

COVID-19: Financial Reporting and Disclosures

Assessing the financial impact and required disclosures

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.

While the outbreak has had an impact on almost all entities either directly or indirectly, some of the worst hit sectors are aviation, hospitality and retail with more and more sectors coming under its radar with widespread lockdowns being enforced across the world. The aviation industry is facing massive disruption with travel restrictions imposed by most jurisdictions. The hospitality sector has been impacted with low occupancy in business and holiday destinations having to close down entirely. Other affected sectors are 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 the inability of borrowers to keep up with repayment schedules.

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



What disclosures need to be made in the financial statements?

Even if the entity does not see a direct impact of the outbreak, there will be an indirect impact for practically all entities. Whilst some entities may not be severely impacted, and some entities may even benefit, very few entities will remain unaffected. Therefore, entities need to consider the financial impact on the entity and the areas of the financial statements that will be affected to determine the disclosures required. As well as the specific financial reporting areas, IAS 1 'Presentation of Financial Statements' requires disclosures of sources of estimation uncertainty and areas of significant judgement.

Impairment

An entity is required to test its assets for impairment when indicators of impairment are present. An impairment test must be performed in response to indicators of impairment in addition to a mandatory impairment test for goodwill and intangible assets with indefinite useful lives at least annually.

Although some indicators of impairment are based on internal information (eg damage to property, plant and equipment, plans to remove the asset from use), others are triggered by events and circumstances external to the entity. Below are some examples of indicators of impairment that may exist as a result of the economic conditions caused by the spread of COVID-19:

- **Investments other than portfolio investments (eg subsidiary that is not consolidated)**
 - significant financial difficulty of the investee
 - a breach of contract (eg default or delinquency in debt payments)
 - it is probable that the investee will enter bankruptcy or other financial reorganisation
 - a significant adverse change in the economic or legal environment in which the investee operates (eg recession)
 - the disappearance of an active market for the investment because of financial difficulties of the investee.

- **Property, plant and equipment and intangible assets (other than goodwill)**
 - significant changes in the extent or manner in which the asset is used or is expected to be used (eg idling of a machine such that its future productive capacity may be affected, a machine being used in a manner different from its intended purpose – such as to produce items to support the battle against COVID-19 – which may reduce its future productive capacity)
 - significant changes in the legal factors or business climate that could affect the value of the asset (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
 - a decrease in market interest rates which would cause a decrease in the asset's value in use
 - a decline in, or cessation of, the need for the services provided by the asset.

In addition, doubt about the entity's ability to continue as a going concern is a general indicator of impairment for all assets.

Goodwill

Goodwill is required to be tested annually for impairment. COVID-19 could impact goodwill through:

- a significant adverse change in legal factors or in the business climate (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
- a loss of key personnel that is other than temporary (eg death)
- the testing for write-down or impairment of a significant asset group
- the recognition of a goodwill impairment loss in an investee's separate financial statements
- a significant decline in the entity's share price which could result in the carrying amount of the entity's net assets exceeding its market capitalisation.

Financial instruments and the measurement of expected credit losses

Under IFRS 9 'Financial Instruments', expected credit losses ("ECLs") must be recognised for debt-type financial assets not measured at fair value through profit or loss (FVTPL) based on information about past events, current conditions and forecasts of future economic conditions. In other words, even possible future outcomes that may or may not come to pass should be factored into an entity's ECLs on a probability-weighted basis. The negative economic outlook and cash flow difficulties experienced by customers as a result of COVID-19 must be factored into an entity's forecasts of future conditions, which may result in an increase in its provision for ECLs to reflect (a) a greater probability of default across many borrowers, even those that currently do not exhibit significant increases in credit risk but may in the future; and (b) a higher magnitude of loss given default, due to possible decreases in the value of collateral and other assets. ECL applies to trade receivables, loans, debt securities, contract assets and assets arising from costs to obtain or fulfil a sales contract, as well as the losses recognised in measuring loan commitments and financial guarantee contracts. Regardless of whether the simplified approach or the 3-stage model set out in IFRS 9 is being applied to assess ECL, the impact on the ECL calculation as a result of COVID-19 needs to be very carefully assessed.

