AKGVG & Associates
COVID-19 IMPACT ON FINANCIAL STATEMENTS
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The rapid outbreak of the coronavirus (COVID-19) presents an alarming health crisis that the world is grappling with. The impacts of the COVID-19 pandemic are unfolding in real time. The COVID-19 outbreak has already had a significant effect on the economies of affected countries and international financial markets.

Measures to prevent transmission of the virus include limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools, and cancelling events. This will have an immediate impact on businesses such as tourism, transport, retail and entertainment. It will also begin to affect supply chains and the production of goods throughout the world and lower economic activity is likely to result in reduced demand for many goods and services.

The financial reporting impacts of the COVID-19 outbreak will depend on facts and circumstances, including the degree to which a company’s operations are exposed to the impacts of the outbreak. As the entities in India approach their year-end, there is an urgent need to evaluate the impacts of the outbreak on their accounting and financial reporting.
Some of the impact of COVID-19 on business operations are:

- Changes in customer demand
- Increase in cost of material or labour
- Shutdown of Plants and factories
- Volatility in asset prices and currency exchange rates.
- Reduction in interest rates
- Economic stimulus packages by government
- Changes in employees strength
- Modifications or terminations of contracts

All these changes will influence the recognition, measurement, presentation and disclosure of various items in the financial statements.

Specific requirements of a few Indian accounting standards that may need special attention are indicated in this presentation. It is to be noted that this is not an exhaustive list of requirements and their application may differ based on the specific facts, circumstances and business operations of entities.
Going Concern

Covered under Ind AS 1, Presentation of Financial Statements

- Management would need to assess whether the current events and conditions cast significant doubt on the entity’s ability to continue as a going concern, or whether the going concern assumption is still appropriate as a basis for the preparation of the financial statements.
- In many cases, budgets and forecasts used to support management’s initial going concern assessment may now be of limited relevance given the rapidly changing economic and business circumstances and may require significant revision to be able to support management’s assessment in the current environment.
- There needs to be an assessment of the impact of current events and conditions on a entity’s operations and forecast of cash flows with the key immediate issue being whether the entity still has sufficient liquidity to continue to meet its obligations as they fall due.
- Material uncertainties casting significant doubt on the ability to continue as a going concern needs to be considered.
- Going concern assessment should be continuously updated to the date the financial statements are approved.
Going Concern

Disclosures

- Necessary disclosures as per Ind AS 1 shall be made regarding material uncertainties that might cast significant doubt upon an entity’s ability to continue as a going concern.
- In case the entity prepares the financial statements under the going-concern assumption, if any material uncertainties exist, it should disclose the material uncertainties to make it clear to the users that the assumption used is subject to such material uncertainties.
- Certain specific disclosures required include:
  - An explanation of how a company manages liquidity risk
  - Disclosures of defaults and breaches relating to the borrowings recognised during and at the end of the reporting period.
- Given the significance and widespread impact of COVID-19, expanded disclosures may be necessary with the added focus on entities’ response to the impact of COVID-19.
Inventory : Valuation

Covered under Ind AS 2, Inventories

- Inventories will need to be written down to NRV based on the most reliable evidence available at the time of estimation of NRV. These estimates may require significant judgement, particularly when inventories will not be realised for a long period of time.
- The outbreak may affect the estimation of NRV in several ways:
  - Fluctuations in estimated selling prices due to changes in customer demand.
  - Estimated costs to complete may change due to increases in the cost of materials or labour.
  - Nonfulfillment of sales and purchase contracts.
- Seasonal Perishables, products with short shelf lives or expiration dates, or specific seasonal inventories will be at a higher risk of an impairment.
- Excess fixed overhead costs that cannot be allocated to production due to underutilized capacity must be recognised as expense in the period they are incurred rather than capitalized into inventory.
Inventory : Physical Count

Inventory Count as on 31st March 2020:

- Management should inform the auditors and those charged with governance the rationale in case of not conducting the inventory count on 31st March 2020.
- The management would need to consider other possibilities such as delaying the count to a time when restrictions are lifted or concerns reduced.
- The entity would need to ensure the effectiveness of the design, implementation and maintenance of controls over changes in inventory to determine whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for true and fair valuation of inventory.
- Additional factors to be considered by management:
  - Whether the perpetual inventory records are properly adjusted
  - Reliability of the perpetual inventory records
  - Reasons for differences between the information obtained during the physical count and the perpetual inventory records.

