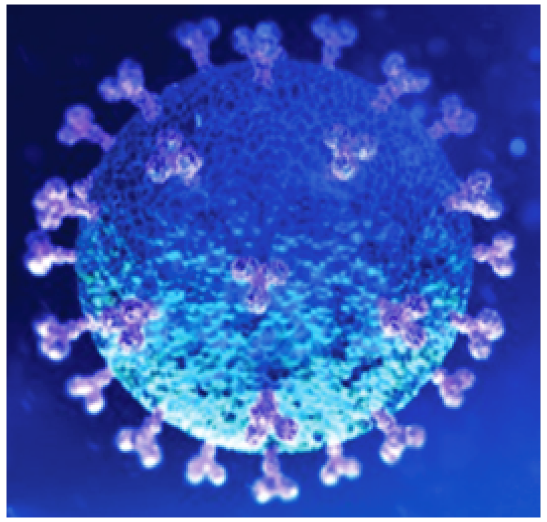
Guidance on COVID-19 - Impact on Financial and Management Reporting



Given recent epidemiological developments, Service for Accounting, Reporting and Auditing Supervision (SARAS) has released the following Guideline in response to the challenges that may be confronted by entities, preparing financial and management reports, as a result of the COVID-19 coronavirus pandemic.

The current crisis has significant economic effects on entities due to restrictions in production, trade and consumption or due to travel and other bans. These circumstances have an impact on the process of accounting and reporting of these entities, thus on their financial and management reports.

This publication highlights some of these potential - the most relevant - implications. However, the impact on entities will differ and entities, and their auditors (if any), have to consider how it affects their business and review them regularly. The further development, duration and impact of the coronavirus cannot be predicted. In any case, accountants and auditors should be informed and remind the management of entities of the various national initiatives for relief to the entities.

Below we explore coronavirus' effects on:

- accounting and reporting for entities as of 31 December 2019
- accounting and reporting for entities with year-ends in 2020

Effects on accounting and reporting for entities as of 31 December 2019

Reporting standards like IFRS and IFRS for SMEs should be fully complied with. In addition, entities should consider going beyond them to respond to their actual accounting and reporting challenges caused by the coronavirus in a sensible and practical way.

Going concern

Entities adversely affected by the coronavirus, need to consider going concern issues. They need to consider running several possible sensitivity analyses to determine whether there is any material uncertainty on its ability to continue as a going concern. This can result in additional disclosures especially if there is a material uncertainty. In some circumstances it may be necessary to consider whether it is appropriate to prepare the accounts on a going concern basis. For this, the entity should consider all available information about the impact on future trading. Regarding the timeframe, one needs to consider at least the first twelve months after the balance sheet date, or after the date the financial statements will be signed. But a longer timeframe is advisable. This going concern assessment should be continuously updated to the date the financial statements are approved.

Non-adjusting post balance sheet events

The general requirement is that the balance sheet reflects the position at the end of the reporting period. As at 31 December 2019, China had alerted the World Health Organization (WHO) of several cases of an unusual form of pneumonia in Wuhan. However, substantive information about what has now been identified as coronavirus only came to light in early 2020. Therefore, for entities with a 31 December 2019 year-end, the emergence of coronavirus is a non-adjusting event, since the outbreak occurred midst of January 2020.
The nature of any material non-adjusting event and an estimate of its financial effect must be disclosed by way of note. Therefore, entities need to consider the impact of the coronavirus on their business, which will vary according to the specific circumstances in which it operates. This includes that the disclosures articulate potential impact in the next reporting period.

Post balance sheet review period

“Events after the end of the reporting period” include all events up to the date when the financial statements are authorized for issue. It is important to incorporate a comprehensive post balance sheet review in the year-end reporting plan.

Further disclosures in the management report

Entities should also consider whether to refer to the possible impact of coronavirus when they report principal risks and uncertainties in the management report. In principle, they should report this when possible further developments can lead to negative deviations from the entity’s forecasts.

Effects on accounting and reporting for entities with year-ends in 2020

As we progress through 2020, more information is coming to light on the scale and impact of coronavirus. There may be a greater degree of judgment required when identifying the conditions at balance sheet dates after 2019, and therefore assessing whether the developments are adjusting or non-adjusting events. The coronavirus is ordinarily an adjusting event for any reporting period ending as from 31 January 2020.

Entities will need to review, in addition to going concern, all areas of the accounts that are subject to judgment and estimation uncertainty, including:

- accounting estimates[1];
- fair value measurements;
- assets impairment;
- expected credit loss assessments (including debtors);
- other financial statement disclosure requirements.

The impact of breaches of covenants, onerous contracts provisions and restructuring plans also deserve consideration.

1 For example, revenue recognition; inventories; property, plant and equipment; investments in associates and joint ventures; provisions; contingent liabilities and contingent assets, etc.

SARAS is in constant communication with International Accounting Standards Board (IASB), IFRS Foundation, relevant department of European Commission, the International Forum of Independent Audit Regulators (IFIAR) and oversight authorities of other member states of IFIAR, as well as the representatives of the profession and international donor organizations. We are closely monitoring and evaluating all current developments and will take necessary measures, as deemed appropriate.