



CORONAVIRUS (COVID-19): HOW TO IMPROVE DISCLOSURES WHEN PREPARING ACCOUNTS IN ACCORDANCE WITH FRS 102

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This guide is aimed at companies applying FRS 102. It identifies some key areas where entities might need to consider the impact of COVID-19 when preparing disclosures within their annual report and accounts. It is not intended as a disclosure checklist but rather to highlight factors to consider in the current environment.

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Throughout this guide, reference is made to the Financial Reporting Council's (FRC) [Company Guidance \(COVID 19\)](#) and [COVID-19 Thematic Review](#). While both documents are aimed at entities reporting under IFRS, many of the points raised are equally applicable to entities reporting under FRS 102.

This guide focuses on disclosure requirements only. For further guidance on recognition and measurement matters see the Faculty's [Checklist: implications of COVID-19 for the preparation of accounts under FRS 102](#).

SMALL ENTITIES

There are fewer mandated disclosure requirements for entities that are entitled to, and choose to apply, the small companies regime. Section 1A *Small Entities* (Appendix 3) of FRS 102 outlines the disclosure requirements for small entities and cross-refers to where similar disclosure requirements can be found within FRS 102. Small entities can identify disclosures throughout FRS 102 that are similar to those required by Section 1A by looking for the asterisk in the left-hand margin. These asterisks have been reproduced, where relevant, to any FRS 102 paragraph references included within this guide.

It is important to note that while there are legal restrictions on what can be mandated in small entity accounts, those accounts must still give a true and fair view. Therefore, judgement must be applied when considering whether further disclosures, over and above those specifically required by Section 1A, will be needed in order for the accounts to give a true and fair view.

Further guidance on the specific disclosures required by small entities applying FRS 102 Section 1A *Small Entities* can be found in the Technical Advisory Helpsheet [FRS 102 Section 1A Small Entities](#) and the Financial Reporting Faculty factsheet [Preparing and Filing UK Small Entity Accounts](#).

DISCLOSURES

When reading this guide it is worth keeping in mind the general principle that for disclosures to be most relevant to users, they should be tailored to an entity's individual circumstances. The uncertainty and disruption caused by COVID-19 means that providing readers with transparency on how the pandemic has affected the entity's individual performance, position and future prospects is more important than ever.

Accounting policies

FRS 102 requires entities to provide a summary of significant accounting policies that have been applied in the preparation of the accounts (FRS 102.8.5*). Entities should consider reviewing their accounting policies to make sure they reflect changes in events or conditions resulting for COVID-19. It may be that existing accounting policies need to be expanded on, for example, the policy for impairments may need to be revisited.

Similarly, it may be that COVID-19 has resulted in new transactions and balances being recognised in the accounts, or raised the prominence of certain areas, thus requiring information not previously required. For example, accounting policies might be needed to explain the treatment of:

- Government assistance loans.
- Government or local authority grants.
- Rent holidays.
- Refunds/returns of goods or services.

Significant judgements

Entities must provide details of any significant judgements, apart from those involving estimations (see below), made in applying their accounting policies (FRS 102.8.6*). The information provided should be sufficiently detailed, and entity-specific, such that the users of the accounts can understand the specific judgement made, why it is significant, and how the conclusion has been reached. The FRC's [Company Guidance \(COVID 19\)](#) highlights some examples of judgements which might be relevant in the context COVID-19, including:

- Availability and extent of support through government support measures.
- Availability, extent and timing of sources of cash, including compliance with banking covenants or reliance on those covenants being waived.
- Duration of social distancing measures and their potential impacts.

Key sources of estimation uncertainty

Entities must disclose details of any key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (FRS 102.8.7). For those assets and liabilities identified, entities must provide information on:

- their nature; and
- their carrying amount as at the end of the reporting period.