To the extent that information about the impact of COVID-19 that becomes available after the reporting date provides more evidence about conditions at the reporting date, entities will need to revisit their estimates of ECL at the reporting date. For example, if a customer files for bankruptcy subsequent to the period end:

- an entity should consider whether the new information reflects credit conditions that already existed at the reporting date and, if so, review the loss percentage in its provision matrix for all other receivables
- an entity should consider whether the bankruptcy is simply confirming conditions that already existed for the customer at the reporting date.

Even if estimates do not require revision, full disclosure of circumstances taken into consideration is recommended.

New employee benefits and termination benefits

In response to the COVID-19 pandemic, some entities are providing additional benefits to their employees such as:

- paying them during a temporary shutdown of their operations, or while they are sick or in mandatory quarantine; and/or
- providing other compensation to assist employees with working remotely.

If an entity decides to provide new benefits to its employees (ie those that were not previously offered), it must determine how to account for the benefits. The financial support or benefits offered to employees will likely meet the definition of a liability; therefore, an entity will need to consider when to recognise the liability/expense and how it should be measured.

The entity must first determine whether the benefits provided are a result of past service or if they will be provided as services are rendered because that will impact when the liability is recognised. The specific guidance in IAS 19 'Employee Benefits' must be considered when making this determination. Generally, a liability is incurred once a past transaction has occurred and the entity has lost the discretion to avoid the obligation.

Furthermore, as a result of difficult economic conditions, some entities have or will downsize their workforce. If the entity offers or is required to pay termination benefits to the affected employee(s), management must consider how and when to account for the liability/expense in accordance with IFRS.

Measuring defined benefit obligations

Measuring a defined benefit obligation involves making estimates and the use of assumptions (eg the appropriate interest rate, future salary increases and employee turnover). Given the sudden fall in markets and the decline in high quality corporate bond rates that have occurred as a result of COVID-19, an entity should consider the impact on its defined benefit obligation(s).

Most entities obtain full actuarial valuations approximately once every three years or as required by their regulator. In between, their actuary may perform a more limited update to roll forward the figures for financial reporting purposes, although an up-to-date valuation of plan assets is normally required at each reporting date. Management should consider whether the estimate needs to be adjusted, or a more comprehensive valuation obtained, as a result of the impact of COVID-19.

Entities should have discussions with their actuaries, to ascertain whether COVID-19 has impacted any assumptions in their reports such that their estimates may need to be revisited. The guidance related to subsequent events on whether there may be an adjusting or non-adjusting event should also be considered.

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Other areas

Financial statement area Impact

Revenue

The revenue of an entity may decline as a result of the spread of the virus and the economic impact.

If the entity's contract with the customer includes variable components (eg discounts), the entity must consider whether its previous estimates in this regard continue to be appropriate. IFRS 15 'Revenue from Contracts with Customers' provides extensive guidance around variable consideration and the related constraint. It may be necessary for an entity to begin constraining its variable revenue even if this was not considered necessary prior to the COVID-19 pandemic.

As a result of COVID-19, an entity might:

- run a promotion in order to help maintain cash flows during temporary closure (eg some service-based businesses, like gyms, are offering customers a discount if they prepay for future services)
- offer refunds or credits to its customers for goods or services that cannot be used during this period of crisis (eg hotels or event venues, travel agencies, gyms), and/or
- increase the sales of gift cards that can be used at a later date when the crisis is over.

An entity should review its revenue accounting policies to make sure they are still applicable given the current circumstances,

Where goods and services have been or are being rendered to customers who are either based in regions impacted by COVID-19 or significantly impacted by it, companies will need to assess whether collection is probable while evaluating new contracts. In the absence of such probability, companies may not be able to recognise revenue until or unless payment is received and becomes non-refundable, because such contracts are unlikely to meet the criteria to apply the normal IFRS 15 approach.

Certain revenue contracts may also become less profitable, or even loss-making. For example, an entity might face penalties as a result of delays or incur increased costs that cannot be recovered due to replacing employees or finding alternative suppliers. Management needs to consider whether any contracts are in an 'onerous' position and whether a liability needs to be recognised.

