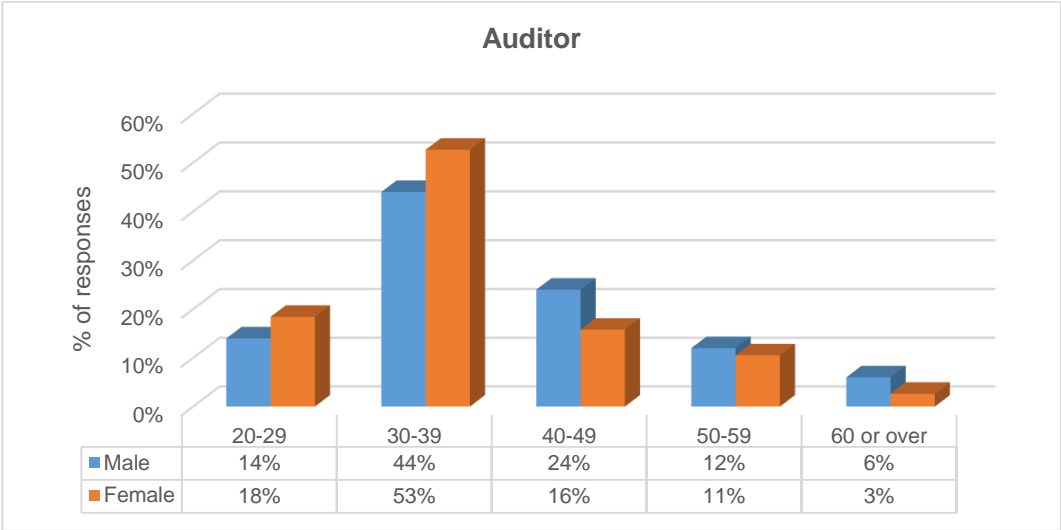
Extremely important	44 (50.0%)	44 (36.7%)	108 (33.0%)	47 (26.6%)
Very important	40 (45.4%)	53 (44.2%)	133 (40.7%)	93 (52.5%)
Somewhat important	2 (2.3%)	20 (16.7%)	48 (14.7%)	27 (15.3%)
Slightly important	2 (2.3%)	3 (2.4%)	35 (10.7%)	9 (5.1%)
Not at all important	0 (0.0%)	0 (0.0%)	3 (0.9%)	1 (0.5%)

**Difficulties with the terms**

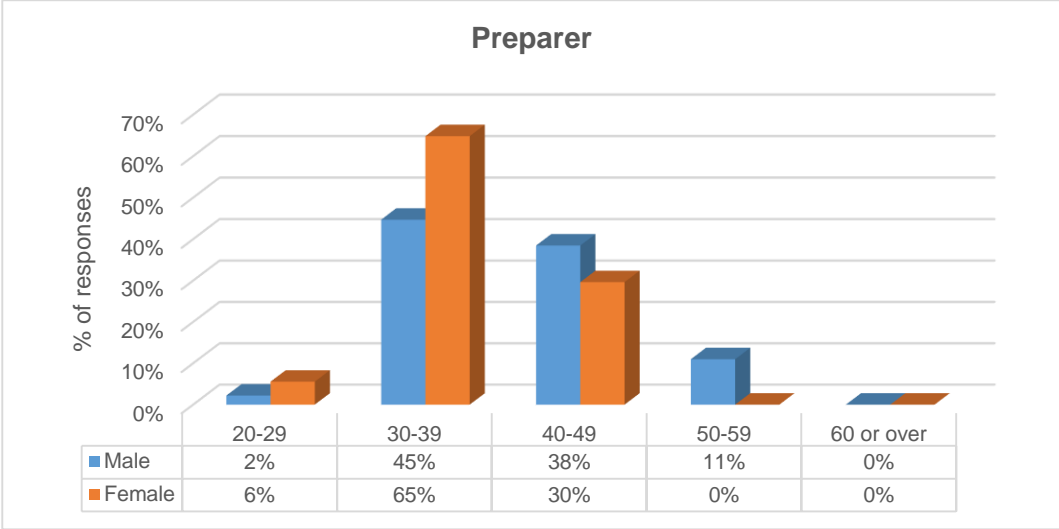
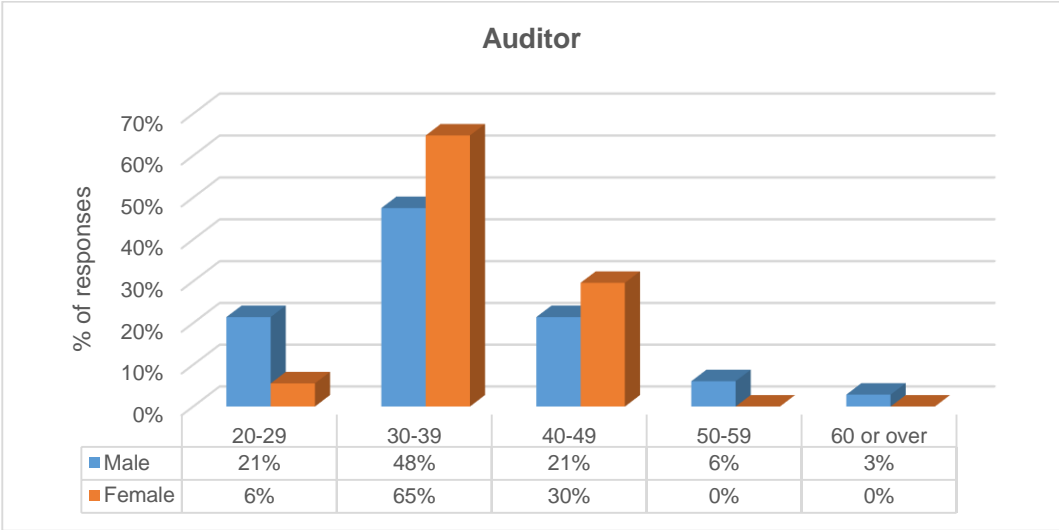
Very easy	16 (18.2%)	29 (24.2%)	18 (5.5%)	15 (8.5%)
Easy	53 (60.2%)	64 (53.3%)	69 (21.1%)	38 (21.5%)
Neutral	13 (14.8%)	23 (19.2%)	109 (33.3%)	51 (28.8%)
Difficult	6 (6.8%)	4 (3.3%)	102 (31.2%)	54 (30.5%)
Very difficult	0 (0.0%)	0 (0.0%)	29 (8.9%)	19 (10.7%)

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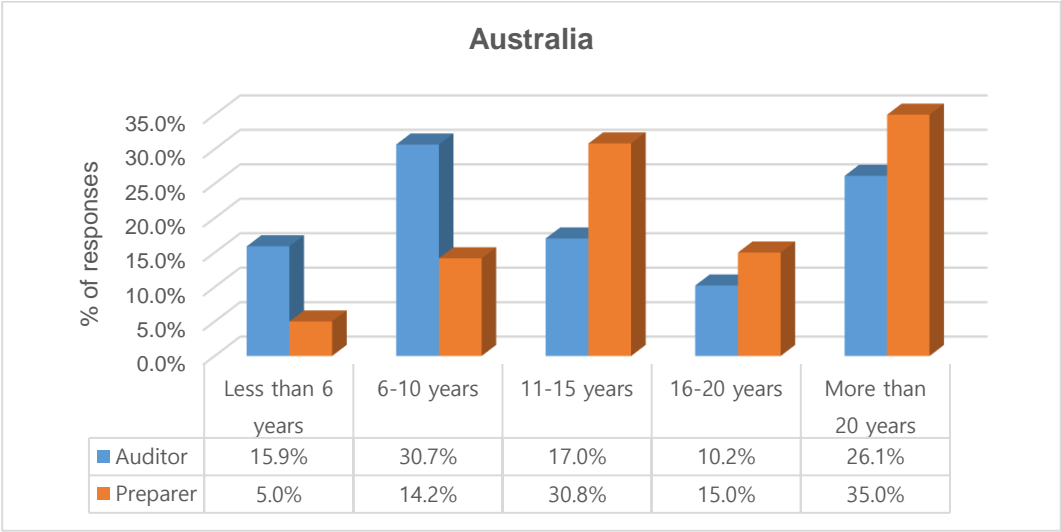
**Figure 1 Age and gender of the respondents in Australia**



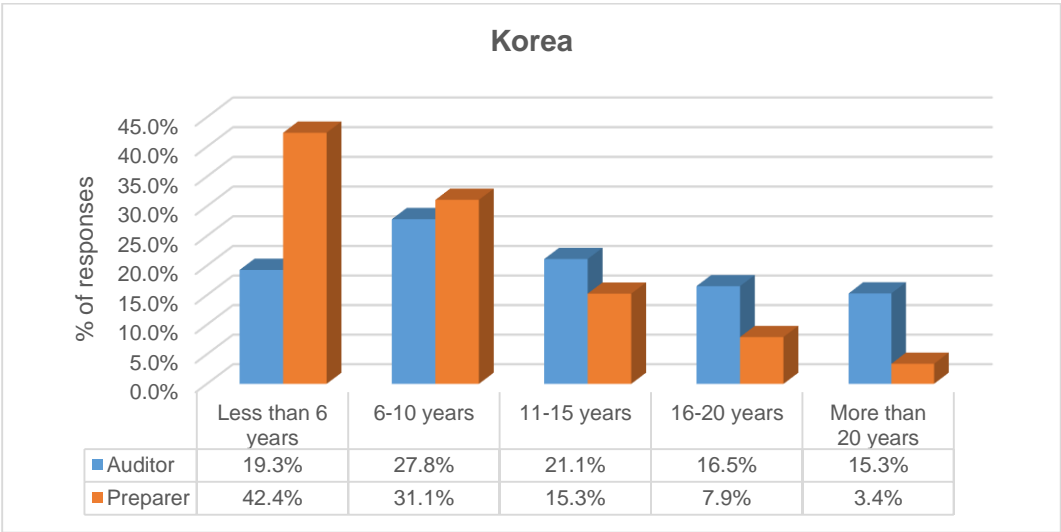
**Figure 2 Age and gender of the respondents in Korea**



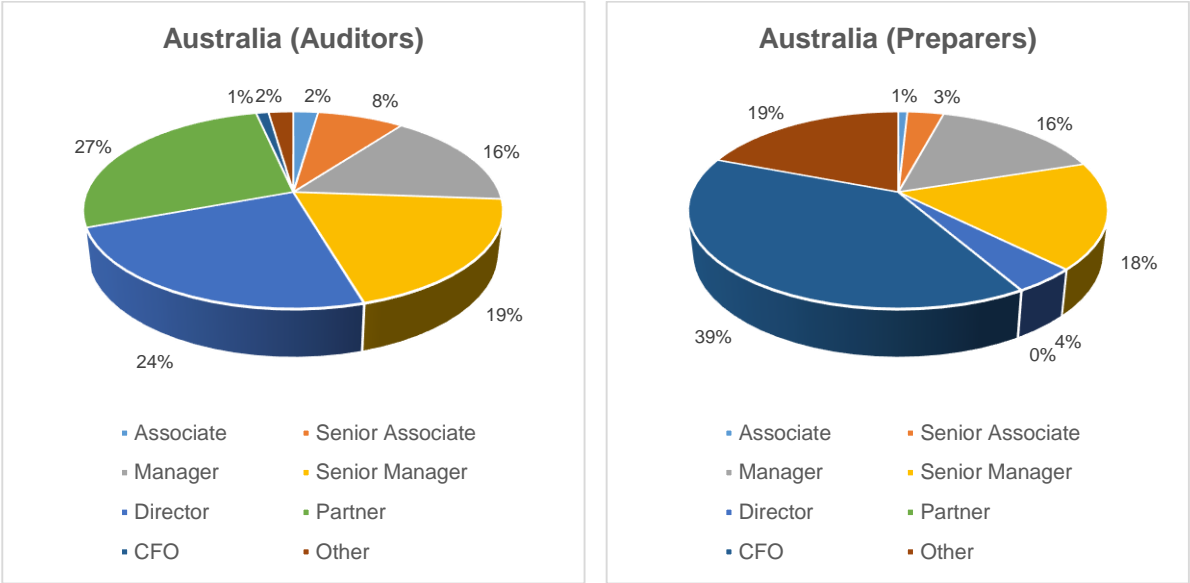
**Figure 3 Professional experience of the respondents in Australia**



