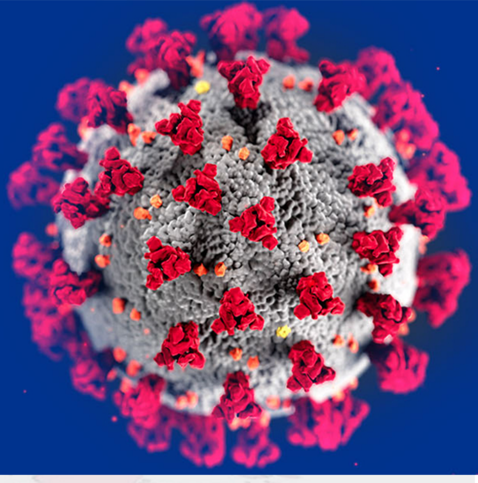
KPMG

KPMG Update on COVID-19



Adjusting or non-adjusting 'event'?

March 2020

The issue

Given the rapid development of the novel coronavirus outbreak in January 2020 and how it now affects the world economy and the current economic outlook, the question for accountants is: how does this pandemic affect financial reporting for periods ended 31 December 2019?

Accounting implication

Assets and liabilities of an entity should reflect all conditions that were present at the period end when they were measured. IAS 10 *Events after the Reporting Period* (IAS 10) defines events after the reporting period as those events, favourable and unfavourable, that occur between the end of the reporting period (in this case, 31 December 2019) and the date when the financial statements are authorised for issue.

There are two types of such events:
a)those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
b)those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

At 31 December 2019, the situation in respect of the coronavirus was that, a number of cases of infection of an unknown virus was reported to the World Health Organisation. At the time, very little was known about the virus.
There was insufficient knowledge:
a)about the kind of virus;
b)that the infection involved human-to-human transmission;
c)that the infection could lead to death;
d)about quarantine measures that have not yet been taken or announced; and
e)about later measures such as transport / travelling restrictions.

The knowledge gained subsequently on the virus as a new coronavirus (Covid 19), does not provide additional evidence about the condition that existed at 31 December 2019. Hence, it is a non-adjusting event at 31 December 2019. Management should assess objectively events after the reporting date to ensure that other conditions apart from the emergence of the virus that would be adjusting events are not "shielded" under the guise of coronavirus. In other words, the outbreak is not a 'free pass' to regard all unfavourable conditions after the 31 December 2019 year-end as 'non-adjusting' solely on the grounds of the outbreak.

Going concern consideration

In accordance with IAS 10, where events after the reporting date indicate that the going concern assumption is no longer appropriate, the financial statements should not be prepared on a going concern basis. The guidance applies regardless of whether those events would otherwise be non-adjusting event. Entities should consider whether the emergence of coronavirus after the year end, although a non-adjusting event, has caused the going concern assumption of an entity to be inappropriate for the year end. If this assertion is confirmed, then the entity's financial statement cannot be prepared using the going concern assumption.

Which entities will be impacted most?

The entities to be significantly impacted are those that have business in China or with Chinese-based entities and other countries that have in recent times recorded high cases of infection and related deaths.

Disclosures

Disclosures must be provided that enable users of the financial statements to understand the impact of the outbreak on the entity's financial position and financial performance. This leads to the need to provide disclosures required for non-adjusting events by IAS 10.21, namely:

a)the nature of the event – the novel coronavirus outbreak (and how it affects the reporting entity); and
b)an estimate of the financial effect of that event, or a statement that such an estimate cannot be made.

The disclosure of the estimated financial effect would be quantitative information about how the outbreak is estimated to affect entity's financial information based on information available after the reporting date but before the financial statements are authorised for issue. From a practical perspective, this would mean estimating the effect based on the latest available information on a date close to when the financial statements are authorised for issue.