Alerte de votre conseiller – COVID-19 : Incidences sur la présentation de l'information financière selon les IFRS

Avril 2020

Aperçu

La pandémie du nouveau coronavirus (COVID-19) se propage rapidement dans le monde entier. Le virus a causé des ravages sur les vies humaines, mais également sur les entreprises et les marchés financiers, dans une ampleur qui n'est pas encore déterminée à l'heure actuelle. Les entités doivent évaluer soigneusement les répercussions comptables découlant de cette situation. L'équipe IFRS de Grant Thornton International Ltd. a publié deux documents portant sur les incidences de la pandémie du COVID-19 sur la présentation de l'information financière selon les IFRS :

- *COVID-19: Financial Reporting and Disclosures* (en anglais seulement);
- *Reporting the impact of COVID-19 on your business* (en anglais seulement).

Bien que l'éclosion de la maladie ait eu une incidence directe ou indirecte sur la quasi-totalité des entreprises, certaines ont été plus durement touchées que d'autres, comme dans l'aviation, l'hôtellerie et la vente au détail. De plus en plus de secteurs s'ajouteront à la liste à mesure que les confinements généralisés entreront en vigueur partout sur la planète. Parmi les autres secteurs touchés, on compte par exemple l'automobile, l'industrie du vêtement, les biens de consommation durables, les articles en cuir et l'électronique, où la chaîne d'approvisionnement dépend des pays les plus durement touchés par la COVID-19.

À notre avis, les répercussions de la COVID-19 constituent en général un événement postérieur ne donnant pas lieu à des ajustements pour les périodes de présentation closes au plus tard le 31 décembre 2019. Par conséquent, il n'y aura aucune incidence sur la comptabilisation et l'évaluation des actifs et des passifs dans les états financiers des entités. Les entités devront toutefois déterminer si elles doivent fournir des informations supplémentaires pour décrire les répercussions de la pandémie sur la période ultérieure et si l'hypothèse de la continuité de l'exploitation qui sous-tend la préparation des états financiers est toujours valable.

Pour les périodes de présentation de l'information postérieures au 31 décembre 2019 (c'est-à-dire les périodes se terminant en 2020), il existe davantage d'informations que les préparateurs et les intervenants du marché doivent prendre en considération dans leurs hypothèses et leurs évaluations. Par conséquent, plus la période de présentation est postérieure au 31 décembre 2019, plus grande sera la nécessité de se questionner à savoir si les répercussions de la COVID-19 pour la période ultérieure devraient être considérées comme étant un événement postérieur à la date de clôture donnant lieu à des ajustements dans les états financiers des entités.

Le document *COVID-19: Financial Reporting and Disclosures* indique les principaux aspects de présentation de l'information financière que les entités doivent prendre en considération lorsqu'elles déterminent l'incidence sur leur entreprise, leurs résultats, leur situation financière et les informations à fournir dans leurs états financiers préparés selon les IFRS. Il ne s'agit pas d'une liste exhaustive et il peut exister d'autres éléments qui ne sont pas traités dans la publication que les entités doivent prendre en considération. De plus, les aspects ne sont pas classés par ordre d'importance.

Le document *Reporting the impact of COVID-19 on your business* présente dix questions que les directeurs financiers devraient se poser pour s'assurer que les états financiers non encore publiés présentent une image fidèle de la situation financière, de la performance financière et des flux de trésorerie de l'entité. Il ne s'agit pas d'une liste exhaustive. Les questions ne sont pas classées par ordre d'importance parce que leur applicabilité dépendra des faits et des circonstances.

Ressources

Les documents suivants sont joints au présent *Alerte de votre conseiller* :

- *COVID-19: Financial Reporting and Disclosures;*
- *Reporting the impact of COVID-19 on your business.*

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COVID-19: Financial Reporting and Disclosures

Assessing the financial impact and required disclosures

The novel coronavirus (COVID-19) pandemic is spreading around the globe rapidly. The virus has taken its toll on not just human life, but businesses and financial markets too, the extent of which is currently indeterminate. Entities need to carefully consider the accounting implications of this situation.

While the outbreak has had an impact on almost all entities either directly or indirectly, some of the worst hit sectors are aviation, hospitality and retail with more and more sectors coming under its radar with widespread lockdowns being enforced across the world. The aviation industry is facing massive disruption with travel restrictions imposed by most jurisdictions. The hospitality sector has been impacted with low occupancy in business and holiday destinations having to close down entirely. Other affected sectors are automobiles, apparel, consumer durables, pharmaceuticals, leather goods, electronics and others where the supply chain is dependent on countries worst hit by COVID-19. Financial services have also been affected with the inability of borrowers to keep up with repayment schedules.

This article identifies key financial reporting areas that entities need to consider when determining the impact on their business, and on the results, financial position and disclosures in their financial statements. This is not an exhaustive list and there may be other areas not included in this article that entities should consider. The areas are not listed in order of importance.

What disclosures need to be made in the financial statements?

Even if the entity does not see a direct impact of the outbreak, there will be an indirect impact for practically all entities. Whilst some entities may not be severely impacted, and some entities may even benefit, very few entities will remain unaffected. Therefore, entities need to consider the financial impact on the entity and the areas of the financial statements that will be affected to determine the disclosures required. As well as the specific financial reporting areas, IAS 1 'Presentation of Financial Statements' requires disclosures of sources of estimation uncertainty and areas of significant judgement.