The unpredictable nature of the Coronavirus pandemic means making estimations based on expectations of future events will be highly challenging for entities during this time. As a result, it may be that there are more key sources of estimation uncertainty, compared to prior periods. Examples of areas where key sources of estimation uncertainty might arise include:

- Inventory provisions and estimations of future demand and expected selling price.
- Bad debt provision and estimations of the ability of customers to meet their debts as they fall due.
- Impairment of assets and estimations of future cash flows, discount rates, and long-term growth.

It will be paramount for entities to make clear those estimates that have required management's most difficult, subjective or complex judgements. It may also be helpful to make clear which sources of estimation uncertainty have been affected by or are the result of COVID-19.

In the current circumstances, entities should also consider providing sensitivity analysis showing different possible outcomes for key areas of estimation uncertainty. While this is not strictly required by FRS 102, the FRC highlighted the importance of providing such information in its [COVID-19 Thematic Review](#).

Changes in estimates

It may be that new developments arising from COVID-19 necessitate changes in accounting estimates used in the preparation of the accounts. For example, a significant decline in the demand for a particular good might require a reassessment of the useful economic life of any tangible asset(s) dedicated to the production of that good.

When an entity changes an accounting estimate it must disclose the nature of the change and the effect of the change on assets, liabilities, income and expense for the current period. If practicable, the entity must also estimate the effect of the change in one or more future periods and disclose those estimates (FRS 102.10.18).

Fair value of investment property

The uncertainty arising from COVID-19 may make measuring the fair value of investment property, including obtaining independent valuations, particularly challenging. Even when obtained, independent valuation reports may include material uncertainty paragraphs. FRS 102 requires entities to disclose the methods and significant assumptions applied in determining the fair value of investment property (FRS 102.16.10(a)*).

FRS 102 also requires entities to disclose the extent to which the fair value of investment property is based on a valuation by an independent valuer. If there has been no such valuation, that fact must be disclosed in the accounts (FRS 102.16.10(b)).

If an independent valuation report includes any material uncertainties paragraphs as referred to above, these details may need to be disclosed in the accounts.

Similar considerations should be given to property, plant and equipment measured under the revaluation model in accordance with Section 17 *Property, Plant and Equipment* of FRS 102.

Going concern

For further guidance on disclosures relating to going concern assessments see the faculty's [Coronavirus: Going concern considerations – a guide for FRS 102 preparers](#).

Post balance sheet events (PBSE)

For further guidance on disclosures relating to post-balance sheet events see the faculty's [Coronavirus: How to distinguish adjusting from non-adjusting post balance sheet events under UK GAAP](#).

Impairment of assets

Testing for the impairment of assets will be an important consideration for many entities in the current circumstances. When assets are impaired, FRS 102 requires entities to disclose the amount of the impairment loss recognised in profit or loss during the period and the line item(s) in which those impairment losses are included (FRS 102.27.32*).

This information is required to be shown for each class of asset. This includes inventories; property, plant and equipment (including investment property accounted for by the cost method); goodwill; intangible assets other than goodwill; investments in associates; and investments in joint ventures (FRS 102.27.33).

Entities should provide a description of the events and circumstances related to COVID-19 that have led to the recognition of the impairment loss in the accounts (FRS 102.27.33A). This description should make clear the specific implications of COVID-19 for the entity rather than referring generally to the pandemic. For example, a retailer might refer to how COVID-19 has reduced footfall or resulted in the closure of stores.

For further information on the accounting and disclosure requirements for impairments see the faculty's factsheet [FRS 102 Impairment of assets](#).

New and existing bank loans and other loans payable

Entities may enter into new loan arrangements as a result of COVID-19, for example, through a government support scheme or via their bank. Some factors to consider are outlined below.

Terms and conditions

FRS 102 requires entities to disclose information which enables users to assess the significance of financial instruments to their financial position and performance. This might include, for example, details of the terms and conditions of the loan such as the interest rate, maturity, repayment schedule, and restrictions that the loan imposes on the entity (FRS 102.11.42).