Inventory

Some entities may be experiencing supply chain disruptions. Real estate companies with inventories of under construction properties could be impacted by a fall in property prices. Seasonal inventories and perishable products might be exposed to the risk of loss due to damage, contamination, physical deterioration, obsolescence, changes in price levels or other causes. Companies would need to assess whether, on their reporting date, an adjustment is required to the carrying value of their inventory to bring them to their net realisable value in accordance with the principles of IAS 2 'Inventories'. Estimating net realisable value in such volatile market conditions may also be a challenge, on account of the uncertainties presented by the pandemic.

If an entity's production level is abnormally low (eg due to a temporary shutdown of production), it may need to review its inventory costing to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred (ie "excess capacity" should be expensed rather than being added to the cost of inventory).

Hedge accounting

Hedge effectiveness assessment is required to be performed at the inception and on an on-going basis at each reporting date or in case of a significant change in circumstances, whichever occurs first. The current volatility in markets may result in an entity requiring to either rebalance the hedge, where applicable, or discontinuing hedge accounting if an economic relationship no longer exists or the relationship is dominated by credit risk. Also, if it is no longer highly probable that a hedged forecast transaction (eg inventory purchases or sales) will occur, hedge accounting will cease prospectively.

Financial statement area	Impact
Debt repayment and classification	<p>Some financial institutions (and other creditors) are providing debtholders with the option to defer principal payments for a period of time. Management will need to assess whether the change in terms represent a modification or extinguishment of the debt obligation and revisit the portion of the debt that is considered current versus non-current.</p> <p>As a result of the difficult economic conditions, an entity that is normally able to comply with its debt covenants may find that it is now in violation. In some instances, creditors may not be willing to waive their right to demand repayment. Unless the entity meets certain conditions, it may need to present the entire amount owing as a current liability.</p>
Derecognition of debt or other liabilities	<p>If a creditor forgives an amount owing by an entity, management needs to carefully consider the point in time when the liability is discharged and can be derecognised along with the appropriate accounting treatment.</p>
Financial instrument risk disclosures	<p>Due to the rapidly changing economic environment, an entity may find that it is subject to new or increasing risk (eg credit, liquidity, or market risk) or concentrations of risk. In addition, an entity may find that its risks have changed from the prior period. Management should evaluate whether additional risk disclosures are required.</p> <p>IFRS requires that an entity disclose a sensitivity analysis (including quantitative disclosures) pertaining to changes in the relevant risk variable that are “reasonably possible” at the reporting date. Management may need to perform sensitivity calculations using a larger range for the risk variables or consider a direction of change that reflects expectations resulting from the COVID-19 pandemic.</p>
Guarantees	<p>An entity that has guaranteed an amount owing by another entity/individual should consider how the other entity/individual is impacted by the current global situation. Depending on the circumstances, the entity may need recognise an additional liability related to the guarantee which would be the higher of the ECL and the amount initially recognised less amortisation.</p>
Share-based compensation performance conditions and modifications	<p>If an entity is negatively impacted by COVID-19, the probability that it will meet the performance vesting conditions outlined in its share-based compensation arrangements may change. Furthermore, the entity may choose to modify or cancel its share-based compensation arrangements. Management should consider whether the accounting for such plans needs to be revised based on the guidance in IFRS 2 ‘Share-based payment’.</p>
Foreign currency translation	<p>An entity is required to translate foreign currency transactions into the reporting/functional currency using the spot rate in effect on the date of the transaction. As a practical expedient, an entity may translate revenue earned and expenses incurred in a foreign currency using an average rate (eg a monthly or annual average). In years when exchange rates remain fairly stable, the difference between using the spot rate vs the average rate will be insignificant. However, some exchange rates are fluctuating significantly during this period of economic uncertainty. As a result, an entity may need to revisit the way it translates foreign currency transactions in its income statement and assess whether its current accounting is appropriate.</p>
Government assistance	<p>An entity that has historically not been eligible for government assistance may be entitled to receive government assistance as a result of the COVID-19 pandemic. Management may need to establish an accounting policy regarding government assistance which needs to be appropriate and in line with the requirements in IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’. It is essential to distinguish between government assistance and government grants and ensure that grants are recognised only when the recognition criteria in IAS 20 is met. Some of the government assistance may involve deferral of tax payments or other tax allowances. The accounting treatment of tax allowances may need to be accounted for under IAS 12 ‘Income Taxes’ rather than IAS 20.</p>

