

# ADDENDUM TO Illustrative Financial Statements 2019

*COVID-19: Guide to  
Subsequent Events Disclosure*

## Preface

The Institute of Singapore Chartered Accountants (ISCA)'s Illustrative Financial Statements (IFS) 2019 was published on 3 January 2020. At the time of publication, although the first cases of the Coronavirus Disease (COVID-19) had surfaced, it had yet to become a global pandemic with significant impact to business activities and economic conditions. Hence it was not considered in the preparation of IFS 2019.

The ISCA's Quality Assurance Team has prepared this Addendum to the IFS 2019 to provide guidance to entities with a 31 December 2019 financial reporting date on the subsequent events disclosures that may be required arising from the COVID-19 outbreak.

As shared in the ISCA Financial Reporting Bulletin 2, *Accounting implications arising from COVID-19 for entities with 31 December 2019 financial reporting date*, in ISCA's view, the COVID-19 outbreak is a non-adjusting event for entities with a 31 December 2019 financial reporting date. Although non-adjusting events would not affect the amounts included in the financial statements, disclosure is required of material non-adjusting events. Judgement is required in assessing whether a non-adjusting event is material. If non-disclosure could influence the economic decisions that users make on the basis of the financial statements, then the entity should disclose:

- (a) nature of the event; and
- (b) an estimate of its financial effect.

If the entity is unable to estimate the financial effects of the outbreak, it is required to disclose that fact.

This Addendum provides some considerations and illustrations of disclosures when an entity determines the COVID-19 events to be material non-adjusting events. The content within are in respect to Note 32 "events occurring after the reporting period" of IFS 2019.

The important notices attached to the IFS 2019 apply to this Addendum. Entities should tailor their disclosures according to their specific facts and circumstances.

## 32. Events occurring after the reporting period

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The Coronavirus Disease (COVID-19) outbreak and the measures taken to contain the spread of the pandemic have created a high level of uncertainty to global economic prospects and this has impacted the Company's operations and its financial performance subsequent to the financial year end.

The Singapore Multi-Ministry Taskforce implemented an elevated set of safe distancing measures as a circuit breaker from 7 April 2020, to pre-empt the trend of increasing local transmission of COVID-19. Except for those providing essential services and selected economic sectors which are critical for our local and the global supply chains, all businesses are required to suspend all in-person activities and activities at the business location. As a result, the Company suspended operations at our business location from 7 April 2020 to 1 June 2020. This has significantly slowed down the delivery of machinery and machinery parts and all installation and warranty services were halted during the period. A series of measures to curb the COVID-19 outbreak have been and continue to be implemented in countries where the Company has dealings with. This has resulted in delays in shipment of machinery parts from suppliers since March 2020 due to requirements to limit or suspend business operations and border controls implemented round the world.

The Company expects to incur a loss for the first half of 2020 due to lower demand for machinery and machinery parts. The Company applies the fair value model to measure its investment securities and investment properties. The fair values of these assets in 2020 may be subject to fluctuation due to the COVID-19 outbreak. Additional expected credit losses on receivables may need to be recognised due to a decline in the repayment ability of certain debtors. The outbreak is also likely to have an impact on the contribution from the Company's joint venture in China.

As the situation continues to evolve with significant level of uncertainty, the Company is unable to reasonably estimate the full financial impact of the COVID-19 outbreak. The Company is monitoring the situation closely and to mitigate the financial impact, it is conscientiously managing its cost by adopting an operating cost reduction strategy and conserving liquidity by working with major creditors to align repayment obligations with receivable collections.

### Help tips

#### (i) Tailored disclosures for the Company

In this illustration, it is assumed that the Company has assessed its specific risks, uncertainties and the impact of COVID-19 on its operations, performance and liquidity. The Company determined that its financial performance subsequent to year end has been impacted, however its cash flows remain manageable, with the ability to pay its liabilities when they are due. The Company's assets that are likely to be impacted are its investment properties, investment securities, investment in joint venture and trade receivables. Hence, only the disclosures relevant to the Company are made in the illustration.