Impairment

An entity is required to test its assets for impairment when indicators of impairment are present. An impairment test must be performed in response to indicators of impairment in addition to a mandatory impairment test for goodwill and intangible assets with indefinite useful lives at least annually.

Although some indicators of impairment are based on internal information (eg damage to property, plant and equipment, plans to remove the asset from use), others are triggered by events and circumstances external to the entity. Below are some examples of indicators of impairment that may exist as a result of the economic conditions caused by the spread of COVID-19:

- **Investments other than portfolio investments (eg subsidiary that is not consolidated)**
  - significant financial difficulty of the investee
  - a breach of contract (eg default or delinquency in debt payments)
  - it is probable that the investee will enter bankruptcy or other financial reorganisation
  - a significant adverse change in the economic or legal environment in which the investee operates (eg recession)
  - the disappearance of an active market for the investment because of financial difficulties of the investee.
- **Property, plant and equipment and intangible assets (other than goodwill)**
  - significant changes in the extent or manner in which the asset is used or is expected to be used (eg idling of a machine such that its future productive capacity may be affected, a machine being used in a manner different from its intended purpose – such as to produce items to support the battle against COVID-19 – which may reduce its future productive capacity)
  - significant changes in the legal factors or business climate that could affect the value of the asset (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
  - a decrease in market interest rates which would cause a decrease in the asset's value in use
  - a decline in, or cessation of, the need for the services provided by the asset.

In addition, doubt about the entity's ability to continue as a going concern is a general indicator of impairment for all assets.

Goodwill

Goodwill is required to be tested annually for impairment. COVID-19 could impact goodwill through:

- a significant adverse change in legal factors or in the business climate (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
- a loss of key personnel that is other than temporary (eg death)
- the testing for write-down or impairment of a significant asset group
- the recognition of a goodwill impairment loss in an investee's separate financial statements
- a significant decline in the entity's share price which could result in the carrying amount of the entity's net assets exceeding its market capitalisation.

Financial instruments and the measurement of expected credit losses

Under IFRS 9 'Financial Instruments', expected credit losses ("ECLs") must be recognised for debt-type financial assets not measured at fair value through profit or loss (FVTPL) based on information about past events, current conditions and forecasts of future economic conditions. In other words, even possible future outcomes that may or may not come to pass should be factored into an entity's ECLs on a probability-weighted basis. The negative economic outlook and cash flow difficulties experienced by customers as a result of COVID-19 must be factored into an entity's forecasts of future conditions, which may result in an increase in its provision for ECLs to reflect (a) a greater probability of default across many borrowers, even those that currently do not exhibit significant increases in credit risk but may in the future; and (b) a higher magnitude of loss given default, due to possible decreases in the value of collateral and other assets. ECL applies to trade receivables, loans, debt securities, contract assets and assets arising from costs to obtain or fulfil a sales contract, as well as the losses recognised in measuring loan commitments and financial guarantee contracts. Regardless of whether the simplified approach or the 3-stage model set out in IFRS 9 is being applied to assess ECL, the impact on the ECL calculation as a result of COVID-19 needs to be very carefully assessed.

To the extent that information about the impact of COVID-19 that becomes available after the reporting date provides more evidence about conditions at the reporting date, entities will need to revisit their estimates of ECL at the reporting date. For example, if a customer files for bankruptcy subsequent to the period end:

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

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

New employee benefits and termination benefits

In response to the COVID-19 pandemic, some entities are providing additional benefits to their employees such as:

- paying them during a temporary shutdown of their operations, or while they are sick or in mandatory quarantine; and/or
- providing other compensation to assist employees with working remotely.

If an entity decides to provide new benefits to its employees (ie those that were not previously offered), it must determine how to account for the benefits. The financial support or benefits offered to employees will likely meet the definition of a liability; therefore, an entity will need to consider when to recognise the liability/expense and how it should be measured.

The entity must first determine whether the benefits provided are a result of past service or if they will be provided as services are rendered because that will impact when the liability is recognised. The specific guidance in IAS 19 'Employee Benefits' must be considered when making this determination. Generally, a liability is incurred once a past transaction has occurred and the entity has lost the discretion to avoid the obligation.

Furthermore, as a result of difficult economic conditions, some entities have or will downsize their workforce. If the entity offers or is required to pay termination benefits to the affected employee(s), management must consider how and when to account for the liability/expense in accordance with IFRS.

Measuring defined benefit obligations

Measuring a defined benefit obligation involves making estimates and the use of assumptions (eg the appropriate interest rate, future salary increases and employee turnover). Given the sudden fall in markets and the decline in high quality corporate bond rates that have occurred as a result of COVID-19, an entity should consider the impact on its defined benefit obligation(s).

Most entities obtain full actuarial valuations approximately once every three years or as required by their regulator. In between, their actuary may perform a more limited update to roll forward the figures for financial reporting purposes, although an up-to-date valuation of plan assets is normally required at each reporting date. Management should consider whether the estimate needs to be adjusted, or a more comprehensive valuation obtained, as a result of the impact of COVID-19.

