

***Bitesize Briefing***  
FINANCIAL REPORTING FACULTY



***COVID-19 and post balance sheet  
events***

16 APRIL 2020

## *Today's presenters*



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# ***Definitions – Events after the reporting date - FRS 102 (Chapter 32) and IFRS (IAS 10)***

- *Events after the end of the reporting period* are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types of events:
  - (a) those that provide evidence of conditions that existed at the end of the reporting period (**adjusting events** after the end of the reporting period); and
  - (b) those that are indicative of conditions that arose after the end of the reporting period (**non-adjusting events** after the end of the reporting period).

# *COVID-19 - Situation as at 31 December 2019*

- Whilst certain events did occur before 31 December 2019 only a few cases had been confirmed and the virus had only just been identified (i.e. The Wuhan Municipal Health Committee issued an urgent notice about the virus on 30 December 2019).
- Detail of the disease outbreak and many actions taken by governments to respond to the outbreak followed after 31 December 2019.
- Therefore, based on information about COVID-19 that was reasonably available to December year-end reporters, it is likely that market participants would not have made adjustments to their assumptions based on the available information and an assessment of risk as at that date.
- There is a general consensus between audit firms and regulators that COVID-19 was likely to represent a **non-adjusting post balance sheet event** as at 31 December 2019.

# COVID-19: Implications for 31 December 2019



Consensus  
between audit  
firms & stock  
exchange  
regulators

An entity shall not adjust the amounts recognised in its financial statements as at 31 December 2019 to reflect the events occurring after the reporting period that are caused by the COVID-19 outbreak...

FRS 102 (32.6)  
and IAS 10.10:  
« *non-adjusting  
events* »

... unless such events **call seriously into question the validity of the going concern assumption**

FRS 102 (32.7A  
and B) and IAS  
10.14-16



Consequently, the COVID-19 outbreak impact on financial statements at 31 December 2019 is limited to **disclosures only**

# *Non-adjusting event – Implications of COVID-19*

**For year ended 31 December 2019**

Examples:

<b>Accounting area</b>	<b>Implication as at 31 December 2019</b>
<b>Cash flow forecasts - Impairment tests</b>	Cash flows forecasts shall not take into account the effects of the COVID-19 outbreak
<b>Provisioning of expected credit losses</b>	The impairment of trade receivables as at 31 December 2019 shall not include the effects of the COVID-19 outbreak
<b>Measurement of inventories</b>	Shall not be changed in the year-end financial statements for the effects of COVID-19
<b>Deferred tax assets</b>	Shall not use revised cash flows or be reassessed for balances that changed after the year-end as a result of COVID-19
<b>Fair value measurements</b>	Shall not be changed in the year-end financial statements
<b>Cash flow hedges of highly probable transactions</b>	Shall not be changed in the year-end financial statements

# Going concern

**Management are required to assess whether the entity is able to continue as a going concern, and whether the going concern assumption is an appropriate basis for preparation of the financial statements.**

- When assessing the appropriateness of the use of the going concern assumption, **entities are required to consider events both before and after the reporting date**, up till the date of authorisation for the issue of the financial statements, **irrespective of whether those events are adjusting or non-adjusting events.**
- In their assessment, management will need to consider actual and projected foreseeable impact from various factors, such as the following:

- Significant decline in demand for products or services;
- Significant erosion of profits due to higher costs or incurrence of unforeseen expenses;
- Breach of debt covenants consequent to the adverse impact on its financials;
- Contractual obligations;
- Potential liquidity and working capital shortfalls; and
- Access to existing sources of capital (including government aid).