Disclosure: Any significant write-down of inventories recognised as an expense in the period.
Revenue from Contracts with Customers

Covered under Ind AS 115, Revenue from Contracts with Customers

- Uncertainty about whether the rights and obligations in customer contracts remain enforceable may affect the timing and amount of revenue to be recognised. Entities and their customers may seek to modify existing contracts to respond to the impacts of COVID-19 on their business.
- Revenue estimates such as variable consideration (discounts, rebates, incentives, etc.) and stand-alone selling prices of goods and services might also need to be updated to reflect the current environment..

Management Actions
- Contracts existence and enforceability –
  - Potential to impact both current and future revenue contracts
  - Evaluate whether the contract qualifies as a revenue contract as per Ind AS.
- 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,
- Conditions should be met for revenue recognition.
- Consider whether any contracts are in an ‘onerous’ position and whether a liability needs to be recognised due to become less profitable/loss making e.g., Penalties.
Revenue from Contracts with Customers

Management Actions (Continued)

- Evaluate whether contracts include variable consideration, e.g. customer incentives.
- Update estimates of variable consideration, including the constraint.
- Assess whether estimated stand-alone selling prices need to be updated.
- When revenue is recognised over time using an input method, evaluate whether the progress towards satisfaction reflects the latest expected total inputs.
- Assess the customer’s ability to pay and whether write-offs of existing receivables are necessary.

Revenue recognition over time - When a company transfers control of a good or service over time, revenue is recognised by measuring the progress towards complete satisfaction of that performance obligation. Entities need to ensure that the estimated progress and revenue recognised reflect the latest expectations. Any changes in this estimate are accounted for prospectively.

Disclosures

Disclose information about the methods, inputs and assumptions used for estimating variable consideration and stand-alone selling prices. Entities may need to expand or update these disclosures for the impact of COVID-19.
Employee Benefits

Covered under Ind AS 19, Employee Benefits

❖ Measurement of employee benefits

- Updated actuarial valuations of defined benefit liabilities might be required due to significant changes in employee strength or de-valuation of underlying plan assets.
- Consider the impact on assumptions and whether the estimate needs to be adjusted, or a more comprehensive valuation needs to be obtained.

❖ Changes to remuneration policies

- In case of new paid absence entitlements provided by entity do not accrue through past service and do not accumulate, then it is unlikely that a company would recognise a liability for these paid absences. Instead, it would expense the cost as absences are taken.
- Entities will need to consider whether they have any legal or constructive obligations to its employees as a result of these events.

❖ Employee Terminations – In case of reduction of work-force, the liability for employee termination can be recognised only when the entity can no longer withdraw the offer of termination benefits or the costs of a related restructuring are recognised in accordance with Ind AS 37.
Employee Benefits

- **New employee benefits**
  - Determine how to account for the benefits
  - 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. A liability is incurred once a past transaction has occurred and the entity has lost the discretion to avoid the obligation.

- **Recognising share-based payment expenses**
  - Entities may need to revise the estimates used to recognise these expenses and consider the implications of any modifications to these arrangements.
  - Evaluate whether modifications to share-based payment arrangements are non-beneficial or beneficial. To the extent that such changes are beneficial to the employee, they would be accounted for as a modification and an additional expense recognised.
  - Management should be aware that cancelling a share-based payment award even if the vesting conditions are unlikely to be satisfied results in the immediate recognition of the remaining expense.

