KPMG

COVID-19: The financial reporting impacts under IFRS

Board Leadership Center

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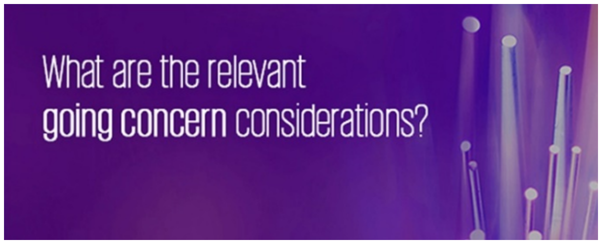
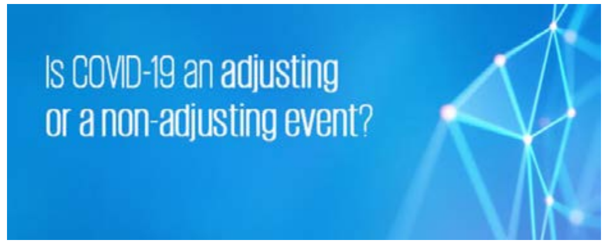
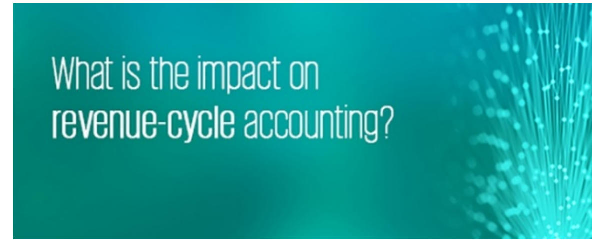
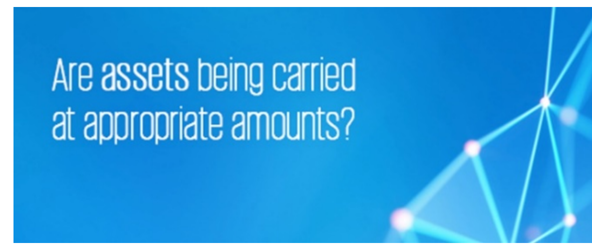
28 April 2020

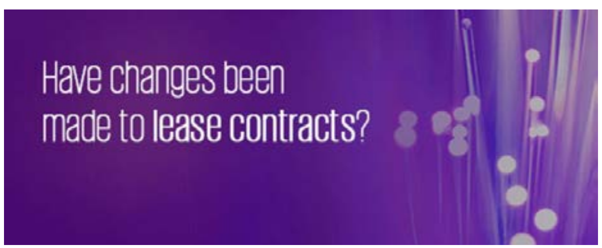
Financial reporting impacts under IFRS® Standards

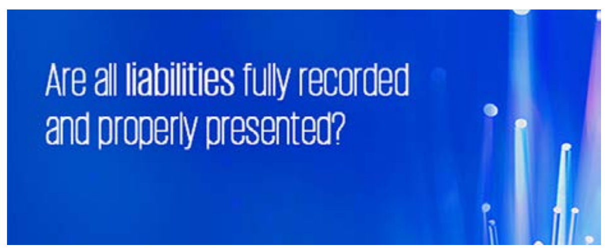


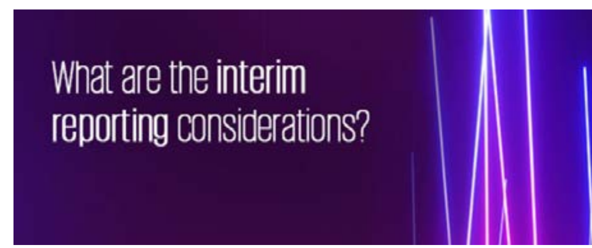












COVID-19 | Financial reporting | Resource center

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Going concern considerations

What's the issue?

Significant deterioration in economic conditions & increase in economic uncertainty.

What to do?

Assess whether there is significant doubt on the company's ability to continue as a going concern or, in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the company's financial statements.

What to consider?