# *COVID-19: Disclosures in the notes of the financial statements for 31 December 2019 year-ends*

**Key disclosure objective:** To understand the risk of material adjustments to the carrying amounts of assets and liabilities within the next financial year

## Under FRS 102 and IFRS (non-exhaustive list)

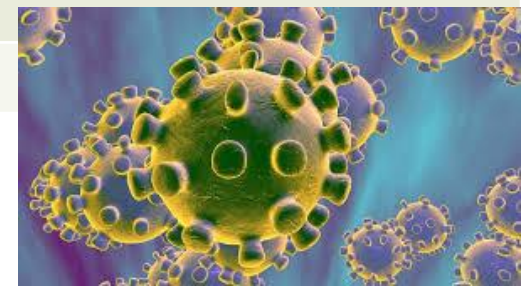
- Information about **non-adjusting events** after the reporting period (see FRS 102 (32.10) and IAS 10.21):
  - Nature of the event
  - Estimate of its financial effect (or a statement that such an estimate cannot be made)
- Information about the **assumptions** made for the future, and other **major sources of estimation uncertainty** at the end of the reporting period (see FRS 102 (8.6 and 8.7) and IAS 1.125 and following)
- (Where applicable) Information about **going concern**
  - ✓ The fact that the financial statements are not prepared on a going concern basis, or
  - ✓ The material uncertainties that may cast significant doubt upon the entity's ability to continue as a going concern



**ESMA expects issuers to provide both qualitative and quantitative information on the actual and potential impacts of the outbreak**

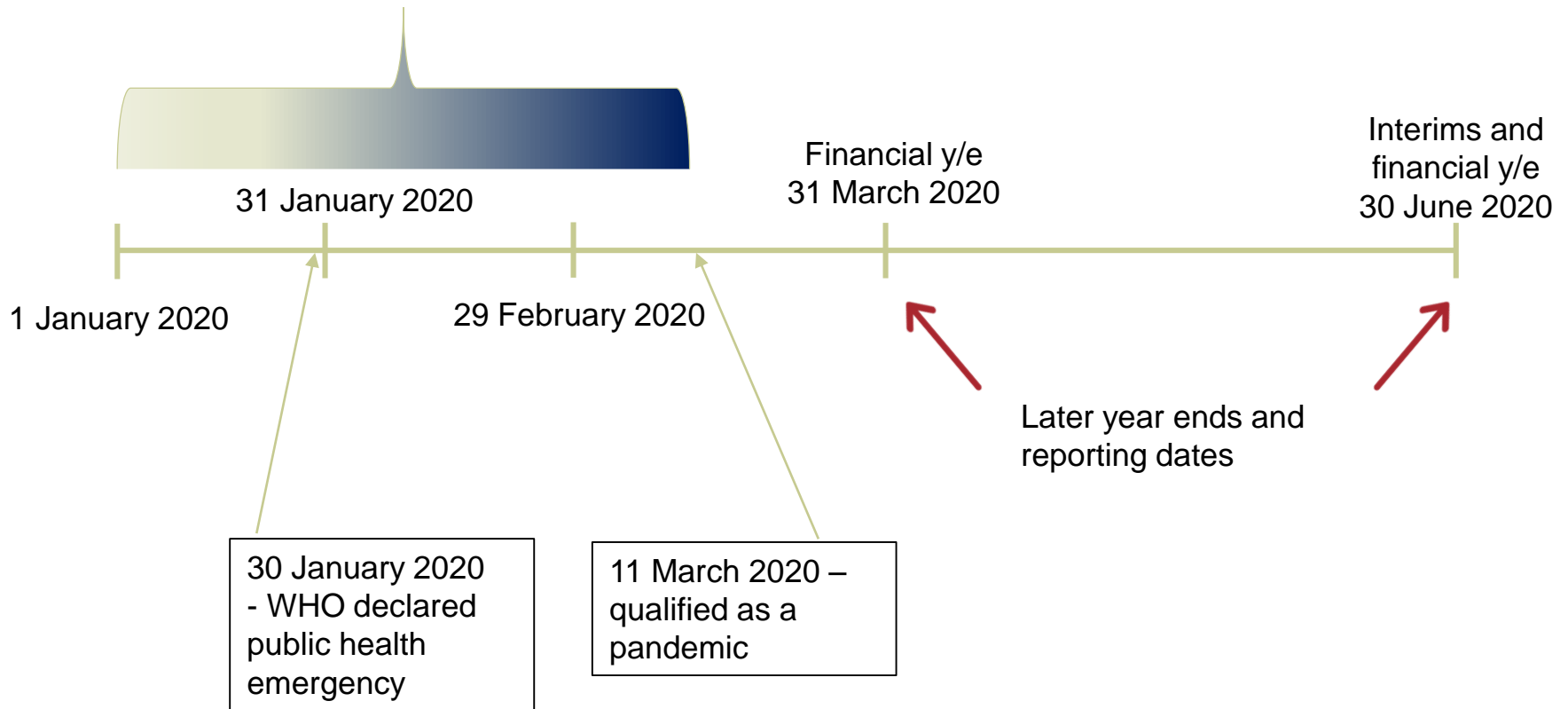
# *Coronavirus – Certain ‘key’ 2020 dates*

