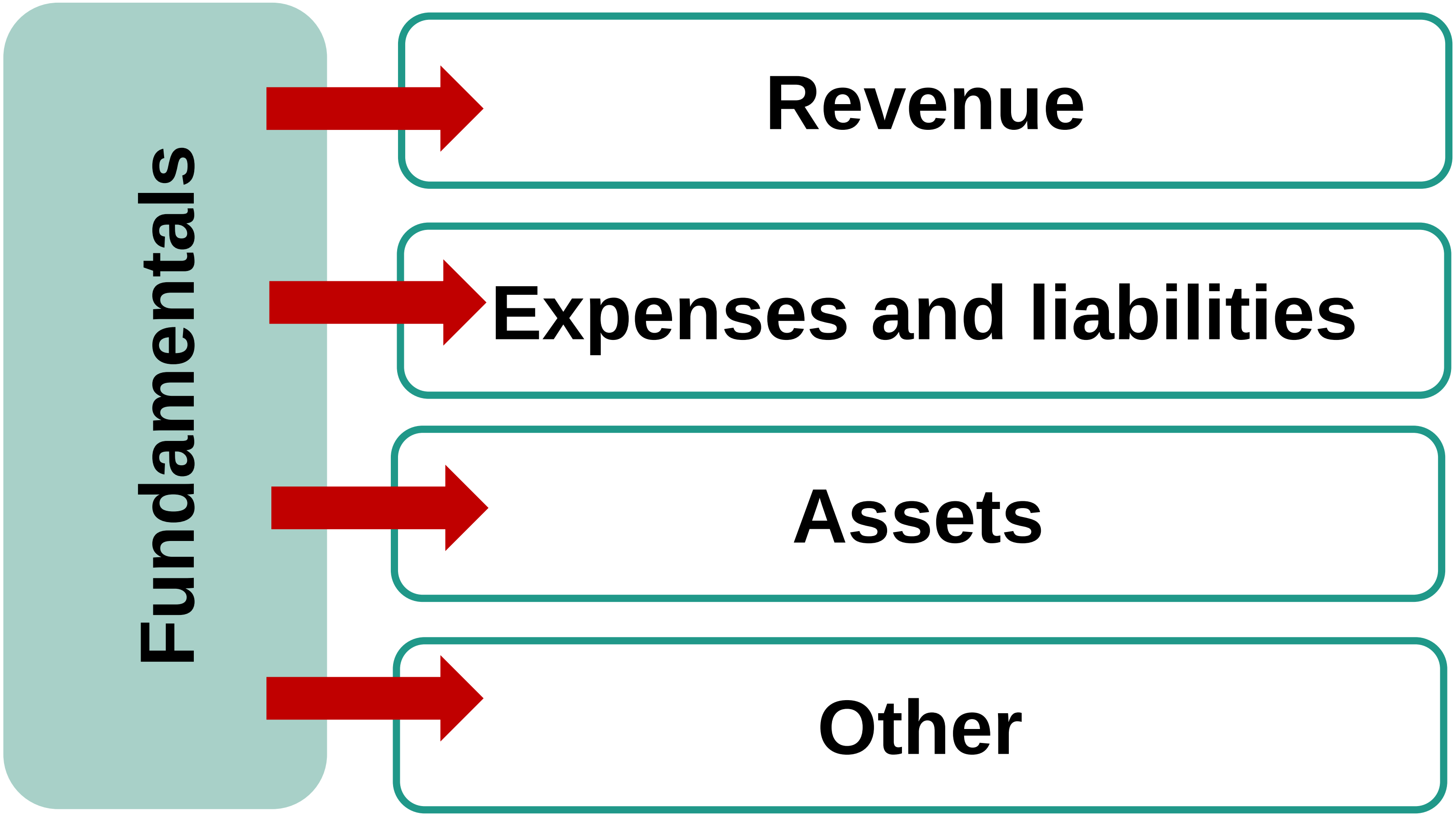
Accounting implications of COVID-19

ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Overview


Fundamentals
Revenue
Expenses and liabilities
Assets
Other

Context

- The lockdown and COVID-19 crisis has resulted in an economic downturn and an increased need for government services and assistance.
- While this is an emerging area, possible areas that could be affected…

