

Academic Resource Center

Professional judgment framework

Overview of professional judgment framework curriculum

- User guide
- Lecture notes and slides:
 - Common biases in decision making:
 - Availability/interference; Confirmatory trap; Overconfidence; Anchoring; Groupthink; Motivated reasoning
 - Professional skepticism
 - Overview of the professional judgment framework
 - Benefits of the professional judgment framework
- Application template
- Example
- Cases (application scenarios) and solutions



The professional judgment framework

Track, organize and evaluate considerations

• For each process step, track, organize and evaluate considerations sufficient to capture relevant information to support your judgment.

judgment

Define the issue

Gather the facts

Perform the analysis

Make the judgment

What is the primary issue?

- What is the applicable guidance?
- What information do you need to address the issue?
- Is the information you have obtained relevant and reliable?
- How does the applicable guidance apply to the issue?
- Have you identified and evaluated the key assumptions?
- What are the reasonable outcomes and possible alternatives?
- What is your conclusion based on the analysis performed?
- Does your conclusion make sense in light of the business purpose and underlying economics of the issue?
- Is the documentation sufficient to support your judgment?

Document the

 Can another professional understand how you reached your conclusion (including why reasonable outcomes and possible alternatives identified were not selected)?

Manage any personal bias and consider the bias of others

Consider the risk of material misstatement

Consider the involvement of others

Maintain professional skepticism, including fraud awareness

- Avoid making preliminary judgments
- Consider all points of view and alternatives
- Understand motivations or incentives for particular outcomes
- Evaluate quantitative and qualitative significance relative to the issue and relative to the interests of stakeholders
- Consider subject-matter specialists, consultation and necessary reviews and approvals
- Maintain a questioning mindset and ask probing questions
- Objectively evaluate the facts, address inconsistencies and corroborate evidence
- Assume others are neither honest nor dishonest
- Be alert for indicators of possible misstatement due to error or fraud



Benefits of the professional judgment framework

- Benefits that can result from the use of this framework include:
 - A structured approach that can drive consistency and confidence in decision-making
 - Enhanced ability to consider alternatives
 - The ability to better discuss issues with others
 - Improved ability to reach a well-supported outcome
 - A mechanism for improved documentation supporting judgments
 - Enhanced risk management through improved decisionmaking processes
 - Consistency in terms of the terminology and approach to making judgments and better communication when consulting with others





Cases (application scenarios)

- Allowance for doubtful accounts
- Inventory lower of cost or market
- PPE impairment
- Useful life of a copyright
- Debt modification or extinguishment
- Environmental obligations
- Goodwill impairment
- Accounting for income taxes: valuation allowance
- Fraud risk assessment
- Asset expropriation



Example

Time to buy a new car?

- Part I: students identify and discuss the common biases relative to the scenario
- Part II: students apply the professional judgment framework to make a judgment relative to the scenario
- Part III: students prepare the final written memorandum of their judgment relative to the scenario





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