Financial statement area	Impact
Insurance claims for business interruption	<p>An entity may have an insurance policy that covers losses from business interruption. If the entity is forced to temporarily cease operations as a result of COVID-19 it may be entitled to recover some or all of its losses from its insurance provider. Such claims would be contingent assets in the financial statements if the entity has a clear right to reimbursement. While contingent gains/assets are not recognised in an entity's financial statements unless they are virtually certain, (in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'), they would be disclosed in the notes to the financial statements when their existence is likely. They can be recognised as income in the financial statements only when virtually certain, for example on acceptance of the claim by the insurer. When considering insurance claims, the insurers ability to settle the claim on a timely basis should be assessed.</p>
Restructuring plans	<p>As a result of the difficult economic environment, an entity may be considering or implementing restructuring plans such as the sale or closure of part of its business or the downsizing of operations (either temporary or permanent). Management should consider whether any long-lived assets need to be classified as held for sale or if any portion of its business qualifies for presentation as a discontinued operation. Preparers of financial statements need to be mindful that IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' has specific conditions to be held for sale.</p>
Fair value measurement	<p>The fair value of an item (such as certain financial instruments, investment properties, and items of property, plant and equipment) must reflect market participant views and market data at the measurement date under current market conditions. There may be an increase in the amount of subjectivity involved in fair value measurements, especially those based on unobservable inputs. In some cases greater use of unobservable inputs will be required because relevant observable inputs are no longer available.</p>
Leases	<ul style="list-style-type: none"> • Determining the incremental borrowing rate (IBR) – it is often necessary for a lessee to calculate an IBR in order to account for most leases under IFRS. Due to the impact of the COVID-19 pandemic, including changes to interest rates and to the entity's own credit risk, this rate may need to be reconsidered. • Lease modifications – In response to operational disruptions associated with COVID-19 (such as office closures) lessors and lessees might agree to modify their lease arrangements. Both lessors and lessees must consider how to account for such modifications, including determining whether the changes result in a new lease or a modified lease. Lessees may also need to determine a new incremental borrowing rate.
Accounting for income taxes	<ul style="list-style-type: none"> • Deferred Tax Asset (DTA)– An entity that has historically recognised a deferred tax asset on its statement of financial position may need to revisit its assumptions about the likelihood that it will be realised in the future. Management may determine that it is no longer appropriate under IAS 12 'Income taxes' for the entity to recognise the deferred on the entity's balance sheet because it is no longer recoverable in the future. • Deferred Tax Liability on outside basis differences (DTL) – An entity may assert that earnings in foreign jurisdictions are indefinitely reinvested and, thus, does not recognise a deferred tax liability for these accumulated earnings and other taxable outside-basis differences. Such assertions may need to be revisited to determine if they remain appropriate given the entity's current cash flow projections. • In some jurisdictions, companies may also be granted tax waivers or deferrals, which need careful assessment of eligibility and the consequential impact on tax provisioning. • Any income tax reliefs provided by governments have to be assessed in light of not only IAS 12, but also IAS 20.
Contingent liabilities	<p>Entities may anticipate losses on account of reduction in demand, supply chain disruptions or losses due to an overall decline in economic output. However, future operating losses on existing contracts do not meet the definition of a liability unless they fall in the category of onerous contracts, and hence, should not be provided for in accordance with IAS 37.</p>
Economic dependence	<p>An entity that is otherwise not economically dependent on another entity or individual may find that circumstances change during this period of crisis. Management should consider whether disclosure regarding economic dependence should be added to the financial statements.</p>

Subsequent events

If the widespread impact of COVID-19 began during the entity's reporting period, the impact will be reflected in its financial statements for that period. However, to the extent that the widespread impact of COVID-19 occurred during the entity's "subsequent events period" (ie the period between the end of the reporting period and the date when the financial statements are authorised for issue), management must determine how the developments subsequent to the year-end should be reflected in the entity's financial statements for the period under audit or review.