Risk

Entities should consider the financial risk (including liquidity risk) arising from new or existing loan arrangements. When the financial risk arising from financial instruments is considered significant to the business, FRS 102 states that additional disclosure may be required (FRS 102.11.42).

Modifications

It may be that entities have renegotiated or modified their loan arrangements as a result of COVID-19 which, depending on the individual circumstances, may result in the derecognition of all or part of the original liability and the recognition of a new liability in the accounts. In this instance, entities should consider whether disclosure is needed to describe:

- the terms and conditions of the modified loan compared to the original loan;
- the accounting policy applied to the modification;
- the derecognition or modification gain or loss included in profit or loss; and
- any significant accounting judgements made.

Defaults, breaches and covenants

Financial pressures arising from COVID-19 mean many entities will need to monitor carefully the conditions attached to any loan arrangements. In the case of a default or breach on a loan, entities are required to disclose (FRS 102.11.47):

- details of that breach or default;
- the carrying amount of the related loans payable at the reporting date; and
- whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

The FRC has also indicated in its [COVID-19 Thematic Review](#) that in the current environment they expect entities to disclose their banking covenants, even when they have met the requirements and there is significant headroom.

Government grants

If an entity has received a grant through one of the various government's assistance schemes it must disclose (FRS 102.24.6):

- the accounting policy adopted for grants;
- the nature and amounts of grants recognised in the financial statements;
- unfulfilled conditions and other contingencies attaching to grants that have been recognised in income; and
- an indication of other forms of government assistance from which the entity has directly benefited.

For further information see [Accounting for coronavirus government support schemes under FRS 102](#).

Provisions

It may be that entities need to increase or recognise new provisions as a result of COVID-19. For example, an entity might recognise an onerous contract for the lease of a retail unit when the retailer has decided to cease operations at that particular unit, or a provision for restructuring costs (when it gives rise to a legal or constructive obligation). Entities must disclose for each class of provision (FRS 102.21.14):

- A reconciliation between the carrying amount of the provision at the beginning and end of the reporting period. The reconciliation should show additions to the provision, adjustments arising from measuring the discounted amount, any amounts charged against the provision during the period, and unused amounts reversed during the period.
- A brief description of the nature of the obligation and the expected amount and timing of any resulting payments.
- An indication of the uncertainties about the amount or timing of those outflows.
- The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information is not required for this information.

Insurance policies

Insurance recoveries should be recognised only when virtually certain (FRS 102.21.13). If the insurance recovery is probable at the balance sheet date, a description of the contingent asset and, when practicable, an estimate of the financial effect must be disclosed. If an insurance recovery becomes virtually certain after the balance sheet date, the amount should be disclosed as a non-adjusting post balance sheet event when material (FRS 102.32.10*).

Termination benefits

Difficult trading conditions may mean that entities need to reduce staff levels. When termination benefits are offered to employees, FRS 102 requires entities to disclose:

- the nature of the benefit;
- the accounting policy applied; and
- the amount of the obligation and the extent of funding at the reporting date.

This information is required for each category of termination benefits offered to employees (FRS 102.28.43).

When there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists (FRS 102.28.44). In this instance, an entity is required to provide a brief description of the nature of the contingent liability and, when practicable an estimate of its financial effect in accordance with Section 21 *Provisions and Contingencies* of FRS 102. It must also provide an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement. This information is not required if the possibility of an outflow of resources is remote (FRS 102.21.15*).

For more information see [Accounting for redundancies under FRS 102](#).

PRESENTATION OF MATERIAL ITEMS AND APMS

Material items

When material items are included in total comprehensive income, entities are required to disclose their nature and amount separately, in the statement of comprehensive income (and in the income statement, if presented) or in the notes to the accounts (FRS 102.5.9 & 5.9A*).

Entities will need to consider whether any additional items of income and expense arising from COVID-19 require separate disclosure, either on the face of the primary financial statements or in the notes. This decision should be made in accordance with the existing accounting policy for such items. When the effects of COVID-19 are pervasive and hard to quantify, narrative disclosures may be helpful.