Entities should have discussions with their actuaries, to ascertain whether COVID-19 has impacted any assumptions in their reports such that their estimates may need to be revisited. The guidance related to subsequent events on whether there may be an adjusting or non-adjusting event should also be considered.

> "Even if the entity does not see a direct impact of the outbreak, there will be an indirect impact for practically all entities. Whilst some entities may not be severely impacted, it unlikely for any entity to remain unaffected."

Other areas

Financial statement area	Impact
Revenue	The revenue of an entity may decline as a result of the spread of the virus and the economic impact. If the entity's contract with the customer includes variable components (eg discounts), the entity must consider whether its previous estimates in this regard continue to be appropriate. IFRS 15 'Revenue from Contracts with Customers' provides extensive guidance around variable consideration and the related constraint. It may be necessary for an entity to begin constraining its variable revenue even if this was not considered necessary prior to the COVID-19 pandemic. As a result of COVID-19, an entity might: • run a promotion in order to help maintain cash flows during temporary closure (eg some service-based businesses, like gyms, are offering customers a discount if they prepay for future services) • offer refunds or credits to its customers for goods or services that cannot be used during this period of crisis (eg hotels or event venues, travel agencies, gyms), and/or • increase the sales of gift cards that can be used at a later date when the crisis is over. An entity should review its revenue accounting policies to make sure they are still applicable given the current circumstances, Where goods and services have been or are being rendered to customers who are either based in regions impacted by COVID-19 or significantly impacted by it, companies will need to assess whether collection is probable while evaluating new contracts. In the absence of such probability, companies may not be able to recognise revenue until or unless payment is received and becomes non-refundable, because such contracts are unlikely to meet the criteria to apply the normal IFRS 15 approach. Certain revenue contracts may also become less profitable, or even loss-making. For example, an entity might face penalties as a result of delays or incur increased costs that cannot be recovered due to replacing employees or finding alternative suppliers. Management needs to consider whether any contracts are in an 'onerous' position and whether a liability needs to be recognised.
Inventory	Some entities may be experiencing supply chain disruptions. Real estate companies with inventories of under construction properties could be impacted by a fall in property prices. Seasonal inventories and perishable products might be exposed to the risk of loss due to damage, contamination, physical deterioration, obsolescence, changes in price levels or other causes. Companies would need to assess whether, on their reporting date, an adjustment is required to the carrying value of their inventory to bring them to their net realisable value in accordance with the principles of IAS 2 'Inventories'. Estimating net realisable value in such volatile market conditions may also be a challenge, on account of the uncertainties presented by the pandemic. If an entity's production level is abnormally low (eg due to a temporary shutdown of production), it may need to review its inventory costing to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred (ie "excess capacity" should be expensed rather than being added to the cost of inventory).
Hedge accounting	Hedge effectiveness assessment is required to be performed at the inception and on an on-going basis at each reporting date or in case of a significant change in circumstances, whichever occurs first. The current volatility in markets may result in an entity requiring to either rebalance the hedge, where applicable, or discontinuing hedge accounting if an economic relationship no longer exists or the relationship is dominated by credit risk. Also, if it is no longer highly probable that a hedged forecast transaction (eg inventory purchases or sales) will occur, hedge accounting will cease prospectively.

Financial statement area	Impact
Debt repayment and classification	Some financial institutions (and other creditors) are providing debtholders with the option to defer principal payments for a period of time. Management will need to assess whether the change in terms represent a modification or extinguishment of the debt obligation and revisit the portion of the debt that is considered current versus non-current. As a result of the difficult economic conditions, an entity that is normally able to comply with its debt covenants may find that it is now in violation. In some instances, creditors may not be willing to waive their right to demand repayment. Unless the entity meets certain conditions, it may need to present the entire amount owing as a current liability.
Derecognition of debt or other liabilities	If a creditor forgives an amount owing by an entity, management needs to carefully consider the point in time when the liability is discharged and can be derecognised along with the appropriate accounting treatment.
Financial instrument risk disclosures	Due to the rapidly changing economic environment, an entity may find that it is subject to new or increasing risk (eg credit, liquidity, or market risk) or concentrations of risk. In addition, an entity may find that its risks have changed from the prior period. Management should evaluate whether additional risk disclosures are required. IFRS requires that an entity disclose a sensitivity analysis (including quantitative disclosures) pertaining to changes in the relevant risk variable that are "reasonably possible" at the reporting date. Management may need to perform sensitivity calculations using a larger range for the risk variables or consider a direction of change that reflects expectations resulting from the COVID-19 pandemic.
Guarantees	An entity that has guaranteed an amount owing by another entity/individual should consider how the other entity/individual is impacted by the current global situation. Depending on the circumstances, the entity may need recognise an additional liability related to the guarantee which would be the higher of the ECL and the amount initially recognised less amortisation.
Share-based compensation performance conditions and modifications	If an entity is negatively impacted by COVID-19, the probability that it will meet the performance vesting conditions outlined in its share-based compensation arrangements may change. Furthermore, the entity may choose to modify or cancel its share-based compensation arrangements. Management should consider whether the accounting for such plans needs to be revised based on the guidance in IFRS 2 'Share-based payment'.
Foreign currency translation	An entity is required to translate foreign currency transactions into the reporting/functional currency using the spot rate in effect on the date of the transaction. As a practical expedient, an entity may translate revenue earned and expenses incurred in a foreign currency using an average rate (eg a monthly or annual average). In years when exchange rates remain fairly stable, the difference between using the spot rate vs the average rate will be insignificant. However, some exchange rates are fluctuating significantly during this period of economic uncertainty. As a result, an entity may need to revisit the way it translates foreign currency transactions in its income statement and assess whether its current accounting is appropriate.
Government assistance	An entity that has historically not been eligible for government assistance may be entitled to receive government assistance as a result of the COVID-19 pandemic. Management may need to establish an accounting policy regarding government assistance which needs to be appropriate and in line with the requirements in IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. It is essential to distinguish between government assistance and government grants and ensure that grants are recognised only when the recognition criteria in IAS 20 is met. Some of the government assistance may involve deferral of tax payments or other tax allowances. The accounting treatment of tax allowances may need to be accounted for under IAS 12 'Income Taxes' rather than IAS 20.

