Alerte de votre conseiller – IFRS

Répercussions comptables du conflit en Ukraine

Mars 2022

Résumé

L'équipe IFRS de Grant Thornton International a publié le document *Accounting Implications of the Conflict in Ukraine* (en anglais seulement).

Aperçu

En raison du conflit en cours en Ukraine, notamment l'adoption de vastes sanctions contre certaines sociétés et personnes russes, les entités doivent évaluer soigneusement les répercussions comptables découlant de cette situation.

Le document aborde l'incidence du conflit sur la présentation de l'information financière au 31 décembre 2021 et pour les exercices ultérieurs, et indique l'importance d'évaluer la continuité de l'exploitation.

Ressource

La publication *Accounting Implications of the Conflict in Ukraine* est jointe au présent bulletin *Alerte de votre conseiller – IFRS*.

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IFRS Alert

Accounting implications of the conflict in Ukraine

March 2022 – Alert 2022-01

Executive Summary

In light of the latest conflict in Ukraine, including the introduction of wide-ranging sanctions against certain Russian companies and individuals, entities need to carefully consider the accounting implications of this situation.

This IFRS Alert considers the financial reporting impact of the conflict on 31 December 2021 and subsequent year ends as well as assessing the importance of assessing going concern.

The issue

As the conflict in the Ukraine progresses, it is important that businesses consider the accounting implications resulting from the impact it is having on their operations and activities. The most immediate and visible accounting implications might be direct implications which result from investments in Ukraine and/or Russia (the exposure to the conflict is directly linked to the net investment the entities might have in those countries), and to the existence of a volume of businesses with and within those two areas. However, there might also be other significant indirect implications associated with more global economic consequences that result from the conflict on other areas, for example the possibility of disruptions to commodity flows that will impact the price of those commodities (eg gas, petrol, cereals, iron and steel) which may affect the overall value chain of entities that are even not located in those countries.

Is the impact of the conflict in Ukraine an adjusting event in the 31 December 2021 year-end financial statements?

Entities should consider IAS 10 'Events after the reporting period' to determine if the impact of the conflict is an adjusting event or a non-adjusting event.

IAS 10 describes an adjusting event as one which 'provides evidence of conditions that existed at the end of the reporting period'. In our view, the current conflict started on 24 February 2022 and while the Russian troops were likely planning their attack and building up at the frontier with the Ukraine in the year ending 31 December 2021, this should not be considered a critical event for determining the conflict was obvious at that point. Given this, we believe no further adjustments to 31 December 2021 financial statements need to be taken into consideration and the current conflict should be considered a non-adjusting event.

Considerations for the subsequent periods

Many entities may be affected during quarter one of 2022 and beyond. Entities need to ensure the measurement of their assets and liabilities is not impacted by subsequent developments of this conflict. For example, measurement of expected credit losses and hedge effectiveness in accordance with IFRS 9 'Financial Instruments', the measurement of impairment of intangible assets such as goodwill under IAS 36 'Impairment' and assets and liabilities that are measured at fair value in accordance with IFRS 13 'Fair Value Measurement' should now all be assessed in light of the conflict and the economic sanctions that are rapidly being put in place across the world. Considerations should also be given to IAS 2 'Inventories' on how costs of production are determined and whether the allocation of overhead costs to inventory may require entities to depart from how they usually are allocated because the conflict obliges entities to significantly reduce or generate idle capacity (ie any downtime should not be included in the cost of inventory). Additionally, the recoverability of deferred tax assets under IAS 12 'Income Taxes' should also not be overlooked.

Disclosure

If the impact of the non-adjusting event is material to the financial statements, it should be disclosed. This disclosure should include the nature of the event and an estimate of the financial effect, or if it is not possible to estimate this, a statement to that effect.

Considering the timing of the events and the timetable for issuing the financial statements, it might be difficult (or not possible) for some entities to provide information in their financial statements that gives users comprehensive disclosure about the consequences of the conflict. However, we expect they should be able to provide some information in terms of the entity's exposure. For example, such information could consist of providing net assets held in those countries, the nature of those assets (like goodwill, intangible assets, plants and equipment, inventory, etc), the level of business generated with those countries or within those countries, and any supply chain dependency.

Going Concern disclosure

IAS 1 explicitly states 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. As a result, 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. IFRIC agenda decisions from July 2010 and July 2014 should also be taken into consideration here.

Our thoughts

The conflict in Ukraine will present many financial reporting challenges in 2022. The challenges sit not only with the preparation of annual financial statements that have still to be issued, but interim financial reporting during 2022 as well. Similar to the advice we issued when entities were dealing with COVID-19, we encourage those charged with governance to carefully assess both the direct and indirect economic consequences of this conflict. IAS 1 requires an entity to report all the material uncertainties that exist at the date of approval of the financial statements clearly and concisely. We therefore recommend providing disclosures about all material events and conditions that cast doubt an entity's ability to continue as a going concern, even if the entity has concluded the going concern basis is still appropriate.