Context

- Construction, maintenance and related activities could be curtailed → impact capital projects and planned maintenance.
- Some public facilities may not be operational/services may not be provided.
- Increased demand for services (e.g. medical, housing, sanitation) and assistance (direct or indirect).
- Potential for non-payment of goods, services, taxes.

The fundamentals

The fundamentals

- Review of accounting policies.
- Presentation in the financial statements.
- Disclosures on key assumptions, judgements, estimation uncertainty.
- Legislative reporting requirements.

Review accounting policies

- Undertake a comprehensive review to ensure that they are complete + relevant.
- Focus on:
  - Classification of assets and liabilities.
  - Valuation methodologies applied.
  - Inputs into valuation of assets and liabilities.
- Apply GRAP 3 to any changes.

Presentation in the financial statements

Think about materiality!

- Items or class of items is material → separate presentation or disclosure in the financial statements.
- Qualitative or quantitative materiality.
- Apply Guideline issued by the ASB.

Enhance disclosure in financial statements

- The lockdown and crisis has created a significant amount of uncertainty in the economy.
- This uncertainty means that the financial statements will need to be prepared making a number of assumptions and judgements.
- Increased need to explain to users what these uncertainties are and areas of judgement.

Enhance disclosure in financial statements

Disclose information on:

- Key assumptions concerning the future.
- Key sources of estimation uncertainty → where there is a significant risk of material adjustment to assets and liabilities in the next reporting period as a result of uncertainty in valuation at this reporting date.

Enhance disclosure in financial statements

- Provide any other information to users that you believe is relevant!
- Remember - Overall objective of financial reporting is to provide users of the financial statements with information that is relevant to holding entities accountable, and helping users to make decisions.

Legislative reporting

- Although not governed by Standards, important to think about whether any legislative reporting requirements.
- In providing those disclosures, important to adhere to principles in Standards.

Revenue

Revenue

- Think about the implications of COVID-19 for both exchange (GRAP 9) and non-exchange revenue (GRAP 23).
- Aspects to consider:
  - Assessing probability of revenue on initial recognition → IGRAP 1.
  - Construction contracts.

Revenue

Consider the following in applying GRAP 23:

- Consider the nature of relief provided, i.e. grant/transfer versus loan.
- Delayed payment of taxes.
- Tax expenses - provision of subsidies, rebates, etc.
- Expenses paid through the tax system.

Expenses and liabilities

Expenses + liabilities

- Increased expenses on government programmes + related increases in liabilities.
- Curtailment of expenditure on programmes.
- Statutory disclosures.

Expenses + liabilities

- Consider the effect of government promises and commitments.
- Assess whether these are liabilities:
  - Contractual, legislative, or constructive obligation?
  - Is there a past event?
  - No realistic alternative but to settle the obligation?

Expenses + liabilities

Liabilities		
GRAP 104	Financial liabilities	Contracts for exchange of cash or equivalent
GRAP 13	Lease liabilities	Finance lease liabilities
GRAP 19	Accruals, provisions, contingent liabilities	• Contractual, legislative, constructive • Liabilities of uncertain timing and amount. • Possible obligations. • Present obligations, flow not probable or no reliable measure.
GRAP 25	Employee benefits	Benefits paid to employees.

Expenses + liabilities

Aspects to consider:

- Modifications to financial liabilities.
- Financial and other guarantees.
- Social benefits.

Expenses + liabilities

- Curtailment of expenses → "comparison of budget and actual information".
- Statutory disclosures → "fundamental principles".