#### (ii) Considerations when determining required disclosures

An entity is required to disclose the nature of all material non-adjusting events that took place subsequent to the financial year-end. A non-adjusting event is considered material if non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

## 32. Events occurring after the reporting period (Continued)

### Help tips (Continued)

#### (ii) Considerations when determining required disclosures (Continued)

When determining the disclosures that should be included, an entity considers:

- (a) the countries that it operates in or has dealings with;
- (b) the extent to which these countries have been affected by the pandemic and the measures they have implemented, such as travel restrictions and lock-down measures;
- (c) impact of the measures taken to contain the spread of the pandemic on entity's operations;
- (d) impact of economic conditions on entity's businesses; and
- (e) the financial impact or potential financial impact arising for 2020 and beyond.

Importantly, the disclosures should allow users of financial statements to understand the entity's specific risks and uncertainties arising from COVID-19, the impact on its operations, financial performance and liquidity, and the entity's mitigating plans to sustain in the long-term. Given the current situation, such disclosures can provide the much-needed transparency to users of financial statements.

The subsequent events disclosure could cover the following:

#### 1. Background of COVID-19

Some illustrative disclosures are as follows:

- (i) *An outbreak of the Coronavirus Disease (COVID-19) had been reported to the World Health Organisation in China on 31 December 2019.*
- (ii) *On 31 January 2020, the World Health Organisation announced the Coronavirus Disease (COVID-19) outbreak as a global health emergency.*
- (iii) *On 11 March 2020, the World Health Organisation declared the Coronavirus Disease (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe.*
- (iv) *The Coronavirus Disease (COVID-19) outbreak and the measures taken to contain the spread of the pandemic have created a high level of uncertainty to global economic prospects.*

#### 2. Measures imposed by the various countries arising from the pandemic (relevant ones with impact to the entity)

Depending on the countries that an entity operates in or has dealings with, and the extent to which their various measures have impacted the entity, the entity can disclose general measures imposed across or highlight specific measures imposed by relevant governments. Some illustrative disclosures are as follows:

**32. Events occurring after the reporting period (Continued)**

**Help tips (Continued)**

**(ii) Considerations when determining required disclosures (Continued)**

- (i) Singapore raised its Disease Outbreak Response System Condition (DORSCON) level to orange on 7 February 2020 in response to the heightened risks posed by the COVID-19 outbreak. Additional precautionary measures were implemented, including additional precautions for large-scale events and enhanced business continuity capability at workplaces.*
- (ii) The Singapore Multi-Ministry Taskforce implemented an elevated set of safe distancing measures as a circuit breaker from 7 April 2020 to 1 June 2020, to pre-empt the trend of increasing local transmission of COVID-19. Except for those providing essential services and selected economic sectors which are critical for our local and the global supply chains, all businesses are required to suspend all in-person activities and activities at our business location.*
- (iii) Country x implemented a series of measures and policies such as travel restrictions, quarantine measures and social distancing initiatives, which significantly disrupted the business activities of the Company.*
- (iv) A series of measures to curb the COVID-19 outbreak have been and continue to be implemented in countries where the Company operates, including requirements to limit or suspend business operations, travel restrictions and quarantine measures.*

**3. Impact on entity**

**(a) Identify specific business segments / operations of the entity that are impacted by the various measures, for example:**

- (i) restaurant segment affected by measures to close business premises (x restaurants were closed from period to period)*
- (ii) closure of manufacturing facilities in China from period to period*
- (iii) machinery parts production affected due to border controls imposed in Country x where the raw materials are purchased (supply chain disruptions)*
- (iv) quarantine of close contacts and stay-home-notices of workers resulting in delay in construction projects*
- (v) costs incurred to provide housing for Malaysian employees who had no living arrangements in Singapore*