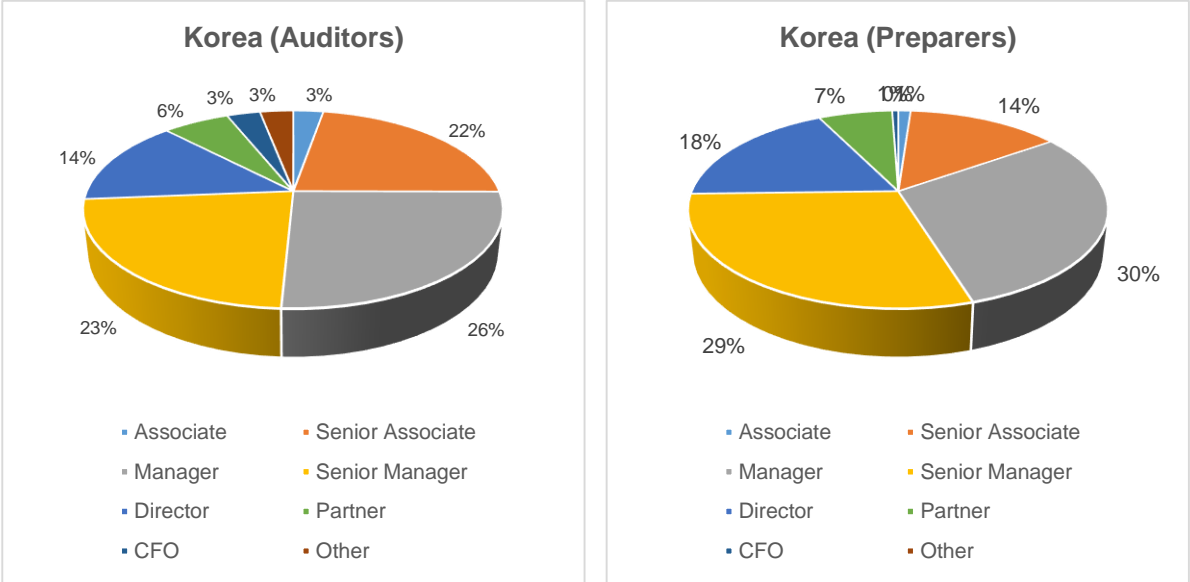
**Figure 4 Professional experience of the respondents in Korea**



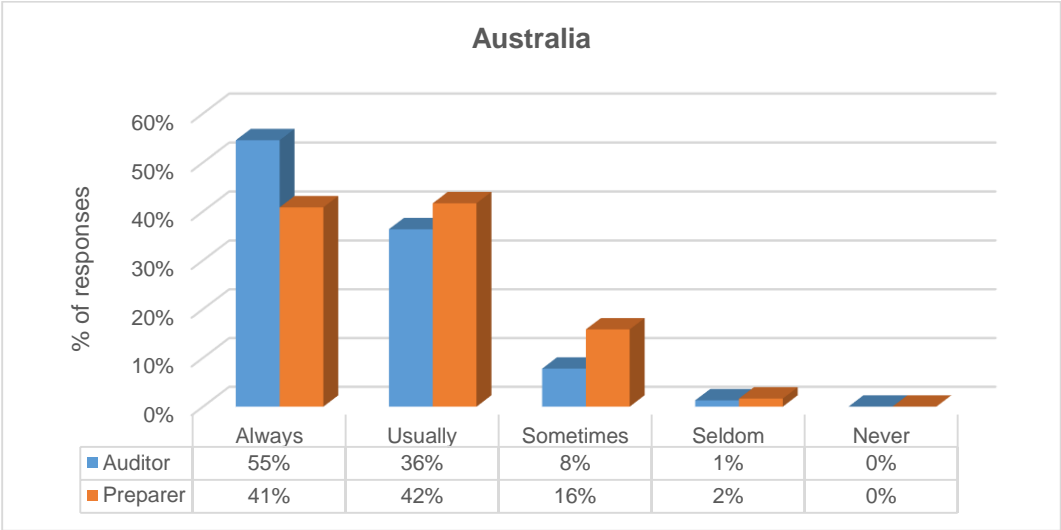
**Figure 5 Professional position of the respondents in Australia**



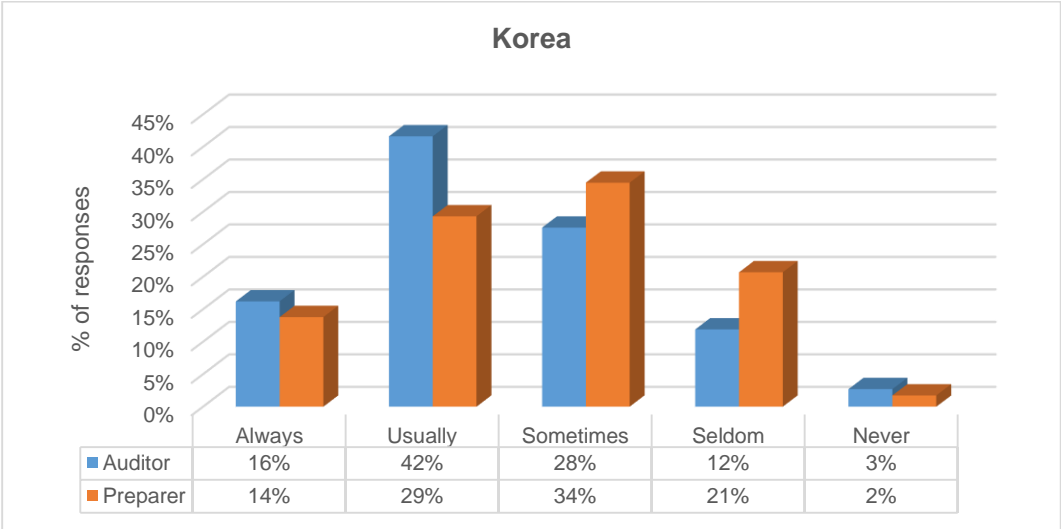
**Figure 6 Professional position of the respondents in Korea**



**Figure 7 Reference to IFRS in Australia**

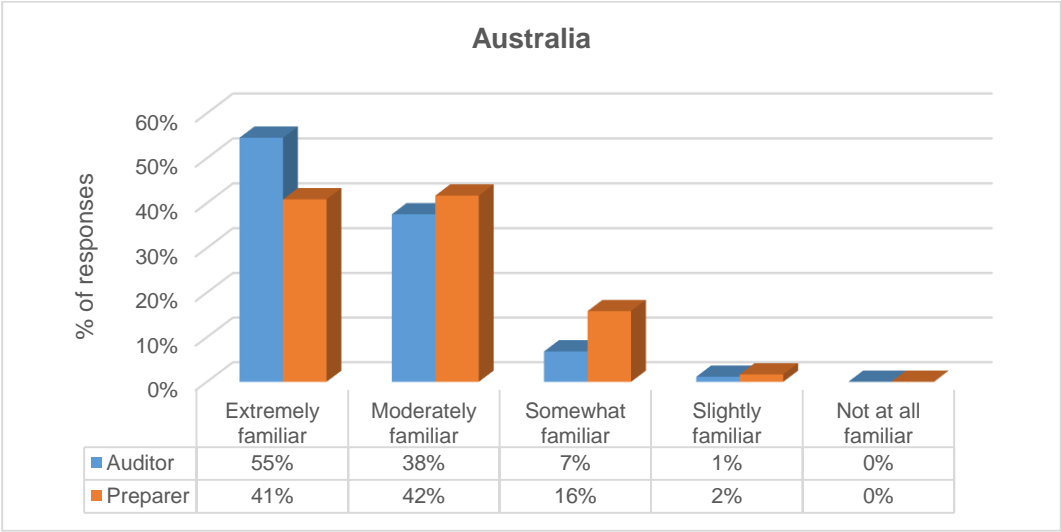


**Figure 8 Reference to IFRS in Korea**

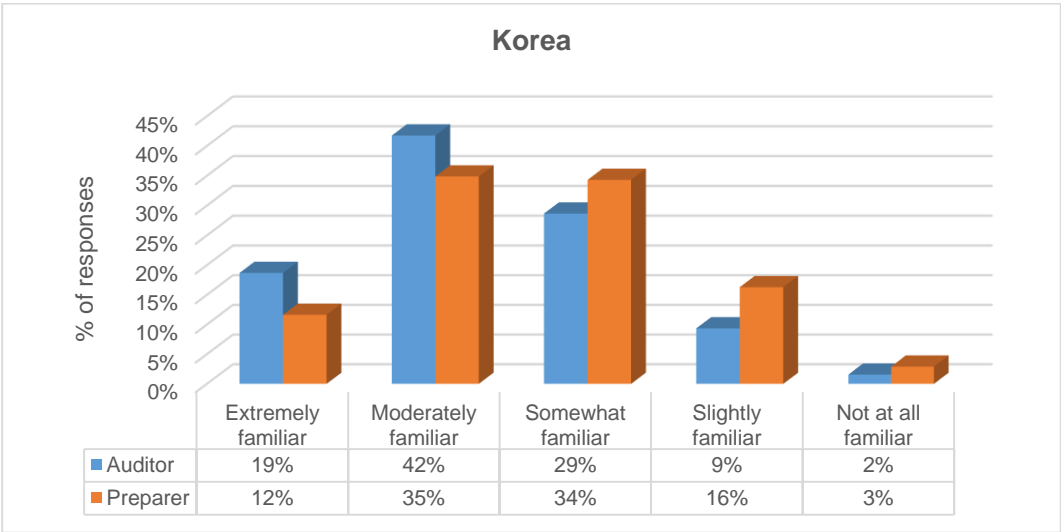




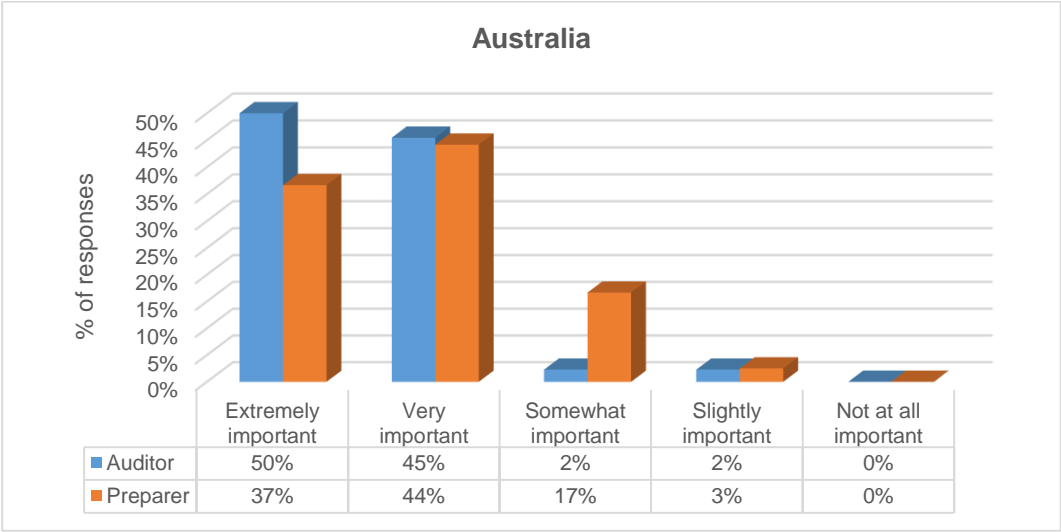
**Figure 9 Familiarity with terms of likelihood in Australia**



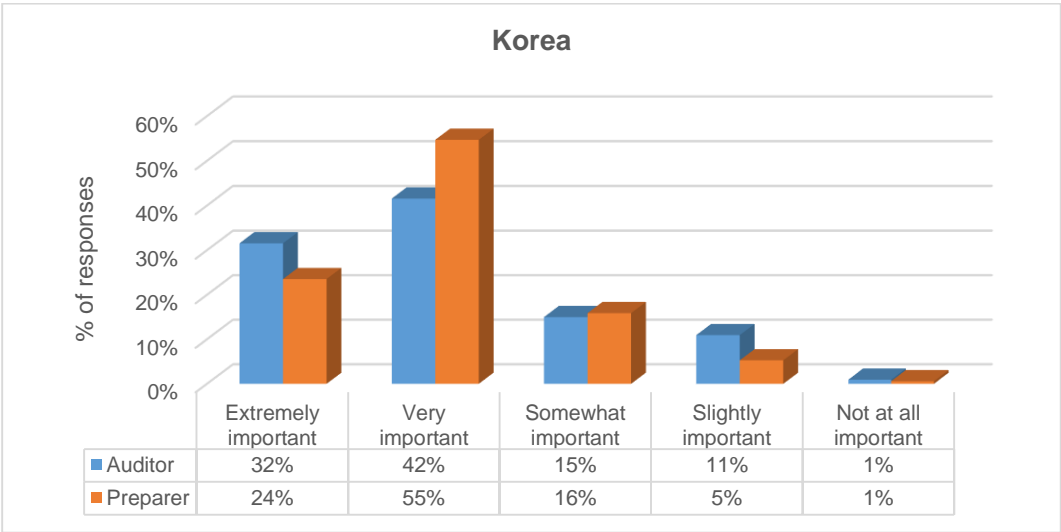
**Figure 10 Familiarity with terms of likelihoods in Korea**



