

ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY



2020/21
***Reporting: Going
concern and
impairment***

28 JANUARY 2021



This webinar will commence shortly

Introduction

Sally Baker
Technical manager
ICAEW



Today's presenters



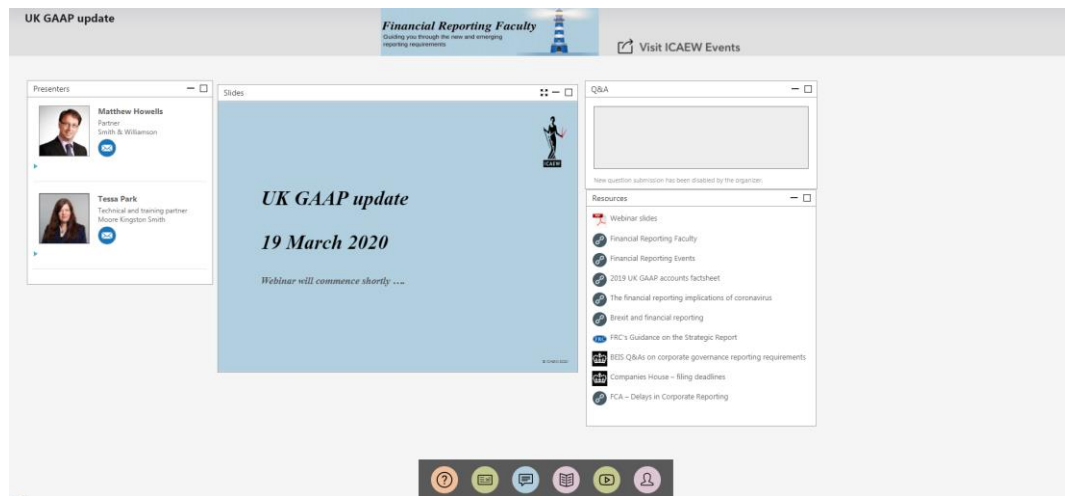
Matt Howells
Partner
Smith & Williamson



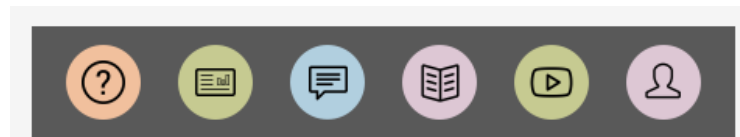
Tessa Park
Technical Partner
Moore Kingston Smith

Customise your screen

- You can customise the webinar console by moving and resizing the widgets



- You can also minimise and maximise the widgets by clicking on the icons located in the dock at the bottom of the console



Ask a question and access resources



Faculty webinars

Q&A

Submit

- Resources
- [Financial Reporting Faculty](#)
 - [The New UK GAAP](#)
 - [The New UK GAAP factsheets](#)



Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

Ask a question

Type your question into the box, then click submit.

Download resources

Access related resources, including the presentation slides

Contents

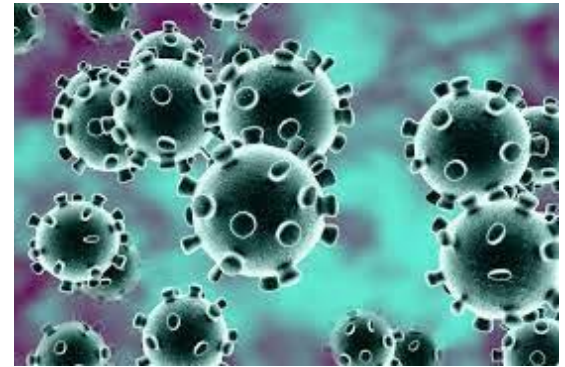
Post balance sheet events

Impairment

Going concern

Post balance sheet events (PBSE)

- Adjusting v non adjusting events
- COVID-19 – a timeline
- Effect on accounts for 2020 and subsequent year ends
- Examples