Financial statement area	Impact
Insurance claims for business interruption	An entity may have an insurance policy that covers losses from business interruption. If the entity is forced to temporarily cease operations as a result of COVID-19 it may be entitled to recover some or all of its losses from its insurance provider. Such claims would be contingent assets in the financial statements if the entity has a clear right to reimbursement. While contingent gains/assets are not recognised in an entity's financial statements unless they are virtually certain, (in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'), they would be disclosed in the notes to the financial statements when their existence is likely. They can be recognised as income in the financial statements only when virtually certain, for example on acceptance of the claim by the insurer. When considering insurance claims, the insurers ability to settle the claim on a timely basis should be assessed.
Restructuring plans	As a result of the difficult economic environment, an entity may be considering or implementing restructuring plans such as the sale or closure of part of its business or the downsizing of operations (either temporary or permanent). Management should consider whether any long-lived assets need to be classified as held for sale or if any portion of its business qualifies for presentation as a discontinued operation. Preparers of financial statements need to be mindful that IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' has specific conditions to be held for sale.
Fair value measurement	The fair value of an item (such as certain financial instruments, investment properties, and items of property, plant and equipment) must reflect market participant views and market data at the measurement date under current market conditions. There may be an increase in the amount of subjectivity involved in fair value measurements, especially those based on unobservable inputs. In some cases greater use of unobservable inputs will be required because relevant observable inputs are no longer available.
Leases	• Determining the incremental borrowing rate (IBR) – it is often necessary for a lessee to calculate an IBR in order to account for most leases under IFRS. Due to the impact of the COVID-19 pandemic, including changes to interest rates and to the entity's own credit risk, this rate may need to be reconsidered. • Lease modifications – In response to operational disruptions associated with COVID-19 (such as office closures) lessors and lessees might agree to modify their lease arrangements. Both lessors and lessees must consider how to account for such modifications, including determining whether the changes result in a new lease or a modified lease. Lessees may also need to determine a new incremental borrowing rate.
Accounting for income taxes	• Deferred Tax Asset (DTA)– An entity that has historically recognised a deferred tax asset on its statement of financial position may need to revisit its assumptions about the likelihood that it will be realised in the future. Management may determine that it is no longer appropriate under IAS 12 'Income taxes' for the entity to recognise the deferred on the entity's balance sheet because it is no longer recoverable in the future. • Deferred Tax Liability on outside basis differences (DTL) – An entity may assert that earnings in foreign jurisdictions are indefinitely reinvested and, thus, does not recognise a deferred tax liability for these accumulated earnings and other taxable outside-basis differences. Such assertions may need to be revisited to determine if they remain appropriate given the entity's current cash flow projections. • In some jurisdictions, companies may also be granted tax waivers or deferrals, which need careful assessment of eligibility and the consequential impact on tax provisioning. • Any income tax reliefs provided by governments have to be assessed in light of not only IAS 12, but also IAS 20.
Contingent liabilities	Entities may anticipate losses on account of reduction in demand, supply chain disruptions or losses due to an overall decline in economic output. However, future operating losses on existing contracts do not meet the definition of a liability unless they fall in the category of onerous contracts, and hence, should not be provided for in accordance with IAS 37.
Economic dependence	An entity that is otherwise not economically dependent on another entity or individual may find that circumstances change during this period of crisis. Management should consider whether disclosure regarding economic dependence should be added to the financial statements.

Subsequent events

If the widespread impact of COVID-19 began during the entity's reporting period, the impact will be reflected in its financial statements for that period. However, to the extent that the widespread impact of COVID-19 occurred during the entity's "subsequent events period" (ie the period between the end of the reporting period and the date when the financial statements are authorised for issue), management must determine how the developments subsequent to the year-end should be reflected in the entity's financial statements for the period under audit or review.

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

Is the impact of COVID-19 an adjusting event for reporting periods ended 31 December 2019 (or prior)?

In our view, the impact of COVID-19 is generally a non-adjusting subsequent event for reporting periods ended on or before 31 December 2019. Consequently, there would be no impact on the recognition and measurement of assets and liabilities in an entity's financial statements. Although cases of the virus in Wuhan City, China were reported to the World Health Organisation (WHO) on 31 December 2019, there was little confirmed evidence of human-to-human transmission at that time and the WHO did not declare the outbreak to be a public health emergency of international concern until 31 January 2020.