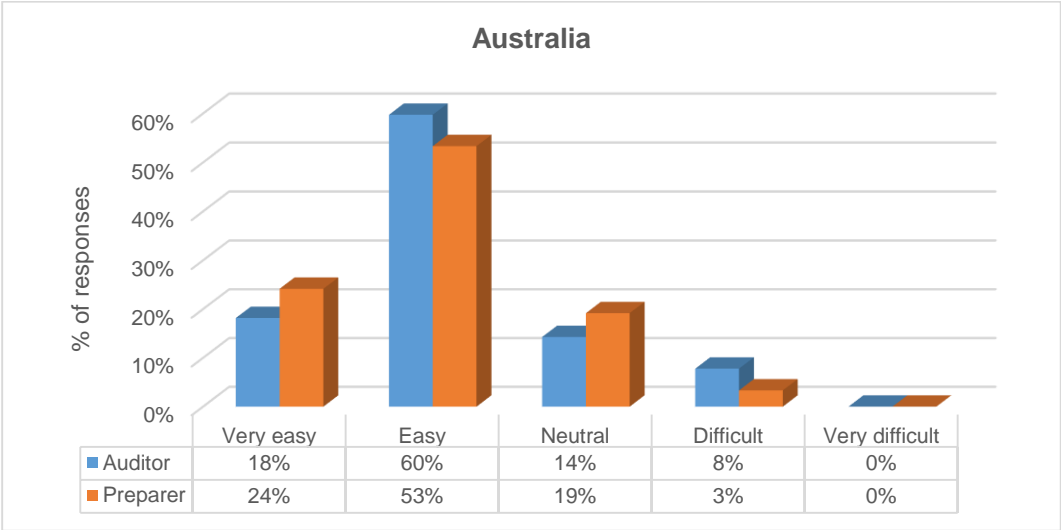
**Figure 11 Views on importance of terms of likelihood in Australia**



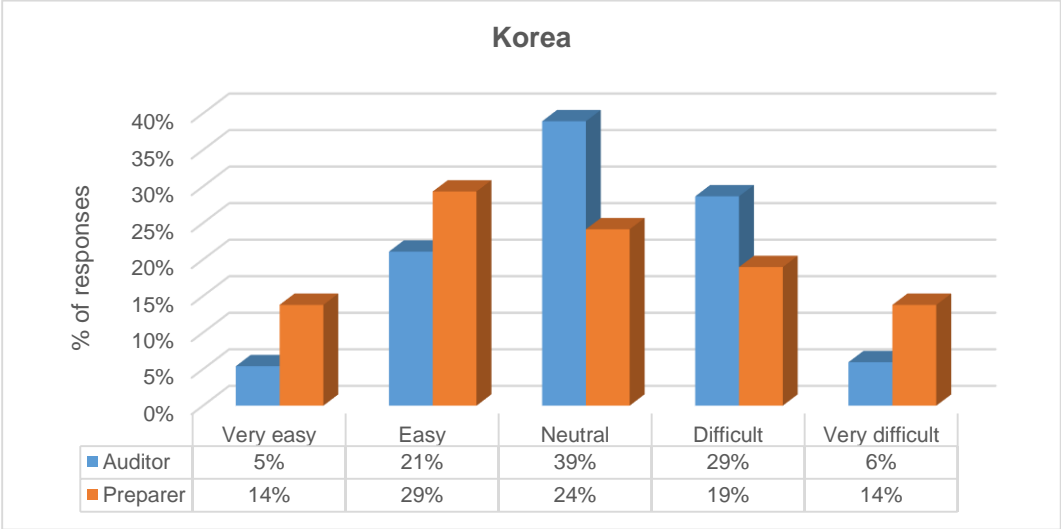
**Figure 12 Views on importance of terms of likelihood in Korea**



**Figure 13 Difficulties in interpreting terms of likelihood in Australia**



**Figure 14 Difficulties in interpreting terms of likelihood in Korea**



## 4. Findings

46 This section proceeds as follows. We first identify the extent of differences in the interpretation of terms of likelihood between Korean and Australian accounting professionals. The second part shows interpretation of terms of likelihood in different context. The third part analyzes whether terms of likelihood with similar meanings could be categorized into groups. The fourth part describes communication efficiency of terms which is defined as a degree of consensus in the interpretation of each term among individuals. The fifth part compares the interpretation of ‘probable’ and ‘no longer probable’. The sixth part briefly synthesizes a glimpse of translation issues. A summary of narrative responses then follows.

### 4.1 Interpretation of terms of likelihood in Korea and Australia

#### 4.1.1 Perceived hierarchy of terms of likelihood

**TABLE 3 Perceived Hierarchy of Terms of Likelihood**

Terms of likelihood	Australia	Korea
Virtually certain	1	2
Substantially all	2	4
Highly probable	3	3
Reasonably certain	4	1
Reasonably assured	5	5
Probable	7	6
Likely	6	8
Reasonably possible	8	7
Possible	9	9
Unlikely	10	11
Highly unlikely	11	10
Extremely unlikely	12	12
Remote	13	13

47 Table 3 presents the perceived hierarchy of terms of likelihood by Korean and Australian accounting professionals. The shaded area shows that Korean and Australian accounting professionals assign different rankings on some terms of likelihood. Specifically, among 13 terms of likelihood, 8 terms are ranked at different levels between Korean and Australian accounting professionals.

48 For example, “reasonably certain” is ranked 4<sup>th</sup> among 13 terms of likelihood by Australian accounting professionals; while Korean accounting professionals assigned 1<sup>st</sup> on the term. Moreover, in case of “highly probable”, even though it is ranked at 3<sup>rd</sup> in both in Australia and Korea, accounting professionals in each country interpret this term with different numerical probabilities.

#### 4.1.2 Numerical probability of terms of likelihood

**TABLE 4 Interpretation of Terms of Likelihood - in IFRS context**

Terms of likelihood	Australia		Korea	
	Mean	Median	Mean	Median
Virtually certain	92.1	95.0	89.6	90.0
Substantially all	90.3	90.0	84.6	90.0
Highly probable	82.9	85.0	86.3	90.0
Reasonably certain	80.6	80.0	89.8	90.0
Reasonably assured	75.8	75.0	79.2	80.0
Probable	62.0	60.0	71.3	75.0
Likely	64.1	62.5	57.9	60.0
Reasonably possible	57.2	60.0	65.2	70.0
Possible	43.5	50.0	39.7	40.0
Unlikely	28.2	25.0	12.3	5.0
Highly unlikely	24.2	10.0	14.8	10.0
Extremely unlikely	12.0	5.0	11.6	10.0
Remote	9.0	5.0	9.7	5.0

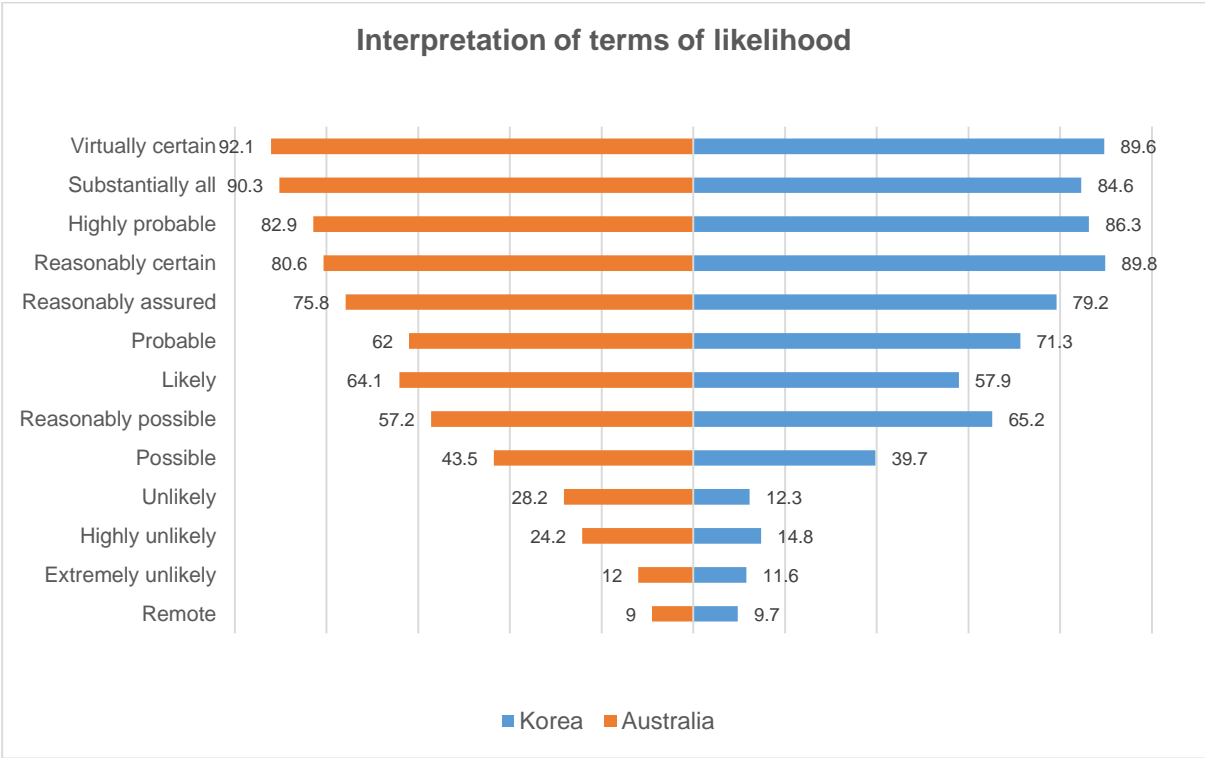
Notes:

- (a) The non-tabulated results indicate statistically significant mean differences in ten of the thirteen terms of likelihood at the 0.01 level; one (“possible”) at the 0.05 level. The difference found in the term “extremely unlikely” and “remote” were statistically insignificant.
- (b) The results from “probable” and “remote” in the context of IAS 38 and IAS 16 respectively are presented in this table.

- 49 An unpaired t-test is used to determine whether a significant difference exists in the interpretation of terms of likelihood between Australian and Korean accounting professionals<sup>25</sup>. Table 4 presents that significant differences generally exist in the interpretation of terms of likelihood in context by Australian and Korean accounting professionals.
- 50 For example, 11 terms out of 13 selected terms, except “extremely unlikely” and “remote”, show significant differences in their numerical probabilities by Australian and Korean accounting professionals. “Probable”, “reasonably possible”, “unlikely” and “highly unlikely” are interpreted with greater than approximately 10% differences in numerical probabilities.