Date	Event
7 January	- Officials announced they had identified a new virus, according to the WHO
24 January	- 1 <sup>st</sup> COVID-19 case in Europe (France)
29 January	- Italy 1st case
30 January	- WHO declares public health emergency of International Concern - UK medical officers raised threat from low to moderate
23 February	- Italy starts lockdown on North Italy
28 February	- Earliest documented transmission in UK (all other cases ‘imported’)
1 March	- Cases had been detected in England, Wales, Northern Ireland and Scotland
3 March	- UK Government declared outbreak a level 4 incident
11 March	- WHO announcement as a pandemic
24 March	- UK Lock-down announced



# Adjusting events (?) – Considerations for 2020

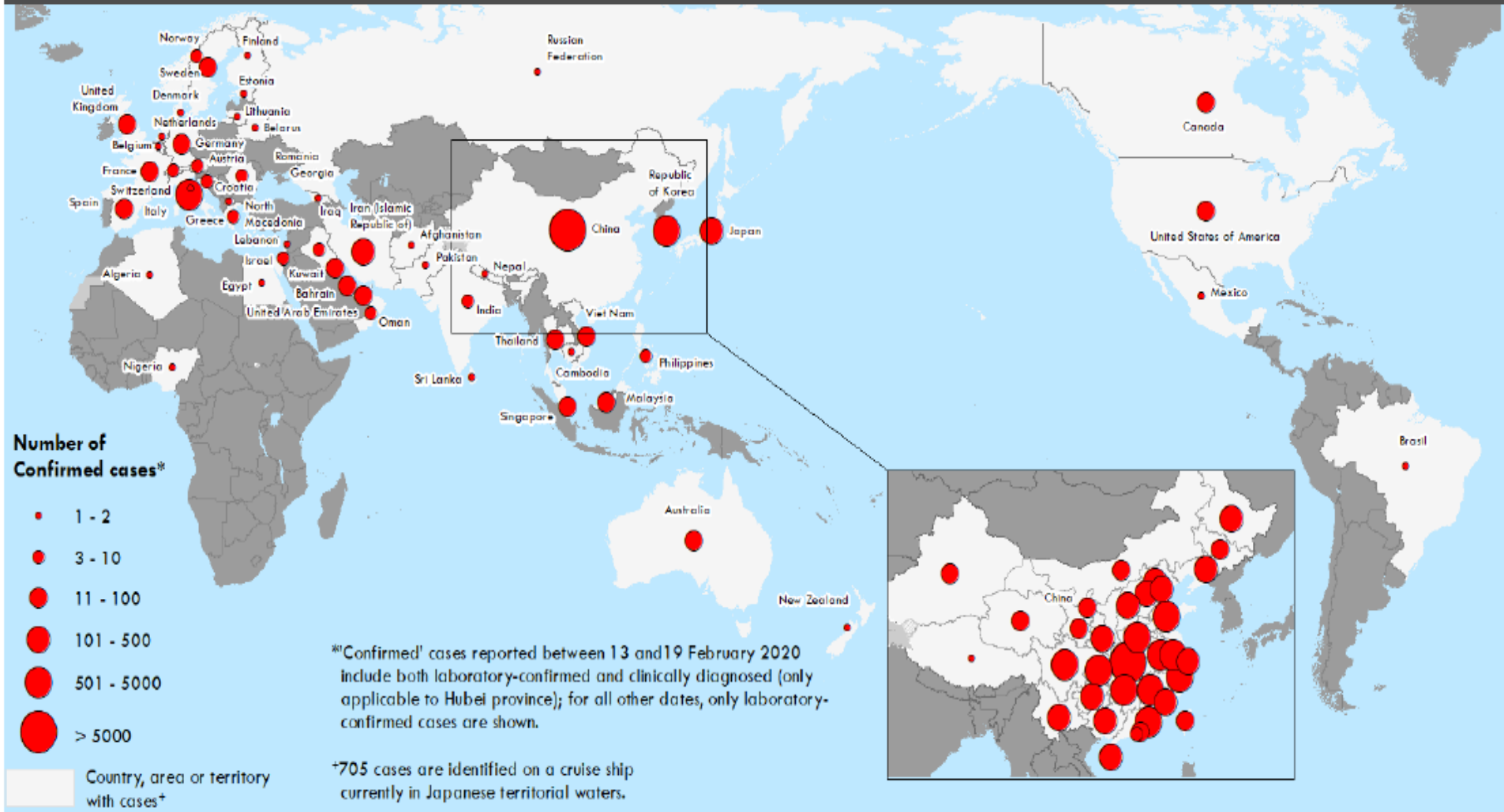
Q: When should this be treated as an adjusting event?



