Grant Thornton

COVID-19 : Financial Reporting and Disclosures (Webinar 1 of 2)

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Background

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.

Some of the worst hit sectors include:

- Aviation and Aircraft leasing is facing massive disruption with travel restrictions imposed by most jurisdictions.
- Hospitality sector has been impacted with low occupancy in business and holiday destinations having to close down entirely.
- 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 significant investment losses with the Dow Jones index down 6% YTD and the FTSE 100 down 17% YTD.

This presentation 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 presentation that entities should consider. The areas are not listed in order of importance.

Introductions

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Scope

This presentation addresses the following areas from a Covid 19 perspective:

01

Subsequent events (webinar 1)

companies must assess how developments subsequent to the year end should be reflected in the financial statements

02

Going concern (webinar 1)

companies must consider factors impacting their ability to continue as a going concern for a minimum period of 12 months from the date of signing the financial statements and beyond.

03

Disclosure (webinar 2)

companies need to assess the financial impact arising from Covid-19 and the areas of the financial statements that will be affected in order to determine disclosure requirements. This is especially important for areas of significant judgement and areas of key estimation uncertainty

The issues discussed are by no means exhaustive and their applicability depends on the facts and circumstances of each entity. The above topics cover just some of the challenges that companies have had to deal with.

Should anyone have any queries, there will be an opportunity to ask questions at the end of this webinar.

1. Subsequent events

- Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

- IAS 10 makes a distinction between adjusting and non-adjusting events after the reporting period. The principal issues are how to determine which events after the reporting period are to be reflected in the financial statements as adjusting events and, for non-adjusting events, what additional disclosures to provide.

Events after the reporting date	Definition	Financial statement effects
Adjusting events	Those that provide evidence of conditions that existed at the reporting date	Adjust the amounts recognised in the financial statements
Non-adjusting events	Those that are indicative of conditions that arose after the reporting date	Disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made

- Entities need to ensure effective processes are in place to identify and disclose material events after the reporting period which could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Non-adjusting events

- Financial statements for an entity with a reporting period ending on or before 31 December 2019 should only reflect the conditions that existed at the balance sheet date. For example the spread of Covid 19 commenced in Jan 2020 so no adjustment should be made to the financial statements for the impact of this spread.

- 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 ensure that the note disclosures capture any key judgements or material uncertainty around going concern. The entity should also ensure the basis of preparation of the financial statements is appropriate and is supported, i.e. going concern basis or break-up basis.

Non adjusting events - examples

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

- Material uncertainty- Going concern.
- Breaches of covenants, waivers or modifications of contractual terms in lending arrangements.
- Supply chain disruptions – not impacting sale contracts or stock valuation
- The assessment of certain purchase or sale agreements as onerous contracts.
- Announcing or approving a plan to:
  - discontinue an operation
  - Implement a major restructuring
- Abnormally large changes in asset prices/fair values or foreign exchange rates.

Adjusting events

- Post 31 December 2019 more information was available on Covid 19 increasing the likelihood of it being an adjusting post balance sheet event.

- For periods ending after 31 December 2019, entities will need to use their judgement to determine the impact of COVID-19 as at their reporting date. They need to carefully consider:
  - the conditions that were present at the reporting date.
  - the specific circumstances that relate to the entity's operations (how was it impacting your entity), and
  - the relevant events that existed in their jurisdiction at that time (e.g. lockdown, partial lockdown)

- 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.

Adjusting events - examples

Examples of adjusting events that would generally result in adjustment to the financial statements:

- Cashflow deficit – with no support from lender or parent company
- Borrower or Debtor default
- Supply chain disruptions – impacting stock valuation and cash flow projections
- Deferred tax recoverability
- Post year end reduction in Property asset values
- Post year end reduction in fair value of level 3 assets due to delay in updating pricing model

