



COVID19 - IMPACT ON FINANCIAL REPORTING

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Introduction

- The novel Coronavirus (COVID -19) pandemic is spreading around the globe rapidly. The virus has taken its toll on not just human life, but also on business and financial markets, the extent of which is currently indeterminate. As the companies in India approached their year end midst the pandemic, there is an urgent need to evaluate the impact of the outbreak on the accounting and financial reporting of the accounts
- This presentation will highlight some of the key financial reporting implications that businesses need to consider whilst preparation of their financial statements in the wake of COVID - 19 crisis

Inventory Management

- ❖ Due to lock-down enforced by the government, certain corporates experienced supply disruptions and continuation of the production activity also got hampered. So in accordance with Ind AS 2 & AS 2 "*Valuation on Inventories*", it might be necessary :-
 - To write down inventories where the net realizable value is lower than its cost price
 - Also, the overhead cost incurred during the lock-down period cannot be added to the cost of inventory & will have to be charged off as an expense



Impairment of Assets

- ❖ Disruption of the supply chain, reduction in man force availability, restriction on operations, reduction in the market prices and overall demand can impact an entity's estimated future cash flow projections, indicating reduction in the recoverable amount of the cash generating unit
- ❖ The situation could be an impairment trigger, and require an impairment test
- ❖ However, it could be a challenge for many companies to estimate future cash flows due to ongoing economic uncertainty

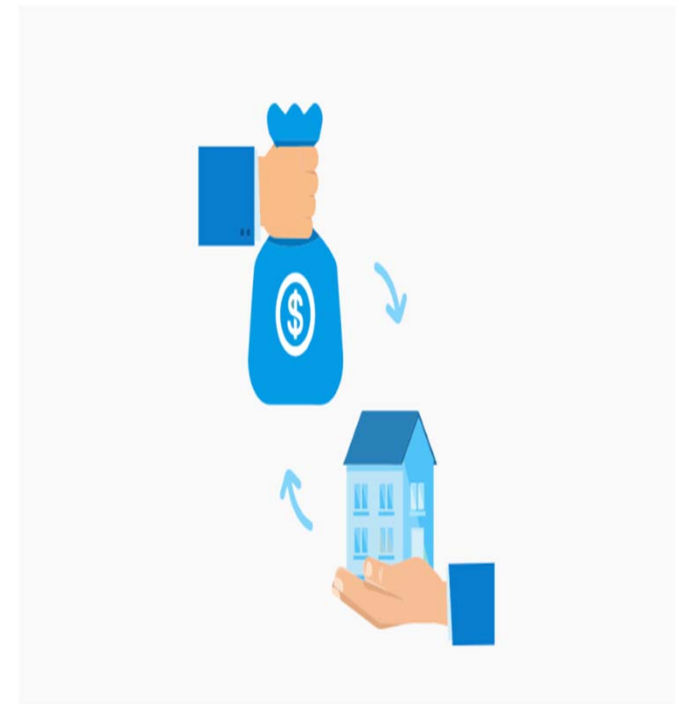


Impairment of Assets (Contd..)

- ❖ Companies would need to provide disclosures as per Ind As 36 and AS 36, *Impairment of Assets* and also help the users understand uncertainty associated with management's assumptions about the future
- ❖ Companies will have to append the explanatory notes in financial statements in regards to the impairment test carried out along with sensitivity analysis

Fair Value Measurement

- ❖ Fair value of asset or liability is determined as per the marketing conditions as on the measurement date
- ❖ As the current financial as well as capital market environment is affected globally due to the spread of COVID-19, there would be significant change in the assumptions used to measure fair value of the assets and liabilities including considerable change in the valuation techniques being adopted by the companies. The same needs to be revisited



Fair Value Measurement (Contd..)

- Preparers using valuation techniques may have to consider the impact of COVID-19 on various assumptions including discount rates, credit-spread/counter-party credit risk etc.
- As per Ind AS1, *Presentation of Financial Statements* and Ind AS 113, *Fair Value Measurement*, a company would need to provide disclosures along with the assumption and judgment made by the management.
- In respect of financial assets within the scope of AS 13, Investment, entities have to consider the impact of COVID-19 on determination of fair value for valuation of investment classified as Current Investments

Leases

- ❖ Due to COVID-19, there may be modification in lease arrangements like waiver or concession in rental payouts, financial effect needs to be factored in the financial statements
- ❖ In case of non-cancellable lease arrangements which are onerous in nature, provision for impairment of leased assets to be considered
- ❖ Discount rate used to determine the present value of new liabilities may need to incorporate any risk associated with COVID-19



Revenue Recognition

- ❖ Under Ind AS 115, measurement of revenue need to be re-assessed considering the impact of COVID-19 on expected rise
- ❖ As the current financial as well as capital market environment is affected globally due the spread of COVID-19, there would be significant change in the assumption used to measure fair value of the assets and liabilities including considerable change in the valuation techniques being adopted by the companies



Provisions, Contingent Liabilities & Contingent Assets

- ❖ Due to COVID-19, some of the contracts may become onerous for reasons such as supply chain barring essential items, logistic services, etc.
- ❖ Management should consider whether any of its contracts have become onerous and provision should be made for such onerous contracts
- ❖ If management is unable to assess whether some of the executory contracts are onerous, due to inadequacy of information, etc. the same should be disclosed in the Notes to Accounts



Provisions, Contingent Liabilities & Contingent Assets (Contd..)