# WHO Situation Report at 29 February 2020



## Distribution of COVID-19 cases as of 29 February 2020





# No universal flip point

This will be highly dependent on the specific facts and circumstances of the entity's operations and the events under consideration at the reporting date.

Facts and circumstances existing at reporting date	Comments / Indicators
<b>31 January 2020</b>	<p>The effects of the COVID-19 outbreak did not have a significant impact on global markets until <u>after</u> 31 January 2020.</p> <ul style="list-style-type: none"><li>- Concluding that this will be an adjusting event up until 31 January 2020 will be 'challenging' for many entities unless significant impact for the entity itself at that date (e.g. significant operations in China)</li></ul>
<b>29 February 2020</b>	<p>Decisions at this date could still be <u>very challenging</u> and will depend on the specific facts and circumstances.</p> <ul style="list-style-type: none"><li>- As cases no longer predominantly limited to Asia (see WHO slide) many entities may conclude that this is current-period event that will require ongoing evaluation for events after the reporting date.</li></ul>
<b>31 March 2020</b>	<p>The COVID-19 outbreak <u>likely</u> to be a current-period event that will require ongoing evaluation for events after the reporting date.</p> <ul style="list-style-type: none"><li>- Pandemic announced on 11 March 2020</li></ul>

# *Accounting implications where COVID-19 is a current-period event (requiring ongoing evaluation)*

## Examples

Potential areas impacted	Potential areas impacted
<ul style="list-style-type: none"><li>• Impairments (PPE, goodwill, intangibles etc)</li></ul>	<ul style="list-style-type: none"><li>• Expected credit losses (bad debts)</li></ul>
<ul style="list-style-type: none"><li>• Onerous contracts</li></ul>	<ul style="list-style-type: none"><li>• Revenue recognition (returns provisions, volume rebates etc)</li></ul>
<ul style="list-style-type: none"><li>• Defined benefit pensions</li></ul>	<ul style="list-style-type: none"><li>• Deferred tax assets</li></ul>
<ul style="list-style-type: none"><li>• Share-based payments</li></ul>	<ul style="list-style-type: none"><li>• Inventory write-downs</li></ul>
<ul style="list-style-type: none"><li>• Debt renegotiations</li></ul>	<ul style="list-style-type: none"><li>• Cash flow hedge of highly probable transactions</li></ul>
<ul style="list-style-type: none"><li>• Insurance recoveries</li></ul>	<ul style="list-style-type: none"><li>• Disclosure (including significant judgements and estimates)</li></ul>

# *Conclusions*

- 31 December 2019 – **Non-adjusting event** and disclosure is critical
- 2020 – **No universal flip point** and will depend on facts and circumstances
- When treated as a current period event (requiring ongoing evaluation) will likely impact measurement and recognition across many areas of the financial statements
- Disclosure of the significant estimates and judgements made by management remain key