Current economic uncertainty & market volatility.

All available information about the future (min. 12 months *from the reporting date* – not limited).

Revising budgets & forecasts.

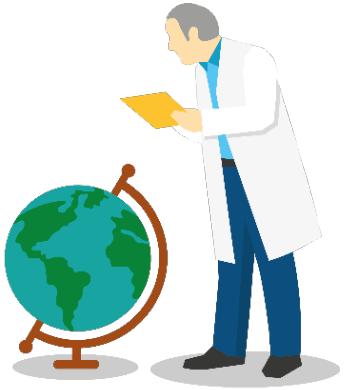
Financing challenges (and possible impact on covenants).

Impact on the financial statements?

Going concern no longer appropriate → adjust financial statements.

Significant doubt → disclosure of material uncertainties.

Disclose any implications on working capital/liquidity risk.



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Adjusting or non adjusting event?

What's the issue?

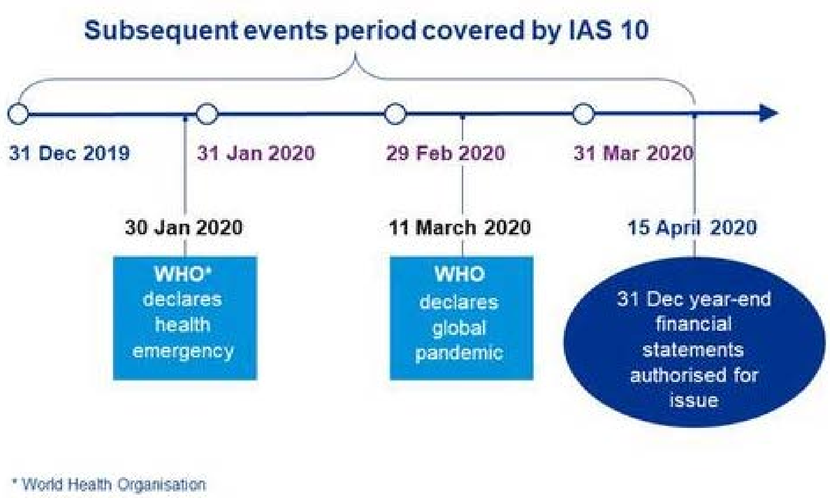
Depending on the reporting date, the impacts of the COVID-19 outbreak could be adjusting or non-adjusting events.

What to do?

Evaluate all events after the reporting date.

Exercise significant judgement.

What to consider?



Impact on the financial statements?

31 December 2019 & 31 January 2020

Non-adjusting events (with the exception of going concern)

Subsequent periods – including 29 February & 31 March 2020 year-end and calendar year-end companies reporting in Q1 2020

Current period event which requires ongoing evaluation

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Have non-financial assets become impaired?

What's the issue?

Increased likelihood that a triggering event has occurred and impairment testing is required.

What to do?

Determine the recoverable amount (VIU <> FVLCD) of an asset or CGU.

Reflect risks in the discount rate.

What to consider?

IAS 36 applies to PPE, right-of-use assets, intangible assets and goodwill, investment properties measured at cost and investments in associates and joint ventures.

Impact on risk-free rate and entity-specific risk premiums.

Two approaches to project cash flows:

- Single cash flow projection
- Expected cash flow projection (multiple, probability-weighted cash flow projections): risk reflected in cash flows rather than in discount rate !

Impact on the financial statements?

Annual reports: disclose key assumptions (incl. sensitivity) & other major sources of estimation uncertainty.

Interim condensed reports: disclosure of nature and amount of changes in estimates (if significant).

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Recovery of deferred tax assets

What's the issue?

COVID-19 may impact projections of future taxable profits that are used to assess the recoverability of deferred tax assets.

What to do?

Assess to which extent it is probable that future taxable profits will be available.

First consider the availability of qualifying taxable temporary differences, and then the probability of other future taxable profits and tax planning opportunities.

What to consider?