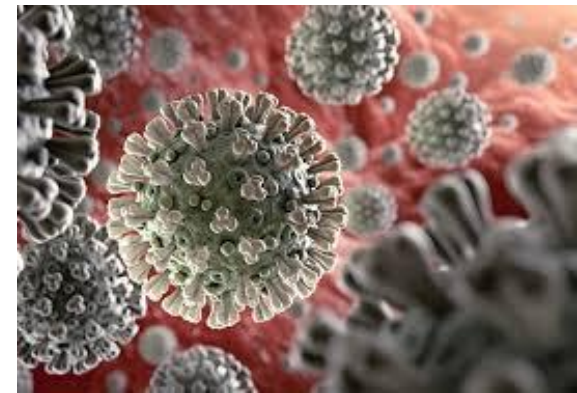


Adjusting v non-adjusting events

- Adjusting events – events occurring after the reporting date but before the financial statements are authorised for issue, that provide evidence about conditions which were already in existence at the reporting date
- Non-adjusting events – do not provide evidence about conditions which existed at the reporting date, but are material to the users of the financial statements and therefore require disclosure

What is the situation at the reporting date?

- Consider:
 - What is state of pandemic and effect on the entity at the reporting date?
 - What restrictions are in place in the jurisdictions in which the entity operates?
 - May need to consider local, national and international factors
- December 2019 year end – non adjusting event
- March 2020 – adjusting event (in lockdown)
- September 2020 – not in lockdown but ‘rule of six’ put in place
- November 2020 – back in lockdown again
- December 2020 – tier system
- January 2021 – back in lockdown (again!!)
- March 2021 – who knows?



Example – brewery

- A beer manufacturer in the UK has a 30 September year end – supplies both pubs and supermarkets
- At 30 September in UK – economy open but with ‘rule of six’ and various local containment measures
- In assessing situation at reporting date, take into account:
 - Pub closures / restrictions in local lockdown areas
 - Effect of reduced socialising elsewhere
 - Impact from selling to supermarkets as more people drinking at home
- Do not take into account:
 - Any local restrictions imposed subsequent to 30 September (i.e. that hadn’t been announced prior to that date)
 - The national lockdown that came in for November
 - Lockdown 3.0 in January



Example – UK investment company

- Company owns commercial investment property plus also a portfolio of equity instruments
- Year end is 31 December 2020 – most of UK under tier 3 or 4 restrictions
- Investment property held at valuation
- FV of property – may be affected by lack of market data/ valuation uncertainty, also by factors such as changes to leases (tenants need less office space etc) & rent concessions
- Equity portfolio – traded values at 31/12/20
- Disclose post balance sheet changes in value, if material



- The basics
- Types of assets that might be impaired
- Forecasting future cash flows
- Disclosure considerations
- FRC's expectations



Impairment

IFRS, FRS 102 (including 1A), FRS 105

The basics

Mandatory impairment reviews in specified cases

Otherwise only if indicator of impairment

- Some are mandated
- May think there aren't any if business is doing well, but times are unpredictable!

If there is an indicator, calculate recoverable amount

- Higher of value in use and fair value less costs to sell
- So if either is higher than carrying amount, don't have to calculate the other one
- Both based on discounted forecast cash flows

If recoverable amount < carrying amount, book an impairment loss

Group assets into CGUs if necessary

Impairment losses can be reversed (except on goodwill)

And remember...

Impairment
review is
as at the
***balance
sheet date***

- State of pandemic, restrictions, lockdowns etc
- Assumptions about the future

Poll question

In your experience, which of the following assets in your business or those of your clients have most commonly been impaired?

(Select more than one if applicable)

- Stock / inventory
- Debtors / receivables
- Investments in subsidiaries, associates etc
- Other investments eg, share portfolio
- PPE
- Goodwill and other intangibles
- Other

Assets potentially affected include...