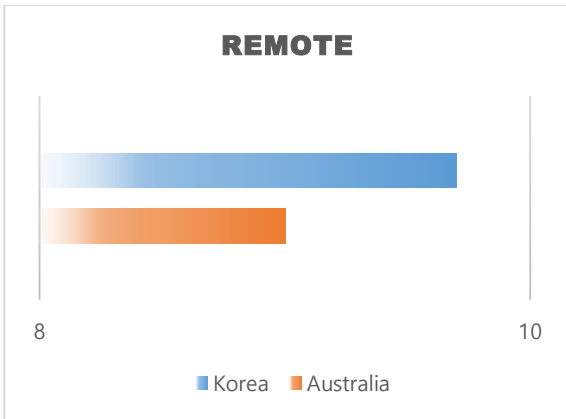
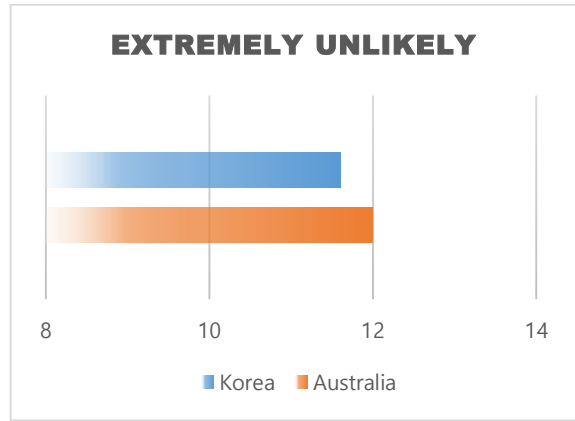
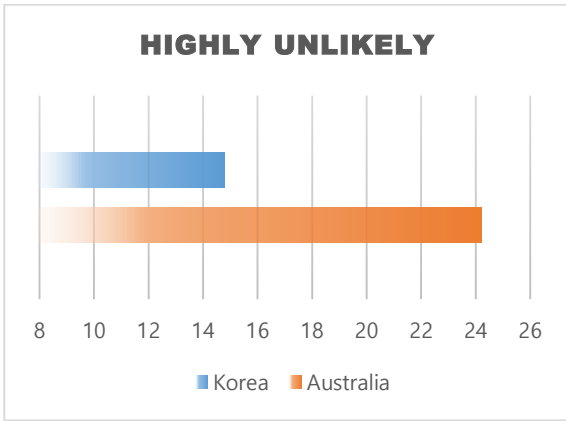
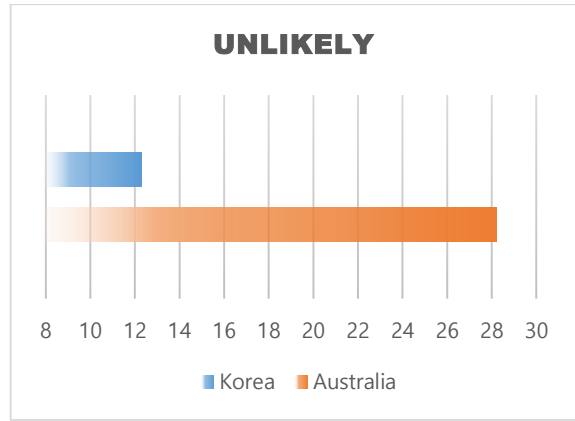
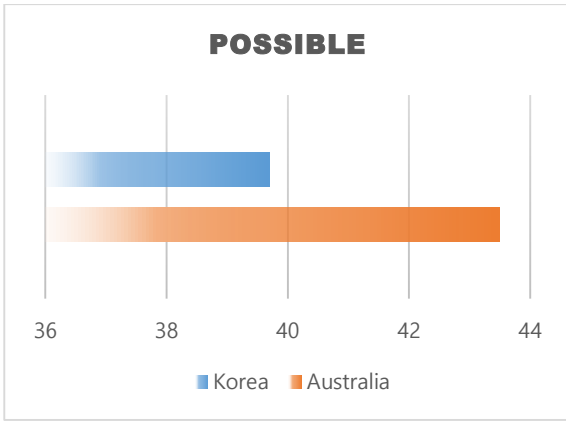
<sup>25</sup> The reference to significance in this research mainly relates to statistical significance. As the criteria to estimate economic significance may be subjective, we do not provide any judgments in terms of economic significance.

Figure 15 Interpretation of terms of likelihood – in IFRS context



**Figure 16 Interpretation of terms of likelihood by Australian and Korean accounting professionals**







### 4.1.3 Range estimate of terms of likelihood

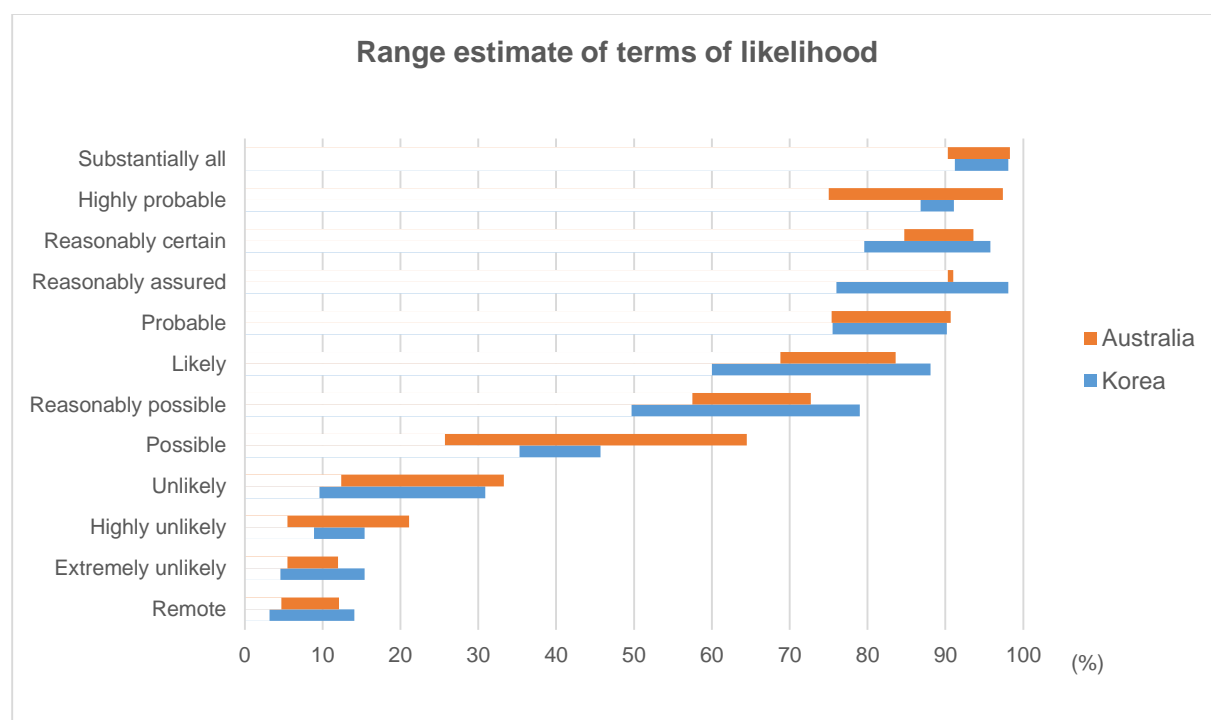
**TABLE 5 Range estimate of Terms of Likelihood**

Terms of likelihood	Australia		Korea	
	Minimum	Maximum	Minimum	Maximum
Virtually certain	91.2	98.3	90.3	98.1
Substantially all	86.8	97.4	75.0	91.1
Highly probable	79.6	93.6	84.7	95.8
Reasonably certain	76.0	91.0	90.3	98.1
Reasonably assured	75.5	90.7	75.4	90.2
Probable	60.3	84.5	68.8	88.1
Likely	60.0	83.6	68.8	88.1
Reasonably possible	49.7	72.7	57.5	79.0
Possible	35.3	64.5	25.7	45.7
Unlikely	9.6	33.3	12.4	30.9
Highly unlikely	8.9	21.1	5.5	15.4
Extremely unlikely	4.6	12.0	5.5	15.4
Remote	3.2	12.1	4.7	14.1

Notes: Minimum and maximum of terms of likelihood presented above are mean value.

- 51 Table 5 presents range of numerical probability for each term of likelihood used in the analysis which is interpreted by Australian and Korean accounting professionals. Some terms seem to have considerable overlap between their numerical ranges of terms. Australian accounting professionals tend to have wider range on the interpretation of terms of likelihood compared with Korean accounting professionals.

**Figure 17 Range of terms of likelihood by Korean and Australian accounting professionals**



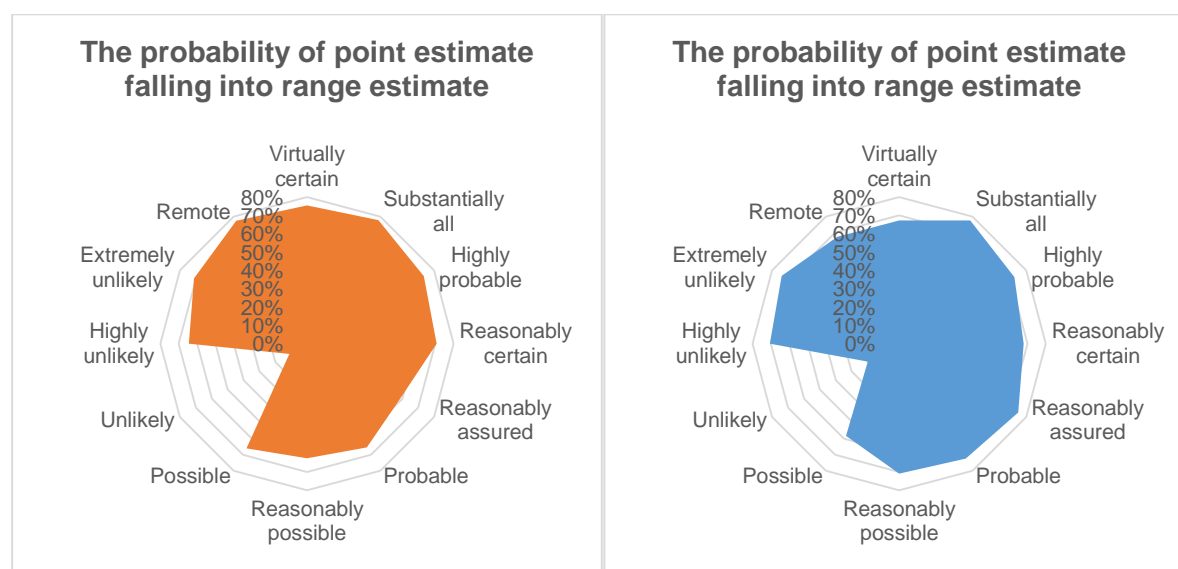
#### 4.1.4 Probability of point estimate falling into range estimate

**TABLE 6 Probability of Point Estimate Falling into Range Estimate**

Terms of likelihood	Australia		Korea	
	Mean	Median	Mean	Median
Virtually certain	75.5%	100.0%	67.3%	100.0%
Substantially all	77.9%	100.0%	77.7%	100.0%
Highly probable	73.6%	100.0%	72.5%	100.0%
Reasonably certain	70.7%	100.0%	68.0%	100.0%
Reasonably assured	59.1%	100.0%	75.1%	100.0%
Probable	65.4%	100.0%	72.5%	100.0%
Likely	61.1%	100.0%	38.3%	0.0%
Reasonably possible	62.5%	100.0%	71.0%	100.0%
Possible	65.9%	100.0%	58.0%	100.0%
Unlikely	11.1%	0.0%	19.7%	0.0%
Highly unlikely	64.4%	100.0%	70.6%	100.0%
Extremely unlikely	71.2%	100.0%	74.0%	100.0%
Remote	77.4%	100.0%	67.3%	100.0%

- 52 We estimate the probability of point estimate (in context) falling into range estimate (not in context). This is to examine how the interpretation of terms may change when used in context. For example, if a respondent responds to “likely” in 60~80% range estimate and still has the point estimate of “likely” in context within the range, we assign 1 and 0 otherwise. The ratio presented in Table 8 shows the proportion of respondents who are assigned with 1. Accordingly, terms with lower ratio indicate that the interpretation may vary when used in context and not in context.
- 53 “Substantially all” shows the highest ratio among 13 terms of likelihood while “unlikely” has the lowest ratio in both countries, indicating that the interpretation of “unlikely” in context may be considerably different from when interpreted without context.

**Figure 18 Probability of point estimate falling into range estimate by auditor**



#### 4.1.5 Effect of translation on the interpretation of terms of likelihood

**TABLE 7 Effect of translation on the interpretation of terms of likelihood**

<b>Terms of likelihood</b>	<b>Australia (English)</b>	<b>Korea (English)</b>	<b>Korea (Korean)</b>
Virtually certain	92.1	86.5	89.6
Substantially all	90.3	88.9	84.6
Highly probable	82.9	80.7	86.3
Reasonably certain	80.6	82.0	89.8
Reasonably assured	75.8	80.4	79.2
Probable	62.0	60.8	71.3
Likely	64.1	58.3	57.9
Reasonably possible	57.2	67.5	65.2
Possible	43.5	55.3	39.7
Unlikely	28.2	25.2	12.3
Highly unlikely	24.2	22.2	14.8
Extremely unlikely	12.0	9.2	11.6
Remote	9.0	14.0	9.7

Notes:

- (a) The non-tabulated results indicate statistically significant mean differences between Australia (English) and Korea (English) in 6 of the 13 terms of likelihood at the 0.01 level; one (“highly probable”) at the 0.05 level; and two (“unlikely” and “extremely unlikely”) at the 0.10 level. The difference found in the term “substantially all”, “reasonably certain”, “probable” and “highly unlikely” were statistically insignificant.
- (b) The non-tabulated results indicate statistically significant mean differences between Korea (English) and Korea (Korean) in 10 of the thirteen terms of likelihood at the 0.01 level; and two (“reasonably possible” and “extremely unlikely”) at the 0.10 level. The difference found in the term “reasonably assured” was statistically insignificant.