**Disclosure**
Extensive disclosure of the assumptions used to estimate employee benefit liabilities, together with sensitivities and changes in those assumptions.
Leases

Covered under Ind AS 17, Leases

Reassessment of Lease renewal, termination or purchase option

- Due to the uncertainty, lease contracts containing renewal and termination clauses may need to be reassessed to determine whether there is any change to the lease term.
- Lease contracts with purchase options may need to be reassessed if the lessee concluded initially that exercise of the purchase option was reasonably certain.

Measurement Accounting:
- Based on reassessment, the lessee will be required to remeasure its lease liability using a revised discount rate.
- This may have significant impact on the carrying amount of lease assets and liabilities at the date of the reassessment. In turn, this may affect the amount and profile of depreciation and interest expense recognised subsequently.
Leases : Rent Concessions

Rent Concession
Due to the impact of the COVID-19 coronavirus outbreak on trading conditions, many lessees are seeking rent concessions from lessors. These rent concessions may be in the form of one time reduction in rent, a reduction for a defined period or a change in the nature of rent.

Determining the nature of rent concession & its Accounting

❖ Lease modification
  ▪ Recognition - There is a change in scope or consideration that was not part of the original terms and conditions of the lease.
  ▪ Accounting - Detailed guidance in Ind AS 17 should be applied by the entities because of the complexity in lease modifications.

❖ Other cases
  ▪ Recognition - The original terms and conditions of the lease may include a mechanism to adjust rents if certain events occur.
  ▪ Accounting - In this case, the rent concession will often represent a variable lease payment. Entities generally account for variable lease payments as income or expense in the period in which they arise.
Leases : Government Assistance

Government Assistance

- In some cases, the government may intervene to provide support to lessees or lessors. Entities should consider the guidance in Ind AS 20 on Government Grants.
- In addition, lessors should consider whether:
  - Operating lease receivables are impaired
  - Underlying assets measured at cost are impaired and
  - Underlying assets measured at fair value e.g. investment property measured at fair value are appropriately measured

Disclosures

Entities are required to disclose information about the effect that leases have on their financial position, financial performance and cash flows including information about variable lease payments recognised as income/expense in the period.
Impairment

Covered under Ind AS 36, Impairment of Assets

Ind AS 36 requires an entity to assess at the end of each reporting period, whether there is any indication that non-financial assets may be impaired. The impairment test only has to be carried out if there are such indications. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Factors to be considered during measurement of Impairment:

- Doubt about the entity’s ability to continue as a going concern is a general indicator of impairment for all assets.
- Contraction in economic activity due to the outbreak of COVID-19 is considered to be an impairment indicator at the reporting date, which results in an impairment assessment.
- Assumptions used for impairment testing and to determine the recoverable amounts before the outbreak of COVID-19 require any change.
- The assumptions used to determine discount rate to measure the recoverable amount require any adjustments.
- The forecasts or budgets for future cash flows prepared by management should be updated.
- Market assumptions used to determine fair value for recoverable amounts need reconsideration.
- Reasonable assumptions are taken in estimating the value-in-use and fair value less costs of disposal and ensure that the impairment loss, if any, is estimated reliably.
- Significant challenges are expected to prepare the forecast of or budgets for future cash flows. An expected cash-flow approach based on probability-weighted scenarios may be more appropriate to reflect the current uncertainty than a single best estimate when estimating value in use.
Impairment: Goodwill

Goodwill:
For goodwill and intangible assets with indefinite useful lives, the standard requires an annual impairment test and when indicators of impairment exist.

- **Goodwill impairment indicators:**
  - Significant adverse change in legal factors or in the business climate
  - Loss of key personnel that is other than temporary
  - Testing for write-down or impairment of a significant asset group
  - Recognition of a goodwill impairment loss in an investee’s separate financial statements
  - Significant decline in the entity’s share price resulting in the carrying amount of the entity’s net assets exceeding its market capitalisation.

- There might be significant changes leading to adverse effects in operations of a cash generating unit to which goodwill is allocated. This will require additional attention while impairment testing of goodwill.
Impairment: Other Non-Financial Assets:

Other Non-Financial Assets:

- In case of other non-financial assets, entity is required to assess at each reporting date whether there are any indications of impairment. The impairment test only has to be carried out if there are such indications.