As such, it is presumed that the significant development and spread of the COVID-19 did not take place until January 2020. Financial statements for an entity with a reporting period ending on or before 31 December 2019 should only reflect the conditions that existed at 31 December 2019 and must therefore exclude the significant effects of the COVID-19 outbreak.

However, entities will need to determine whether they should make additional disclosures to describe the impacts of the outbreak in the subsequent event period. Generally, disclosure should be made of those events during the subsequent events period that do not relate to conditions that existed at the date of the financial statements but cause significant changes to assets or liabilities in the subsequent period and either will, or may, have a significant effect on the future operations of the entity. For material non-adjusting events, an entity must disclose (a) a description of the nature of the event; and (b) an estimate of the financial effect, or a statement that such an estimate cannot be made. Furthermore, the entity should be taking into account their assessment of going concern and adjust the financial statements as appropriate.

Examples of non-adjusting events that would generally result in disclosure include:

- management's plans to deal with the effects of the COVID-19 outbreak and whether there is material uncertainty over the entity's ability to continue as a going concern
- breaches of covenants, waivers or modifications of contractual terms in lending arrangements
- supply chain disruptions
- the assessment of certain purchase or sale agreements as onerous contracts
- announcing a plan to discontinue an operation
- announcing, or commencing the implementation of, a major restructuring or downsizing (temporarily or permanently)
- declines in the fair value of investments held after the reporting period (e.g., pension plan investments)
- abnormally large changes in asset prices or foreign exchange rates, and
- entering into significant commitments or contingencies, such as issuing significant guarantees to related parties.

Example disclosures for non-adjusting events

All disclosures should be entity-specific and include information relevant to their circumstances. The following are some examples for some potential non-adjusting events for 31 December 2019 financial statements:

Overall risk to operations

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. [Add description specific to how the entity's financial position and performance has or is likely to be affected]

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

Note: this disclosure assumes there is no significant doubt about the entity's ability to continue as a going concern.

Store closures

On 1 March 2020, in response to significant decreases in demand resulting from social distancing efforts, quarantines and border closures related to the spread of COVID-19, the Company announced that it would temporarily close 30 of its 100 stores, which represented average monthly sales of approximately CU325,000 during the year ended 31 December 2019.

The closures are expected to reduce the following expenses by the following amounts on a monthly basis: [insert figures here]

The Company also announced that it would continue to pay its store associates for all scheduled shifts that were planned for the two-week period beginning on 1 March 2020. The salaries and benefits expense estimated for this two-week commitment is approximately CU50,000.

Redundancies

During March 2020, in response to significant decreases in demand amidst the COVID-19 outbreak, the Group announced its intention to temporarily reduce its workforce by 100 positions by the end of April 2020, by means of either reduction in hours or temporary leave. The Group plans to continue providing health benefits for furloughed employees through to 30 June 2020. The Group expects the reduction in positions to reduce salaries and benefits expense in 2020 by a net amount between CU25,000 and CU20,000 per month. Other expected financial effects include… [insert details]

Customer defaults

Subsequent to 31 December 2019, one of the Company's major trade customers declared bankruptcy following severe decreases in sales as a result of the continued spread of COVID-19. Of the CU135,000 receivable from this customer, the Company expects to recover less than CU10,000. The allowance for expected credit losses for this receivable was CU5,000 as at 31 December 2019.

Decline in fair value of investments

Since 31 December 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity markets have experienced significant volatility and weakness. As at 31 March 2020, the date that these financial statements were authorised for issue, the fair value of the Group's investments had declined significantly to the following amounts: [insert figures here]

While governments and central banks have reacted with monetary interventions designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

These subsequent changes in the fair value of the Organization's investments are not reflected in the financial statements as at 31 December 2019.

What is the impact of COVID-19 on financial statements for reporting periods ending after 31 December 2019?

Since late January 2020, the number of COVID-19 cases and countries affected outside of China has grown rapidly, and on 11 March 2020, the WHO declared COVID-19 to be a global pandemic. During this period, national governments and various private sector organisations have taken significant measures to contain the virus, including quarantines and school, store, plant and border closures. Consequences of the outbreak have also contributed to significant volatility in global stock markets since late February 2020.

In our view, for reporting periods subsequent to 31 December 2019 (ie reporting periods ending in 2020), more information was available that preparers and market participants will need to factor into their assumptions and assessments. Accordingly, the later the reporting period is after 31 December 2019, the greater the need to consider whether the impacts of COVID-19 in the subsequent events period should be considered an adjusting event in an entity's financial statements.

For periods ending after 31 December 2019, entities will need to use their judgement to determine the impact of COVID-19. They need to carefully consider the conditions that were present at the reporting date. This may not necessarily result in entities reaching the same conclusion for the same reporting date. Management should consider the specific circumstances that relate to the entity's operations and the relevant events that existed in their jurisdiction at that time. For example, some countries have been put on lockdown and people have been told not to leave their homes and some countries have not. If, for example, the entity is in the hospitality industry, this could have a major impact.

Where this judgement has a significant impact on the amounts in the financial statements, it should be disclosed in accordance with IAS 1.