- 54 To explore the impact that translation has on the interpretation of terms of likelihood, the mean probability assigned to the terms are compared across three groups - Australian responses to English version (Australian-English), Korean responses to English version (Korean-English), and Korean responses to Korean version (Korean-Korean).<sup>26</sup>
- 55 In Korea, there exist significant differences in the mean probability assigned to the original English expression and its Korean translation exists for 12 terms out of 13 terms, indicating that the translation of terms may alter the interpretation of original English expression. However, Australian-English group and Korean-English group also interpret 9 terms out of 13 terms inconsistently. Accordingly, the inconsistent interpretation of terms between two countries may not be predominantly driven by Korean translation of IFRS.

<sup>26</sup> In this study, we mainly compare the Australian responses to English version and the Korean responses to Korean version to examine whether terms of likelihood are consistently interpreted or not between Australian and Korean accounting professionals, as Korean companies are required to prepare financial statements in accordance with Korean translation of IFRS.

## 4.2 Interpretation of terms of likelihood in different context

**TABLE 8 Interpretation of Terms of Likelihood in Different Context**

Terms of likelihood		Context	Australia	Korea	
English	Korean				
Probable	가능성이 높다	IAS37	Recognition of a liability	62.0	71.3
		IAS38	Recognition of an asset	63.5	74.5
Remote	희박하다	IAS16	Recognition of an asset	9.0	9.7
	아주 낮다	IAS37	Disclosure of a liability	11.2	27.1

Notes: The non-tabulated results indicate significant mean differences in the interpretation of “probable” in different context at the 0.05 level and “remote” in different context at the 0.01 level;

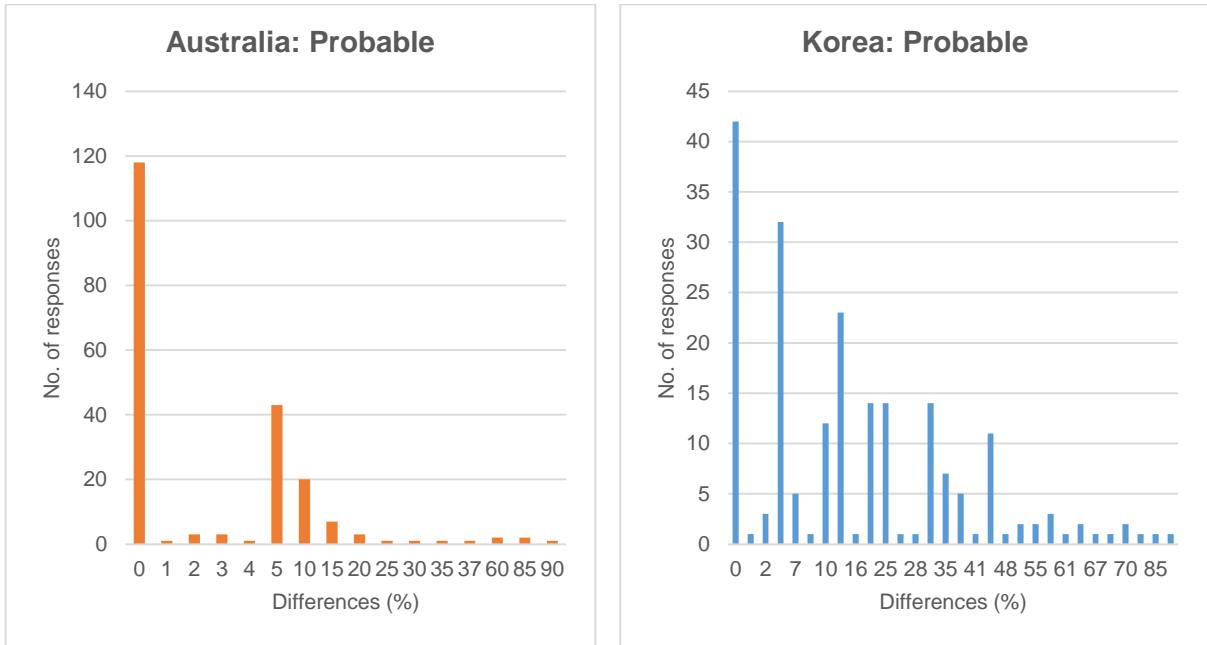
- 56 The same terms of likelihood could be interpreted differently in different context. To investigate whether a similar level of probabilities is assigned to the same term in different context by the respondents, paired samples t-tests are conducted on the responses provided by Australian and Korean accounting professionals. The numerical probabilities assigned to the terms “probable” and “remote” vary across different context in which they are used<sup>27</sup>.
- 57 “Probable” is used in IAS 37 in the context of recognizing a liability and in IAS 38 in the context of recognizing an asset respectively. In the case of asset recognition, respondents tend to be stricter when interpreting the same term “probable” when compared with the liability recognition case. In the case of “remote”, the different context as well as two different Korean terms used to translate the English term “remote” could lead to different interpretations. This also provides additional insight into the effect translation has on the interpretation of IFRS.
- 58 In addition, it appears that for “probable” and “remote”, the probabilities assigned by Australian professionals are lower than those assigned by Korean accounting professionals. The overall effect of assigning lower probabilities to terms of likelihood is to increase the instances that a transaction or event will have to be recognized or disclosed in financial statements. Australian accounting professionals seem to have more conservative approach in case of liability recognition; while Korean accounting professionals tend to be more conservative when recognizing assets<sup>28</sup>.

<sup>27</sup> Collectively, accounting professionals in Korea and Australia asymmetrically interpret same term in different context, providing evidence that neutrality (and prudence) in Conceptual Framework may not necessarily be applied in an intended way in practice.

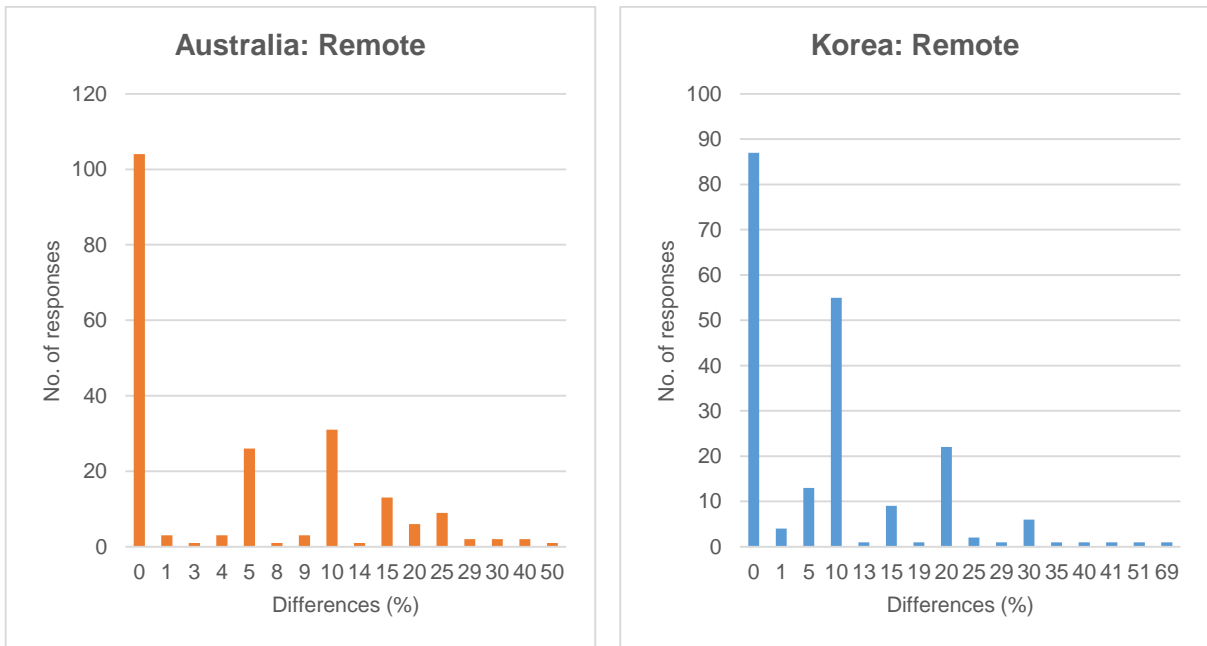
<sup>28</sup> For example, when “probable” is used to establish the threshold for recognition of an asset or an increase in income, accounting professionals with more conservative approach will assign a higher numerical probability to that term to defer recognition. Conversely, when a “probable” is used to establish the threshold for recognition of a liability or decrease in income, accounting professionals with more conservative approach will assign a lower numerical probability to the expression to accelerate recognition.

59 Furthermore, we look at whether these differences for each case are relatively consistent across individual respondents or not. For example, 71.3% and 74.5% are means of numerical for “probable” respectively in Korea; while this may not indicate each Korean respondent display a difference of 3.2%. As shown in Figure 19 and Figure 20, there exist variations in the differences for individual respondents.