- Property, plant and equipment and intangible assets (other than goodwill) indicators:
  - Significant changes in the manner in which the asset is used or is expected to be used.
  - Significant changes in the legal factors or business climate that could affect the value of the asset.
  - Decrease in market interest rates which would cause a decrease in the asset’s value in use.
  - Decline in, or cessation of, the need for the services provided by the asset.

Disclosures

The more the current environment is uncertain, the more important it is for the entity to provide detailed disclosure of the key assumptions used and judgements made in estimating recoverable amount, the evidence they are based on and the impact of a change in the key assumptions (sensitivity analysis).
Provisions : Onerous Contracts

Covered under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets

- Recognition of provision may be required in case of customer contracts which may become onerous due to disruptions caused in business operations by COVID-19.
- Provision may be required for penalties due to delay in fulfilment of contractual obligations under the guidance of Ind AS 115, Revenue from contracts with customers.
- There is a need for exercising significant judgement in making provisions for losses and claims. However, provisions should only be recognised when the conditions prescribed for the same have been met.

Disclosures
- Entities should provide meaningful disclosures about judgements and estimates applied in recognising and measuring provisions.
- Disclosure should be made where the management is unable to assess whether some of the executory contracts are onerous due to inadequacy of information.

Covered under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets

- As the COVID-19 coronavirus continues to spread around the world, many entities may consider downsizing or discontinuing specific operations, conversely, some entities may plan to explore a new business opportunity. All of these may lead to a restructuring.

- A restructuring provision is recognised only when specific conditions are met, and only for qualifying costs. Under Ind AS 37, a restructuring provision is recognised only when both of the following conditions are met:
  - There is a detailed formal plan for the restructuring and
  - An entity has raised a valid expectation in those affected that the plan will be implemented.

Measurement

- Restructuring provisions include only direct costs arising from the restructuring e.g. employee termination benefits and consulting fees that relate directly to the restructuring, onerous contract provisions, contract termination costs and expected costs from when operations cease until final disposal.

- Costs associated with ongoing activities should not be included in restructuring provisions.

Disclosures

Management should provide clear and transparent disclosures about the nature of the restructuring provision, the expected timing of any resulting outflows of economic benefits and related uncertainties.
Insurance Proceeds : Reimbursements

- Some entities may have insurance cover for losses triggered by the COVID-19 coronavirus outbreak for e.g. for business interruption or third-party claims, including penalties for non-performance, late delivery or cancellations.
- Entities will need to determine when is it appropriate to recognise the expected proceeds from an insurance claim. This will require determining the nature and timing of the insured event.

Reimbursements, Covered under Ind AS 37

- Some entities may struggle to fulfil their legal or contractual obligations and may incur penalties that give rise to a provision. Insurance proceeds may reimburse some or all of the expenditure necessary to settle the provision.
- Insurance proceeds used to settle a provision are accounted for as reimbursements under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets and are recognised as a separate asset (with related income) when recovery is virtually certain. The amount recognised as a reimbursement right is limited to the amount of the related provision.
Insurance Proceeds: Compensation for Business Interruption

Compensation for Business Interruption, Covered under Ind AS 16

- Insurance proceeds may compensate a company for business interruption for e.g. for lost profits caused by COVID-19. The ability to claim these proceeds will depend on the specific terms of the insurance contract, actions taken by the government and interpretation of the applicable law.

- Lost profits, by themselves, do not give rise to a provision. Following the guidance on Compensation for Impairment under Ind AS 16 Property, Plant and Equipment, an entity recognises the compensation for business interruption as a receivable when it has an unconditional right to receive the compensation.

- An entity would have an unconditional contractual right to receive compensation if:
  - It has an insurance contract under which it can make a claim for compensation, and
  - The loss event that creates a right for the company to assert a claim at the reporting date has occurred and the claim is not disputed by the insurer.