Assets

Assets

Non-monetary assets

- Inventories
- Investment property
- PPE
- Intangible
- Heritage
- Biological or agricultural produce

Monetary assets

- Financial assets
- Lease receivables
- Plan assets
- Statutory receivables

Non-monetary assets

- Assets measured at cost model, revaluation model, fair value (variation).
- Consider:
  - Depreciation (amortisation).
  - Impairment.
  - Valuation at reporting date.
  - Other issues.

Depreciation

- Depreciation represents an estimate of an asset’s useful life.
- Assess at each reporting date if any indication of change (including residual value).
- Possible indicators include change in use, delays in repairing, maintaining asset, or change in condition + own.

Valuation at reporting date

<u>Fair value model</u>

- Determine fair value at reporting date = reflect market conditions at that date.
- Changes → recognised in surplus or deficit.
- Provide information about assumptions.
- Consider changes in methodology + assumptions.

Valuation at reporting date

Revaluation model

- Determine fair value regularly enough so that carrying value not materially different from fair value if used at reporting date.
- Same issues exist, except depreciated replacement cost used for specialised PPE.

Impairment of assets

Apply GRAP 21 or GRAP 26 to identify indicators of impairment, e.g.:

- Evidence of physical damage.
- Significant long term change in way or extent asset will be used.
- Decision to halt construction.
- Own.
- Provide information to users on assessments + amounts recognised.

Impairment of assets

To note:

- On initial recognition, designate if cash or non-cash generating based on whether generate commercial return.
- If no commercial return, do not change classification.

Inventory

- Initial recognition → Cost, could be transaction price, OR cost to produce;
  - Consider what/whether costs are eligible to form part of cost.
- Subsequent measurement → Lower of cost vs net realisable value or current replacement cost.

Other issues

- Capitalisation of borrowing costs.
- Are existing disclosures on assets appropriate? Have there been any changes?

Monetary assets

- Assets measured at fair value, amortised cost, cost, or cost method.
- Consider:
  - Valuation at reporting date.
  - Impairment.
  - Other issues.

Valuation at reporting date

- If fair value (or variation) → apply principles in relevant Standard to measure + recognise gains or losses.

Amortised cost (or variation)

- Consider whether downturn in economy affects receipts of goods, services, taxes, fines etc.
- Assess whether evidence of impairment, e.g. default on payment of agreed terms, financial difficulty of other party + own.
- Apply to financial assets at amortised cost, cost for investments in residual interests, cost method for statutory receivables.

Amortised cost (or variation)

Impairment loss = carrying value – expected cash flows (consider what will be received and when), discounted:

- Amortised cost – effective interest rate.
- Cost – market rate @ reporting date.
- Cost method – risk free rate adjusted for any specific risks to receivable.

Amortised cost (or variation)

- Impairment loss recognised in surplus or deficit and directly against debtor or using allowance account.
- Enhance disclosure about how impairment losses identified and assessed.
- If modifications to arrangements, assess whether change in recognition or measurement.

Other issues

- Concessionary loans granted as part of a government relief programme.
- Collateral held for loans granted or other debt.
- Financial guarantees held by an entity.

Other issues

Other issues

- Events after the reporting date.
- Presentation of budget and actual information.
- Risk disclosures.

Events after the reporting date

Consider if there have been any events after the reporting date that affect the financial statements.

- Adjust for events that provide evidence of conditions at reporting date.
- Do not adjust for events that arise after the reporting date → disclosure?

Comparison of budget and actual information

- Where entities make their budget publicly available, present comparison.
- Important that need to present adjustments from last approved budget.
- Given the reallocation of priorities, additional support provided, may require more attention.

Risk disclosures

- Over and above disclosures about uncertainty, assumptions, GRAP 104 require risk disclosures.
- GRAP 104 requires disclosure on credit risk and liquidity risk.
- GRAP 104 encourages disclosure on market risk, where relevant to users.

Keep informed

- Newsletter.
- Social media.
- FAQs
- Translations of Standards.

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