**Figure 19 Distribution of differences in the interpretation of “probable” in different context**



**Figure 20 Distribution of differences in the interpretation of “remote” in different context**



### 4.3 Grouping of terms of likelihood

**TABLE 9 Grouping of Terms of Likelihood**

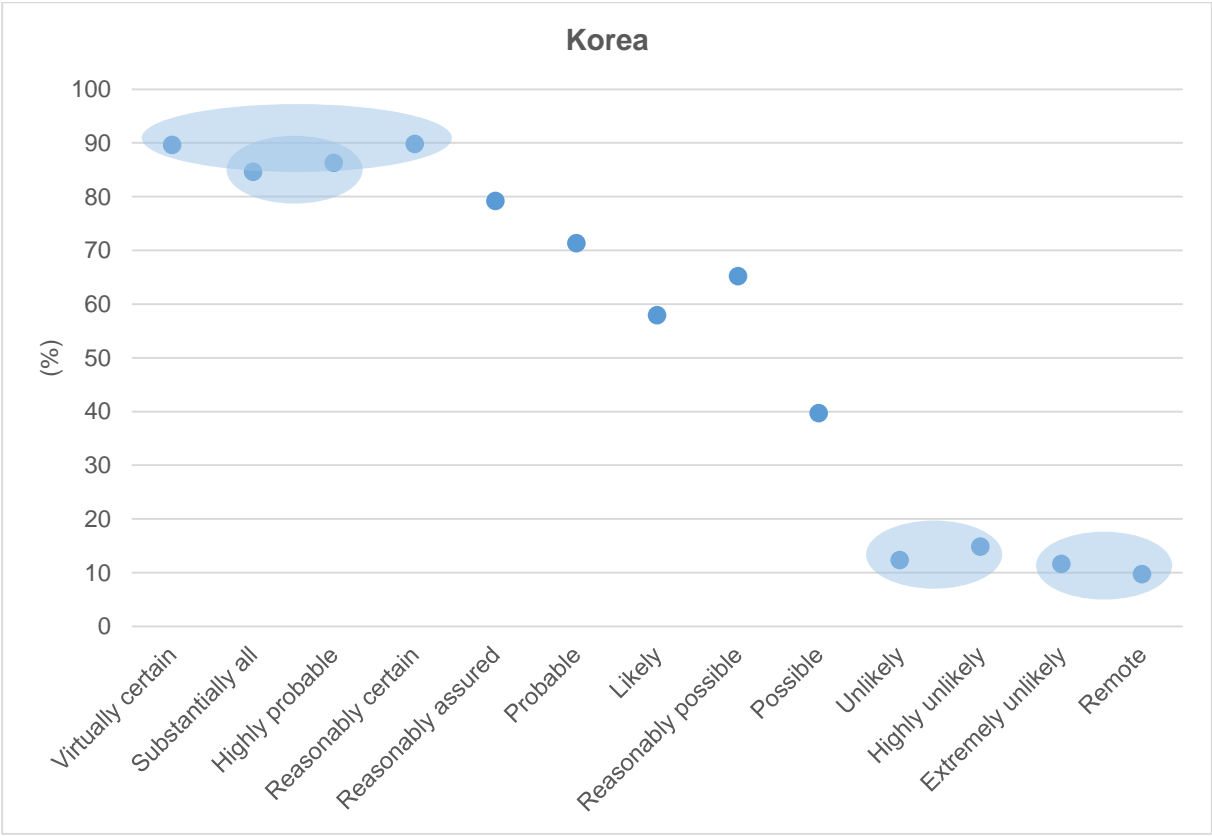
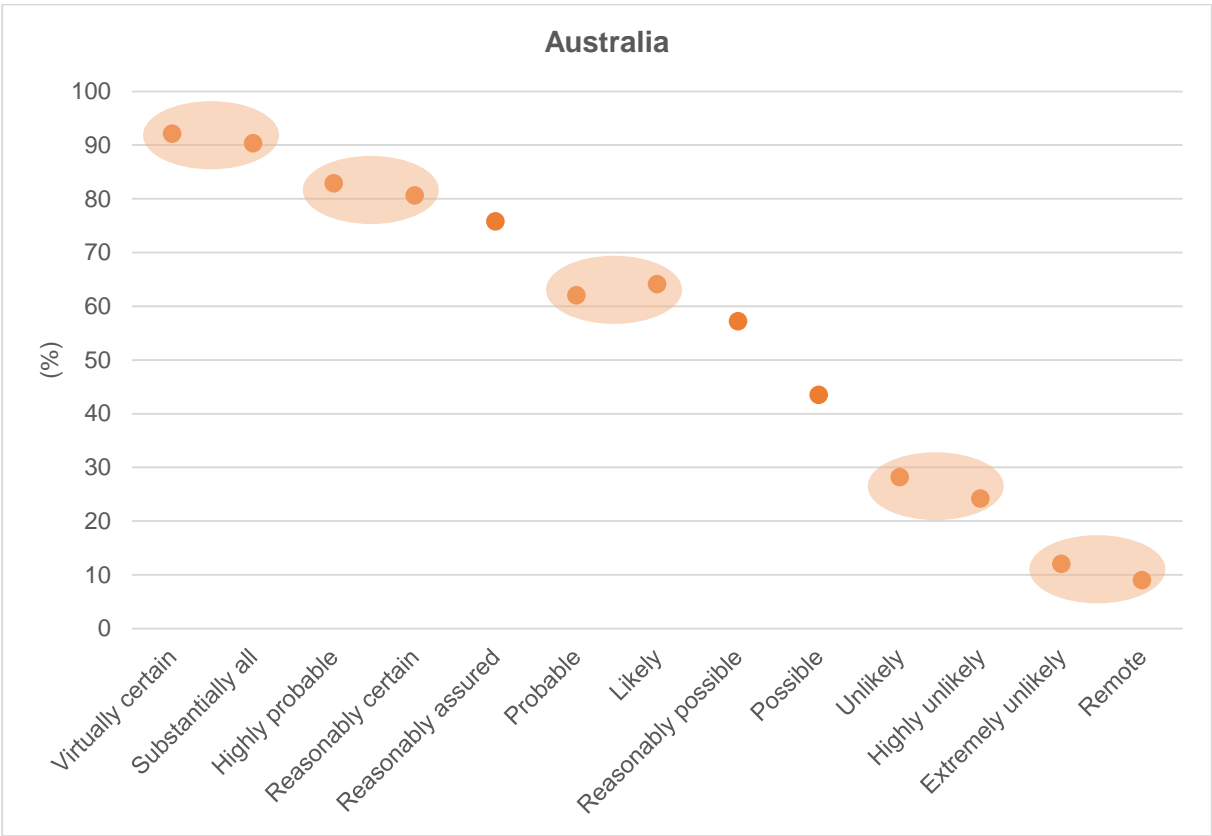
<b>Terms of likelihood</b>	<b>Australia</b>	<b>Korea</b>
Virtually certain	Group A	Group A
Substantially all	Group A	Group B
Highly probable	Group B	Group B
Reasonably certain	Group B	Group A
Reasonably assured		
Probable	Group C	
Likely	Group C	
Reasonably possible		
Possible		
Unlikely	Group D	Group C
Highly unlikely	Group D	Group C
Extremely unlikely	Group E	Group D
Remote	Group E	Group D

Notes: Fisher's least significant differences tests were carried out on the means of terms of likelihood.

- 60 In order to identify the probability expressions with seemingly similar meanings, the terms of likelihood are grouped to indicate those expressions that have no statistically significant differences to adjacent expressions at the 1% level of significance. This categorization of probability expressions results from the considerable number of expressions being used in accounting standards to denote similar probability levels.
- 61 This method produces up to 5 categories of probability expressions with similar meanings in each country. That is, different probability expressions have been grouped into categories in Table 9 when there are no significant differences among them. The results show that while many terms of likelihood were seen to have similar meanings.
- 62 For example, “Unlikely” and “highly unlikely”, and “extremely unlikely” and “remote” are consistently interpreted as having similar meanings across cases, indicating that these terms are interpreted equivalently in general.
- 63 “Probable” and “likely” which are categorized into the same group by Australian accounting professionals are translated into a single Korean expression “가능성이 높다”. This means that these two terms are already being interpreted by translators in Korea as having the same probability level.
- 64 To enhance greater consistency in the application of accounting standards, it may be efficient to consider reducing the number of terms of likelihood in IFRS by retaining expressions which adequately cover the entire probability range<sup>29</sup>. Narrowing down the number of terms may also help mitigating potential difficulties in translation process.

<sup>29</sup> For example, New ISAs (International Standards on Auditing) contain approximately 4 terms of likelihood which are “more likely (10 times), likely (109 times), possible (157 times), and unlikely (19 times).

Figure 21 Grouping of terms of likelihood



#### 4.4 Communication efficiency of terms of likelihood

**TALBE 10 Communication Efficiency of Terms of Likelihood**

Terms of likelihood	Standard deviation		Size of range estimate	
	Australia	Korea	Australia	Korea
Virtually certain	6.8	9.1	7.1	7.8
Substantially all	8.8	12.2	10.5	16.1
Highly probable	8.5	10.6	14.0	11.1
Reasonably certain	11.1	8.2	15.0	7.8
Reasonably assured	11.4	10.2	15.2	14.8
Probable	12.3	14.9	24.2	19.3
Likely	13.7	17.5	23.6	19.3
Reasonably possible	16.8	15.6	22.9	21.5
Possible	20.4	20.2	29.3	20.0
Unlikely	16.8	19.0	23.6	18.5
Highly unlikely	27.0	14.0	12.2	9.9
Extremely unlikely	18.6	12.2	7.4	9.9
Remote	7.3	12.5	8.8	9.4

- 65 Communication efficiency is defined as a degree of consensus in the interpretation of each term among individuals, estimated in two ways:
- (a) the spread of estimates using standard deviation; and
  - (b) the size of range estimates.
- 66 The results do not indicate distinct differences in the appearance of communication efficiency of terms between Korean and Australian accounting professionals. Meanwhile, there exists a wide range of difference in the level of communication efficiency among terms of likelihood. In general, we find considerable disagreement in the meaning of “possible” but more agreement for the expression “virtually certain” as shown in Figure 24 and Figure 25.
- 67 In Table 10, it is clear that the expressions at the high extremes tend to have the smallest standard deviations. Relatively small standard deviations are an indication that accounting professionals interpret these expressions with a greater consensus of meaning.
- 68 Table 10 also presents the range mean, calculated as the difference between the two means derived from a lower and an upper numerical probability. The smaller the range mean, the greater the consensus regarding the interpretation of the terms of likelihood. The magnitude of the mean range suggests that the terms such as “possible” convey less precise concepts of probability than do terms such as “virtually certain”. For each term of likelihood, the range of probabilities assigned by Australian accounting professionals to English expressions is broader than the range assigned to Korean expressions by Korean accounting professionals.
- 69 To increase the consistency of accounting treatment of similar events, it seems desirable to encourage use of terms with high communication efficiency (Laswad and Mak, 1997; Amer et al., 1994).



Figure 22 Communication efficiency of terms of likelihood - standard deviation

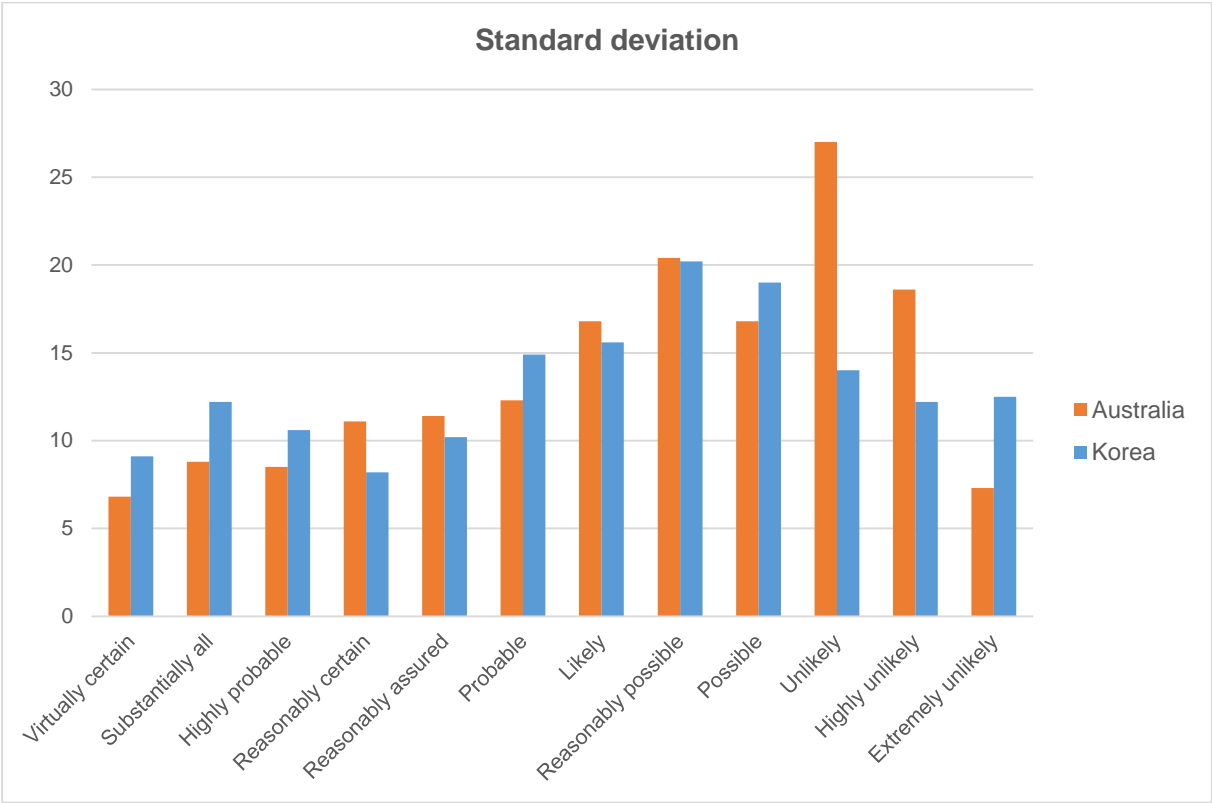
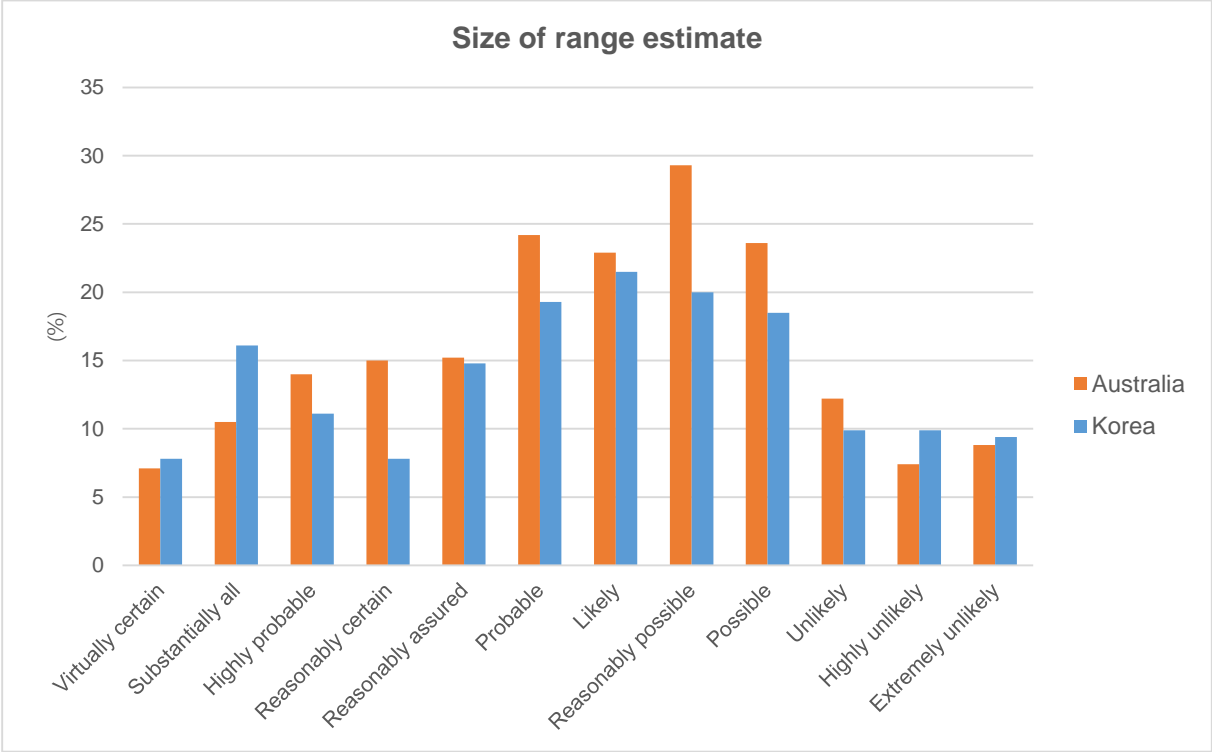
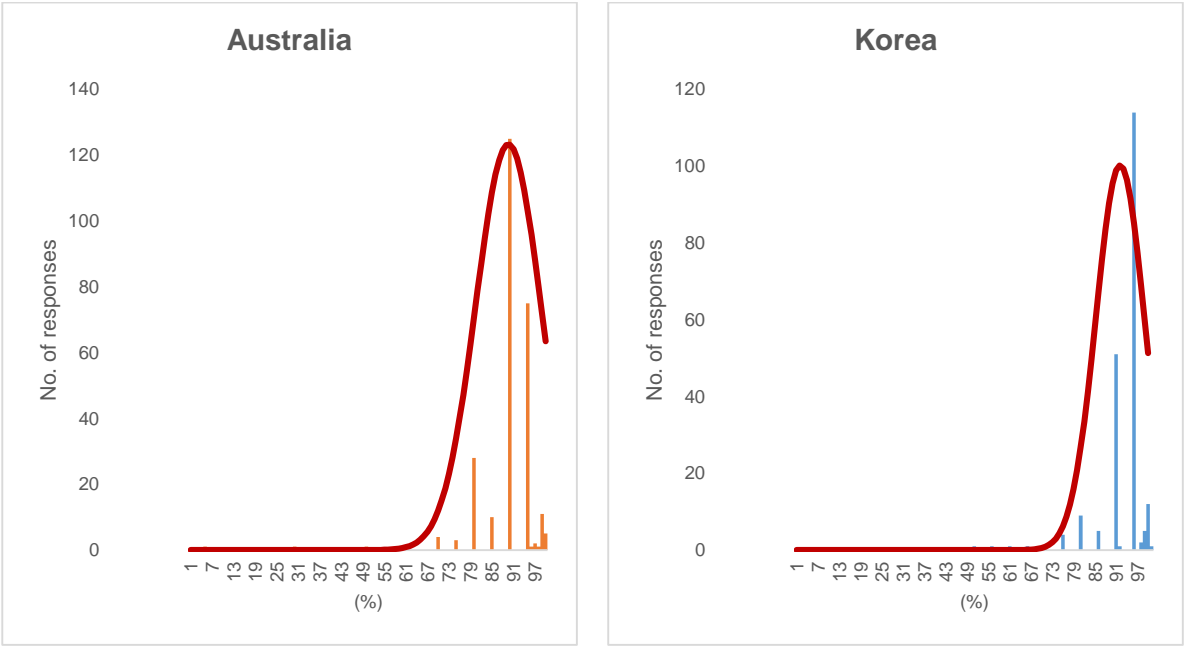