Goodwill
and other
intangibles

Property,
plant and
equipment

Investments

Stock

Debtors

Forecasts: standards have certain requirements

FRS 105

- Calculation of
 - Fair value less costs to sell
 - Value in use
 - Certain cash flows included and excluded
 - Can't include cash flows from events to which you weren't committed at the year end
- Pre-tax discount rate
 - Risk-adjusted (if not already included in projected cash flows)

Forecasts: standards have certain requirements

FRS 102

- Further requirements for
 - Calculating value in use
 - Impairment of goodwill
 - Treatment of cash-generating units

Forecasts: standards have certain requirements

IAS 36

- Much more detailed requirements and lots of guidance, eg
 - Cash flows must be based on most recent budgets/forecasts approved by management
 - Rebuttable requirements
 - 5-year cap on budget period
 - Projections of cash flows beyond this period should use a steady or declining growth rate

Forecasts: practicalities

Now more data on effects of COVID

- Forecasts can be made with more justification

Factor in uncertainty

- Use different scenarios and attach different probabilities to each

Beware over-optimism

- Acknowledge that things could still get more difficult
- What will the “new normal” be?

ICAEW
Coronavirus Hub

- General economic and industry-specific data

Show your workings!

- Your auditors will be asking about assumptions

Disclosures

FRS 105: none mandated

FRS 102 1A:

- Accounting policy
- Amount of impairment losses and reversals for fixed assets
- Post balance sheet events
- Plus anything further required for a T&F view

FRS 102:

- Significant judgements and key sources of estimation uncertainty
- Description of impairment and reversal events

IFRS...

FRC's expectations 1



Financial Reporting Council

Company Guidance (Updated 4 December 2020¹) (COVID-19)

COVID-19 Pandemic

Guidance for companies on Corporate Governance and Reporting

- “... increased importance of providing **information on significant judgements** applied in the preparation of the financial statements, **sources of estimation uncertainty** and other assumptions made...”
- “... we encourage companies to focus on providing as much **context** as possible for the assumptions and predictions underlying the amounts recognised in the financial statements, including, where relevant, information about potential **sensitivities** to changes in assumptions, or **ranges of possible outcomes**. Such information will **help users to understand** the amounts presented.”

“In the absence of any consensus view of the future path of the COVID-19 pandemic and its impact on the economy, **users cannot expect all companies to apply consistent assumptions** when there is such uncertainty. This lack of consistency makes the need for full disclosure of judgements, assumptions and sensitive estimates **significantly more important than usual.**”

FRC's expectations 2

Thematic Review

Impairment of non-financial assets

October 2019



Covid-19 Thematic Review:

Review of financial reporting effects of Covid-19

JULY 2020

- Include examples of better-quality disclosures as well as problems identified
- “We noted a high number of instances where disclosures around sensitivities or ranges of possible outcomes were incomplete or missing altogether. We expect accounts to include disclosures in this area.”
- “A key message of this report is that companies should respond to the current levels of uncertainty with increased disclosure.”

Going concern

- Basis of preparation of financial statements
- Impact of changing environment on going concern assessments
- Going concern disclosures in the current situation
- Considerations for FRS 102 Section 1A reporters
- Considerations for FRS 105 reporters



Basis of preparation of financial statements

- General requirement that accounts are prepared on a going concern (GC) basis unless either the business is being liquidated / ceased trading or has no realistic alternative but to do so
- Some businesses may cease to be going concerns due to COVID
- Ceasing to be a going concern is always an adjusting PBSE
 - Consider if assets impaired as a result of business ceasing to be a going concern – though won't be reclassified
 - Disclose basis on which financial statements prepared (i.e. not GC) and reasons why entity not a going concern
 - Not a 'break up' basis as not compatible with FRS 102