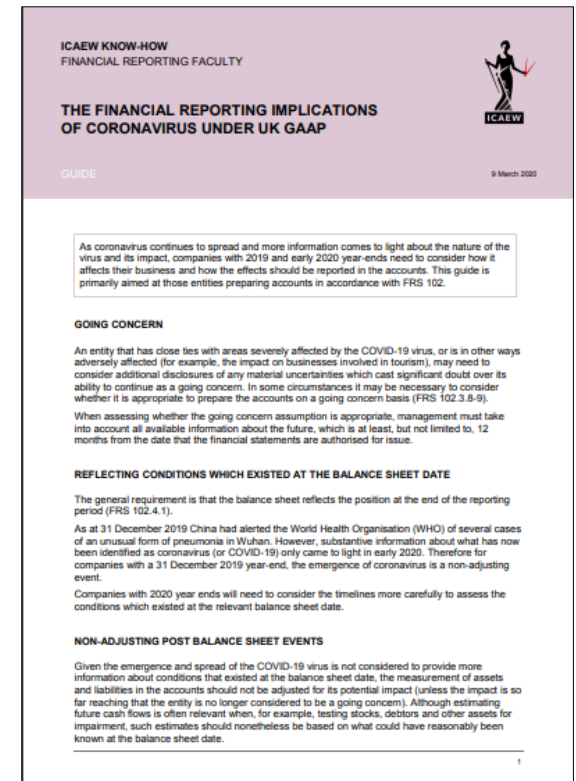
# ICAEW resources

## Coronavirus hub ([icaew.com/insights/coronavirus](https://icaew.com/insights/coronavirus))

- Help for business
- Financial reporting
- Audit
- Tax

## Financial reporting ([icaew.com/financialreporting](https://icaew.com/financialreporting))

- The financial reporting implications of coronavirus
- UK GAAP resources
- IFRS resources
- UK regulation for company accounts resources





# Join the faculty

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Providing support and practical guidance through a broad range of resources

- Factsheets
- By All Accounts
- Standards Tracker
- eIFRS
- Events



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**2019 UK GAAP ACCOUNTS**  
UK GAAP FACTSHEET

*Practical help in a complex world*

**2019 UK GAAP Accounts**  
This factsheet considers the changes to UK accounting standards that are mandatory for accounting periods beginning in 2019 and beyond.

**Key regulations for this factsheet**  
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

**Section 1**  
**Introduction**

**Significant changes to UK GAAP**  
In December 2017 the FRC issued Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications (the 'Triennial review 2017 amendments'). These amendments are generally effective for accounting periods beginning on or after 1 January 2019.

Many of the amendments to FRS 102 are editorial or aim to clarify, rather than change, accounting treatments. However, there are some more significant amendments, for example to areas such as investment property, intangible assets arising on a business combination and certain loans from directors (or their close family members) to small entities. There are also consequential amendments to the other UK accounting standards, including some repeat changes to FRS 105.

The FRC has also issued Amendments to FRS 102 – Multi-employer defined benefit plans and Amendments to FRS 102 – Interest rate benchmark reform which are effective for accounting periods beginning on or after 1 January 2020.

Those entities with accounting periods beginning before 1 January 2019 should refer to the faculty's factsheet 2018 UK GAAP Accounts. The specific (and quite complex) requirements relating to the early adoption of the Triennial review 2017 amendments are covered in that factsheet.

**FRS 101 Reduced Disclosure Framework**  
Preparers of FRS 101 accounts should be aware that IFRS 10 Leases comes into effect in 2019 along with some narrow scope amendments to other IFRSs. More information on the disclosure exemptions, including limited exemptions from the IFRS 10 disclosures, is available in the faculty's factsheet Reduced Disclosure Framework. More information on the changes to IFRS is available in the faculty's factsheet 2019 IFRS Accounts.

**Other regulatory changes**  
This factsheet does not include details of other regulatory changes affecting UK entities. More information on such changes can be found in the faculty's factsheet UK Regulation for Company Accounts.

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# *Thank you for listening*

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