ShineWing AUSTRALIA
Advisors & Accountants

Take the lead

Financial reporting impacts of COVID-19

COVID-19 has caused a significant amount of uncertainty worldwide and has had a substantial impact on global financial markets. Companies must assess, reflect upon and communicate the impact of COVID-19 appropriately in their financial report.

Going concern and subsequent events

- Has the forecast been adjusted to reflect conditions over the next 12 months?
- Does debt mature over the next 12 months?
- Have loan covenants been reviewed and forecasted for the next 12 months?
- Do the directors still consider the business to be a going concern?
- Is a material uncertainty on going concern disclosure required in the financial statements?
- Are there any events identified after the end of the reporting period which are considered material to the financial statements?

If an entity is not deemed to be a going concern, the financial statements will have to be presented in a manner reflective of this. If material uncertainty on going concern exists but the financial statements are presented on a going concern basis, this should be disclosed in the financial statements.

All events and conditions which come to light after the end of the reporting period but before the date of issue of the financial report are required to be considered as to whether they constitute a subsequent event. Those which give an indication of conditions existing at the end of the reporting period are required to be adjusted. All others, if material, are required to be disclosed.

Valuation of tangible and intangible assets, including goodwill

- Does the economic disruption caused by COVID-19 trigger an impairment indicator?
- Will the key assumptions such as discount rate used in the impairment review need to change as a result of COVID-19?

If the business has been impacted, it is likely that this will meet the definition of an impairment indicator. A formal assessment of the recoverable amount of assets is required if an indicator is identified.

Key assumptions in your Discounted Cash Flow model will need to reflect risk and uncertainty. However, if projected cash flows already reflect the risk being taken into account, using a high risk factor in your discount rate could be double counting the same risk.

Valuation of inventory

- Has a reduction in demand or market prices resulted in the net realisable value being below cost?
- Is a provision for obsolescence required due to reduced demand?

Inventory is required to be valued at the lower of cost or net realisable value. In addition, a reduction in demand could lead to some inventory requiring a provision (for example perishable goods).

Expected Credit Losses (ECL)

- Is the ECL model used in previous periods still appropriate and does it adequately include forecasted economic conditions?

The ECL model is required to consider forward looking information as well as historical information. A predicted downturn in the economy could result in a greater credit risk from some customers and require an increased ECL provision.

Significant estimates and judgements

- Are the significant estimates and judgements in the financial statements still appropriate in the current environment?

A change in the economic environment as a result of COVID-19 could result in a need to reassess the consideration applied to significant estimates and judgements such as discount rates, provisions and other balances that could have a variable outcome.

Onerous contracts

- Are there any contracts which will no longer be fulfilled or are no longer economically viable?

Contracts may no longer be required or may no longer be commercially viable. A provision may be required for these contracts, valued at the net loss expected to be incurred over the remaining life of the contract.

Leases

- Have any rent concessions been received?

Rental concessions received will impact upon the accounting treatment of leases. *COVID-19 – Related Rent Concessions (Amendment to IFRS 16)* allows for certain rental concessions to be exempt from lease modification accounting.

Revenue

- Are there any contracts containing variable revenue? Is the assessment made previously still reasonable?
- Have any contracts been modified (for example a change in scope of payment terms)?

Variable revenue is required to be assessed at the end of every reporting period. COVID-19 may have caused a change in the amount expecting to be received. Any modification to contracts can be complex depending upon the type and magnitude of the variation. Each contract will need to be assessed separately.

Hedge accounting- cash flow hedge

- Is the forecasted transaction still considered highly probable?

Cash flow hedges can only be recognised if the forecasted transaction is considered highly probable. The probability of the transaction may need to be reconsidered in light of COVID-19.

Taxation

- Is it still expected that any deferred tax asset will be recovered through future taxable profits?
- Is there any uncertainty on taxation relief applied for?

Deferred tax assets relating to previous losses can only be recognised if they are expected to be recovered through future taxable profits. Updated business forecasts could indicate that these losses may not be fully recovered.

Any uncertainty associated with a tax position taken is required to be reflected in the amount recognised. This amount should either be the amount most likely to be accepted or a probably weighted amount based on a range of possible outcomes.

Redundancy provisions

- Have any redundancies been proposed or communicated?

Redundancy provisions should only be recognised when the decision is communicated to employees and/or customers.

Discontinued operations

- Have any sections of the business been closed down?

If a separate major line of business or geographical area of operations is disposed of or closed, the financial statements will have to disclose this separately.

How we can help

Contact one of our experts below to discuss how these changes might present an opportunity for your business.

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