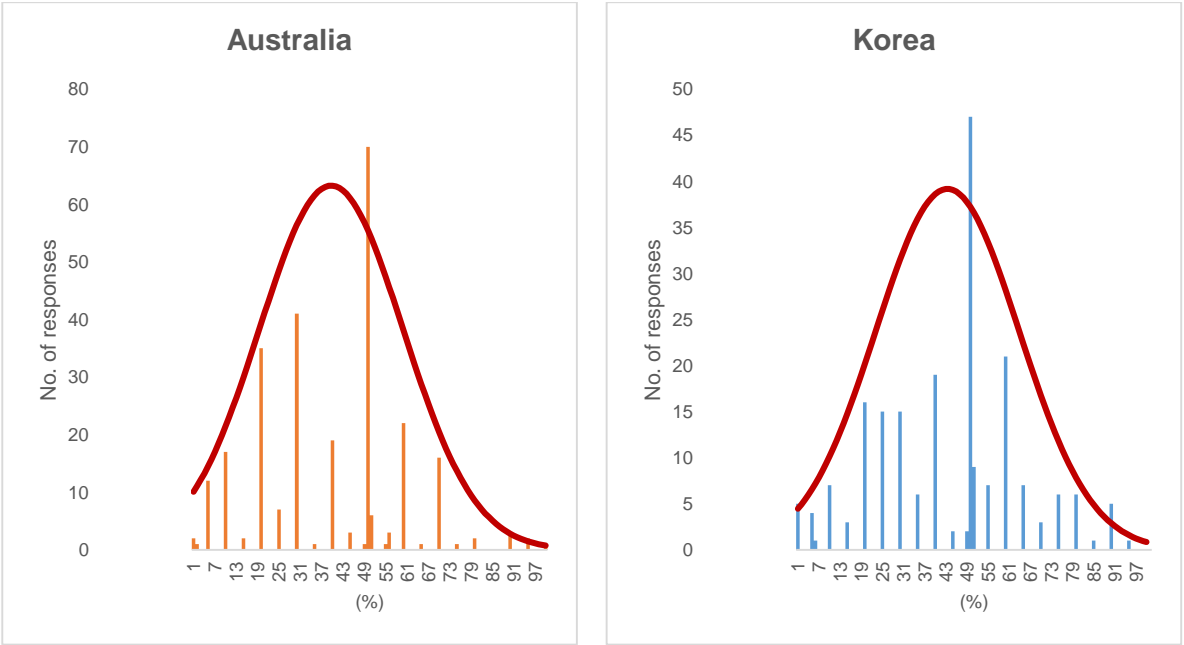
Figure 23 Communication efficiency of terms of likelihood - size of range



**Figure 24 Distributions of interpretation of “virtually certain”**



**Figure 25 Distributions of interpretation of “possible”**



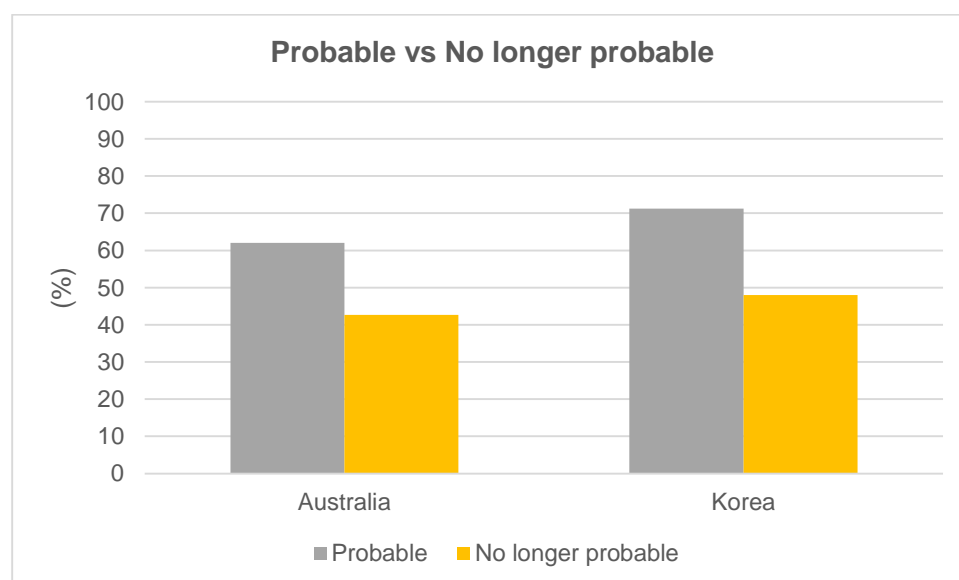
## 4.5 Probable vs No longer probable

**TABLE 11 Probable vs No longer probable**

Terms of likelihood	Australia			Korea		
	Mean	Med.	Std.	Mean	Med.	Std.
No longer probable	42.7	45.0	21.5	48.0	49.0	27.8
Probable	62.0	60.0	12.3	71.3	75.0	14.9

- 70 Table 11 shows the interpretation of “probable” and “no longer probable” respectively. Adding the word “no longer” to “probable” decreases the point estimate mean from 60.4% to 41.7% by Australian auditor as well as from 71.4% to 47.1% in Korean auditor.
- 71 If “probable” is interpreted as more than “60%”, a threshold for “no longer probable” may be less than “60%”. However, the results show that there exist a grey area between “probable” and “no longer probable” by approximately 20% on average.
- 72 Moreover, “no longer probable” has much larger standard deviation compared with “probable” in both countries and in both accounting professional groups. This suggest that using negative expressions may deter delivering exactly intended meaning.

**Figure 26 Interpretation of “probable” vs “no longer probable”**



## 4.6 A glimpse of translation issues

- 73 This research also explore whether there are any translation issues from English to Korean, in particular, in respect of translations of terms of likelihood. IFRS is originally written in English and then translated into other languages. Translation plays a critical role in enabling jurisdictions across the world to understand IFRS in their own language so that IFRS can be interpreted and applied accordingly and consistently.
- 74 IFRS Foundation notes that translation is a vital part of achieving the IFRS Foundation’s mission to develop a single set of high-quality global accounting standards for use around the world. If IFRS are not being translated appropriately, this adds another potential source of difficulty in achieving comparability of financial statements across countries and consistency in their interpretation. An understanding of this concern led to the IASB’s predecessor (the International Accounting Standards Committee [IASC]) to implement its own official translation process in 1997<sup>30</sup>. In particular, given the move toward principles-based standards, the consistent translation of terms of likelihood is likely to become increasingly important.

**TABLE 12 A Glimpse of Translation Issues**

Terms of likelihood		Australia	Korea
English	Korean		
Virtually certain	가능성이 거의 확실한	94.7	94.1
Reasonably certain		83.5	
Probable	가능성이 높은	72.5	78.6
Likely		71.7	
Highly unlikely	가능성이 매우 낮은	15.1	10.7
Extremely unlikely		8.5	

- 75 Table 12 shows the interpretation of three different pairs of English expressions not in context. For each pair of the English expressions, only one expression in Korean exists. These are just some examples of many translation issues that require attention.
- 76 For example, the English term “virtually certain” and “reasonably certain” are both translated into a single Korean term “가능성이 거의 확실한”. However, as shown in Table 12, while the probability levels of “virtually certain” perceived by Australian and Korean accounting professionals are similar at 94.7% and 94.1%, respectively, the term “reasonably certain” shows significantly differing probability levels by 10.6% between Australian and Korean respondents.

<sup>30</sup> The International Accounting Standards Committee Foundation (IASCF) created an official translation process in 1997, and IFRS was first officially translated into German. Currently, official translations of IFRS are provided in 13 languages (<http://www.ifrs.org/ifrss/Pages/official-unaccompanied-ifrs-translations.aspx>).

77 Australian accounting professionals interpret “probable” and “likely” with similar probability levels, suggesting that the translation into a single Korean term could be justifiable. Furthermore, the probability levels of both of the terms “highly unlikely” and “extremely unlikely” vary when viewed by Australian and Korean accounting professionals. This may indicate that there may be a translation issue that should be addressed.

#### ***4.7 Narrative responses***

78 We received comments from 118 respondents (38 preparers and 80 auditors) in Korea and 43 respondents (25 preparers and 18 auditors) in Australia regarding to the terms of likelihood used in the standards.

79 Most of the respondents note that terms of likelihood are difficult to interpret. Some comment that there is lack of guidance on the concept of terms of likelihood; and that some clear guidance would be helpful. A number of respondents suggest having percentage ranges or numerical guidance in the standards on the terms of likelihood.

80 There are concerns that terms of likelihood are not used consistently throughout the standards. One common subject of respondents’ comments is that there are multiple terms of likelihood which could be interpreted in the same way. Some suggest terms of likelihood should be simplified and their number reduced.