Impact of changing environment on going concern assessment

- Unlike PBSE – need to consider not only what has happened post year end but also a period of at least 12 months forward from date of approval of the financial statements
- So as regards COVID – need to consider the impact of the following on ability of the entity to continue as a going concern:
 - Restrictions put in place before the balance sheet date
 - Restrictions imposed post balance sheet but before accounts are authorised for issue
 - Potential future restrictions – will the company survive yet another lockdown / a fourth wave etc?
 - Mitigating factors, such as government assistance, future fund raise / refinancing, nature of business meaning impact is limited
- Because of pace of change, assessment will be a moving target, right up until the point the accounts are signed

Going concern disclosures – the good, the bad and the ugly

- The key point is to ensure that sufficient disclosure is included in the accounts to ensure that users:
 - Are aware of any material uncertainties in relation to going concern; and
 - Are aware of the key factors which are relevant to the directors' consideration of whether the entity is a going concern, and how they have formed their assessment.
- FRS 102 – disclosure mandatory if material uncertainty
- No explicit requirement for disclosure if no material uncertainty – but...
- Clear expectations from regulators (FRC) that there will be going concern disclosures, with reference to the impact of COVID-19 on the entity, in more or less every set of accounts – and that this will not be boiler-plate text

What should be included in the going concern note?

- Needs to be forward as well as backward looking – covering the period 12 months forward from date of approval of accounts, as well as relevant pre and post balance sheet factors
- Should include quantitative and qualitative factors such as:
 - Profit or loss for the year
 - Net assets or liabilities position
 - An explanation of the impact of COVID-19, including any mitigating factors which are relevant to the directors' assessment, e.g. use of government assistance programmes
 - An explanation of the impact of any relevant post balance sheet events, e.g. lockdown 3.0 (for a December year end)
 - Explanation of the impact of any other factors relevant to the assessment of going concern

What should be included in the going concern note? (2)

- Level of detail required (including in respect of COVID-19 impact) will depend on factors such as:
 - the nature of the business/ industry in which the client operates;
 - where it makes the majority of its sales;
 - where its supply chains are located;
 - whether it is experiencing supply shortages (or expects to in the future); and
 - how likely it is to be impacted by staff working from home (and their ability to do so).
- Generally – the more likely a business is to be significantly affected (by COVID or other issues) the more disclosure will be required to show a true and fair view

How not to do a going concern note

- ‘After making enquiries the directors have concluded that the company will have sufficient resources available to it to continue to trade for the foreseeable future. Consequently the financial statements have been prepared on a going concern basis’
- Leaving it out completely (except in very limited circumstances)



Example – part one

At the balance sheet date of 31 December 2020, the company made a profit for the year of £x, and had net assets at that date of £y. The company's turnover and profits were reduced from the prior year as a result of the impact of the coronavirus pandemic and the measures taken both in the UK and overseas to contain it, including the temporary lockdown imposed in England in November 2020.

The directors are expecting the company's turnover to continue at a lower level for the first three months of the year as a result of the imposition of further lockdown measures subsequent to the year end. However, the directors are confident that once lockdown measures are eased, turnover will revert to normal levels over the next twelve months.

The company has cash reserves of £x as at the date of approval of the financial statements, having obtained a CBILS loan of £500,000. The company has also taken advantage of the furlough scheme with approximately 25% of staff on furlough until the end of December 2020. In addition the company was able to defer payment of rent on its premises until 31 March 2021. The company has sufficient working capital to enable it to continue to trade and meet its liabilities as they fall due for at least the next six months from the date of approval of the financial statements. If longer term lockdown measures are not imposed, the anticipated return to normal levels of trading will enable the company to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements.

Example – part two

If longer term lockdown measures are introduced and turnover is further affected as a result, the company may need to obtain additional finance or explore other options such as further deferral of rent and finance lease payments and a cost reduction programme. The company is currently in discussion with its bankers regarding the availability of additional funding and whilst there can be no certainty in this respect the directors are confident that additional funding will be able to be obtained if necessary.

As a result the directors believe that the company will be able to continue in business and meet its liabilities as they fall due for a period of at least twelve months from the date of approval of the financial statements.

