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ISCA Financial Reporting Bulletin 2 (“FRB 2”)

Accounting implications arising from COVID-19 for entities with 31 December 2019 financial reporting date

Global Mindset, Asian Insights

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

ISCA is a member of Chartered Accountants Worldwide, a global family that brings together the members of leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

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About ISCA's Technical Division

As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA's Technical Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

About ISCA's Financial Reporting Committee

ISCA's Financial Reporting Committee (FRC) is chaired by Mr Reinhard Klemmer and comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system. FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidances.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee. The FRC Core Sub-Committee is the technical accounting arm of FRC and comprises various technical accounting subject matter experts from accounting firms. The Core Sub-Committee engages in technical deliberations on emerging accounting issues in Singapore and new or revised accounting developments proposed by the international accounting standards setter.

Note:

Although this FRB makes references to SFRS(I) 1-1 Presentation of Financial Statements and SFRS(I)1-10 Events after the Reporting Period, the guidance in this FRB is also applicable to entities applying FRS 1 Presentation of Financial Statements and FRS 10 Events after the Reporting Period.

Background

In December 2019, a pneumonia of unknown cause was identified and reported to the World Health Organisation (WHO). The cause was subsequently determined to be a new type of coronavirus which was named COVID-19.

Precautionary measures (e.g. temperature screening for inbound travellers, issuance of health advisories) were put in place in Singapore since early January 2020. Subsequently, the significant surge in the number of COVID-19 cases resulted in the Ministry of Health of Singapore issuing travel advisories and several countries including Singapore imposing travel restrictions in 2020. Business closures in affected locations around the world have led to disruptions of supply chains and some decline in demand on a global scale.

Amidst the escalating outbreak, Singapore Exchange Regulation (SGX RegCo) announced on 27 February 2020 that it will allow listed companies with a 31 December financial year-end up to 30 June 2020 (instead of 30 April 2020) to hold annual general meetings to receive and consider their 31 December 2019 financial statements.

In light of the above events, this FRB addresses the question of whether the COVID-19 outbreak is an adjusting or non-adjusting event for entities with a 31 December 2019 financial reporting date. Other associated accounting implications arising from the COVID-19 outbreak are also covered in this FRB.

1. Is the COVID-19 outbreak an adjusting or non-adjusting event?

SFRS(I) 1-10 specifies requirements to determine whether events occurring after the end of the reporting period affect the amounts included in the financial statements or require only disclosure in the financial statements.

Adjusting events are those that provide evidence of conditions that existed at the end of the reporting period; whereas non-adjusting events are those that are indicative of conditions that arose after the reporting period[1]. Paragraphs 9, 11 and 22 of SFRS(I) 1-10 provide examples of adjusting and non-adjusting events.

[1] Paragraph 3 of SFRS(I) 1-10

Although the first cases of COVID-19 surfaced in December 2019, there was no evidence of an outbreak and no adverse changes to the economic and market conditions (as a result of COVID-19) as at 31 December 2019. The outbreak occurred after December 2019 and subsequently resulted in adverse changes to the economic and market conditions. Deterioration of economic and market conditions in 2020 may be traced to the fallout from the surge in COVID-19 cases after December 2019, such as regulatory actions like travel restrictions and quarantine measures by several countries. These subsequent events are not indicative of conditions that existed as at 31 December 2019. Therefore, in ISCA's view, the COVID-19 outbreak is a **non-adjusting event** for entities with a 31 December 2019 financial reporting date.

> Important note:
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> Although the COVID-19 outbreak is a non-adjusting event for entities with a 31 December 2019 financial reporting date, it is important for entities to **distinguish the financial statement impacts that are a direct consequence of the COVID-19 outbreak from those that resulted from other conditions that existed before the end of the reporting period**. For instance, the bankruptcy of a customer after the reporting date may evidence circumstances that already existed at the reporting date and did not result from the COVID-19 outbreak. This assessment requires the exercise of judgement and careful consideration of an entity's specific facts and circumstances to achieve fair presentation in the financial statements.

2. Other accounting implications arising from the COVID-19 outbreak

(a) Required disclosures in the financial statements

Non-adjusting events would not affect the amounts included in the financial statements. However, disclosure is required of material non-adjusting events[2]. 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 the nature of the event and 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.

Entities should consider disclosing the impact the COVID-19 outbreak has on the following items** subsequent to the end of the reporting period:

- Breach of loan covenants
- Changes in economic and market conditions that affect the fair values of the entity's financial and non-financial assets and liabilities
- Changes to impairment assessments for goodwill and other non-financial assets
- Additional expected credit losses due to a decline in the repayment ability of certain debtors

*** the above list is not exhaustive*

[2] Paragraph 21 of SFRS(I) 1-10

Important note:

The measurement of estimates made at the end of the reporting period (for instance, impairment assessment of goodwill, expected credit losses of debtors, net realisable value of inventories) should **only reflect conditions that existed at the end of the reporting period and exclude subsequent developments that may be a direct or indirect consequence of the COVID-19 outbreak**.

(b) Going concern assessment

Financial statements are prepared on a going concern basis, unless management intends to either liquidate the entity or to cease trading, or when it has no realistic alternative but to do so[3]. When there is a deterioration in operating results and financial position after the reporting period, the entity should reassess if the going concern assumption is still appropriate[4]. Paragraph 26 of SFRS(I) 1-1 specifies how to assess whether the going concern assumption is appropriate.

If the going concern assumption is no longer appropriate, there should be a fundamental change in the basis of accounting instead of an adjustment to the amounts recognised in the financial statements. This is required to be disclosed in the financial statements[5].

It should be noted that the assessment of the appropriateness of the going concern assumption is to be performed up to the date that the financial statements are authorised for issue.

Important note:

As the COVID-19 outbreak is still rapidly evolving, entities are reminded to continually **assess the impact of the outbreak on the going concern assumption up to the date that the financial statements are authorised for issue**.

[3] Paragraph 14 of SFRS(I) 1-10
[4] Paragraph 15 of SFRS(I) 1-10
[5] Paragraph 16 of SFRS(I) 1-10

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. Financial Reporting Practice (**FRP**)	Recommended best practices for financial reporting for specific industries, sectors or transactions	Expected to apply	Public consultation required	ISCA Council
2. Financial Reporting Guidance (**FRG**)	Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions	Expected to follow or explain departures	Public consultation required	ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council
3. Financial Reporting Bulletin (**FRB**)	Technical bulletin containing discussions and highlight of emerging topical financial reporting issues	For information and educational purposes	Public consultation not required	ISCA FRC

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework – https://isca.org.sg/tkc/fr/financial-reporting-codification-framework/
- FRG – https://isca.org.sg/tkc/fr/financial-reporting-guidances/
- FRB – https://isca.org.sg/tkc/fr/financial-reporting-bulletins/