When it is determined that COVID-19 was an event that existed and caused an impact to operations at or before the reporting date, events subsequent to the reporting date should be accounted for as adjusting events.

Sample disclosures for adjusting events

The sample disclosures provided for non-adjusting events can be utilised as a starting point to describe the impact of COVID-19. Additional disclosures may be required depending on the adjustments that result.

Going concern

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

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

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

Sample disclosure (significant doubt about an entity's ability to continue as going concern)

Below is a sample disclosure for an entity that concludes that there is significant doubt about its ability to continue as a going concern. This disclosure must be tailored for the entity's specific circumstances.

Sample disclosure

Since 31 December 2019, the consequences of the COVID-19 outspread have materially and adversely affected the supply and demand for the Company's primary products and therefore, its operating results have been negatively impacted.

Workforce reductions resulting from illnesses and quarantines in the Company's warehouses located in France and Singapore have resulted in critical interruptions of the Company's distribution system. Combined with disruptions in the Company's supply chain due to border closures, the Company has experienced significant delays in delivering its products. The Company had operating losses, negative cash flows from operations and working capital deficiencies for the period from 1 January 2020 to 31 March 2020 as follows: [insert figures here]

It is uncertain whether, and when, the Company will return to profitability and positive cash flows from operations. These uncertainties cast significant doubt on the Company's ability to continue as a going concern.

The Company will need to raise capital in order to continue its operations. To address its financing requirements, the Company will seek financing through debt and equity financings, assets sales, and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

Conclusion

It is important to remember that this situation is constantly moving. Assessments need to be kept up to date, for example, those carried out two weeks before the financial statements are due to be signed will likely be out of date two weeks later. So it is crucial to ensure all judgements made are current and based on the information available at the latest date possible (ie the date the financial statements are authorised and approved).

We hope you have found the information in the article useful. Now more than ever the need for clients and their auditor or advisor to work closely together is essential, so if you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.

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Reporting the impact of COVID-19 on your business

10 key questions for CFOs...

As the impact of a novel strain of coronavirus (COVID-19) continues to unfold around the world, those individuals responsible for preparing financial statements and approving them for issue need to be cognisant of not only what has happened and is happening at the reporting date and the time the financial statements are approved, but also what is likely to happen next.

IFRS requires that all the material effects of COVID-19 are appropriately recognised, measured and disclosed at the entity's reporting date; be it interim or at year-end.

Here are ten questions entities should be asked to ensure that those financial statements not yet issued are presented fairly. These questions are by no means exhaustive, or indeed listed in any order of priority, because their applicability will depend on facts and circumstances.

1. COVID-19 – the big picture: what should be included in financial statements that have not yet been authorised and approved for issue?

An entity's stakeholders will use financial statements to evaluate the magnitude of potential disruptions to their businesses and if any estimates are included, they will want insight into how these were determined.

The stakeholders will want to understand the impact COVID-19 is having on their business. In many instances, extensive observations will have already been included in the management commentary. For example, an airline commenting on its risks might say this in its management commentary:

An outbreak of disease or similar public health threat, or fear of such an event, that affects travel demand, travel behaviour, or travel restrictions could have a material adverse impact on the Group's business, financial condition and operating results. In addition, outbreaks of disease could result in increased government restrictions and regulation, including quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organisation (WHO) has since declared COVID-19 to constitute a "Public Health Emergency of International Concern." In January 2020, the government issued a "do not travel" advisory for China. The government also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak which impacted passenger numbers. As a result the Group has suspended its flights between Euroland and each of Beijing, Shanghai, Hong Kong… Italy and any affected areas through to May 2020…etc. These routes represented approximately 5% of the Group's 2020 planned capacity and the Group's other trans-Pacific routes represented an additional 10% of its planned capacity. As of the date of this report, the Group is experiencing approximately a 100% decline in near-term demand to China and approximately a 75% decline in near-term demand on the rest of the Group's trans-Pacific routes.

The extent of the impact of COVID-19 on the Group's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of COVID-19 on overall demand for air travel, all of which are highly uncertain and cannot be predicted. If traffic on the Group's trans-Pacific routes were to remain at these levels for an extended period, and/or routes in other parts of the Group's network begin to see significant declines in demand, our results of operations for full year 2020 would be materially adversely affected.

2. Will the outbreak of COVID-19 result in more disclosures?

The answer to this question is almost certainly yes. In many situations, the outbreak will result in revised obligations or uncertainties that an entity may not have previously recognised or disclosed in its financial statements. The additional disclosures will not only relate to the revenues, expenses, assets and liabilities they have already recognised, but also what might end up recognised in subsequent reporting periods.

Below is some example wording:

The entity has been impacted by COVID-19:
On 11 March 2020, the World Health Organisation (WHO) officially declared COVID-19, the disease caused by novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the Group, the economy and the general population. Management has not yet determined the financial impact of these events.

No significant impact of COVID-19:
Management has not been aware of any cases of COVID-19 infection among its people and the outbreak has not had a significant impact to the Group's operations to date. Management currently has an appropriate response plan in place. Management will continue to monitor and assess the ongoing development and respond accordingly.