In accordance with IAS 10 'Events after the Reporting Period', entities are required to distinguish between subsequent events that are adjusting (ie those that provide further evidence of conditions that existed at the balance sheet date) and non-adjusting (ie those that are indicative of conditions that arose after the balance sheet date). Entities are required to adjust the amounts recognised in their financial statements to reflect any adjusting events that occur during the subsequent events period.

Is the impact of COVID-19 an adjusting event for reporting periods ended 31 December 2019 (or prior)?

In our view, the impact of COVID-19 is generally a non-adjusting subsequent event for reporting periods ended on or before 31 December 2019. Consequently, there would be no impact on the recognition and measurement of assets and liabilities in an entity's financial statements. Although cases of the virus in Wuhan City, China were reported to the World Health Organisation (WHO) on 31 December 2019, there was little confirmed evidence of human-to-human transmission at that time and the WHO did not declare the outbreak to be a public health emergency of international concern until 31 January 2020.

As such, it is presumed that the significant development and spread of the COVID-19 did not take place until January 2020. Financial statements for an entity with a reporting period ending on or before 31 December 2019 should only reflect the conditions that existed at 31 December 2019 and must therefore exclude the significant effects of the COVID-19 outbreak.

However, entities will need to determine whether they should make additional disclosures to describe the impacts of the outbreak in the subsequent event period. Generally, disclosure should be made of those events during the subsequent events period that do not relate to conditions that existed at the date of the financial statements but cause significant changes to assets or liabilities in the subsequent period and either will, or may, have a significant effect on the future operations of the entity. 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 adjust the financial statements as appropriate.

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

- management's plans to deal with the effects of the COVID-19 outbreak and whether there is material uncertainty over the entity's ability to continue as a going concern
- breaches of covenants, waivers or modifications of contractual terms in lending arrangements
- supply chain disruptions
- the assessment of certain purchase or sale agreements as onerous contracts
- announcing a plan to discontinue an operation
- announcing, or commencing the implementation of, a major restructuring or downsizing (temporarily or permanently)
- declines in the fair value of investments held after the reporting period (e.g., pension plan investments)
- abnormally large changes in asset prices or foreign exchange rates, and
- entering into significant commitments or contingencies, such as issuing significant guarantees to related parties.

Example disclosures for non-adjusting events

All disclosures should be entity-specific and include information relevant to their circumstances. The following are some examples for some potential non-adjusting events for 31 December 2019 financial statements:

Overall risk to operations

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. [Add description specific to how the entity's financial position and performance has or is likely to be affected]

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

Note: this disclosure assumes there is no significant doubt about the entity's ability to continue as a going concern.

Store closures

On 1 March 2020, in response to significant decreases in demand resulting from social distancing efforts, quarantines and border closures related to the spread of COVID-19, the Company announced that it would temporarily close 30 of its 100 stores, which represented average monthly sales of approximately CU325,000 during the year ended 31 December 2019.

The closures are expected to reduce the following expenses by the following amounts on a monthly basis: [insert figures here]

The Company also announced that it would continue to pay its store associates for all scheduled shifts that were planned for the two-week period beginning on 1 March 2020. The salaries and benefits expense estimated for this two-week commitment is approximately CU50,000.

Redundancies

During March 2020, in response to significant decreases in demand amidst the COVID-19 outbreak, the Group announced its intention to temporarily reduce its workforce by 100 positions by the end of April 2020, by means of either reduction in hours or temporary leave. The Group plans to continue providing health benefits for furloughed employees through to 30 June 2020. The Group expects the reduction in positions to reduce salaries and benefits expense in 2020 by a net amount between CU25,000 and CU20,000 per month. Other expected financial effects include... [insert details]

Customer defaults

Subsequent to 31 December 2019, one of the Company's major trade customers declared bankruptcy following severe decreases in sales as a result of the continued spread of COVID-19. Of the CU135,000 receivable from this customer, the Company expects to recover less than CU10,000. The allowance for expected credit losses for this receivable was CU5,000 as at 31 December 2019.

Decline in fair value of investments

Since 31 December 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity markets have experienced significant volatility and weakness. As at 31 March 2020, the date that these financial statements were authorised for issue, the fair value of the Group's investments had declined significantly to the following amounts: [insert figures here]

While governments and central banks have reacted with monetary interventions designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

These subsequent changes in the fair value of the Organization's investments are not reflected in the financial statements as at 31 December 2019.

