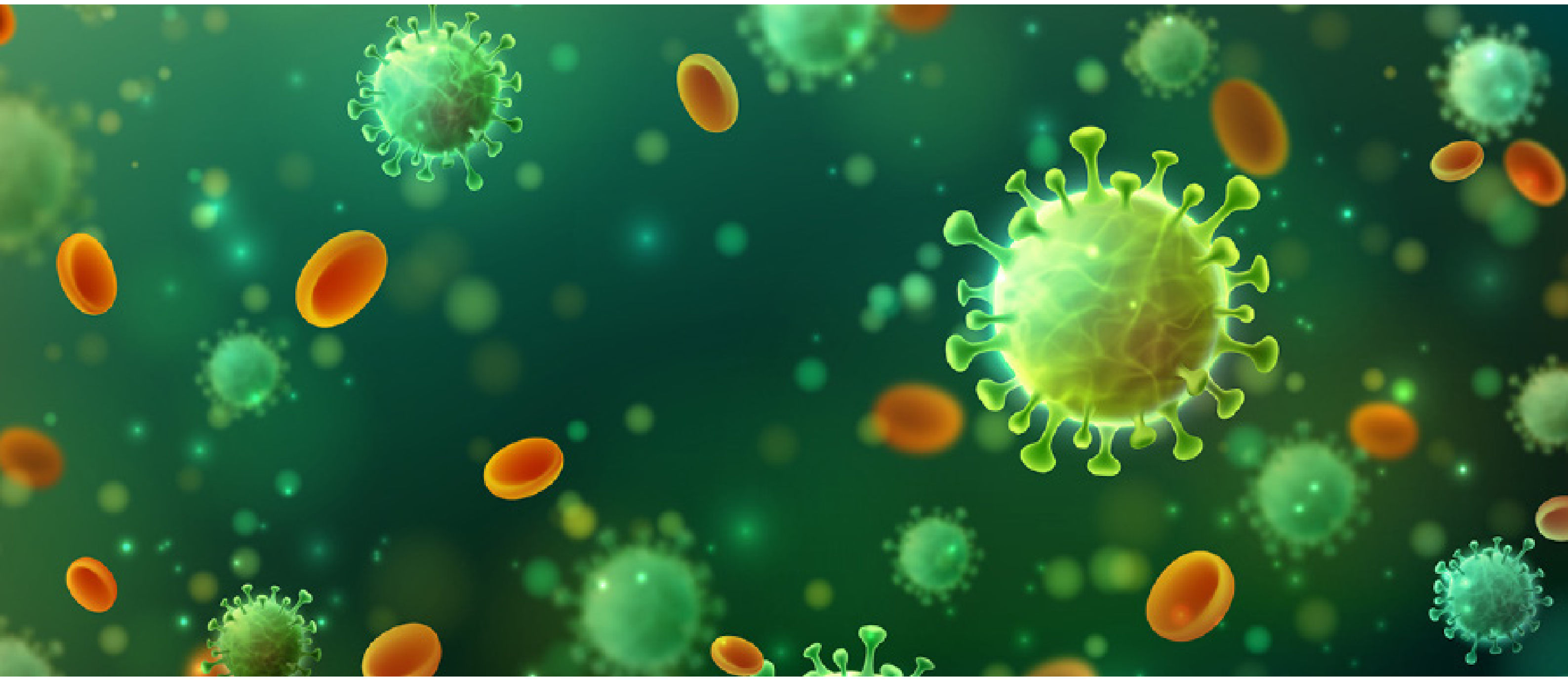
Accounting implications of the Coronavirus (COVID-19)



The spread of the Coronavirus is impacting businesses around the world. Entities need to carefully consider the accounting implications of this situation. This IFRS Alert considers the impact of the Coronavirus on 31 December 2019 year ends.

As Coronavirus is becoming more widespread, it is important that businesses consider the accounting implications as a result of the impact it is having on their business.

Is the impact of the Coronavirus an adjusting event in the 31 December 2019 year-end financial statements?

Entities should consider IAS 10 'Events after the reporting period' to determine if the impact of the coronavirus is an adjusting event or a non-adjusting event.

IAS 10 describes an adjusting event as one which 'provides evidence of conditions that existed at the end of the reporting period'. In our view, the development and spread of this virus happened in 2020 and does not provide evidence of a condition that existed at 31 December 2019 and therefore is a non-adjusting event. At 31 December 2019 there were few reported cases and little confirmed evidence of its spread amongst humans.

Therefore the impact of balances should be largely unaffected until quarter one of 2020. Entities need to ensure the measurement of their assets and liabilities at 31 December 2019 is not impacted by subsequent development of the virus. For example, measurement of expected credit losses and hedge effectiveness in accordance with IFRS 9 'Financial Instruments', the measurement of impairment of intangible assets such as goodwill under IAS 36 'Impairment' and assets and liabilities that are measured at fair value in accordance with IFRS 13 'Fair Value Measurement'. Also consider IAS 2 'Inventories' because if you have reduced or idle capacity, the overhead costs may not be allocated to inventory as they usually are (ie. any downtime should not be included in the cost of inventory). The realisation of deferred tax assets under IAS 12 'Income Taxes' should also be considered.

Disclosure

If the impact of the non-adjusting event is material to the financial statements, it should be disclosed. This disclosure should include the nature of the event and an estimate of the financial effect, or it is not possible to estimate this, a statement to that effect.

If you would like to discuss any of the topics raised please contact Dr. Shqiponja Isufi, Head of Audit Switzerland, Grant Thornton AG.

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