#### ***4.8 Limitations and future research***

81 This study does not attempt to directly identify specific factors which may or may not affect inconsistent interpretation of terms of likelihood across jurisdictions. Some factors such as cultural, educational, regulatory, and other contributing factors could cause accounting professionals from different countries to apply a common set of accounting standards differently, thus possibly affecting the cross-jurisdictional comparability of financial statements. Therefore, we believe it is also of interest in further research on these issues<sup>31</sup>.

82 A limitation of this research relates to scope which is limited to two countries, Korea and Australia. To ascertain the generalizability of the results of this study, it would be expected to examine the interpretation of terms of likelihood in broader jurisdictions.

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<sup>31</sup> The IASB state that:

*“Language and cultural issues are a challenge to the IASB as it strives to set Standards that can be applied internationally. We are aware that some of the subtlety of the English language does not translate well. For example, the words ‘could’ and ‘would’ are translated into the same word in some languages. We are interested in research that helps us to understand how local factors affect the consistent application of IFRS. This type of research extends into how judgment-based Standards, and words, are applied in different languages and cultures—material, significant, substantial etc.”*

## 5. Conclusion and key recommendations

- 83 The comparability of financial statements depends not only on having common standards, but also on having the standards interpreted in the same way. The key findings in this research suggest that:
- (a) there are differences in interpretation of terms of likelihood between Australian and Korean accounting professionals. Respondents between Australia and Korea assigned different rankings on some terms of likelihood;
  - (b) some terms could be interpreted differently in different contexts. For example, respondents tend to be more conservative when interpreting the term “probable” in the context of a liability recognition in comparison to interpreting the term in the context of an asset recognition;
  - (c) some terms of likelihood are not interpreted differently from each other, for example respondents seem to interpret “unlikely” and “highly unlikely” in the same manner;
  - (d) some terms of likelihood tend to have different levels of communication efficiency which is defined as a degree of consensus in the interpretation of each term among individuals. For example, “virtually certain” appears to have the highest communication efficiency while “possible” seems to be with the lowest communication efficiency in both countries;
  - (e) some terms of likelihood are interpreted differently in different languages by Korean accounting professionals indicating that there may be a translation issue that should be addressed; and
  - (f) some terms of likelihood cannot be translated into Korean. For example, “probable” and “likely” are translated into a single Korean expression “가능성이 높다”, and the terms “virtually certain” and “reasonably certain” are both translated into a single Korean term “가능성이 거의 확실한”.

84 The key recommendations to the IASB are:

- (a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;
- (b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;

- (c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;
- (d) the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and
- (e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

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## Appendix A: Terms of Likelihood in IFRS

Terms of Likelihood	Examples of Use
Virtually certain	IAS 19.104A, IAS 37.22, IAS 38 IN 10
No realistic alternative	IAS 1.25, IAS 10.14, IAS 19.3(c), IAS 37.10
Highly probable - significantly more likely than probable (equivalent to FASB likely to occur)	IFRS 5 BC81, IAS 39.9
Reasonably certain	IAS 17.4
Substantially all (risks and rewards, recover, difference)	IAS 1.123, IFRS 9.3.2.6, IAS 39.9, IAS 39.20, IAS 39.21, IAS 39.29, IAS 39.34, IAS 39 AG51,
Substantively enacted	IAS 12.46, IAS 12.47,
Highly effective	IAS 39.88, IAS 39 AG 105
Principally	IFRS 5.6, IAS 16.56, IAS 39.9
Significant	IAS 1.25, IAS 1.45, IAS 12.74, IAS 16.43, IAS 17.35, IAS 18.14(a), IAS 18.35, IAS 36.12, IAS 36.134, IAS 39.9, IAS 39.21, IAS 39.59, IAS 39.61, IAS 39.64, IAS 19.111, IAS 24.9, IAS 26.18, IAS 27.23, IAS 28.3, IAS 31.41, IAS 38.94
Major part	IAS 17.10(c)
Reasonably assured	IAS 20.7
Probable – more likely than not	IFRS 5 BC61, IAS 12.24, IAS 36 BCZ.184(a), IAS 37.14(b), IAS 38.21(a), IAS 41.10(b)
Probable, but not virtually certain	IAS 37 App.A
More likely	IAS 39.22
Likely	IAS 39 AG40
Expected	IAS 12.65, IAS 18.27
Become probable	IAS 12.37, IAS 37.35, IAS 39.59
May, but probably will not	IAS 37 App.A
Not probable	IAS 37 App.A
Reasonably possible	IAS 36.134(f)
Possible	IAS 37.10, IAS 39.9, IAS 39 AG86

<b>Terms of Likelihood</b>	<b>Examples of Use</b>
Uncertainty	IAS 39 AG121
Unlikely	IAS 39 AG44, IAS 39 BC187, IAS 39 BC197
Highly unlikely	IAS 39 AG39, IAS 40.31
Extremely unlikely	IFRS4 App. B B23
Minimal probability	IFRS4 App. B B25
Sufficiently lower	IAS 17 10(b)
Insignificant	IAS 39.9
Insignificant portion	IAS 40.10
No longer significant	IFRS 9.3.2.7, IAS 39.21
Remote	IAS 37.28
Extremely rare	IAS1.19, IAS 37.29, IAS 37.30
Extremely rare, highly abnormal and very unlikely to occur	IFRS 9 B4.1.18
Virtually none	IAS 34 IN6
Not genuine (highly abnormal and extremely unlikely to occur)	IAS 32.25(a)

## Appendix B: Survey Questionnaire

### Professional judgment and the ‘terms of likelihood’ in IFRS

You are invited to participate in this joint research of the Australian Accounting Standards Board (AASB) and the Korea Accounting Standards Board (KASB).

In this study, we explore the potential effect of cultural differences in using professional judgment in applying and understanding terms of likelihood in the International Financial Reporting Standards (IFRS).

The questionnaire consists of four sections: (I) Terms of likelihood in IFRS, (II) Background, (III) Interpretation of terms of likelihood, and (IV) Other information. Your responses to the section (I) and (III) may not be necessarily consistent with each other. There are no right or wrong answers to all questions.

To participate in this study, please answer all the questions contained in the questionnaire, which should take approximately 15 minutes. Submitting the completed questionnaire will be deemed as providing consent to participate in this project.

Only the researchers will have access to the data collected. The responses will be analysed on an aggregate basis and all future publications and presentations will only present results pertaining to aggregate data. Thus it will be impossible to identify individual responses. We would greatly appreciate your time to complete the questionnaire.

The results of this study will be made public through various domestic and international standards-setter meetings, conference presentations and research report publications. If you wish to have a copy of any of the publications from this research, please contact us:

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## I. Terms of likelihood in IFRS

Listed below are the **terms of *likelihood*** that are contained in IFRS which relate to a level of probability of a transaction or event occurring. Please indicate the **range of probability** that best corresponds, in your professional opinion, to each term of likelihood in percentage (%) terms on a scale of 0% to 100%.

Example 1:

On the scale of **likelihood**, if in your professional opinion that the expression “**virtually none**” corresponds to the range of probability *between* 5% and 10%, then you would indicate this value in the space provided, as follows:

**Virtually none**            from 5% to 10%

Example 2:

On the scale of **likelihood**, if in your professional opinion that the expression “**virtually all**” corresponds to the range of probability *between* 95% and 99%, then you would indicate this value in the space provided, as follows:

**Virtually all**            from 95% to 99%

	Terms of likelihood	Range of probability in percentage (%)
1	Likely	from _____ % to _____ %
2	Probable	from _____ % to _____ %
3	Unlikely	from _____ % to _____ %
4	Substantially all	from _____ % to _____ %
5	Reasonably assured	from _____ % to _____ %
6	Virtually certain	from _____ % to _____ %
7	Highly unlikely	from _____ % to _____ %
8	Remote	from _____ % to _____ %
9	Reasonably possible	from _____ % to _____ %
10	Highly probable	from _____ % to _____ %
11	Extremely unlikely	from _____ % to _____ %
12	Possible	from _____ % to _____ %
13	Reasonably certain	from _____ % to _____ %

## II. Background

※ Please tick a box that applies to you for each of the below questions.

**1. Which country are you from?**

- Australia  Korea

**2. Where is your main country of residence in the past 5 years? \_\_\_\_\_**

**3. Which professional group do you belong to?**

- Auditors  F/S preparers(companies)

**4. What is your gender?**

- Male  Female

**5. What is your age group?**

- 20-24  25-29  30-34  
 35-39  40-44  45-49  
 50-54  55-59  60 or over

**6. What is your position in your company?**

- Associate  Senior Associate  Manager  
 Senior Manager  Director  Partner  
 Chief Financial Officer  Other: please  
specify\_\_\_\_\_

**7. How many years of professional experience do you have as a CA/CPA or other equivalent accounting professional qualification?**

- Less than 3 years  3-5 years  6-10 years  
 11-15 years  16-20 years  More than 20 years  
 I do not have any accounting professional qualification.

**8. The question below is to understand your attitude toward risk.**

You are offered \$500 or you could gamble for \$1000. What is the probability of winning \$1000 that could attract you to gamble rather than taking \$500? \_\_\_\_\_%

**9. How frequently do you refer to IFRS (or equivalent standards i.e. Australian Accounting Standards, K-IFRS) in your professional practice?**

- Always  Usually  Sometimes  
 Seldom  Never

### III. Interpretation of terms of likelihood

Listed below are the **terms of *likelihood*** that are contained in IFRS which relate to a level of probability. Please indicate the numerical probability that best corresponds, in your professional opinion, to each term of likelihood in percentage (%) terms on a scale of 0% to 100%.

Example 1:

**Virtually none** of the notes to the annual financial statements are repeated or updated in the interim report.

To respond:

On the scale of **likelihood**, if in your professional opinion that the expression “**virtually none**” corresponds to a probability of **less than or equal to 5%**, then you would indicate this value in the space provided, as follows:

**Virtually none**                          5     %

Example 2:

**Virtually all** of the notes to the annual financial statements are repeated or updated in the interim report.

To respond:

On the scale of **likelihood**, if in your professional opinion that the expression “**virtually all**” corresponds to a probability of **more than or equal to 95%**, then you would indicate this value in the space provided, as follows:

**Virtually all**                         95    %

	Terms of likelihood	Numerical percentage (%)
1	A bearer plant is a living plant that has a <b>remote</b> likelihood of being sold as agricultural produce, except for incidental scrap sales.	<u>                    </u> %
2	The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is <b>reasonably certain</b> that the lessee will exercise the option.	<u>                    </u> %
3	Government grants, including non-monetary grants at fair value, shall not be recognised until there is <b>reasonable assurance</b> that: (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received.	<u>                    </u> %
4	An entity shall cease capitalising borrowing costs when <b>substantially all</b> the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	<u>                    </u> %

	<b>Terms of likelihood</b>	<b>Numerical percentage (%)</b>
5	Market interest rates or other market rates of return on investments have increased during the period, and those increases are <b>likely</b> to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.	_____ %
6	A contingent liability is a <b>possible</b> obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	_____ %
7	A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is <b>remote</b> .	_____ %
8	Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is <b>virtually certain</b> , then the related asset is not a contingent asset and its recognition is appropriate.	_____ %
9	If it is <b>no longer probable</b> that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.	_____ %
10	A provision shall be recognized when: It is <b>probable</b> that an outflow of resources embodying economic benefits will be required to settle the obligation.	_____ %
11	It is <b>highly unlikely</b> that a change from the fair value model to the cost model will result in a more relevant presentation.	_____ %
12	An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized whether the unused tax losses result from identifiable causes which are <b>unlikely</b> to recur.	_____ %
13	If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is <b>extremely unlikely</b> or even if the expected (i.e. probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.	_____ %
14	A sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were <b>reasonably possible</b> at that date.	_____ %
15	If a hedged item is a forecast transaction (or a component thereof), that transaction must be <b>highly probable</b> .	_____ %
16	It is <b>probable</b> that the expected future economic benefits that are attributable to the asset will flow to the entity.	_____ %



#### IV. Other information

1. Please answer the question below.

<i>Statements</i>		<i>Strongly Disagree</i>					<i>Strongly Agree</i>				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
(a)	I am familiar with the International Financial Reporting Standards or equivalent standards, i.e. Australian Accounting Standards or K-IFRS.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b)	I am comfortable with the judgments I made on the terms of likelihood in this survey.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c)	In my experience, the understanding of terms of likelihood is important for the application of IFRS.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Are there any comments you would like to make in regard to the terms of likelihood in the Standards?

※ If you wish to be contacted for any clarification or future projects, please leave your contact information below. (Optional)

<b>Name</b>	
<b>Company</b>	
<b>Phone number</b>	
<b>E-mail</b>	