What is the impact of COVID-19 on financial statements for reporting periods ending after 31 December 2019?

Since late January 2020, the number of COVID-19 cases and countries affected outside of China has grown rapidly, and on 11 March 2020, the WHO declared COVID-19 to be a global pandemic. During this period, national governments and various private sector organisations have taken significant measures to contain the virus, including quarantines and school, store, plant and border closures. Consequences of the outbreak have also contributed to significant volatility in global stock markets since late February 2020.

In our view, for reporting periods subsequent to 31 December 2019 (ie reporting periods ending in 2020), more information was available that preparers and market participants will need to factor into their assumptions and assessments. Accordingly, the later the reporting period is after 31 December 2019, the greater the need to consider whether the impacts of COVID-19 in the subsequent events period should be considered an adjusting event in an entity's financial statements.

For periods ending after 31 December 2019, entities will need to use their judgement to determine the impact of COVID-19. They need to carefully consider the conditions that were present at the reporting date. This may not necessarily result in entities reaching the same conclusion for the same reporting date. Management should consider the specific circumstances that relate to the entity's operations and the relevant events that existed in their jurisdiction at that time. For example, some countries have been put on lockdown and people have been told not to leave their homes and some countries have not. If, for example, the entity is in the hospitality industry, this could have a major impact.

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.

Sample disclosures for adjusting events

The sample disclosures provided for non-adjusting events can be utilised as a starting point to describe the impact of COVID-19. Additional disclosures may be required depending on the adjustments that result.



Going concern

Assessing an entity's ability to continue as a going concern

IAS 1 contains guidance related to the going concern assumption and outlines when financial statements are prepared on the assumption the entity will continue as a going concern. IAS 1 explicitly states that at each reporting date, management is 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. Management should consider a wide range of factors, such as: current and expected profitability, debt repayment schedules and potential sources of replacement financing and the ability to continue providing services. If management concludes that the entity may be liquidated (either by choice or because it has no realistic alternative but to do so), the going concern assumption would not be appropriate and the financial statements may have to be prepared on another basis, such as a liquidation basis. If there is material uncertainty about the entity's ability to continue as a going concern, the entity should include going concern disclosure in the notes to its financial statements.

Because the assessment regarding an entity's ability to continue as a going concern covers the period no less than twelve months from the annual reporting date, all events that occur during an entity's subsequent events period should be considered when evaluating whether there is significant doubt about the entity's ability to continue as a going concern. In other words, even if events during the subsequent events period are not considered adjusting subsequent events, they should still be incorporated into the going concern assessment. Furthermore, 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.

Sample disclosure (significant doubt about an entity's ability to continue as going concern)

Below is a sample disclosure for an entity that concludes that there is significant doubt about its ability to continue as a going concern. This disclosure must be tailored for the entity's specific circumstances.

Sample disclosure

Since 31 December 2019, the consequences of the COVID-19 outbreak have materially and adversely affected the supply and demand for the Company's primary products and therefore, its operating results have been negatively impacted.

Workforce reductions resulting from illnesses and quarantines in the Company's warehouses located in France and Singapore have resulted in critical interruptions of the Company's distribution system. Combined with disruptions in the Company's supply chain due to border closures, the Company has experienced significant delays in delivering its products. The Company had operating losses, negative cash flows from operations and working capital deficiencies for the period from 1 January 2020 to 31 March 2020 as follows: [insert figures here]

It is uncertain whether, and when, the Company will return to profitability and positive cash flows from operations. These uncertainties cast significant doubt on the Company's ability to continue as a going concern.

The Company will need to raise capital in order to continue its operations. To address its financing requirements, the Company will seek financing through debt and equity financings, assets sales, and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

Conclusion

It is important to remember that this situation is constantly moving. Assessments need to be kept up to date, for example, those carried out two weeks before the financial statements are due to be signed will likely be out of date two weeks later. So it is crucial to ensure all judgements made are current and based on the information available at the latest date possible (ie the date the financial statements are authorised and approved).

We hope you have found the information in the article 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 Punongbayan & Araullo contact or visit www.grantthornton.com.ph.



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