April 2020

ACCOUNTING 01/20 - COMMUNICATION IN RELATION TO THE IMPACT OF COVID-19 ON ACCOUNTING AND REPORTING

- HIGH LEVEL

1

Assessment of an entity's ability to continue as a going concern

IAS 1 requires that if management are aware of material uncertainties related to events or conditions that may cast significant doubt in relation to an entity's ability to continue as a going concern, those material uncertainties must be disclosed in the financial statements.

Furthermore, under IAS 10, financial statements should not be prepared on a going concern basis if there are events after the reporting period that indicate that the going concern assumption is no longer appropriate. Because the effect of not being a going concern is so pervasive, the assessment – of whether the entity continues to be a going concern – does not distinguish between adjusting and non-adjusting events; all events that have taken place after the end of the reporting period must be considered in this assessment. In planning their year-end reporting, entities must therefore incorporate a comprehensive going concern assessment.

As a minimum timeframe covered by the assessment, one should consider at least the first twelve months after the balance sheet date, however a longer timeframe may be necessary. The going concern assessment should be continuously updated up until the date that the financial statements are authorised for issue.

2

Assess whether this is an adjusting or non-adjusting event

COMPANIES WITH A YEAR END OF 31 DECEMBER 2019

On 31 December 2019, The China Country Office of the World Health Organisation (WHO) was informed of cases of pneumonia with an unknown cause detected in Wuhan City in the Hubei Province of China. As at that date, there was a limited number of cases of an unknown virus.

The identification of the SARS-CoV-2 virus, along with the resulting COVID-19 disease, and its spread to territories outside China happened subsequent to year end 31 December 2019. Therefore, for companies in Malta with a 31 December 2019 year end, the COVID-19 outbreak is a **non-adjusting event**. Given the wide-ranging implications of the outbreak on the economy, restrictions on mobility and transportation, aid packages, and the financial markets, this will be a material event for many entities which must, in accordance with IAS 10, be disclosed by way of a note in the financial statements.

The disclosure note should be transparent and specific to the entity and include the following:

- ◊ **The nature of the event**
- ◊ **An estimate the financial effect of COVID-19 on the entity, or a statement that such an estimate cannot be made.**

COMPANIES WITH A YEAR END IN 2020

Substantial information about COVID-19 came to light in early 2020. On 30 January 2020, the WHO declared the COVID-19 outbreak as a public health emergency of international concern. If an entity has a financial year end after December 2019, management must apply professional judgement to ascertain whether COVID-19 is a non-adjusting or an adjusting event. By 31 March 2020, reported cases of the disease had topped 850,000 worldwide, with disruption experienced in many developed economies.

The situation is less clear for entities whose financial year ended on 31 January 2020 and 29 February 2020. As at 31 January 2020, there were less than 12,000 reported cases, with nearly 99% of these cases reported in China. Meanwhile, as at 29 February, reported cases were still below 90,000, with nearly 96% of these cases having been reported in China and South Korea. Professional judgement, considering all facts and circumstances specific to each entity, will be key to reaching appropriate conclusions.

3 Accounting implications for the subsequent reporting periods

Where management determines that the COVID-19 outbreak is a non-adjusting event for an entity's most recently-ended financial year, management must however consider the implications of COVID-19 on an entity's current reporting period, including on interim financial statements under IAS 34, where these are prepared. Ongoing developments on the impact of COVID-19 on entities' financial reporting must be continuously monitored and the accounting profession must keep abreast on how the COVID-19 affects various aspects of an entity's business.

The Institute will be issuing more detailed guidance in respect of the various aspects of the COVID-19 outbreak's impact on financial reporting, including – but not limited to – the possible impairment of tangible, intangible and financial assets, revenue recognition, measurement and classification of liabilities, and government grants.

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