- The compensation receivable would be measured based on the amount and timing of the expected cash flows discounted at the rate that reflects the credit risk of the insurer.
Fair Value Measurements

Covered under Ind AS 113, Fair Value Measurements

- Ind AS 113, lays down certain fundamental principles regarding determination of the fair value of an asset (or liability) as per the market conditions at the measurement date.
- Due to the uncertainty, there would be a significant change in the assumptions used to measure fair value of the assets and liabilities of an entity at the end of the reporting period including considerable change in the valuation techniques being adopted by the entities on account of change in the market conditions and related observable inputs, etc.

Factors to be considered at measurement date

- Fair value is determined in different ways. It can be based on observable market price (quoted price in an active market – Level 1) or application of valuation techniques (Level 2 and Level 3) as on reporting date.
- Application of valuation techniques will require consideration to the following factors:
  - Economic activity levels
  - Credit risk and liquidity risk
  - Forecasting risk
  - Foreign exchange risk
  - Commodity price risk
Fair Value Measurements

- Due to significant volatility, decline in market prices of financial instruments and decrease in volume or level of activity, management needs to exercise adequate professional judgment to determine whether the quoted prices are based on transactions in an orderly market due to impact of COVID-19.
- The impact of COVID-19 on various assumptions including discount rates, credit-spread/counter-party credit risk etc needs to be considered while using valuation techniques.
- Significant judgment may be needed to quantify risk premiums and other adjustments for these risks.

Disclosures

- Entity would need to provide sensitivity disclosures along with disclosure of the key assumptions and judgements made by management taking into consideration the impact of increase in economic uncertainty on forecasting cash flows and other unobservable inputs used in valuation techniques.
- This is likely to enable users to understand how fair value has been determined and categorization of fair value hierarchy.
Financial Instruments : Expected Credit Loss

Covered under Ind AS 107 & Ind AS 109, Financial Instruments & its disclosures

- **Expected credit losses (ECL)** 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.
- 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.
- Current uncertainty may result in an increase in its provision for ECL due to:
  - Greater probability of default across many borrowers
  - Higher magnitude of loss given default, due to possible decreases in the value of collateral and other assets.
- Entity need to revisit their estimates of ECL at the reporting date in case of information becomes available after the reporting date:
  - Consider whether the new information reflects credit conditions that already existed at the reporting date
  - 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.
Financial Instruments : Debt modifications and loan covenants

Covered under Ind AS 109, Financial Instruments

- Due to significant deterioration in entities’ operating results and financial positions, there may be breaches of debt covenants or trigger subjective covenant clauses.
- Review covenant clauses in loan agreements and assess whether a breach has occurred or is likely to occur at the reporting date.
- In case of breach of debt covenants, entities may need to present the entire amount owing as a current liability.
- Reclassification - These could render the related debt repayable on demand before the contractual maturity date, leading to current rather than non-current classification at the reporting date.
- Assessment to determine if the amendments in existing debt agreements represent a debt modification, debt extinguishment, or a troubled debt restructuring.
- Derecognition of debt or other liabilities - 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.
Financial Instruments: Hedge Accounting

Covered under Ind AS 109, Financial Instruments

Factors to be considered by management

- Hedged forecasted transactions are required to be probable of occurring. In case of cash flow hedge, entities need to evaluate whether forecast transactions continue to be highly probable.
- If a transaction is not highly probable, then consider whether it is still expected to occur. If the likelihood of the hedged forecasted transaction is no longer probable of occurring, hedge accounting may not be applied, and all future changes in the fair value of the derivative should be directly recognized in earnings.
- Any changes to the contractual terms of a financial instrument resulting from the COVID-19 outbreak may affect the instrument’s eligibility as a hedged item.
- Due to increased risk, Hedge effectiveness testing and the measurement of hedge ineffectiveness may be affected.
- Evaluate whether accumulated losses in the cash flow hedge reserve will be recovered in future periods. If not, then reclassification of the amount of loss not expected to be recovered to the statement of profit and loss may be required.