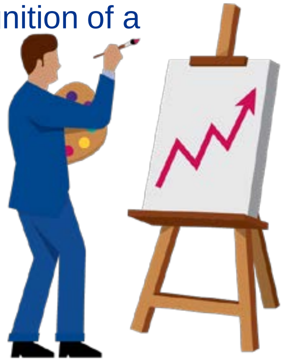
Changes in forecast cash flows.

Changes in tax strategies.

Substantively enacted changes to the income tax law.

Changes in plans to repatriate or distribute profits of a subsidiary that may result in the recognition of a DTL.

Consistency with other recoverability assessments.



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Loss-making contracts

What's the issue?

Some existing purchase or sale contracts may become loss-making.

Some companies may struggle to fulfil legal or contractual obligations and may be subject to penalties.

What to do?

Assess whether a liability, or a contract becomes loss making. If so, recognize a provision.

What to consider?

Onerous contracts

Reflect expectations at the reporting date and use assumptions that are consistent with those used for other recoverability assessments.

Update projections made before the reporting date to reflect the information available, conditions and outlook at the reporting date.

Provision is discounted if the effect of the time value of money is material.

Before recognizing a provision for an onerous contract, test all assets dedicated to the contract for impairment.

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Loss-making contracts (continued)

What to consider?

Penalties

Review existing contracts and consider the interpretation of applicable law, particularly force majeure clauses.

Assessment may require legal advisors to be involved.

Future operating losses

Cannot recognize a provision for future operating losses or business recovery costs.

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Expected credit losses

What's the issue?

ECL measurements need to incorporate forward-looking information that is available without undue cost or effort at the reporting date.

What to do?

Consider a range of possible outcomes and their respective probabilities, and apply judgement when determining what constitutes reasonable and supportable forward-looking information *at the reporting date*.

What to consider?

Reasonable and supportable information is not unavailable simply because modelling its effects appears difficult or because it would involve a wider than usual range of possible results.

Additional economic scenarios.

Adjust models (e.g. simplified models for trade receivables).

Certain types of customers, industries or regions may be particularly affected by the COVID-19 economic effects.

Impact on the financial statements?

Disclose the significant impacts of COVID-19 on the risks arising from financial instruments and how those risks are managed.

Additional guidance?

International Accounting Standards Board (the Board) has published educational material on the application of IFRS 9 in the context of COVID-19.

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How to account for rent concessions (lessee)?

What's the issue?

Many lessees are seeking rent concessions from lessors.

What to do?

Determine the nature and related accounting implications of a rent concession.

What to consider?

Rent concessions *not envisaged* in the original lease agreement? Lease modification.

Rent concessions *envisaged* in the original lease agreement? Variable lease payment.

If governments intervene to provide relief to lessors or lessees, consider the guidance in IFRS Standards on government assistance.

Impact on the financial statements?

Disclose information about the effect leases have on the financial position, financial performance and cash flows – including information about variable lease payments recognized as income/expense in the period.

Additional guidance?

The Board has published educational material on rent concessions in the context of COVID-19.

The Board plans to publish a exposure draft proposing relief for rent concessions from COVID-19.

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Impact of COVID-19 on interim financial statements

What's the issue?

Preparing 2020 interim financial statements is likely to involve more than the usual update since the last annual financial statements. Investors and other users may expect information above and beyond what is typically disclosed.

What to do?

Provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance since the last annual reporting date.

What to consider?

PPE & intangible assets	Fair value measurement	Employee benefits & employer obligations	Inventories	Additional disclosures
Income taxes	Subsequent events	Unusual items	(Non)current classification	Additional line items

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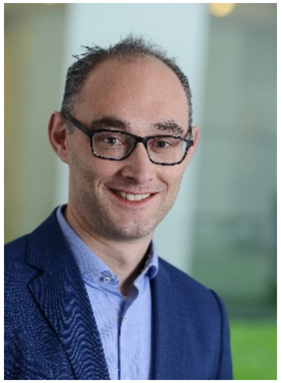
Thank you



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