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.

**Define the issue**
- 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?

**Gather the facts**
- 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?

**Perform the analysis**
- 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?

**Make the judgment**
- Is the documentation sufficient to support your judgment?
- Can another professional understand how you reached your conclusion (including why reasonable outcomes and possible alternatives identified were not selected)?

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**Manage any personal bias and consider the bias of others**
- Avoid making preliminary judgments
- Consider all points of view and alternatives
- Understand motivations or incentives for particular outcomes

**Consider the risk of material misstatement**
- Evaluate quantitative and qualitative significance relative to the issue and relative to the interests of stakeholders

**Consider the involvement of others**
- Consider subject-matter specialists, consultation and necessary reviews and approvals

**Maintain professional skepticism, including fraud awareness**
- 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

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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 decision-making 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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