**(b) Describe impact on the performance and liquidity of the entity and/or identify specific business segments of the entity that are impacted by the economic uncertainty, for example:**

- (i) expect to incur a loss for the first half of 2020 and the liquidity position of the Company will be adversely impacted*
- (ii) delay in receiving payment resulting in lower operating cash flows*

**32. Events occurring after the reporting period (Continued)**

**Help tips (Continued)**

**(ii) Considerations when determining required disclosures (Continued)**

- (iii) impact on the financial performance of x and y business segments of the Company in the coming months*
- (iv) revenue from retail affected due to sharp drop in consumer discretionary spending in first half of 2020*
- (v) expect consumer sentiments in its retail business to be affected and remain weak in the near term*
- (vi) negative impact on travel demand which has affected the financial performance of the Company's hospitality business*
- (vii) mindful that concerns over COVID-19 have dampen demand for products x and y in the current year*
- (viii) travel restrictions imposed by governments around the world have impacted the consumer flow to our outlets*
- (ix) breach of loan covenants subsequent to year end; bank is contractually entitled to request for immediate repayment of the outstanding loan amount of \$x*
- (x) potential impact on the Company's ability to secure new projects in the next 12 months*

**(c) Highlight business segments that have remain relatively stable or unaffected, for example:**

- (i) expect relatively consistent flow of revenue from x business segment*
- (ii) serviced residences and office space located in Country x which are leased out under long-term contracts are expected to be less affected*
- (iii) there may not be a significant increase in loss allowance as the Company's key customers are not in sectors severely affected by the outbreak, and they generally have good repayment history*

**(d) Identify the impact on entity's assets, for example:**

- (i) values of the Company's investments measured based on quoted prices will be affected as a result of the volatility in prices*
- (ii) values of the Company's assets measured based on unobservable inputs will be affected as a result of changes in key assumptions used to determine fair values*
- (iii) additional expected credit losses on receivables due to a decline in the repayment ability of certain debtors*



## 32. Events occurring after the reporting period (Continued)

### Help tips (Continued)

#### (ii) Considerations when determining required disclosures (Continued)

- (iv) *customers are mainly from the food & beverage sector who were severely affected by the circuit breaker measures. This may result in a significant increase in loss allowance of trade receivables.*
- (v) *estimates and assumptions with respect to the impairment assessment of property, plant and equipment and intangible assets are based on prevailing market, economic and other conditions at the date of the financial statements. The uncertainties surrounding the impact of the COVID-19 pandemic on the global economy may affect the actual outcome of the estimates and assumptions adopted.*

#### 4. Financial effects

An entity should disclose an estimate of the financial effect of impacts arising from the COVID-19 events.

If the entity is unable to estimate the financial effects of the outbreak, it should state so.

As the date of authorisation of the financial statements moves further from the 31 December 2019 financial reporting date, users would expect an entity to have more available information to disclose an estimate of the financial effects of the COVID-19 events. For example, the financial results of the 1<sup>st</sup> half of 2020 may already be available at the date of the authorisation of the financial statements and the entity may be in a better position to ascertain the financial impact of COVID-19 on the entity.

#### 5. Mitigating actions taken / will be taken by the entity

Some illustrative disclosures are as follows:

- (i) *The Company is adopting an operating cost reduction strategy and has made adjustment to its remuneration and employment models.*
- (ii) *The Company is working closely with bankers for the deferment of certain loan repayment obligations and for continuing financing support measures.*
- (iii) *The Company will work with major creditors to align repayment obligations with receivable collections.*
- (iv) *The Company has been and will continue to work closely with suppliers to reduce the impact of the disruptions to the logistics supply chain.*
- (v) *The Company has delayed its investment plans in order to conserve liquidity.*
- (vi) *The Company expects the support measures introduced by the Singapore Government to help cushion the cash flows impact of the Company.*

## Contributors:



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Should you have any comments or suggestions, please send them to [qualityassurance@isca.org.sg](mailto:qualityassurance@isca.org.sg).



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