Country specific:
Euroland is currently in the elimination phase which is strategically planned to slow down the spread of the virus. As a result, at the time of issuing these financial statements, there is a complete lock down of the country [**<Tailor as appropriate to reflect what response the entity/group has taken>** eg: *Our head office and regional offices were closed on 24 March 2020 and our people have implemented alternative working arrangements. The supply for our services remains as expected, however the demand for additional services is uncertain at this time due to not being able to meet face to face with our clients and future clients. In line with advice issued by the government we have closed all our sites from X date to Y date*].

The development of these strategies is in line with global strategies guided by the World Health Organisation (WHO) and European Centre for Prevention and Disease Control (ECDC) and we will continue to implement measures in line with the government direction. While we (the directors) expect a [**<Tailor as appropriate>** *X% increase/decline in operations in Q1/Q2 of 2020 in line with the closure of operations, quarantine measures and travel restrictions*], given the dynamic nature of these circumstances, we have not formally determined the financial impact of these events on our consolidated results of operations, cash flows and financial position. We will continue to monitor closely the global developments of this new virus and respond accordingly.

Material effect but can't quantify:
The Group has closed more than half of its stores which will materially affect the group's international segment/company's operations in 2020. [**Consider impact on turnover, operating overheads, once off payments e.g. redundancy, potential impairments, cash flow impact…etc**]

The related impact of the Group's operating segments in China and our consolidated results of operations, cash flows and financial position will be material, but cannot be reasonably estimated at this time.

The importance of the Chinese/affected coronavirus area to this business where the impact can be quantified:
For 2019, China/Italy/affected segment represented approximately 15% of sales and 10% of consolidated net profit after tax.

3. There has recently been a significant drop in the value of equities so if you have a 31 December 2019 reporting date, should your financial statements be adjusted for this?

The answer is no. Fair value in accordance with IFRS 13 'Fair Value Measurement' is based on the price to sell an asset at the measurement date. Also, in accordance with IAS 10 'Events after the Reporting Date' a fall in fair value after the reporting date does not provide new evidence about the fair value at the reporting date. However, IAS 10 requires disclosures about 'non-adjusting' events after the reporting date, including abnormally large changes in assets prices (including an estimate of the financial effect unless it cannot be reasonably estimated). NB. This assessment assumes the entity is a going concern.

4. If there is estimation uncertainty, what should be reported in the financial statements?

In 31 March 2020 financial statements, for example, businesses will need to pinpoint where accounting estimates have been made and what assumptions were used to determine the amounts that are reflected in the financial statements. For example, an organisation may have perishable goods that due to market circumstances brought about by COVID-19, will have to be sold for less than it cost to produce them. Having never faced this situation, a range of selling prices exists which means the loss arising from having to write down the value of its inventory will also change. In many instances there will be a range of possible outcomes. IAS 1 'Presentation of Financial Statements' requires disclosure about the assumptions made and the nature and carrying amounts of the assets and liabilities affected. It does not prescribe the exact information you should disclose about these assumptions but gives examples of the types of information:

- the nature of the assumptions
- sensitivity of carrying amounts
- expected resolution/range of reasonably possible outcomes
- changes made to past assumptions.

5. How does information about COVID-19 that becomes available after the reporting date affect the financial statements?

In our view it depends. Entities are required to determine amounts based on their facts and circumstances at the reporting date, not after it. This is particularly important when considering whether assets are impaired or not. When information becomes available after the reporting date, its impact on the financial statements depends on whether it provides additional evidence of conditions that existed at the reporting date. So, the determination of the recoverable amounts of an asset can only consider the information obtained after the reporting date if such conditions existed as at the reporting period end. So if your organisation (with a December year-end) has been severely affected by COVID-19 and has developed plans in 2020 to restructure its operations as a consequence of this, you cannot take this post reporting date decision and its economic consequences into account. Similarly, you cannot record a provision for restructuring costs before you have a legal or constructive obligation in place.

6. Is it reasonable to take the view "the more uncertain the environment, then more detailed disclosures of the assumptions and assessments used to prepare the financial statements should be made"?

In our view, yes it is reasonable. Those preparing financial statements should always be mindful of who will be reading them and how they might be used. The financial statements need to provide enough transparency to enable users to understand the key assumptions that have been adopted so that they can make their own assessment of their reasonableness. While not exhaustive, below are some examples of how COVID-19 will impact the judgements entities make:

How is COVID-19 likely to impact the discount rate used for the impairment assessment?
It's likely to be far more challenging to estimate the discount rate for value-in-use calculations. The current volatility in financial markets introduces additional challenges to this process as the parameters used to estimate discount rates become more unpredictable. Values for assumptions which were somewhat settled in the past, such as the use of long-term government bond yields as a proxy for the risk-free rate, may no longer be appropriate. This means that, more than ever, discount rates need to be assessed after a thorough review of:

- current market conditions
- any guidance provided by market evidence of value for comparable companies or assets
- the risks of the asset or CGU for which recoverable amount is being estimated.

How will it impact the cash flow forecasts?
Entities with reporting dates near the outset of the COVID-19 pandemic are likely to have real challenges reflecting the expected impact on forecast cashflows. While the starting point is that entities are required to determine amounts based on their knowledge of events at the reporting date, not after it, information obtained after the reporting date can only be used to the extent it provides more evidence about conditions at the reporting date.

Significant professional judgement of all relevant facts and circumstances will be required to make this assessment.