Disclosures

Relevant disclosures depicting changes in how the company manages risks including impact of hedge ineffectiveness and reclassifications to the statement of profit and loss should be provided according to Ind AS 109.
Due to significant decline in business activity and subsequent decreases in a company’s expected purchase, sale or usage requirements, disruptions to supply chains that may impair a company’s ability to effect physical settlement and sudden decreases in demand (or supply) that may cause contracts to be closed out or terminated through net cash settlement without delivery. These circumstances may undermine a company’s ability to apply the own use exemption. As a result, a company might need to reassess whether derivative accounting is required for sale and purchase contracts entered by it.

Estimate the fair value of derivatives, including paying special attention to underlying assumptions of derivatives, e.g., forward curve of interest rate, foreign currency, commodity etc.
Income Taxes

Covered under Ind AS 12, Income Taxes

- Government over the course of this outbreak may provide economic stimulus packages in the form of direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low-interest loans.
- Important factor to be considered for accounting for any income tax consequence is whether the government concerned has substantively enacted the relevant law. Entities will need to determine whether changes to tax rates and laws were substantively enacted as of the reporting date.
- Assessment of characteristics of tax reliefs to determine proper accounting:
  - Reduction to income tax liability under Ind AS 12 – This will have indicators such as reducing income taxes payable (being forfeited or deferred if there are insufficient taxes payable), or
  - Receipt of a government grant under Ind AS 20 – When it is structured as a cash payment or have non-tax related conditions being attached to it.
- In any case, all facts and circumstances relating to the specific relief need to be considered in assessing the substance of the arrangement.
Income Taxes

Current and Deferred Tax Balances

- Both the current challenges and the government’s measures may affect a entity’s projections of future taxable profits. Entities need to consider the effect of any changes to the projections and probability of future taxable profits on the recognition of deferred tax assets.
- In the current circumstances, an entity’s projections of future taxable profits may be affected by:
  - Changes in forecast of cash flows
  - Changes in a company’s tax strategies,
  - Substantively enacted changes to the income tax law introduced as part of a government’s measures in response to COVID-19 – e.g. tax reliefs for certain types of income, additional tax deductions, and
  - Changes in a company’s plans to repatriate or distribute profits of a subsidiary that may result in the recognition of a deferred tax liability (i.e. additional taxable temporary differences).
- Some of these changes may reduce future taxable profits, while others may potentially increase them. In addition, some of the changes may impact the timing of the reversal of temporary differences.
Income Taxes

Recognition and Measurement

- When preparing projections of future taxable profits for the purposes of the deferred tax asset recognition test, a company needs to reflect expectations at the reporting date and use assumptions that are consistent with those used for other recoverability assessments – eg. Impairment of non-financial assets.
- If the recognition threshold is met, then the company recognises a deferred tax asset and measures it using the tax rate expected to apply when the underlying asset is recovered based on rates that are enacted or substantively enacted at the reporting date.
- The same principles are applied in case of Deferred tax liabilities and Current tax.

Disclosure

Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with Ind AS 1.
Insurance Contracts

Covered under Ind AS 104, Insurance Contracts

- The COVID-19 outbreak will affect insurance entities as they deal with the effect of events on the insurance coverage, ranging from coverage related to changes in health status of policyholders due to the wide spread of the disease, to coverage for events related to disruption caused by the pandemic.
- The entity’s liabilities for issued insurance contracts for a range of product could be affected.

Factors to be considered by management

- Evaluate the specific implications for your company based on the accounting policies applied under Ind AS 4 and assess the impact on assumptions for measuring liabilities for reported claims, incurred but not reported claims, future claims.
- Ensure that your liability adequacy test (including DAC recoverability) is based on current estimates of future cash flows and evaluate whether any deficit should be recognised in profit or loss.
- Evaluate whether a significant or prolonged decline in fair value has arisen for any available-for-sale equity investments.
- Assess whether there is a loss event that has affected the estimated future cash flows of any debt investments and whether to recognise an impairment loss.
Insurance Contracts