Considerations for small entities adopting FRS 102 Section 1A

- Per Section 1A of FRS 102 – only very limited disclosures required by law
- Going concern disclosure is not one of them
- Entities applying Section 1A are encouraged to provide going concern disclosures where there is a material uncertainty
- Accounts still need to show a true and fair view
- Where there are material uncertainties, it is unlikely they will show a true and fair view without disclosure
- Even if uncertainties are not material, disclosure may well be required

Considerations for micro entities applying FRS 105

- No requirement for micro entities to include going concern disclosures in their financial statements
- Voluntary disclosure could be included if the entity wishes to do so
- Whether the accounts are true and fair or not is irrelevant as micro entity accounts are deemed to show a true and fair view
- In practice unlikely many micro entities will make voluntary disclosures

Looking to the future

- Uncertainty will be a key part of the upcoming reporting season
- Impact of COVID, related restrictions, and therefore effect on entities will be constantly changing
- Effects could be felt at international, national or local level
- A lot of judgement will be required – by entities and their auditors – to determine what the impact will be on the accounts
- Focused disclosure will be really important for users



Ask a question



Faculty webinars

Q&A

Enter your question

- Resources

 - [Financial Reporting Faculty](#)
 - [The New UK GAAP](#)
 - [The New UK GAAP factsheets](#)

Ask a question

Type your question into the box, then click submit.

Further resources

icaew.com/financialreporting

- Coronavirus hub (icaew.com/coronavirus/financial-reporting)
 - Online guides, checklists and helpsheets
 - Bitesize Briefings
- Going concern hub (icaew.com/goingconcern)
 - Resources for directors, preparers, auditors and more
 - Going concern guides for FRS 102 and FRS 105 preparers
- Webinar recordings (icaew.com/frfwebinars)
 - Preparing for the 2020/21 reporting season (December 2020)

Future events

For details, please visit icaew.com/frfevents



Bitesize Briefings



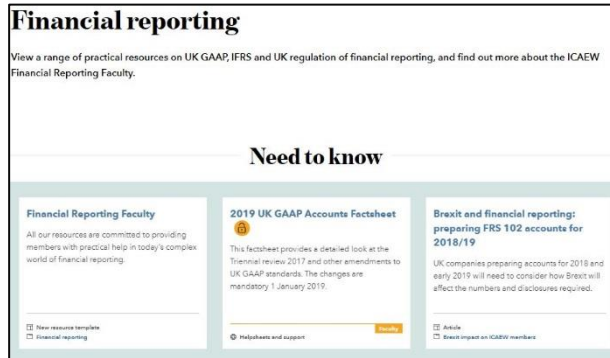
Webinars



2021 Financial Reporting Conference

11 October 2021 | Details to be made available soon

Financial reporting at your fingertips



We are committed to providing members with practical help in today's complex world of financial reporting.

Visit icaew.com/financialreporting for more information.



You can also follow us [@ICAEW_FRF](https://twitter.com/ICAEW_FRF) to keep up-to-date with the latest financial reporting developments and breaking faculty news.

Financial reporting news and insights

Discover the latest news and developments in financial reporting with insights from ICAEW's Financial Reporting Faculty. Visit icaew.com/frnews

Questions



Matt Howells
Partner
Smith & Williamson



Tessa Park
Technical Partner
Moore Kingston Smith

Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



Contact the Financial Reporting Faculty

Phone: +44 (0)20 7920 8533

Email: frfac@icaew.com

Web: icaew.com/frf

This webinar is presented by the Financial Reporting Faculty.

Financial Reporting Faculty membership gives you access to exclusive premium resources including our factsheets, monthly webinars, bitesize recordings, discount on events and conferences and extensive online resources to support your career.

For more information about faculty membership and our latest joining offers, please visit icaew.com/joinfrf or for more information about Faculties Online, please visit icaew.com/subscribeo.

ICAEW will not be liable for any reliance you place on the information in this presentation. You should seek independent advice.