The valuation approach required by IAS 36 'Impairment of Assets' also requires careful application to ensure cash flow and discount rate concepts are aligned and so no double counting of COVID-19 risks occur.

What about useful life?
While value-in-use cash flow forecasts are generally required to be for no more than five years, the impact of COVID-19 may mean that companies will now be forced to use the asset in its current condition for a period extending well beyond that. This means a longer forecast period may instead be appropriate. Conversely, long term growth rate assumptions applied previously may no longer be suitable, particularly if the economic impact of COVID-19 is viewed as being more than short-lived.

Cash flow projections must also relate to the asset in its current condition – this means management may need to demonstrate that any forecast improvements in the financial performance of an asset or cash generating unit (CGU) as a result of restructuring and/or re-organisation are due to COVID-19 impacts on the asset in its current condition and not to an underlying improvement in the asset.

7. When assessing expected credit losses (ECL), what should be taken into consideration?

Again, any assessment being made should only be based on information that existed at the reporting date. The expectation set out in IFRS 9 'Financial Instruments' is that past events, current conditions and the forecast of future economic conditions for any financial asset that is not measured at fair value is fairly presented in the financial statements in accordance with the requirements of IFRS 7 'Financial Instruments: Disclosures'. ECL is a probability weighted amount that should be determined by evaluating a range of possible outcomes and the time value of money. This is often overlooked. To make this assessment often takes a considerable amount of time and professional judgment. In responding to the likely deterioration of credit, consideration must also be given to the support packages that are being given by governments and central banks around the world. If there is uncertainty about the extent and applicability of support available to the reporting entity, then our view is that this should be disclosed. Below is a simple example of an ECL disclosure focussing solely on trade receivables (which would supplement the other disclosures required by IFRS 7). Entities with more complex financial instruments should be prepared to disclose considerably more.

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date.

Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. It will have an immediate impact on the economic scenarios used for ECL, as key inputs for calculating ECL such as GDP are weakening, and the probability of a particular adverse economic scenario for the short term is higher. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under IFRS 9 in 2020.

Since the beginning of January 2020, the coronavirus outbreak has caused disruption to our staff, suppliers and customers, particularly in [**<Tailor as appropriate>** *Hong Kong and mainland China.*] The outlook remains uncertain and we continue to monitor the situation closely.

Depending on the duration of the disruption caused by the virus, our results could be adversely affected by increased ECL, lower revenue and market volatility in our business. Further ECL could arise from other parts of our business impacted by the disruption to supply chains.

We have also developed a number of additional scenarios to capture more extreme downside risks and have used these in impairment testing and measuring and to assess our capital resilience. While our economic scenarios used to calculate our ECL capture a range of outcomes, the potential economic impact of the coronavirus was not explicitly considered at the year-end due to the limited information and emergent nature of the outbreak in December 2019.

8. What should be taken into consideration when determining fair values at a reporting date?

The relevant accounting standard is IFRS 13 'Fair Value Measurement' and it states the fair value of an asset or a liability at a measurement date is a specific exit price estimate that is based on assumptions (including those about risks) that market participants would make under current market conditions. Put another way: at the reporting date, what assumptions would market participants have made using all available information, including information that may be obtained through due diligence efforts that are usual and customary?

In some cases greater use of unobservable inputs will be required because some markets have become less active such that relevant observable inputs are not available. However, if a quoted price in an active market (a so-called level 1 price) is available then that price must be used, even if the market has become less active and/or prices more volatile. The key point to recognise is that the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant.

9. How much attention needs to be given to going concern for COVID-19?

A considerable amount. In assessing whether the going concern assumption is appropriate, an entity is required to consider all available information about the future, which is at least, but not limited to, twelve months from the reporting date of financial statements for issue. IAS 1 requires that this assessment takes into account events after the reporting date. One downside is that the longer it takes an entity to complete their financial statements after its reporting date, the more information they need to take into consideration. So if the business is being audited, it should work very closely with its auditor to agree the level of analysis and evidence that is appropriate to support whatever going concern assumption is made.

A key component of assessing going concern is to report all the material uncertainties that exist at the date of approval of the financial statements in a clear and concise way. In some instances there may only be one factor, in other situations there could be a number of them. Preparers of financial statements need to be mindful that under ISA 570 'Going Concern', the auditor is required to make reference to the specific note that appears in the financial statements in their audit report. So this will require the auditor to secure sufficient appropriate audit evidence to confirm all assumptions made in relation to going concern.

10. Ultimately, what impacts of COVID 19 will the users of the financial statements be most interested in?

For many entities, it will be how they have coped with the outbreak so far. Their focus should be on disclosing in their financial statements what steps have been taken to contain and minimise the impact of this global event on their operations. Almost every entity with a 31 December 2019 reporting date is likely to conclude that this outbreak is a non-adjusting event – but that does not absolve it from fully disclosing the post-reporting date consequences on the organisation and its future operations and activities. However, if your entity has a later reporting date, say 31 March 2020, then adjustments to the carrying amounts included in your financial statements will almost certainly be required if the entity is in a position to quantify then. If not, then this should be disclosed as well because the objective of preparing any set of financial statements should be to provide readers with insight not only on the entity's past activity, but also its current operating situation and its future viability.

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