Material items separated out in this way are often referred to as 'exceptional' items, although this is not a term defined under FRS 102. If entities choose to use the term 'exceptional' items it may be helpful to define the term in the accounts, for example, within the relevant accounting policy note.

The FRC's [Company Guidance \(COVID 19\)](#) provides helpful guidance on the disclosure of 'exceptional items.' In particular, it notes how entities should:

- Be even-handed in identifying any gains as well as losses.
- Not describe amounts as 'non-recurring' or 'one-off' if they are also expected to arise in future periods.
- Not disclose costs (sometimes described as 'stranded', 'sunk' or 'excess') as exceptional solely because of a reduction in, or elimination of, the related revenue streams due to the Covid-19 crisis.
- Not identify incremental costs as exceptional if they result in incremental revenue that is not also described as exceptional.

The FRC also states that 'splitting discrete items on an arbitrary basis in an attempt to quantify the portion relating to Covid-19 is unlikely to provide users with reliable information.'

Alternative performance measures (APMs)

When an entity presents APMs in the annual report and accounts, they should be consistent year on year. However, it may be that entities decide to modify or change their APMs due to COVID-19

if changes to their underlying operations mean different measures are now being used to measure performance of the business. Entities should clearly explain the reasons for any changes to their APMs, including details of why they provide more reliable and relevant information.

As above, the FRC has advised companies to be even-handed with any gains and losses resulting from COVID-19 when presenting APMs. The FRC also notes that 'APMs which attempt to provide a measure of 'normalised' or 'pro-forma' results, excluding the estimated effect of the COVID-19 crisis, are likely to be highly subjective and, therefore, unreliable.'

STRATEGIC REPORT

The strategic report should provide users with a clear understanding of how COVID-19 has impacted the entity's development and performance during the year, and its position at the reporting date. The strategic report should be consistent with the information provided in the financial statements, including with regards to any key judgements, assumptions or forecasts used by the entity.

Entities that qualify for the small companies regime are not required to produce strategic report. However, such entities may consider providing similar information, appropriate to the size and complexity of the business, within their directors' report. This could provide an important insight for users of the accounts, for example, lenders or credit agencies.

Principals risks and uncertainties

Descriptions of principal risks and uncertainties within the strategic report will be particularly important as a result of COVID-19, and it may be that more information needs to be disclosed compared to previous years. When identifying principal risks and uncertainties, the FRC's [Company Guidance \(COVID-19\)](#) explains how an entity should consider the 'specific resources, assets and relationships that are most under threat and the steps being taken to protect them'.

In other words, management needs to identify those principal risks and uncertainties that are material to the entity, and to ensure that the information disclosed is entity-specific and not simply a list of generic risks. Examples of factors to consider might include:

- Liquidity and viability of the business.
- Financing and loan covenants.
- Health, safety and retention of employees.
- Disruption to supply chain.
- IT systems ie, cybercrime/ability to support virtual working.

s172 and stakeholder engagement

Certain companies are required to provide a s172 statement within their strategic report which explains how directors have had regard to the interests of a wider group of stakeholders when performing their duties. This wider group of stakeholders includes, for example, employees, suppliers, and customers.

These disclosures are likely to have greater significance for users of the accounts in the current environment as they demonstrate how companies are protecting their key assets and value drivers, and provides a fuller picture of the overall position, performance and future prospects of the business. For example, when reporting on employee matters, an entity may refer to any arrangements to furlough staff, impacts on staff pay/bonuses, and efforts to protect the health and well-being of employees.

RELATED RESOURCES

- [Financial Reporting Coronavirus hub](#) – guidance for preparers of financial statements on the coronavirus outbreak, including advice on disclosure of risks and treatment of events after the reporting period.
- [ICAEW coronavirus hub](#) –bringing together all resources related to COVID-19 including information on tax, help for business and much more.

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