- ❖ Entities may have insurance policies that cover loss of profits due to COVID-19. Insurance Claims can be recognized only if recovery of claims is virtually certain
- ❖ Due to COVID-19, there is a need for exercising judgment in making provisions for losses and claims
- ❖ Also, need arises for companies to check if they are insured against such pandemic in the future

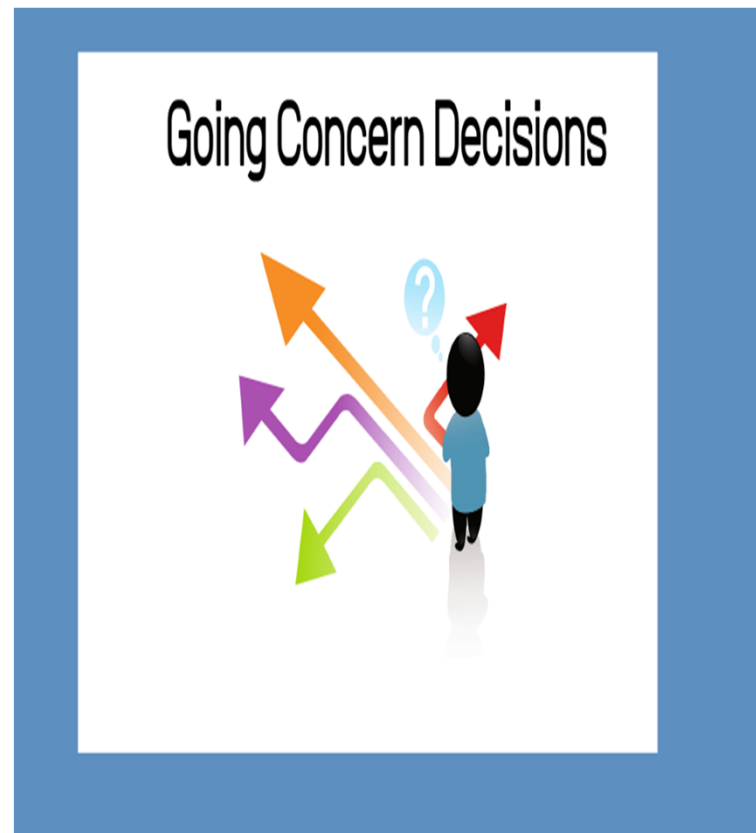
Modification or Termination of Contracts or Arrangements

- ❖ Entities may modify or terminate certain contracts which may be within the scope of below stated Ind AS and AS :

Entities to whom Ind AS is applicable	Entities to whom AS is applicable
Ind AS 19 - Employee Benefits	AS 15 - Employee Benefits
Ind AS 102 - Share based Payments	Guidance Note on Accounting for Employee Share Based Payments
Ind As 109 - Financial Instrument and Ind AS 32 - Financial Instrument - Presentation	Guidance Note on Accounting for Derivate Contracts
Ind As 104 - Insurance Contract for Insurance companies there are routine events like earthquakes, huge floods, war situations, etc.	—
Ind AS 115 - Revenue from Contracts with Customers	AS 7 - Construction Contracts & AS 9 Revenue Recognition & Guidance Note Accounting for Real Estate Transaction

Going Concern Assessment

- ❖ Due to COVID-19, there could be significant impact on the evaluation of appropriateness of the going concern
- ❖ The management will have to assess the impact of COVID-19 on the going concern assumption and accordingly measure its assets & liabilities
- ❖ Management should include appropriate explanatory note for its impact on the financial statements as on the balance sheet date (i.e. 31st Mar,20) and for the next 12 months



Property, Plant & Equipment

- ❖ During the lockdown, the assets remain under-utilized or unutilized at all
- ❖ COVID-19 impact may have affected expected useful life and residual life of PPE
- ❖ The management should re-assess the residual value and the useful life of an asset due to COVID-19 and, if expectations differ from previous estimates, it is appropriate to account for the change(s) as an accounting estimate in accordance with Ind AS 8 and AS 5



Deferred Tax Asset/Liability

- ❖ COVID-19 could affect future profit and or/may also reduce amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g. asset impairment)
- ❖ Management should re-assess the recognition of deferred taxes like deferred tax asset recognition on carry-forward business losses, impairment losses, deferred tax liability on distributed profits from subsidiaries, etc.



Borrowing Costs

- ❖ Ind AS 23 & AS 16 *Borrowing Costs*, requires capitalization of interest to be suspended when development of an asset is suspended
- ❖ Management should consider the above aspect while evaluating the impact of COVID-19



Events after the Balance Sheet

- ❖ Financial statements should include disclosure of significant recognition and measurement uncertainties that might have emerged due to the outbreak of COVID-19 in measuring various assets and liabilities
- ❖ Management should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity

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Contact us

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