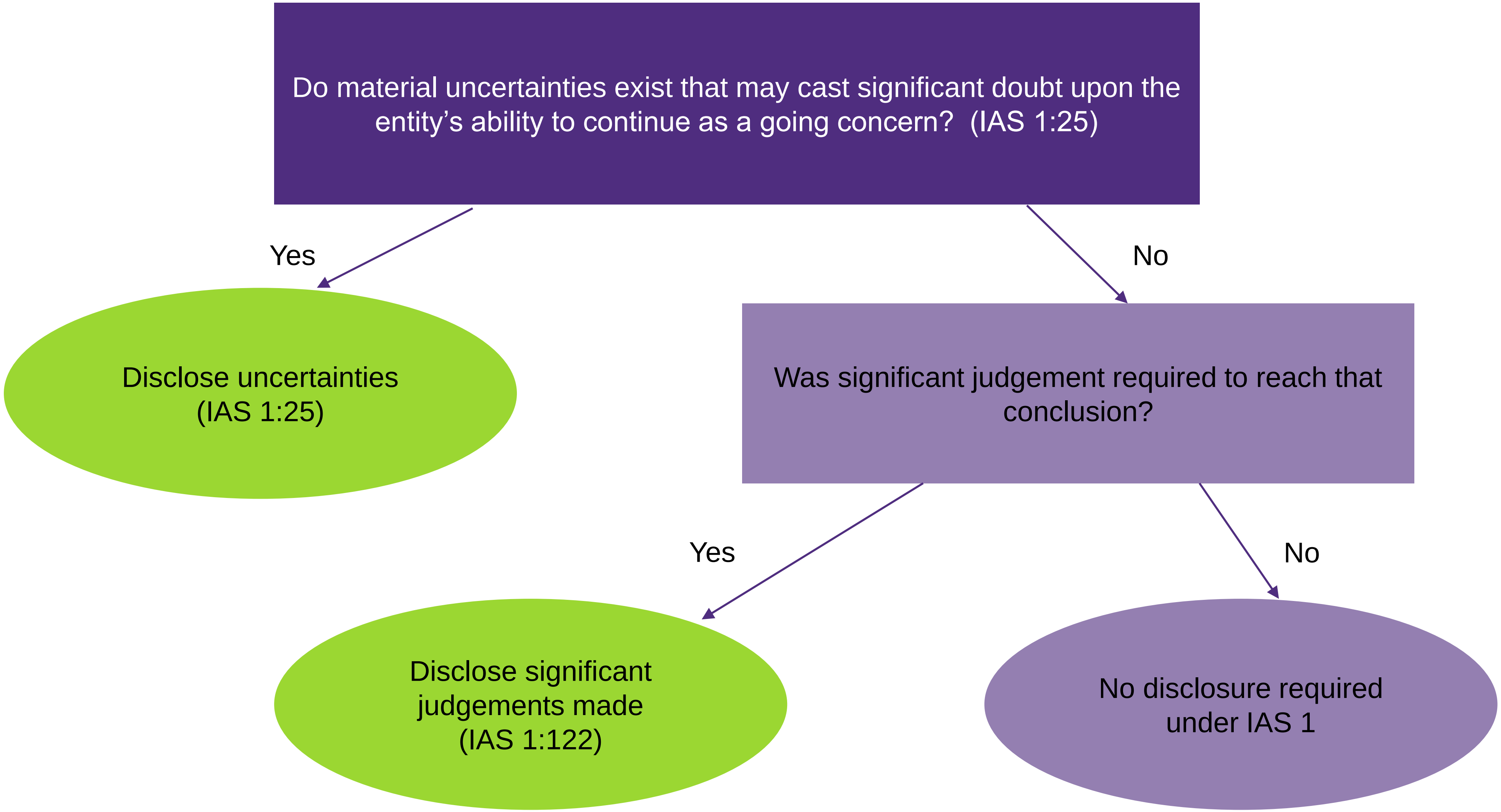
2. Going concern

- Entities are 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.

- Even if events during the subsequent events period are not considered adjusting subsequent events, they should still be incorporated into the going concern assessment.

- 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.

2.1 Going concern – Decision Tree



2.2 Going concern disclosure examples

Examples of where going concern disclosure is required include:

- 1a. Dependency on bank or parent to support rental breaks sought by lessee
- 2a. Negative cash flow projections with uncertainty on funding outcomes
- 3a. Net losses during the reporting year and/or negative net assets.
- 1b. Judgement used that return to full rentals within 6 months of year end.
- 2b. Judgement used that banks will provide funding based on preliminary discussions
- 3b. Judgement that new product launch will return Company to profitability

3. Introduction to disclosures

- IAS 1 requires disclosure of information about
  - the judgements made in applying accounting policies, and
  - the assumptions made about the future and other major sources of estimation uncertainty,

  that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities (with the exception of assets and liabilities measured at fair value based on recently observed market prices).

- Examples of the types of disclosures that an entity is required to make include:

The nature of the assumption or other estimation uncertainty	The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity	The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected	An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved

- When it is impracticable to disclose the extent of the possible effects of an assumption or other source of estimation uncertainty at the end of a reporting period, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions used could require a material adjustment to the carrying amount of the asset or liability affected (e.g. the future valuation of property or other asset if the pandemic continues for a sustained period).

3. Introduction to disclosures (continued)

Examples of key judgements and areas where estimation uncertainty exist and for which disclosures are required are listed below. We will provide a brief introduction to these today with a follow up webinar to be arranged with worked examples.

- Revenue recognition
- Business interruption claims
- Provisions and contingencies
- Financial instruments – expected credit losses - impairment
- Valuation of Goodwill and Intangible assets
- Government assistance
- Leases

4. Questions

We hope you have found the information in this presentation 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.ie* for further information.

5. In summary

The second in this series of webinars will be held on Tuesday 29th September. We will discuss disclosures for key judgement areas in more detail during this event, with supporting worked examples.

Thank you for taking the time to attend our webinar this morning, we do hope you found it beneficial. Should you wish to contact any of our team directly, please do not hesitate to do so.

Disclaimer

- These slides are not considered to be specific financial reporting advice, they are general in nature and therefore no reliance should be placed on the information contained therein.

- These slides set out our understanding of key financial reporting areas based on information currently available. The information contained in these slides does not purport to be comprehensive but is purely for guidance and discussion purposes only.

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