Disclosures

- Insurers should disclose assumptions for and sensitivities in the measurement of insurance liabilities. These disclosures should also include considerations around risk concentrations, claims development tables and credit, liquidity and market risk.
- Enhanced disclosures may be required due to increase the level of estimation uncertainty when measuring insurance liabilities which may also affect sensitivity analysis disclosures.
- Decreases in asset valuations arising from the COVID-19 outbreak may impact regulatory capital and solvency calculations and disclosures about how the entity manages capital.
- Disclosures may also be required about non-adjusting events occurring after the reporting date that impact subsequent financial asset or insurance liability measurements.
- For investment portfolios, insurers should disclose the nature and extent of risks arising from financial instruments and how they manage those risks.
Government Grants

Covered under : Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance

- Management would need to monitor government actions and legislation to identify all assistance given amid COVID-19 outbreak that may meet the definition of a government grant.
- Entities that have not previously received government grants may need to develop new accounting policies and procedures.
- Significant judgement may be required to address newly implemented government programs.
- Disclosures should be expanded on the accounting policies for government grants and the impact of grants and other assistance on the financial statements.
Property, Plant and Equipment

Covered under  Ind AS 16, Property, Plant and Equipment

- The outbreak may have changed the company’s usage or retention strategy for any of its property, plant and equipment (PPE). The management should review appropriateness of
  - Useful life and residual value of these assets
  - Depreciation method applied to them
- Depreciation will need to be charged even if the assets remain idle, under-utilized or not utilized for a long period of time.

Disclosure

Changes in reassessment from the previous estimates will require to be disclosed as change in accounting estimate under Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
Events after the Reporting Period

Covered under Ind AS 110, Events after the Reporting Period

- Events that occurred after the reporting date would need to be evaluated whether these events or conditions, individually or collectively, cast significant doubt on the company’s ability to continue as a going concern, or in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the company’s financial statements.

- Evaluate whether the financial reporting effects of the COVID-19 outbreak should be accounted for as adjusting or non-adjusting events after the reporting period.

- When the impacts are considered non-adjusting events, appropriate disclosures should be provided to reflect new events or changes in conditions after the reporting date, including an estimate of their financial effect if that can be determined.

- For instance, estimated effects on impairments of financial and non-financial assets, covenant breaches, amendments or waivers in lending agreements, losses due to supply chain issues, volatility in commodities or foreign currency exchange markets, etc. considering events and new information arising after the reporting date.

- Subsequent events after reporting period needs to be taken into account in the going concern assessment.

- No adjustments should be made to the amounts presented in the financial statements in case of a non-adjusting event.
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
- 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.
Interim Financial Reporting

Covered under Ind AS 34, Interim Financial Reporting

- Where significant, the disclosures required by paragraph 15B in Ind AS 34 should be included, together with:
  - The impact on the results, balance sheet and cash flows of the virus and the steps taken to control the spread,
  - Significant judgements that were not required previously, for example in connection with expected credit losses,
  - Updates to the disclosures of significant estimates and
  - Events since the end of the interim period.
- These disclosure should be entity specific and should reflect each entity’s circumstances.
- Suitable disclosures will be required about the effect of COVID-19 on the overall risks to the entity’s business in the Management Discussion and Analysis section of the Annual Report.
Other Financial Reporting Considerations

Consolidated Financial Statements (Ind AS 110):
- The difference between the reporting dates should not be more than three months.
- Guidance in Ind AS when it is impracticable to obtain information.
- Whether extension on reporting guidelines can be sought.
- Disclosures in case it’s not able to obtain financial information of non-material components.

Borrowing Costs (Ind AS 23):
Evaluate whether capitalization of interest on borrowings need to be suspended in the event of suspension of development of an asset.

Internal Controls Over Financial Reporting (ICFR)
Evaluate whether there is any effect on ICFR due to the impacts of COVID-19.
- New controls may be implemented or revised as to modify IT access to enable remote workforces.
- Disclosure of material changes would need to be disclosed in ICFR.

Foreign currency translation:
Due to significant fluctuations in exchange rates, an entity may need to revisit the way it translates foreign currency transactions in income statement and assess whether its accounting is appropriate.
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